Basic information

2005/0025(CNS) CNS - Consultation procedure Regulation	Procedure completed
Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions Amending Regulation (EC, Euratom) No 2728/94 1993/1004(CNS) **Subject** 6.30.04 Loans to third-countries, Guarantee Fund 8.70.01 Financing of the budget, own resources	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
BUDG Budgets	SEPPÄNEN Esko (GUE/NGL)	09/06/2005

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs	The committee decided not to give an opinion.	
DEVE Development	The committee decided not to give an opinion.	
INTA International Trade	The committee decided not to give an opinion.	24/05/2005

Committee for opinion on the legal basis	Rapporteur for opinion	Appointed
JURI Legal Affairs	WALLIS Diana (ALDE)	12/12/2005

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2778	2007-01-30

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	ALMUNIA Joaquín

Key events

Date	Event	Reference	Summary
05/04/2005	Legislative proposal published	COM(2005)0130	Summary
09/06/2005	Committee referral announced in Parliament		
20/02/2006	Vote in committee		Summary
01/03/2006	Committee report tabled for plenary, 1st reading/single reading	A6-0054/2006	
14/03/2006	Decision by Parliament	T6-0072/2006	Summary
14/03/2006	Results of vote in Parliament		
30/01/2007	Act adopted by Council after consultation of Parliament		
30/01/2007	End of procedure in Parliament		
31/01/2007	Final act published in Official Journal		

Technical information

Procedure reference	2005/0025(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation (EC, Euratom) 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/6/27514

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE367.880	19/01/2006	
Committee opinion	JURI	PE370.159	23/02/2006	
Committee report tabled for plenary, 1st reading/single reading		A6-0054/2006	01/03/2006	
Text adopted by Parliament, 1st reading/single reading		T6-0072/2006	14/03/2006	Summary

European Commission

Document type	Reference	Date	Summary

Legislative proposal	COM(2005)0130	05/04/2005	Summary
Commission response to text adopted in plenary	SP(2006)1725	19/04/2006	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	RCC0009/2005 OJ C 313 09.12.2005, p. 0006-0006	10/11/2005	Summary

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Regulation 2007/0089
OJ L 022 31.01.2007, p. 0001 Summary

Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 10/11/2005 - Court of Auditors: opinion, report

PURPOSE: A Court of Auditor's Opinion on the proposed Regulation to amend existing legislation establishing a Guarantee Fund for external actions.

CONTENT: By and large, the Court welcomes the proposed Council Regulation. It does, however, have one observation, relating to the threshold amount in the "smoothing mechanism" of the draft amending Regulation.

The threshold amount is based on Commission estimates, which in turn are based on various scenarios for the Union's external lending. At the same time though the EIB's external lending mandate (based on the Financial Perspective 2007-13) has yet to be adopted. In the absence of reliable data or forecasts, the current rules provide for a higher provisioning rate of the Fund if its resources fall below 75% of the target amount as result of the activation of guarantees following default. This rule would be replaced by the implementation of the "smoothing" mechanism. The new procedure for provisioning the Fund is based on *ex post* calculations so that the provisioning will be made with a time lag.

The Court finds that the Commission should consider setting up a warning mechanism in order to inform the budgetary authorities if the net assets of the fund fall below 75% of the target amount either because of the increase of guarantees and/or because of the activation of guarantees. This would keep the budgetary authorities informed of unfavourable developments at an early date and not just when exceptional measures would be required to replenish the Fund (such as when the resources in the Fund fall below 50% of the target amount).

Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 30/01/2007 - Final act

PURPOSE: to amend Regulation 2728/94/EC and improve the rules of the provisioning mechanism of the Guarantee Fund, i.e. the rules that determine how the Fund's assets are brought in line with the target amount of the Fund.

LEGISLATIVE ACT: Council Regulation (EC, Euratom) No 89/2007 amending Council Regulation (EC, Euratom) No 2728/94 establishing a Guarantee Fund for external actions.

CONTENT: The Council adopted this Regulation amending rules governing the provisioning mechanism for the EU's Guarantee Fund for external actions, with a view to improving efficiency in the use of budgetary resources and enhancing the transparency and programming of budgetary transactions in relation to the provisioning of the Fund. The Fund's new provisioning mechanism is based on an ex-post provisioning linked to the outstanding amount of loans and guaranteed loans, i.e. on actual net disbursements (disbursements minus amortisations minus cancellations). It is applicable as from 1 January 2007.

The provisioning mechanism was until now based on an ex-ante provisioning of individual Council decisions (macro-financial assistance), individual forecasts by Commission decisions (Euratom loans) or a global annual forecast of planned loan signatures (European Investment Bank guaranteed lending).

The Fund was created in 1994 so that the Community’s creditors could be reimbursed in the event of any default by the beneficiaries of loans granted or guaranteed by the Community. Its main function is to shield the EU budget from shocks due to defaults on loans. The Fund is provisioned from the EU budget and has to be maintained at a certain percentage (target rate) of the outstanding amount of the loans and guaranteed loans covered.

ENTRY INTO FORCE : 03/02/2007.

DATE OF APPLICATION : 01/01/2007.

Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 14/03/2006 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution drafted by Esko **SEPPÄNEN** (EUL/NGL, FI) and made a few amendments to the Commission’s proposal. (Please see the summary of 20/02/2006.)

Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 05/04/2005 - Legislative proposal

PURPOSE : to amend Regulation 2728/94/EC and improve the rules of the provisioning mechanism of the Guarantee Fund, i.e. the rules that determine how the Fund’s assets are brought in line with the target amount of the Fund.

PROPOSED ACT : Council Regulation.

CONTENT : experience has shown that the present rules have often led to an over-provisioning of the

Fund and therefore a sub-optimal use of budgetary funds. This problem has mainly been due to the use of uncertain forecast figures in the provisioning process. Furthermore, the present rules result in several transfers in and out of the Fund during one year, a situation that creates unnecessary administrative procedures involving not only the Commission services but also the two arms of the budgetary authority. This amendment is limited to changes of the Fund’s provisioning mechanism.

The main improvements for the Fund’s provisioning mechanism are:

- The improvement of the efficiency of the use of budgetary means and reducing to one the number of annual transfers between the Union Budget and the Fund;

- A provisioning based on the variations of the observed net-disbursements, thus creating more transparency and improving the precision of the budgetary programming.

In case of major defaults a smoothing mechanism is foreseen, in order to maintain the Fund’s main purpose, i.e. to act as a shock absorber for the Union budget. A threshold amount of EUR 100 million is proposed.

FINANCIAL IMPLICATIONS :

- Budget lines : Line 6 (for 2006) and line 4 : the EU as a global partner (as from 2007).

- Expenditure forecast : an amount equal to the “normal” provisioning (= provisioning to cover the amount of outstanding loans and guaranteed loans plus up to EUR 100 million for losses) of up to about EUR 200 million has been indicated. This amount is the result of simulations that are based on the past observed growth rates of the amounts outstanding and the occurrence of default-induced losses of up to EUR 100 million.

In the very unlikely case that the smoothing mechanism would be triggered in case of major default-induced losses to the Fund, these “smoothing” amounts would be added to the amount to be paid by the budget under the “normal” provisioning. However, the design of the provisioning mechanism ensures that in any given year the default-induced amounts to be paid by the budget will never exceed EUR 100 million p.a. in addition to the “normal” provisioning and, therefore, the amount of EUR 200 million

will not be exceeded under normal circumstances.

As regards the observations for 2006, if the proposal is adopted before 31.12.05, the amount is zero. Otherwise, the actual regulation applies and therefore the Guarantee Reserve is set at EUR 229 million (current prices).