THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS – PRIORITY OF THE EUROPEAN COMMISSION DURING JUNCKER MANDATE

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On July 15, 2014 Jean-Claude Juncker was elected President of the European Commission (EC) by the European Parliament (EP) following the presentation of the *Political Guidelines for the next European Commission – A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change.* With a vision of a *European Union that is bigger and more ambitious on big things, and smaller and more modest on small things*, Juncker has proposed a renewed European Union (EU) highlighting ten policy areas. The priority policy areas are aimed at employment, growth and investment, the digital single market, and the energy union.

I. The policy area entitled **A New Boost for Jobs, Growth and Investment** includes a commitment to draft, during the first three months in office, an *ambitious package* allowing *mobilisation of up to EUR 300 billion in additional public and private investment in the real economy over the next three years*.

Immediately after the start of office as President[2], on November 26, 2014 the EC issued a *Communication – An Investment Plan for Europe*[3] (Communication).

The Communication notes the urgent need for investment in the EU. It is reinforced by the Report of the *Special Task Force on Investments in the EU*[4] (Report) which identifies in the EU approximately 2,000 potential investment projects worth EUR 1.3 trillion, of which those for the next three years are worth EUR 500 billion. In Romania, the Report identifies approximately 200 potential investment projects worth EUR 62.6 billion, of which those for the next three years are worth EUR 44 billion.

Sector	EU (%)	RO[5] (%)
Energy Union	29	5
Transport	29	80
Knowledge, Innovation, and Digital Economy	18	4
Social Infrastructure	15	3
Resources and Environment	9	8

The sector distribution of potential investment projects for the next three years in the EU and Romania is showed herewith.

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[2] The mandate as President of the EC began on 01.11.2014.

[3] The European Council endorsed the Investment Plan (18.12.2014).

[4] http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/special-task-force-report-on-investment-in-the-eu_en.pdf

[5] Own calculations based on the Report.

Moreover, in addition to the urgent need for investment, the Communication states that there are significant levels of savings and financial liquidity that could be mobilized.

According to EC estimates, the Investment Plan will lead to the creation of 1.3 million new jobs and add EUR 330 - 410 billion to EU GDP over the next three years, without pressures on national public finances and without producing new debt.

At the same time with the Communication, in the EP, President Juncker delivered his speech *Investing in Europe* to support the Plan, raising various policy responses[6]:

Manfred Weber (DE), EPP group chair - “Mobilising private capital is better than making new debts", nonetheless stressing that member states should continue structural reforms, because "if legal proceedings last as long as they do in Italy, if the labour markets are too rigid as in France and if planning procedures last months and years as they do in my country, then it is hardly surprising that there are no investments".

Gianni Pittella (IT), S&D group leader - "We would have liked more public money, more investment, but this is a good starting point". He stressed that his group is not interested in "what the credit agencies are saying - we are interested in peoples' lives". He also reminded Mr Juncker that the S&D supported him on condition that he delivered the investment package and that Parliament should be fully involved.

Syed Kamall (UK), ECR group leader - "How do we make sure it is a watering can that stimulates growth? How do we make sure that it is not a government flood that washes away private investment? How do we make sure that it is not a private irrigation system that is never turned on? What we need are detailed answers to some of our questions (...) Maybe then we can support your project".

Guy Verhofstadt (BE), ALDE group leader - "Maybe labour market reform should be a conditionality to get the funds", he suggested, also highlighting the need to complete the EU’s digital, energy and capital single markets. "Otherwise, money would be lost on a big scale", he said. Mr Verhofstadt also suggested exempting use of the funds from tax, in order to attract more private investment.

Dimitrios Papadimoulis (EL), GUE/NGL group - "the package you presented is just empty words. EUR 16 billion comes from the EU budget and EUR 5 billion from the EIB. There is not one Euro of fresh money in there, and you promised that you are going to create some kind of leverage effect multiplying funds by 15. In these times of stagnation and recession in the Eurozone, there is no economist in the world that would believe this".

