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NOTEBOOK ON AN INVESTMENT PLAN FOR EUROPE (Juncker Plan)

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Legal Framework

Article 172

(ex Article 156 TEC)

The guidelines and other measures referred to in Article 171(1) shall be adopted by the European Parliament and the Council, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of the Regions.

Guidelines and projects of common interest which relate to the territory of a Member State shall require the approval of the Member State concerned.

Article 173

(ex Article 157 TEC)

- The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist. For that purpose, in accordance with a system of open and competitive markets, their action shall be aimed at:

  - Speeding up the adjustment of industry to structural changes.

  - Encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings.

  - Encouraging an environment favourable to cooperation between undertakings.

  - Fostering better exploitation of the industrial potential of policies of innovation, research and technological development.

- The Member States shall consult each other in liaison with the Commission and, where necessary, shall coordinate their action. The Commission may take any useful initiative to promote such coordination, in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation. The European Parliament shall be kept fully informed.

- The Union shall contribute to the achievement of the objectives set out in paragraph 1 through the policies and activities it pursues under other provisions of the Treaties. The European Parliament and the Council, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee, may decide on specific measures in support of action taken in the Member States to achieve the objectives set out in paragraph 1, excluding any harmonisation of the laws and regulations of the Member States.

- This Title shall not provide a basis for the introduction by the Union of any measure which could lead to a distortion of competition or contains tax provisions or provisions relating to the rights and interests of employed persons.

Article 175

(ex Article 159 TEC)

- If specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of the Regions.

Article 182

(ex Article 166 TEC)

1. A multiannual framework programme, setting out all the activities of the Union, shall be adopted by the European Parliament and the Council, acting in accordance with the ordinary legislative procedure after consulting the Economic and Social Committee.

The framework programme shall:

- Establish the scientific and technological objectives to be achieved by the activities provided for in Article 180 and fix the relevant priorities,

- Indicate the broad lines of such activities,
- Fix the maximum overall amount and the detailed rules for Union financial participation in the framework programme and the respective shares in each of the activities provided for.

Why we need an Investment plan for Europe?

During the global economic and financial crisis, the EU has been caught in a serious investment trap. Although, from 2007 till 2014 the Gross Domestic Product (GDP) and private consumption within the EU were stable, total investment was 15% below 2007 figures. In contrast with 2007 peak, investments in 2014 have dropped by around € 430 billion. The President of the European Commission, Jean Claude-Juncker, underlined that "Europe confronts with a major paradox: Despite the huge liquidity in the world's money markets and corporate bank accounts, investment in Europe is not rebounding." In addition, investment levels in 2013 in the EU were € 230 to € 370 billion below the historical norm, as the European Commission explained.

Sources:
https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00001&language=en

https://ec.europa.eu/commission/sites/beta-political/files/factsheet1-why_en.pdf

Examples across Europe:

- Greece is one of the EU member states with the biggest drop in investment. When Greece's debt crisis began in 2008, investment levels stood at 11.9% of GDP, compared to 19.3% of GDP in euro area. It is remarkable that, before crisis, investment accounted for more than 20% of GDP.

- Investment in Finland had been declining since the crisis. Investment in equipment and non-housing construction was growing slowly over the last years. In any case, the share of investment rose to 21.2% of GDP in 2013, above the euro area average of 19.6%.

- In Portugal, the decline in investments has been sharp from 22% of GDP in 2008 to 15% in 2013. In particular, the private and public sectors are highly indebted in Portugal. The main challenge is to limit energy costs by investments in the energy sectors.

- Low expectations about the demand for goods and services
- The fragmentation of financial markets
- Lack of sufficient risk-bearing capacity
- Political instability in EU member states
- High levels of indebtedness in parts of the EU economy and their impact on credit risk

Lack of investment →

The lack of investment has a considerable impact on:

- growth and competitiveness

- capital stock
- Europe's productivity
- employment levels and job creation

What is the Plan about?

