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Questions and Answers Regarding the Implementation of the March 2014 European Council Conclusions on the Tasking of EIB to Promote "European companies' Internationalization and Competitiveness"

Q1: Will EU investments outside Europe contribute to growth inside Europe?

- The total value of projects closed outside the EU between *January 2003* and *May 2014* is **USD 2,045 bn** of which **29%** (USD 591 bn) involves projects with EU companies.
- Studies by McKinsey and four other sources as quoted in an external working paper of the EIB forecast that during the upcoming 10 years EUR 4,700 bn (USD 5,890 bn) on investment in infrastructure is required within the EU.[1]
- The post crisis policy efforts at EU level have focused on enhancing growth by stimulating long-term financing for companies, but were almost exclusively focused on projects **inside** the EU. However the EU market is estimated to be worth **EUR 4,700 bn (USD 5,890 bn)** during the next 10 years, while infrastructure projects outside the EU are projected by the World Economic Forum[2] at around **USD 31,110 bn** during the upcoming 10 years**.** It is thus evident that European policy makers should enable European companies to successfully compete for such large-scale projects, which can only be won with appropriate funding as part of a competitive offer. Without policy action aimed at enhancing the competitive capacity of EU companies for projects outside the EU this is ***not possible***.
- Participating in these *large-scale projects* ***outside*** **the EU** provides European companies with financial means and incentives to invest in ***technology development and innovation inside*** **the EU**; this **technology 'pull' creates employment in the EU**.
- The entire *logic* of Government support through Export Credit Agencies to companies working outside national boundaries is to ensure that these companies *do not move outside these national boundaries and strengthen their technology and employment base within these boundaries*.
- According to UEAPME around 50 percent of the business of SMEs in Europe relies on contracts signed with big companies. If these are forced to subcontract Asian SMEs

[1] http://www.eib.org/attachments/efs/economics_working_paper_2013_02_en.pdf

[2] http://www.weforum.org/reports/strategic-infrastructure-steps-operate-and-maintain-infrastructure-efficiently-and-effective

under forms of tied lending by Asian Government-owned lending institutions, European SMEs will see their order portfolio substantially damaged.
- It is time to act, because the EU's share in the financing of international projects has **declined sharply over the years**. If this decline is not stopped and reversed, **long term competitiveness of EU companies will be harmed**. It is therefore of key importance to level the playing field for EU industries when compared to our global competitors in terms of access to finance. This will result in EU companies winning those tenders for international projects that are needed to regain competitiveness in world markets.

Q2: Should EIB mandate expansion include guarantees?

- The **main rationale** for guarantees as part of an EIB mandate expansion is that guarantees draw in private funding for instance of pension funds and insurance companies.
- Through EIB guarantees Europe can become the **preferred partner** of countries where EU long term investments take place. As a consequence, in these countries, the **position** of European industry is improved; the **geopolitical risk for** European industry is reduced; and the EIB is able to **positively influence sustainability and social development** in client countries
- The **EIB**, through both a larger volume of outside financing and enhanced guarantees, creates the **conditions enabling private investors to re-enter capital markets** allowing them to finance long-term international investments by EU industry and service sectors.
- Enhancing **EIB guarantees** will respect the principle of **budgetary neutrality** for the EIB's shareholders, i.e. the 28 Member States, **and do not affect the EIB's overall lending capacity for financing projects inside Europe**.

Q3: Why focus at EIB (European Investment Bank) as best option?

- The **EIB** is one of the world's largest banks and is the only one that can compete on similar terms with national Japanese, Chinese and Korean Banks that currently provide *tied loans* to companies. *Tied loans* mean that companies *also from the EU* are required to subcontract Japanese (or Korean, or Chinese) companies. This causes the leaking of technology, networks, experience and expertise out of Europe. Tied loans provided by the EIB will create employment and strengthen SMEs in the EU.
- While the EIB continues its focus at European Union Member States it can *strengthen its income from safe and performing loans* that will allow European companies to regain lost terrain outside the EU. Large scale projects outside the EU are usually Government guaranteed, carry low risk and a good calculable income that can be re-invested in the European economy.
- **Infrastructure financing for projects in EMDCs relies heavily on bank financing**, particularly from developed (particularly European) countries. With weaknesses in European banks likely to persist, there is a growing mismatch between the amount and time horizon of available capital and the needs of projects.

- Faced with limited direct lending capacity and the fiscal constraints of many of its major shareholders, it is increasingly important that the **catalytic role** and potential of the **EIB is strengthened and fully utilized**. This implies to full use of EU backed guarantees that mobilise private capital such as currently harboured by European pension funds and insurance companies. *Guarantees thus are even more important than financial outlays as their robust performance will limit any call on the European budget. All similar banking activity outside the EU is profitable; EIB stands to gain, not lose any money.*
- The EIB ceiling for lending outside the EU is 10% of the annual lending or 3.85 billion EUR annual lending – whereas the value of one major infrastructure project is usually around 3 billion USD. The Commission now considers extending the ceiling *with 25%* to better leverage EIBs capacity; but the **value of projects outside Europe calls for a more sizable ceiling of up to 30 billion euro** that can be obtained gradually.

Q4: Is EIB mandate expansion required?

- The **EIB's current conditions** for loans **restrain financing** for major international projects; as a consequence EU companies cannot compete in international tenders – *even inside the EU*.
- In the competition for major international projects human rights, sustainability and the environment are important. But by leaving the contracts to others these principles are not necessarily promoted. *If conditionalities are integrated in good funding offers* by the EU the **probability of ethical and moral principles being promoted is stronger**.
- Unlike any other bank, the EIB can use tied lending as a means to require companies to engage in serious Corporate Social Responsibility efforts.
- The EIB can facilitate subcontracting of smaller companies by major European industries active outside the EU – which may well amount to some 40% of the contract value.