

## Union-bonds

### Background documents and proposals:

**Delors** proposed the issuance of the “Union bonds”, in addition to the EIB loans to finance infrastructure investments in transport, energy and telecommunications, whose repayment would be guaranteed by the Community budget (Commission White Paper on *Growth, competitiveness, and employment. The challenges and ways forward into the 21st century*, (COM (93) 700 final. 05.12.1993)

**Delors** proposed to provide a guarantee for operations to finance European networks (Commission Communication, *From the Single Act to Maastricht and beyond: the means to match our ambitions* (11 February 1992).

The proposal of the Delors II package was approved during the 1992 Edinburgh European Council in December 1992. On this basis, was established the European Investment Fund (EIF) with the Council Decision of June 6, 1994, No 94/375/EC:

**EIF** is a public-private partnership whose tripartite shareholding structure includes the European Investment Bank (EIB), the European Union represented by the European Commission and twenty nine financial institutions from the European Union Member States, plus Turkey and Croatia.

**1997:** Beginning of EIF's involvement in venture capital, as part of the European Commission's "Growth and Employment" initiative.

**2000:** EIF's was restructured and its shareholding structure was modified. EIB became the majority shareholder, culminating in the formation of the EIB Group. EIB's role as principal shareholder endorsed EIF's role as the exclusive vehicle for venture capital of the EIB Group. Since then EIF has continued to provide portfolio guarantees to financial institutions involved in SME finance.

**Tremonti** (2003) relaunched the idea of Euro-bond on the basis of the Delors proposals

**Mario Monti Report** *A new strategy for the single market* (9<sup>th</sup> may 2010) p. 62- 64

- Supporting the single market and financial integration, through the issuance of E-Bonds.  
Key recommendation: Explore the possibility of reinforcing financial integration through the issuance of E-bonds”.
- “The government bond market is still fragmented, as debt issuance remains at the national level and no step has been taken to date – besides some more transparency and coordination

of issuances - to achieve the economies of scale allowed by the euro. Fragmentation means that the European bond market is less liquid than the corresponding US and Japanese markets,<sup>1</sup> (8) resulting in costs for investors, issuers, other debtors and, ultimately, European citizens.

- Major public infrastructure in Europe, such as the TENs, is transnational, unfit for the currently fragmented national schemes, and their funding suffers from the absence of a liquid bond market for very long maturities, while long-term investors such as Pension funds cannot find a supply of bonds matching their investment needs.
- The current fragmentation deters foreign capital from coming to Europe – for example, sovereign wealth funds are not attracted by small-size issuances – and if it comes, it asks for a premium to compensate for the illiquidity of the European bond market, implying a net transfer of wealth to the rest of the world.
- Overall, the potential of the euro is inevitably constrained without the underpinning of adequate financial instruments for portfolio investment within a single financial market, making the euro area a less attractive location for financial investment, particularly in times of financial crisis, which reduces the capital available to Europe and hence its potential growth and employment.
- In Europe, there is a government bond which is perceived as a liquid and safe asset: the German Bund. Its strength reflects the relative preference of investors compared to other government bonds within Europe. But, seen from a global viewpoint, the Bund is a relatively small entity. The recent fall of the euro during the Greek crisis reflects a capital outflow from Europe towards US Treasuries, which even the quality of the Bund was not able to contain. Europe clearly loses from its lack of a global asset.
- Addressing the fragmentation of the government bond market requires creating a new, European-wide market, with a global dimension.

- **7.9.2010, State of the Union Speech of The Head of the European Commission**

Barroso relaunches E-bond to finance important EU infrastructural projects, in cooperation with EIB. *“We should also explore new sources of financing for major European infrastructure*

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<sup>1</sup> As witnessed by low turnover in the cash market and the migration of liquidity to the derivatives markets, the fact that issuances are still relatively small and that there is no efficient and fully representative benchmark instrument across maturities and typologies - which, despite appearance, the German Bund is not.

*projects. For instance, I will propose the establishment of EU project bonds, together with the European Investment Bank. We will also further develop Public Private Partnerships”*

(J. M. Barroso Speech, State of the Union, 7<sup>th</sup> September 2010).

