Deciphering the European Investment Bank

History, Politics, and Economics

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First published 2022

ISBN: 978-1-032-13876-3 (hbk)
ISBN: 978-1-032-13943-2 (pbk)
ISBN: 978-1-003-23159-2 (ebk)

Chapter 5

The unknown institution: The United Kingdom and the EIB (1973–1999)

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The funder for this chapter is Università di Padova

DOI: 10.4324/9781003231592-6

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

5 The unknown institution

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Introduction

"It remains true […] that the European Investment Banks has made a slow beginning in the UK. It was virtually unknown at the time of our accession in 1973 when loans were easy to raise through the London Money Market,"[1] commented a British official of the Foreign Office in 1975 when illustrating the debut of the EIB operations in the United Kingdom. However, what is striking is not that the Bank was virtually unknown in 1973 but that 20 years later, upon becoming the EIB president, Sir Brian Unwin noted that "the EIB [is] virtually unknown in the UK and internationally." Twenty years of operations in the country had not been sufficient to make the EIB well known. And neither the fact that the greatest of all the EIB projects was the Channel Tunnel was helpful in making it a reputed institution.[2]

This chapter analyses the United Kingdom's experience as an EIB shareholder. After the two French vetoes to the British membership in 1963 and 1967, the Hague conference of December 1969 opened the way to the first enlargement of the EEC to Denmark, Ireland, and the United Kingdom in 1973. As the membership of the Bank was an obligation under the Treaty of Rome, the three candidates would join the Bank on joining the Community.

In the literature dedicated to the EIB, the role of the member states in shaping the lending policy and, in general, the evolution of the Bank has received scant attention. Hardly surprisingly, the few studies that have been done so far concern only Italy and France, the two countries which had a leading role in the establishment of the Bank and in the formulation of the policies and operations. The role of the other member states has been overlooked in the literature, and the EIB is often treated as an actor detached from its shareholders. This chapter tries to fill this gap by analyzing the evolution of the EIB lending policy and operations through the lens of the British experience from 1973, when the United Kingdom joined the EEC, to 1999, when the presidency of Unwin ended. This long-term analysis allows a better appreciation of the evolution of the EIB and its lending policy and of the role that the British had in it.

DOI: 10.4324/9781003231592-6

The chapter is organized as follows: first, it describes the negotiations leading to the United Kingdom membership; second, it analyzes the formative years from 1973 to 1979 when the United Kingdom started to borrow from the EIB. Third, it deals with the 1980s and shows how the EIB lending became more vigorously shaped by the priorities and policies of the European Economic Community (EEC). Finally, it illustrates the presidency of Unwin, how the EIB became more involved in the EU political process, and how the dominance of Italy and France had been diluted by the waves of enlargement. The conclusions illustrate the main finding of the chapter.

Joining smoothly

In the wake of the Hague conference of December 1969, the negotiations for the enlargement of the EEC to the United Kingdom resumed in Luxembourg in June 1970 and were concluded in January 1972 in Brussels with the signature of the Accession Treaty. As a result, the EIB acquired three new shareholders. In the meantime, Denmark and Ireland had concluded their membership negotiations as well. As with all the waves of the enlargement of the EEC and then the EU, the acquisition of new members would have an immediate impact on the EIB structure. The subscribed capital would increase, and the size and composition of the boards of governors and of directors would have to be adapted. In this regard, the new shareholders had to be integrated into the institutional bodies of the EIB and its permanent staff.

In 1970, the prospected acquisition of the new shareholders put in motion a negotiating process between the candidates and the original member states to adapt the EIB institutions and its procedures and to ensure that the EIB could continue to operate efficiently. With the enlargement, a sharp increase in operations could be expected in the new member countries, broadening the Bank's areas of activities and its financial influence. The expansion of the activities was expected especially in the United Kingdom and Ireland where regional development or conversion problems were acute. Moreover, the enlargement to the United Kingdom was expected to broaden the geographical area of EIB intervention outside the EEC to the members of the Commonwealth countries associated with the EEC through the Lomé Convention.[3]

In spite of the complexity of the issues to be addressed, the negotiations between the EIB and the British government and between the British government and the original member states proceeded straightforwardly. The British noted that the EIB "is a well-established institution. The present Members […] have not serious complains about the way it functions. We shall in practice, at the outset, have to accept it as we find it."[4] Both the reputation the EIB enjoyed and the lack of serious tensions between the members on its functioning facilitated the negotiations.