The Investment Plan consists of three strands:

Mobilizing finance for investment → Making finance reach the real economy → Improved investment environment

A new European Fund for Strategic Investments. The EFSI is not a new, separate fund or legal entity, but a mechanism established for an initial period of four years (July 2015 to July 2019) within the EIB Group through an agreement between the EIB and the Commission. This fund was created in order to Europe tackle its investment gap by mobilizing private financing for strategic investments. EFSI has be guaranteed with 16 billion from the EU budget. Existing EU funds from the existing margins of the EU budget (€ 2 billion), such as the Connecting Europe Facility (€ 3.3 billion) and the Horizon 2020 program (€ 2.7 billion) have subvented the EU guarantee (50% guarantee). Moreover, the EIB has put up €5 billion.

EFSI aims to unlock at least EUR 315 billion of investment throughout 2017. Participation in the EFSI is also open to member states, directly or through their National Promotional Banks, at the level of risk-bearing capacity through an investment platform or directly through co-financing certain projects and activities.

Its objectives:

1. Increase the volume of higher-risk projects supported by the EIB Group so as to finance operations and redress the market failure in risk-taking that hinders investment in Europe.
2. Enable private investors to join under more favourable conditions.

Management structure

- **The independent Investment Committee** approves the projects according to the agreed investment guidelines. Its basic principle is to guarantee that that public support does not exclude or crowd out private investment. Specialized staff cooperates with the EIB group in areas such as product development, pipeline origination and structuring, technical assistance, funding capacity, treasury management, asset-liability management, guarantees, portfolio management, accounting and reporting.

- **TheSteering Board,** consisted of five members, three appointed by the EU Commission, one appointed by the EIB and one expert appointed as a non-voting member by the European Parliament. It takes decisions by consensus about the management, the strategic orientation, the asset allocation and the general investment policy of the EFSI. The Steering Board consists of four members, three appointed by the Commission and one by the EIB. The Steering Board will elect a Chairperson from among its members for a fixed term of three years. Its incumbency can be renewed once. The Steering Board's members will not come from the member states, but only from the Commission and the EIB, in order to avoid political influences.
- **The Steering Board is supported by the European Investment Advisory Hub (EIAH),** which identifies, prepares and develops investment projects. EIAH also provides assistance with legal issues and project financing.

- Sources: https://www.eib.org/en/efsi/governance/efsi-steering-board/index.htm.
- Regulation (EU) 2017/2396 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub, *OJ L 345, 27.12.2017, p. 34–52*

The role of the European Parliament

Monitoring of EFSI

(1) Reporting **(2) Accountability**

(1) The EIB reports publicly to the European Commission (semi-annually) and to the European Parliament and the Council (annually). The report includes EIB financing and investment operations under Regulation.

(2) At any point the European Parliament can request hearings with the Managing Director of the EFSI. On the other hand, the Managing Director must reply consistently and rapidly.

How does it work in practice?

- Multiplier effect of 1:15 in real investment in the economy

- For every initial one euro of gurantee by the Fund, three euros of financing can be provided to a certain project in the form of sub-ordinated debt.
- This creates a safety buffer in that particular project - private investors can be expected to invest in the senior tranches of that same project.
- EIB and European Commission experience indicates that 1 euro of subordinated debt catalyses 5 euro in total investment: € 1 in subordinated debt and on top of that 4 euro in senior debt.
- This means that € 1 of protection by the fund generates € 15 of private investment in the real economy.

More efficient use of the ESIF

- An overall doubling in the use of innovative financial instruments for the period from 2014 – 2020.
- Increasing the amount of national co-financing.
- Member States are invited to use EU funds still available.

It will support investment in:

- Transport.
- Energy and digital infrastructure.
- Education and training.
- Health
- Research and development.
- Information and communications technology
- Innovation
- Expansion of renewable energy and resource efficiency
- Environmental, urban and social projects

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Types of projects

According to the Political Guidelines of President Juncker, additional investment will accommodate the following areas: infrastructure, notably broadband and energy networks, as well as transport infrastructure in industrial centres, education, research and innovation, and renewable energy and energy efficiency. Funding will be channeled to viable projects, with a real added value for the European social market economy. This includes in particular but not only:

1. Strategic infrastructure (digital and energy investments in line with EU policies).
2. Transport infrastructure in industrial centres, education, research and innovation.
3. investments boosting employment, in particular through SME funding and measures for youth employment.
4. Environmentally sustainable project.
5. Innovation and Research & Development.