Philippe Lamberts (BE), coleader Greens/EFA group - called the investment package "very well intended", but stressed the need to "put an end to the casino economy". He argued that "fighting fraud and tax evasion" should be an "integral part" of

[6] See http://www.europarl.europa.eu/news/en/news-room/content/20141121IPR79833/html/Investing-%E2%82%AC315-billion-to-jump-start-the-EU-economy and http://www.dw.de/juncker-to-unveil-315-billion-euro-eu-investment-plan/a-18088988

the plan and stressed the need to switch to greener energy sources within the EU. "We shouldn't be giving EUR 1 billion a day to Vladimir Putin and his energy system", he said.

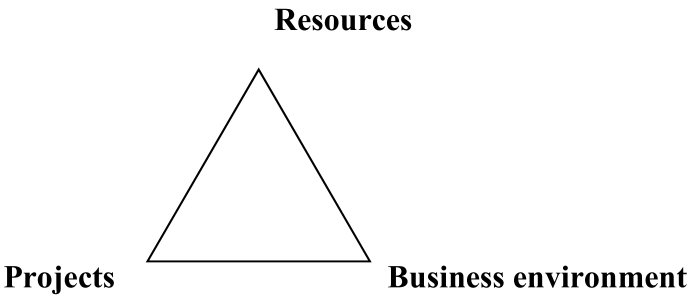
Patrick O'Flynn (UK), EFDD - Mr Juncker was "throwing good money after bad" while the main problem is the Euro as a single currency which prevents southern EU states from allowing national currencies to depreciate and thus create more favourable conditions for investment.

Gerolf Annemans (BE), non attached member - The investment package is "basically a recycling, a relabelling (...) This is a useless watering can, hocuspocus, abracadabra, and this is just monopoly money".

Catherine Mann (USA), OECD chief economist - "The EUR 315 billion is like a cloud number, it's up in the clouds. There's much more limited actual cash on the table. But to the extent that it can catalyze private investment, that's actually better."

Recently, on January 13, 2015 the EC has submitted a *Proposal for a Regulation on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013* (Regulation) with the invitation for adoption by the EP and the Council so as to enter into force until the middle of 2015, invitation supported by the European Council.

According to the Communication, the Investment Plan is based on three elements:



From this perspective, the Regulation establishes a regulatory framework for the implementation of two of these elements (mobilizing resources and directing resources towards projects in the real economy)[7], i.e. the Regulation contains clauses on the conclusion, content and effects of the agreement (Agreement) between the EU represented by the EC and the European Investment Bank (EIB), as well as clauses on guarantees, as follows:

- ✓ Establishment of the **European Fund for Strategic Investments** (EFSI)
  - o Goal
    - ▪ Supporting investments in the EU and ensuring increased access to financing for companies having up to 3,000 employees; supplying of new risk bearing capacity to the EIB

[7] The third component – the business environment – includes a number of conditions for improving it.

- Governance
  - Steering Board – issuing the strategic orientation, the strategic asset allocation, the operating policies and procedures of EFSI
- Management
  - Investment Committee – examining potential operations in line with the EFSI investment policies and approving the EFSI support (the EU guarantee)
  - Managing Director – day-to-day management of the EFSI and Presidency of the Investment Committee
- Resources
  - EU – contribution in a guarantee of an amount equal to EUR 16 billion (EU guarantee)
  - EIB – contribution in cash[8]
  - Member States – contribution in cash or a guarantee acceptable to the EIB[9]
  - Third parties – contribution in cash (national promotional banks, public agencies owned or controlled by the Member States, private sector entities) subject to the consent of existing contributors
- Financial instruments and investment projects targeted

Financial instruments	Investment projects (general objectives)
• loans • guarantees • counter-guarantees • capital market instruments • any other form of funding or credit enhancement instrument • equity or quasi-equity participations	• development of infrastructure, including in the areas of transport, particularly in industrial centres; energy, in particular energy interconnections and digital infrastructure • investment in education and training, health, research and development, information and communications technology and innovation • expansion of renewable energy and energy and resource efficiency • infrastructure projects in the environmental, natural resources, urban development and social fields • providing financial support for the companies with up to 3,000 employees including working capital risk financing

[8] EUR 5 billion, according to the explanatory memorandum.