The Treasury held borrowing from the EIB desirable. For presentational reasons, the Treasury wanted to see borrowers coming forward to Community funds to show that the "Community can be seen to be giving assistance to UK enterprises but also to promote a good relationship from the outset with the EIB."[5] The obvious attractions of being able to demonstrate that the United Kingdom was in a position to benefit from the EEC membership had to be materialized by finding some projects suitable for consideration by the Bank to which adequate publicity could be given.[6]

In assessing the impact that EIB loans could have on the British economy, the Treasury and the Bank of England held that the character of the Bank's lending operations in the past could lead to expect that the Bank would not be a major factor in project financing in the country any more than it had proved for the existing members of the Community, except Italy. However, in the early 1970s, with Commissioner Colonna's plan, the EEC was starting to elaborate a common industrial policy that could favor lending to the United Kingdom. One of the central recommendations of the Colonna Plan for a common industrial policy was that European-scale mergers should be encouraged, particularly in advanced technology industries. In the Commission's view, the EIB should help companies to merge across frontiers within the EEC and help with industrial restructuring.[7] In the early 1970s, the EIB was adapting its mandate to the new economic situation characterized by the slow rate of economic growth and higher rate of unemployment. The British government held that this development could make the United Kingdom a substantial receiver of the EIB funds not only for infrastructure – the major sector in which the EIB was expected to operate – but also for industrial development.[8] Thus, the British considered the EIB "a clearly useful potential source of additional funds for our regions, in cases where finances on comparable or cheaper terms are not readily available through the domestic capital market."[9]

At the same time, both the Treasury and the Department of Trade and Industry (DTI) did not expect a rush to borrow. First, the UK situation was not so much one of borrowers looking for funds but borrowers looking for the cheapest source of funds. The attraction to borrowers would depend on the EIB's term. The EIB's rates of interest were not all that attractive compared with Government lending but they did compare reasonably favorably with anything available for borrowing on the market. Moreover, as for loans from the private sector, the DTI held that the exchange risk was likely to deter borrowers. The sterling element in the EIB loans would be low (10%–15%) and firms were wary of the exchange risk.[10] The second aspect that could discourage loans was the remoteness of the Bank. The EIB was virtually unknown in the country and, in general, all the EEC institutions were perceived as distant and remote. The British government was prepared to encourage applications but these two basic questions remained as potential deterrents.[11]

On the other side, in December 1970, the EIB elaborated a memorandum on the issues to be addressed to include the new members, from the contribution of the Bank's capital and reserves to the make-up of the decision-making bodies and the voting rules. While presenting the different options, the memorandum showed awareness of the political implications of the issues to be treated and that they would be resolved at the highest political level.[12] In 1971, as accession negotiations progressed, the EIB's planning on the required changes also advanced. President Yves Le Portz was anxious to have the United Kingdom in and commence operations in the new member state as soon as possible after accession and with a news-worthy project. The EIB was interested in expanding its geographical areas of operations and exercising its right to borrow in London. The EIB officials were ready to examine projects with a benevolent eye so that a loan could be announced as near as possible to January 1973.[13]

In 1972, after the signature of the accession negotiation, bilateral contacts between the EIB officials and the British were organized. Officials from the Management Committee of the EIB headed by Le Portz and from the Treasury and the DTI met both in London and in Luxembourg to discuss the role the Bank could play in the UK economy and survey the prospective loan operations. The British officials exposed the economic problems of the country, how these could be addressed by the EIB's loans, and how the British regional policy could be supported by the EIB. They noted that Britain's regional problem was almost entirely industrial as the decline of the basic industries had led to unemployment. As the bank's operation had a strong regional development slant, the Treasury expected the EIB to lend to areas which the United Kingdom had identified as assisted areas. The EIB officials were quick to note that there was not an officially defined regional policy in the Community and, hence, the Bank was inclined to accept a country's definition of areas needing regional assistance and rely on national definitions of development priorities. This gap could favor the EIB intervention in the industrial sector and in the older industrialized regions, as per the wishes of the British. The EIB officials emphasized their willingness to start operations in the United Kingdom as soon as possible after the accession and even went out of their way to say that they would accelerate their normal procedures as far as they possibly could so as to be able to give suitable publicity early in 1973 to any acceptable project the British government could put forward. Lastly, the problem of the remoteness of the EIB was addressed. Le Portz emphasized the importance of publicizing the Bank in the United Kingdom before 1973. The British officials recognized that the EIB was virtually unknown and that steps should be taken to make the EIB's facilities more widely known in the private sector, also through the support of the Confederation of British Industries (CBI).[14]