The Fund will support projects which:

1. Are consistent with union policies.
2. Are economically and technically viable.
3. Provide additionality.
4. Maximize, where possible, the mobilisation of private sector capital.

Legal security for investors

The agreement signed between the Commission and the EIB on the establishment of the EFSI on 22 July 2015 and based on Regulation (EU) 2015/1017 (the EFSI Agreement), contains, inter alia:

1. Detailed requirements for EIB financing and investment operations.
2. A scoreboard of the key performance indicators (KPIs) to be used for assessing the macroeconomic impact of EFSI investments.
3. The procedure for project selection.
4. Provisions on the intellectual property of the funded projects.

Three key criteria:

1. EU value added (projects in support of EU objectives).
2. Economic viability and value – prioritising projects with high socio-economic returns.
3. Projects that can start at latest within the next three years, i.e. a reasonable expectation for capital expenditure in the 2015-17 period.

Regulatory environment

- The regulatory environment affects investments, growth and jobs.

- The bureaucracy, the administrative burden, regulatory complexity and the speed of public administration are obstacles to the process of setting up a business and affect the environment in which business operates.

- The regulatory framework differs from country to country in the EU, despite the efforts of the European legislation.

- In order to trigger investment, the regulatory environment needs to be clear, predictable and stable.

Main bottlenecks

- Bank intermediation.

- Differences in financing conditions between Member States.

- Many SMEs still have limited access to finance.

- Regulatory and non-regulatory barriers to all the important infrastructure sectors.

How to remove these obstacles?

FINANCIAL SECTOR

- Regulation on European Long-term Investment Funds (ELTIF).
- Revitalization of high quality securitization markets.
- Treatment of the current lack of standardized credit information on SMEs.
- Prospectus Directive.

TELECOM

- Truly connected digital single market.
- Legislative steps in the areas of data protection, telecoms regulation.
- Modernize and simplify copyright and consumer rules for online and digital purchases.

ENERGY

- Third Energy Package must be ensured.
- Rules for energy-cross-border trade still remain highly fragmented.
- Market-distorting retail price regulation continues in some Member States and needs to be addressed.

TRANSPORT

- Structural reforms to resolve barriers to investment in transport infrastructure projects, notably with a cross-border dimension, need to be implemented swiftly.

SERVICE AND RELATED SECTORS

- Address disproportionate legal form, shareholding and authorisation requirements

- Improve mutual recognition in particular for sectors and professions with high cross-border trade potential

- EU competitiveness would benefit from fewer barriers to knowledge transfer, open access to scientific research and greater mobility of researchers

