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FRAME ECONOMIC  
FRAME EXTERNAL

EUROPEAN DEVELOPMENT BANK: EC 12 HIGH LEVEL GROUP: 29 NOVEMBER

SUMMARY

1. EXCHANGE OF VIEWS AMONG FINANCE AND FOREIGN MINISTERIES OF 12 WHICH DID LITTLE TO SHAKE PRESIDENCY RESOLVE. ATTALI DETERMINED TO FORCE 'YES/NO' QUESTION ON THE PRINCIPLE OF THE NEW BANK AT STRASBOURG. SEVERAL SERIOUS TECHNICAL QUESTIONS RAISED BY FRG, UK, THE NETHERLANDS AND ITALY ON NEED FOR NEW INSTITUTION, SCALE AND NATURE OF OPERATIONS, CONDITIONALITY, ETC. PARTIALLY ANSWERED BY TRICHET, AND RESULTS TO BE SET OUT IN PRESIDENCY PAPER FOR EUROPEAN COUNCIL. IN MARGINS, GENERAL VIEW THAT SCHEME WILL PROBABLY GO FORWARD.

DETAIL

2. ATTALI (PRESIDENCY) OPENED THE MEETING BY STRESSING THE IMPORTANCE OF THE PROPOSED NEW BANK FOR EUROPE AS A POLITICAL SYMBOL AND INVITED DELEGATIONS TO GIVE A VIEW IN PRINCIPLE.

3. FRAGA (SPAIN), SNOY (BELGIUM), THE DANISH, PORTUGUESE AND IRISH REPRESENTATIVES AND COSTO (COMMISSION) WERE GENERALLY IN FAVOUR. THE GREEK REPRESENTATIVE WAS PROVISIONALLY POSITIVE BUT UNABLE TO OFFER A FIRM VIEW BECAUSE OF THE RECENT CHANGE OF GOVERNMENT. KOEHLER (FRG), BAYNE (UK), MAAS (NETHERLANDS), THE ITALIAN AND LUXEMBOURG REPRESENTATIVES TOOK A MORE QUESTIONING LINE.

4. KOEHLER RECOGNISED THE POTENCY OF THE BANK AS A POLITICAL SYMBOL AND WELCOMED THE OPPORTUNITY IT WOULD PROVIDE FOR EAST EUROPEAN PARTICIPATION. BUT THESE ARGUMENTS DID NOT IN THEMSELVES WARRANT THE CREATION OF A NEW INSTITUTION. THE MARKETS WERE THE BEST SOURCE OF WHAT EAST EUROPEAN COUNTRIES REALLY NEEDED, IE TECHNICAL KNOW-HOW AND CAPITAL INFLOWS TO SUPPORT THE PRIVATE SECTOR. AGREEMENT AT STRASBOURG WOULD BE EASIER IF THE PRESIDENCY REDRAFTED



THEIR PROPOSAL TO LEAVE OPEN THE QUESTION OF WHETHER A NEW INSTITUTION WAS NEEDED (PERHAPS AN EXTENSION OF THE EIB'S ACTIVITIES WOULD SUFFICE) BUT MAKE CLEAR THAT ANY NEW INSTITUTION WOULD BE FIRM ON CONDITIONALITY, NOT ENTAIL CREATION OF A CUMBERSOME NEW BUREAUCRACY AND WOULD BE OPEN TO NON-EUROPEAN PARTICIPATION.

5. BAYNE ENDORSED THE PRESIDENCY'S WISH FOR THE COMMUNITY TO HELP EAST EUROPEAN COUNTRIES UNDERTAKING REFORMS. THE 18 NOVEMBER MEETING OF HEADS OF GOVERNMENT HAD ALREADY GIVEN A POSITIVE SIGNAL. BUT WE DOUBTED WHETHER AN INSTITUTION FOR PUBLIC LOAN FINANCE MODELLED ON A REGIONAL DEVELOPMENT BANK WAS THE BEST CHANNEL FOR HELP. ENOUGH LOANS WERE AVAILABLE FROM EXISTING SOURCES: THE NEW BANK WAS NOT WELL-DESIGNED TO HELP THE PRIVATE SECTOR, ECONOMIC CONDITIONALITY WAS NOT ASSURED, AND NON-EUROPEANS MIGHT NOT BE ATTRACTED. OTHER APPROACHES SHOULD ALSO BE CONSIDERED. MOUNTFIELD (UK) LATER POINTED OUT THAT THE PROPOSED CAPITAL STRUCTURE WOULD NOT SUPPORT EQUITY OPERATIONS TO ENCOURAGE PRIVATE INVESTMENT EXCEPT ON A VERY SMALL SCALE.

6. MAAS SAID HIS GOVERNMENT HAD NOT YET TAKEN A FIRM VIEW. HE SAW ADVANTAGE IN AN ORGANISATION THAT COULD COORDINATE FINANCIAL AND TECHNICAL FLOWS TO EASTERN EUROPE AND ONE IN WHICH EASTERN EUROPEANS COULD PARTICIPATE. BUT HE SHARED THE UK AND GERMAN CONCERNS ABOUT THE CONDITIONALITY NATURE OF OPERATIONS. HE WOULD OPPOSE ANY USE OF THE BANK FOR SHORT TERM BALANCE OF PAYMENTS SUPPORT LOANS. HE STRESSED, WITH THE SUPPORT OF THE ITALIAN AND LUXEMBOURG REPRESENTATIVES, THAT A NEW BANK WOULD BE DIFFICULT AND TIME-CONSUMING TO SET UP. COULD WE NOT BUILD ON EXISTING INSTITUTIONS SUCH AS THE EIB? THE LUXEMBOURG REPRESENTATIVE MENTIONED THE COUNCIL OF EUROPE RESETTLEMENT FUND AS A POSSIBLE ALTERNATIVE. THE ITALIAN FELT THAT A MORE SPECIFIC PROPOSAL WOULD BE NEEDED FOR STRASBOURG, OTHERWISE THE EUROPEAN COUNCIL SHOULD CONFIRM ITSELF TO AGREEMENT TO REMIT A PROPOSAL TO A TECHNICAL COMMITTEE FOR FURTHER DETAILED CONSIDERATION.