While the British government and the EIB officials searched for a project to be financed, an agreement was reached on the institutional adaptation and, in particular, on the contribution of the new members to the Bank's capital and their representation on the Bank's various bodies. The British government required its contribution to the capital of the EIB to be the same as that of Germany and France and its representation on the Bank's various bodies to be the same as that of Germany, France, and Italy. Given the size of the United Kingdom in terms of population and GDP, the six original member states accepted the British requests and the negotiations advanced smoothly.[15]

With regard to the first aspect, when the EIB was founded, the proportion of the capital to be subscribed by each Member was fixed according to the GDP of each Member and agreements of a political nature. As a result, the capital share of Italy, which would derive the greatest benefit from the Bank, was raised and the shares of France and Germany were lowered.[16] As was the case in 1958, in 1970–1972, the calculation of the new member countries' contributions was a mainly political issue. Coherently with the solution adopted in 1958, the EIB's memorandum of December 1970 suggested the mixed calculation method to determine the new EIB capital and the respective contributions of the new Member States. The Six accepted the United Kingdom's proposal and, as a result, the British contribution would be 21.74%, the same as that of the Federal Republic of Germany and France. The Bank's capital was increased by 50% in 1971 and then by a further 35% in 1973 when the United Kingdom, Ireland, and Denmark became shareholders.[17]

With regard to the British representation on the Bank's various bodies, following the British request, the Board of Directors would be made up of 18 directors and 10 alternates, larger than the EIB memorandum had wished. The British would also have a vice-president in the management committee but an additional post for the small member states would not be created as the EIB memorandum of December 1970 had suggested. The Board of Governors would have three new ministers. Voting by simple or qualified majority and by unanimous vote would be retained as well as the rule stating that a simple majority can only be attained when 40% of the capital issued was represented. English would be introduced as the new working language at the bank alongside French. As Vice-President, the British government appointed a leading figure, Raymond Bell, who had been Deputy Secretary to the Treasury and had been a member of the United Kingdom delegation to the negotiations on the accession to the EEC.[18]

Whereas the negotiations on the adaption of the EIB structure proceeded speedily, the identification of a project to be submitted was more complicated. Private borrowers were not coming forward. The symposium, organized by the CBI to enable British industrialists to meet representatives of the EIB, had revealed no marked enthusiasm for seeking EIB funds, given the availability of the alternative sources of capital. The Treasury explained the difficulty with the fact that the EIB loans were simply one among a wide range of alternative forms of commercial and

Government finance available for UK borrowers in both the public and private sectors. Other sources such as the Eurodollar market were available and not subject to other inconveniences attached to the EIB finance, notably the relatively low limits on the size of loan and the requirement that it should be linked to an approved investment project. In particular, the Treasury expected the EIB lending to private firms in Britain to be extremely small. Unlike the public sector, the private sector did not enjoy an exchange rate cover scheme and the projects which would be qualified for an EIB loan would also qualify for preferential treatment under the Industry Act of 1972, with more advantageous terms and "without the extra paper-work for prospective borrowers" necessary to receive a loan from the EIB.[19]

Bell, who was about to take up the duties as the United Kingdom member of the Management Committee, visited Luxembourg at the end of 1972 and came under heavy pressure from the Management of the Bank to put forward a project which could be fed into the machine as early as possible after January 1973. By the end of the year, however, the Treasury informed the EIB that they would not be in a position to produce a case for EIB loans for the time being.[20]

The early years

As noted, the British government considered the EIB a well-established institution with its shareholders having no important complaints about its functioning. The lack of tension facilitated the integration of the British officials with the EIB machines in Luxembourg. In any case, it took time for British officials to establish themselves at the highest levels in the Bank. The British were offered the position of Director of Studies, the only post available at the top level. The Director of Studies was the main advisor to the Board of Directors on the broad lines of the Bank's policy and was surely an influential post in the Bank's staff.[21] But, at the same time, the British officials had to face the very powerful and well-established French and Italian presence and interests and it took time for them to occupy the senior positions. As Unwin observes, "there was no British influence on the bank for many long times."[22]

Throughout the first year of membership, the UK borrowing from the EIB was slow in getting underway. The first EIB loan was announced only July 1973 and it gave £3.5 million to the Industry and Commercial Finance Corporation (ICFC) which used it to finance a number of small and medium-sized projects in the backward and assisted areas. The second and third loans came in October 1973 and were for the British Steel Corporation (BSC) for projects in North England and South Wales. The fact that only three loans in the United Kingdom – and only one to the private sector – were negotiated in the first year of membership was considered disappointing both in London and in Luxembourg.