- **COM (2010) 608 “Single market Act”** (after Mario Monti report)

The European Commission doesn't consider e- bond, but only project bonds:

➤ *Proposal No 15: The Commission will consider encouraging the creation of project bonds to finance European projects.*

➤ One important way to mobilise private investment in support of the objectives of the Europe 2020 strategy would be to bridge the gaps in private financing by making even more use of the EU budget than is currently the case today. The budgetary revision proposed possible means of increasing the impact of the budget. With innovative financial instruments, European funds could be used in partnership with the banking and private sectors, specifically through the European Investment Bank (EIB). They would become the norm for projects with long-term commercial potential. One important initiative is the ‘project bonds’ scheme: these bonds would be issued by the private sector and the European budget would be used to improve their rating in order to attract funding through the EIB, from other financial institutions and from private investors on the capital market such as pension funds and insurers.

- **EU public debt Management and Euro bonds di Carlo A. Favero e Alessandro Missale - in "Euro Area Governance - Ideas for Crisis Management Reform", Direzione generale delle Politiche interne del Parlamento europeo, settembre 2010**

➤ The proposals may be divided into three general schemes

➤ A commonly issued Eurobond with country-specific shares backed by several guarantees (type 1) (Proposed by or consistent with: EPDA, 2008 and De Grawve and Moesen, 2009).

- A commonly issued Eurobond backed by joint guarantees (type 2) (Proposed by or consistent with: Giovannini Group, 2000; Boonstra, 2010; Depla, 2010; and Jones, 2010).
- An EU Eurobond issued by an EU Institution (type 3) (Proposed by or consistent with: Giovannini Group, 2000; issued by the EIB for funding projects of the Lisbon Agenda, Majocchi, 2005; and issued by the EIB for the purpose of financing a European Financial Stability Fund, Gros and Micossi, 2009).

Characteristic	Type 1	Type 2	Type 3
Issuing entity	Indipendent Agency	Indipenent Agency or EMU Fund	EU Institutions EC or EIB
Participation	Open	Open	27 EU Member States
Fixed Shares for each country	Yes	No, but limits on debt of each participant	No, but limits on debt of each EU Member States
Guarantees	Several	Several and Joint explicit	Severaland Joint from EU Treaty
Mutualisation of Default Risk	no	yes	yes
Credit rating	Weighted Average of participants	Reflect Rating of larger participants Highest (AAA) if all euro-area Members join	Highest (AAA)
Liquidity	Conditional on Market Size and Participation	Conditional on Market Size and Participation	Conditional on Market Size
Management	Inflexible	Flexible	Flexible
Legal obstacles	None	Change in TFEU Art.125 No-Bailout	Change in TFEU

### Le nuove proposte italiane:

- **Bassanini – Reviglio (Il Sole, febbraio 2010)**
- Emissione di titoli europei per finanziare investimenti strategici di lungo periodo (anche con equity, project bonds e garanzie) da parte di BEI (da sola o attraverso il Marguerite

Network, cioè la rete delle grandi Casse - BEI, CDC, CDP; ICO, PKO- che, su input di Tremonti, hanno creato il primo fondo europeo per le infrastrutture (Marguerite))

- Per creare un mercato degli Ebonds sufficientemente ampio e liquido, ogni Stato dovrebbe trasferire all'UE una quota del debito nazionale pari al 15% (o al 20%) del suo PIL
- Ogni Stato sarà obbligato (modifica al Trattato) a trasferire al bilancio europeo ogni anno il corrispettivo del costo del servizio della quota di debito nazionale convertita in debito europeo. Il corrispettivo sarà commisurato al costo del debito nazionale e non a quello minore del debito europeo. (*In alternativa:* BEI sarà autorizzata ad acquistare una quota dei titoli di debito nazionali parametrata a una percentuale del PIL di ciascun Paese, emettendo a copertura un uguale ammontare di Ebonds)
- Il delta che si crea tra titoli nazionali e Ebonds emessi a copertura sarà utilizzato per incrementare il fondo europeo per gli investimenti strategici

#### - **Tremonti – Junker**

- Creare un'Agenzia europea del debito, che dal 2013 emetta titoli in modo tale da coprire gradualmente i bond esistenti fino al tetto del 40% del PIL della UE ed in ogni Stato membro.
- L'Agenzia subentrerebbe al fondo europeo salva stati e dovrebbe finanziare attraverso le obbligazioni sovrane europee fino al 50% delle emissioni degli stati e, solo in casi eccezionali, la totalità.
- Obiettivo: stabilizzare il mercato dei titoli di Stato; Creare un mercato obbligazionario paragonabile, per dimensioni e liquidità, al mercato del Tesoro degli Stati Uniti Bill e far cessare gli attacchi speculativi nella zona euro.