7. SNOY SPOKE GENERALLY IN FAVOUR, WHILE HOPING THAT A MORE PRECISE PROPOSAL WOULD BE TABLED AT STRASBOURG. THIS SHOULD SAY THAT A SINGLE CENTRALISED INSTITUTION WAS NEEDED IN WHICH THERE SHOULD BE A MAJORITY HOLDING BY THE TWELVE. IT SHOULD SPECIFY THE WAYS IN WHICH THE BANK COULD HELP THE PRIVATE SECTOR AND STATE CLEARLY THAT CONDITIONALITY TERMS WOULD BE IN HARMONY WITH THOSE OF THE IMF/IBRD. IT SHOULD PROVIDE FOR AN EXPANDED AND, IF NECESSARY, SOMEWHAT MODIFIED EIB TO PROVIDE SUPPORT TO EASTERN EUROPE FOR AN INITIAL PERIOD WHILE THE BANK WAS BEING SET UP. SNOY NOTED IN PASSING THAT



ARTICLE 18 OF THE EIB'S STATUTES APPEARED TO PREVENT IT BECOMING A SHAREHOLDER IN THE NEW BANK AS THE PRESIDENCY WISHED.

8. FRAGA SUPPORTED BUT HOPED FOR A LARGER SECOND WINDOW FOR CONCESSIONARY LENDING. KOEHLER, BAYNE AND MAAS EXPRESSED CONCERN AT THE IDEA OF A CONCESSIONARY WINDOW. TRICHET (PRESIDENCY) BELIEVED THAT IT SHOULD ONLY BE USED IN CLEARLY DEFINED AND LIMITED CIRCUMSTANCES.

9. RESPONDING TO DELEGATIONS' CONCERNS, TRICHET SAID THAT HE FELT THAT A NEW INSTITUTION WAS NEEDED TO DEAL WITH A NEW AND SPECIFIC PROBLEM: THE TRANSITION FROM CENTRALLY CONTROLLED TO MARKET ORIENTED ECONOMIES. ANOTHER KEY FACTOR WAS EAST EUROPEAN PARTICIPATION. THIS WAS NOT POSSIBLE IN THE EIB. WHETHER THE EIB COULD PLUG THE GAP FOR AN INITIAL PERIOD SHOULD BE STUDIED. ON MEMBERSHIP, THE TWELVE, THE COMMUNITY AND THE EIB SHOULD TOGETHER BE THE MAJORITY SHAREHOLDER. THIS WAS NECESSARY TO GIVE THE BANK A CLEAR EUROPEAN IDENTITY AND FINANCIAL CREDIBILITY. EASTERN EUROPE COUNTRIES WOULD ALSO BE MEMBERS AND MEMBERSHIP SHOULD BE OPEN TO OTHER EUROPEAN AND POSSIBLY NON-EUROPEAN COUNTRIES. TRICHET FELT THAT THE NEW BANK WAS WELL EQUIPPED TO HELP THE PRIVATE SECTOR. THE PRESIDENCY PROPOSAL WAS QUITE SPECIFIC ABOUT HOW THIS WOULD BE DONE BUT HE ACCEPTED THE NEED FOR FURTHER DETAILED DISCUSSION OF THE CAPITAL STRUCTURE TO ENSURE THE BANK HAD THE OPTIMUM SYSTEM. ON CONDITIONALITY, HE RECOGNISED THE NEED FOR CLEARLY DEFINED GUIDELINES WHICH DID NOT CUT ACROSS THE IMF/IBRD. ATTALI ADDED THAT DELEGATIONS SHOULD NOT LOOK FOR TOO MUCH DETAIL IN THE PRESIDENCY PROPOSAL AT THIS STAGE. FURTHER TECHNICAL STUDY COULD TAKE PLACE AFTER AGREEMENT IN PRINCIPLE ON THE BANK.

10. ATTALI CONCLUDED BY SAYING THAT THE PRESIDENCY WOULD SEEK YES OR NO ANSWERS ON THE PRINCIPLE OF THE NEW BANK AT STRASBOURG IN SPITE OF THE PREFERENCE OF NIEMAN (NETHERLANDS), BAYNE AND KOEHLER THAT THE DISCUSSION SHOULD BE MORE OPEN. A REVISED PROPOSAL TAKING DELEGATIONS' VIEWS INTO ACCOUNT WOULD BE CIRCULATED BY PRESIDENT MITTERRAND TO HEADS OF GOVERNMENT ALONG WITH THE NORMAL SCENE-SETTING LETTER IN THE RUN UP TO STRASBOURG. THERE WOULD BE NO FURTHER MEETING TO STUDY THE PROPOSAL BEFORE THE SUMMIT.

4 11. IN THE MARGINS, BOTH KOEHLER AND THE ITALIAN TOLD BAYNE THAT THEY EXPECTED THEIR GOVERNMENTS TO GO ALONG WITH THE PROPOSAL AT STRASBOURG.

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