In explaining the reasons for this slow beginning, Bell and the officials from the Treasury considered that the EIB lent in a "mix" of currencies and at a rate of interest which reflected its average cost of borrowing on the capital markets. The mix of currencies depended, in each case, on what the EIB had available and on the preference of the borrower, but no more than 40% of a loan could be made in a single currency. In 1973, the EIB had not raised money in London because of the high cost of doing so and was not prepared to use for loan operations more than a small proportion of the sterling they had received from London by way of payment to capital and reserve. Larger firms with access to sophisticated financial advice and capital-raising facilities preferred to borrow directly on the Eurodollar markets, at rates if was anything cheaper than the EIB's, without having to undergo what was perceived as a lengthy and cumbersome assessment procedure. Smaller firms were even more reluctant to borrow unless an exchange risk cover was available.[23]

Unfamiliarity with a new lending institution, in spite of the effort by the government to promote the facilities provide by the EIB, further deterred loans by the private sector. The Board of Directors held one of their regular meetings in London in October 1973 and the CBI regularly published reports on the EIB activities and facilities.[24] Yet the fact remained that the EIB was perceived as a distant and unfamiliar institution with a lengthy assessment procedure.[25]

In spite of this very slow beginning, by 1975, the British borrowing had increased significantly. In addition to an upswing of more than 50% in loans to Italy, the other most striking feature was the amount lent for projects in the new Member States; it was over double the amount provided in each of these countries the previous year. The channeling of finance into regional development and the conversion of EEC's older industrial areas remained the Bank's main area of activity and this had favored loans to the United Kingdom, Ireland, and Italy. As Table 5.1 shows, in 1975 and 1976, over three quarters of EIB lending went toward investment in Italy, Ireland, and the United Kingdom whose regional problems were causing the greatest concern.[26] In 1975, there were no more problems of few loans from the United Kingdom with 1976 becoming a record year, defined as "an annus mirabilis" by the Treasury: the United Kingdom was the main borrower from the EIB with 38.5% of all the lending within the Community.[27] In 1977, for the second year running, the United Kingdom received the largest volume of finance: 489.6 million or 34.9% of all the lending within the Community, compared with 417.6 million in 1976.

Nationalized firms were the main borrowers and loans went to the public sector to support modernization and the conversion of backward industries. The country was going through a phase of structural change, and in 1972, the British government had approved the Industry Act aimed at favoring the modernization and conversion of backward industries. The EIB's loans to large state-owned corporations were considered as an

Table 5.1 Loans granted from 1973 to 1977, breakdown by member states

Country	*Number of loans*	*Amount (million of u.a.)*	*Share*
1973			
Belgium	-	-	-
Denmark	2	6.8	1
France	14	170.6	24.5
Germany	18	204.5	29.3
Ireland	3	22.6	3.2
Italy	10	181.9	26.1
Luxembourg	-	-	-
Netherlands	-	-	-
United Kingdom	3	67.1	6.2
1974			
Belgium	1	16.1	1.5
Denmark	5	19.6	1.9
France	16	193.7	20.5
Germany	7	96.1	8.3
Ireland	7	46.4	6.2
Italy	22	278	38,2
Luxembourg	-	-	-
The Netherlands	2	31.9	2.91
United Kingdom	9	149.5	20.2
1975			
Belgium	1	10.8	1.2
Denmark	6	17.7	1.9
France	11	158.0	17.2
Germany	-	-	-
Ireland	2	37.7	4.1
Italy	26	358.8	39.1
Luxembourg	-	-	-
Netherlands	-	-	-
United Kingdom	18	334.5	36.5
1976			
Belgium	1	17.9	1.7
Denmark	3	9.1	0.8
France	3	60.1	5.5
Germany	3	110.8	10.2
Ireland	3	57.4	5.3
Italy	34	382.6	35.2
Luxembourg	-	-	-
Netherlands	2	30.4	2.8
United Kingdom	24	417.6	38.5
1977			
Belgium	-	-	-
Denmark	8	32.7	2.3
France	9	296.5	22
Germany	1	28.4	2
Ireland	6	79.7	6
Italy	32	425.7	30.4
Luxembourg	-	-	-
Netherlands	-	-	-
United Kingdom	23	489.5	34.9