#### - **Amato – Baldwind – Gros – Micossi - Padoan**

- Gli Union Bond per assicurare massicci finanziamenti al minor costo possibile per la realizzazione dei progetti infrastrutturali (Trans European networks TENs). Obiettivo: la crescita
- Super banca nata dalla fusione tra BEI e BERS per creare un mercato molto liquido di titoli a lunghissima scadenza.

#### - **Salvemini**

- La proposta di Euro bond (E/B) è valida se ha due obiettivi: 1) ampliare le risorse disponibili, in Europa, per interventi di sostegno allo sviluppo; 2) costruire un sistema di

gestione delle crisi dei debiti sovrani nell'area euro. L'emissione di E/B può rafforzare il ruolo dell'euro come moneta internazionale.

- Di E/B si può parlare solo se il debitore è l'Unione Europea. L'E/B non ha dietro nessun accordo sulla assunzione di garanzie da parte degli stati partecipanti.
- La emissione di E/B per ampliare le risorse del Bilancio dell'Unione si scontra con il vincolo "costituzionale" che impone che il Bilancio UE sia in pareggio.
- Per superare questo vincolo , che può essere rimosso solo da una riforma del Trattato, esiste solo la possibilità di operare "sotto la linea", di collegare cioè l'emissione di titoli alla realizzazione di "operazioni finanziarie".

### **English version:**

#### **Bassanini – Reviglio (*Il Sole 24 Ore*, Febr. 2010)**

- Issue of E-bonds for financing long-term strategic investments (also with equity, project bonds and guarantees) by EIB (alone, or together with other institutional large long-term investors such as KFW, CDC, CDP, ICO, PKO (the "Marguerite Network").
- In order to create an E-bond market sufficiently large and liquid, each EU Member State should then transfer a quota of its national debt into Union bonds or Euro-bonds (for instance 15% or 20% of GDP)
- To finance this, each Member State, on an ongoing annual basis, would commit the funds required to service the part of debt transferred to the EU, measured on the cost of its national debt service and not on the lower cost of servicing Union Bonds (*alternative solution*: BEI EIB will be allowed to purchase national bonds for an amount equal to 15% or 20% of the GDP of each MS, by issuing to cover the cost of such securities an equal amount of Ebonds).
- The delta between national titles and Ebonds interest rates will be used to increase the Fund's strategic investment

#### **Tremonti – Junker**

- Create an European debt Agency, which from 2013 will issue securities in order to cover gradually the existing bonds to the ceiling of 40% of EU GDP and in every EU Member State.

- The Agency will take over the EFSF and would finance through the European sovereign bonds up to 50% of the emissions of the States and, only in exceptional cases, the total emissions.
- Objective: to stabilize the market for government bonds, creating a bond market comparable in size and liquidity, at the U.S. Treasury market Bill, and to put an end speculative attacks in the Euro-area.

#### **Amato – Baldwind – Gros – Micossi – Padoan**

- The Union Bond to ensure massive funding with the lowest possible cost for infrastructure projects (TENs Trans European Networks).
- The objective of E-bonds: Growth
- Super bank formed by the merger between the EIB and EBRD to create a very liquid market securities with very long maturities.

#### **Salvemini**

- Euro bonds (E/B) may expand the resources available in Europe for supporting the development; build a management system of crisis of sovereign debt in € The issuance of E/B can strengthen its role as an international currency.
- The debtor of E/B is the European Union, without any agreement on guarantees by the participating States.
- The "constitutional" constraint that EU budget must be in balance can only be removed by a reform of the EU Treaty
- To overcome this constraint, the issue of E/B might be linked to the realization of "financial transactions".