GENERAL FIGURES

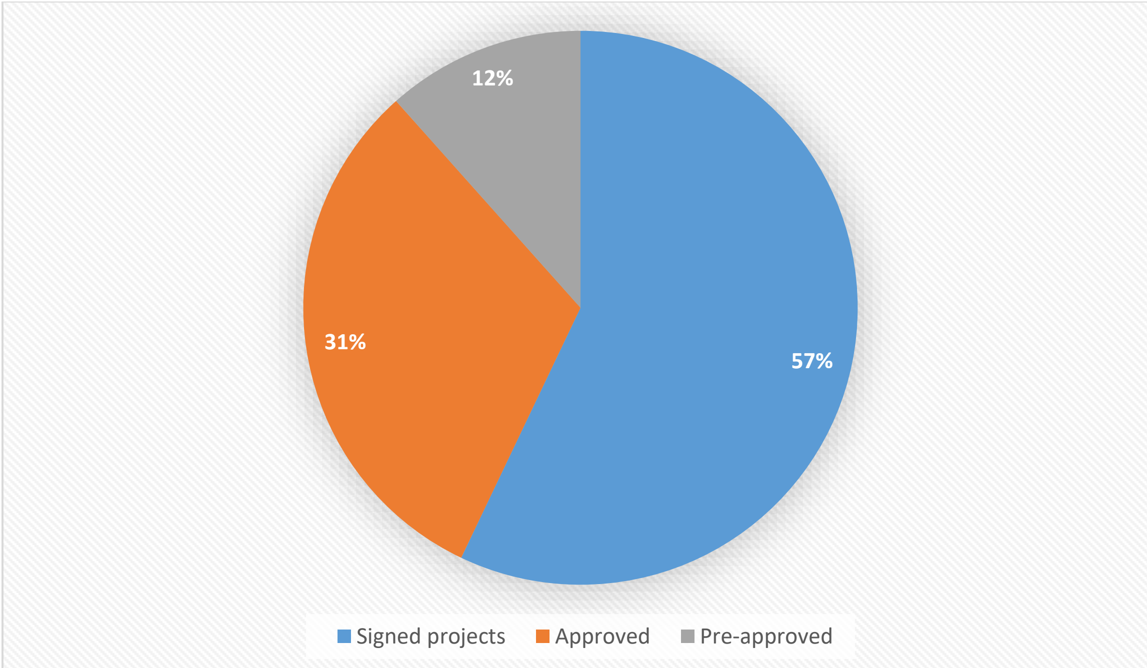

Figure 1. General figures about Investment plan. *This diagram depicts the percentage of the total Investment plan projects that are already signed, approved or pre-approved.*

Examples from approved projects:

Creta farms

Sector: agriculture, innovation

Creta Farms is the first Greek company to benefit from the support of the EU budget guarantee under the EFSI. It is located in Crete and its philosophy is based on the use of natural ingredients and on belief in the Cretan diet. The Investment Plan boosts Creta Farms' innovation: a proprietary technology called "oliving", i.e. the replacement of the saturated fat with olive oil in meat.

Benefits from EFSI financing 15 million:

- Hire 100 employees.
- Finance further technological advances.

- Continue its international expansion.

Total investment expected: 31 million

Grifols

Sector : Health / social / R&D

Grifols is a global healthcare company ,which has the ability to research into new ways of curing Alzheimer's and vascular and arterial diseases by EFSI 100 million financing. It was one of the first companies in Europe that take advantage of the Investment Plan for Europe. Established in 1940 in Spain. It employs about 14.000 people and has expanded its production around Europe.

Benefits from EFSI financing 100 million:

- Strengthen Grifols' competitiveness
- Allow it to grow and create jobs
- Improve patients' health and quality of life

Total investment expected: 241 million

Trenitalia regional rolling stock

Sector: Transport

- Trenitalia is the primary train operator in Italy. It was created in 2000 and owned by the Italian government. Trenitalia offers national rail transport in Italy and international connections to Austria, France, Germany, and Switzerland. The company operates both regional and long-distance trains.

- Because of 300 million EIB financing under the EFSI, Trenitalia got new trains which connect cities in Lazio, Liguria, Veneto, Piedmont and Tuscany.

Benefits from 300 million EFSI financing:

- Improvement of the public transportation
- Increase of employment
- Provide help to maintain longer-term jobs in the transport sector.
- Modern and comfortable trains