[9] The EC has indicated that it will take a favourable position towards such contributions in the context of its assessment of public finances. See the EU Communication – An Investment Plan for Europe (26.11.2014) and – Making the Best Use of the Flexibility within the Existing Rules of the Stability and Growth Pact (13.1.2015).

- Co-investors
  - The manner in which third parties may co-invest with EIB financing and investment operations supported by the EFSI is to be provided for by the Agreement
  - The Member States, as co-investors alongside EIB, are allowed to use the structural and investment European funds for co-financing the eligible investment projects
- ✓ Establishment of the **European Investment Advisory Hub**
  - Goal
    - Supporting of the third parties on the use of technical assistance for project structuring, use of innovative financial instruments, use of public-private partnerships, and advising on relevant issues of EU legislation
- ✓ Establishment of the **European investment project pipeline** at the EIB and EC level[10]
  - Goal
    - Providing access of stakeholders to relevant, transparent and dynamic information on the present and future EU investment projects with a potential significant contribution to the EU policy objectives[11]
- ✓ Establishment of the **Guarantee Fund**
  - Goal
    - Paying the EU guarantee when EIB calls the EU guarantee
  - Governance and management
    - At the EC level (asset management)
  - Resources (maximum 50% of the EU guarantee)
    - Payments from the general budget of the EU[12]
    - Returns on guarantee fund resources invested
    - Amounts recovered from defaulting debtors

Based on the EC forecasts, the EU guarantee of EUR 16 billion will be topped up by another EUR 5 billion from the EIB. With a EUR 21 billion reserve, the EIB can cover financing and investment operations of EUR 63 billion. In view of the fact that the EIB will be financing the riskier parts of projects, private investors will be pitching in EUR 252 billion; hence a total of EUR 315 billion will be invested in economy.[13]

According to the Communication, with the support of national authorities, the EC and the EIB will initiate *dialogues* with investors, project promoters and institutional stakeholders to facilitate the launch of investment projects and will also organize workshops on *Investing in Europe*.

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[10] The Regulation provides also for the establishment of such a pipeline at the level of the Member State.

[11] According to EC, this measure could lead to a system of European certification for viable investment projects in order to attract private investors.

[12] EUR 8 billion until 2020, according to the explanatory memorandum.

[13] http://europa.eu/rapid/press-release_SPEECH-14-2160_en.htm

II. The second policy area – **A Connected Digital Single Market** intends to establish a digital single market by:

- Swift and ambitious legislative steps in the areas of data protection
- Swift and ambitious legislative measures in telecommunications
- Modernising and simplifying copyright and consumer rules for online and digital purchases

EC estimates that the Digital Single Market will lead to hundreds of thousands of new jobs, to 250 billion EU GDP growth during the EC mandate, and to a dynamic knowledge-based society.

The European Council called on the Union legislators to give new momentum to the work on the pending proposals regarding the Digital Single Market and on the Commission to submit an ambitious communication in this area before the June 2015 European Council[14].

III. The third policy area – **A Resilient Energy Union with a Forward-Looking Climate Change Policy** provides for the reorganization of the European energy policy in a new Energy Union by:

- Legislative measures for the defragmentation of the rules for cross-border energy trade
- Legislative measures to address the market-distorting retail price regulation
- Actions to follow up on recent decisions concerning the 2030 climate and energy framework

The European Council called on the EC to draw up a comprehensive Energy Union proposal ahead of March 2015.[15] As a result, on February 25, 2015 the EC issued the *Communication – A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy.*

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[14] European Council, 18.12.2014.
[15] European Council, 18.12.2014.