Total investment expected: EUR 617 million

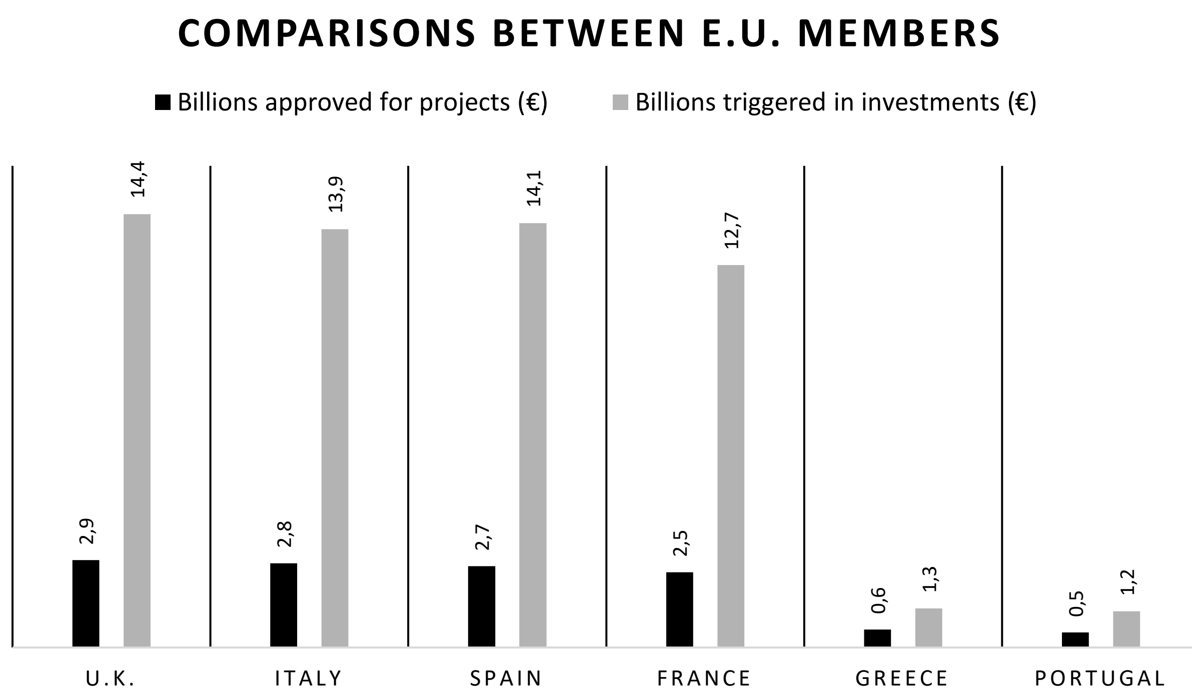

Figure 2. Comparison between E.U. member states. *This graph compare the total money that have been triggered or approved for investments between 6 European countries.*

- Greece has only seen the approval of €595 million for four infrastructure and innovation projects and two SME agreements with intermediary banks and funds, expected to trigger a total of €1.380 billion in investments; of them, €300 million have been approved by the EFSI for the expansion and refurbishment of 14 regional airports recently sold to the German operator Fraport.
- Portugal has been confined to the approval of €510 million for only two infrastructure and innovation projects and three SME agreements with intermediary banks and funds, expected to trigger a total of €1.207 billion in investments.

Extension of EFSI

- On 6 December 2016, the Council agreed the extension of the EFSI until 31 December 2020, mobilizing at least half a trillion euros of investments. The agreement includes expanding of EFSI both in terms of duration and financial capacity. According to the Commission, the EFSI needs to be more effective and take account of lessons learned from the first year of application.
- Approved EFSI financing was €32.8 billion, and total mobilised investments relating to these approvals amounted to €177.7 billion as of 9 March 2017. The investments are related to strategic infrastructure and investment plan for Europe has succeed 56% of the investment goal of €315 billion. 197 transactions had been approved under the Infrastructure and Innovation Window (IIW), and 264 under the SME Window (SMEW). Transactions had been approved in all Member States.

Main changes

- Increase in the investment target to €500 billion (using the same leverage effect of 1:15.
- Increase in the EU budget to €26 billion
- Increase in the contribution of the European Investment Bank to €7,5 million
- Increase of the EFSI from EUR 21 billion to EUR 33.5 billion

The Commission has set new priorities, such as sustainability, geographical coverage and transparency:

Technical enhancements

- Enhanced geographic coverage.
- Additional sectors to be covered such as agriculture, forestry, fisheries, aquaculture and other elements of the bioeconomy.
- At least 40% of EFSI financing contribute to climate action.
- EFSI projects should address sub-optimal investment situations and market gaps.
- Transparency.
- Strengthening the role of "European investment advisory hub".

QUESTIONS

1) Why we need the Investment Plan for Europe?

2) Which are the three strands of Investment Plan for Europe?

3) What is the EFSI?

4) Which are its objectives?

5) What's the management structure of the EFSI?

6) What is the role of the Steering Board and the European Investment Advisory Hub (EIAH) ?

7) What is the role of the European Parliament?

8) Which projects will be supported by the Fund?

9) Which is the legal security for the investors?

10) Which are the key criteria?

11) How can regulatory environment affect the investments?

12) Examples for investment projects around Europe

13) Extension of EFSI. Which are the main changes? Which are the technical enhancements?

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