Source: EIB annual reports database, years 1973–1977, available at https://www.eib.org/en/publications/index.htm, data retrieved on 20 August 2021.

instrument to pursue the goals of the Industry Act and favor the rationalization necessary to put the UK industry on a more competitive footing, especially in the steel, shipbuilding, and coal mining sectors. As a matter of fact, one of the first loans was signed with BSC, for modernization and rationalization.[28] In 1975, an additional loan was approved in favor of the BCS, the largest single loan ever made by the EIB until that time, presented as essential in developing a modern and viable steel industry in Scotland. Other loans to the BSC followed, together with loans to the British Rail, National Coal Board, the National Water Council, the Gas Council, the Post office, the National Freight, and National Bus.[29]

Practically, the whole of the lending went to public sector projects. A balance between private and public lending had been maintained with one loan to the private sector and two loans to the public sector in 1973 and four loans to the private sector and five loans to the public sector in 1974. In 1975, the private sector received three loans while the public sector received 13. In 1976, the imbalance continued. Except for the petroleum industry, loan applications came almost exclusively from public utilities and nationalized undertakings for which the Treasury bore the exchange risk. In 1977, the loan applications came without exception from the public sector and from nationalized undertakings, the exchange risk on whose borrowings was borne by the Treasury.[30]

Both the Treasury and the DTI were aware that some programs to the public sector, such as those to the BSC and the British Rail, were considered in the EIB to be "of doubtful viability."[31] The EIB's view was that modernization and conversion projects would play an increasingly important role in its activities in the light of the problems raised by persistent large-scale unemployment in the older industrialized regions of the United Kingdom. As such, the Bank endorsed the priority identified by the British government.[32] At the same time, however, the EIB officials were not always convinced about giving loans to the steel sector that had proved to be uncompetitive at the world level and characterized by overcapacity. The BSC's commercial performance had been bad over the decade since 1967, as the trends in output, sales, and market share had all been on a downward slope. The excess capacity, both nationally and worldwide, was expected to continue and generally depress prices and the EIB looked with apprehension at loans that were aimed at expanding the productive capacity. However, as the British government remained committed to the project, the loan was approved in spite of the disquiet of some members of the Management Committee.[33]

By 1976, there was increasing resistance from the Management Committee and the Board of Directors to the further financing of industries in chronic deficit. The British Director Dennis Kirby doubted whether nationalized industries would receive much from the EIB because of their poor results. The Management Committee was seriously considering ending all lending to railways projects as the "British Rail was probably beyond hope."[34]

These concerns about the public sector went hand in hand with the borrowing difficulties of the private sector, a question raised frequently, initially because the British were concerned at the slow take-up of the EIB loans and later, because of the EIB side's wish to see the private sector more involved. The British government had set up a Small Firms Division to consider and promote the needs of small firms as a whole and was interested in using the EIB facilities to pursue these aims. In July 1973, the EIB concluded a contract with the ICFC for a loan equivalent to £3.5 million. This was the Bank's first operation in the United Kingdom and it made the EIB finances available, through the ICFC, for small and medium sized projects too small to justify the direct EIB loans usually reserved for large ventures. This borrowing was regarded by the ICFC as a prototype operation which, if successful, could lead to more substantial global loans.[35] However, the global loan arrangement – widely used in other member states for small and medium sized projects – had not really got off the ground in the United Kingdom also because of the exchange risk. The Treasury remained firmly opposed to any extension of the public sector exchange risk guarantee scheme to the private sector, considering it as an open-ended subsidy and a real sterling cost for the government.[36] As such, the private sector borrowers were deterred from borrowing in spite of the fact that a major aim of the British industrial policy and of the EIB was to get more investment in the private sector.[37]

In 1976, the Board of Directors dealt with the issue. A majority of directors noted that because of the exchange risk, a distortion in the composition of the Bank's portfolio led to loans being granted mainly to borrowers in the public sector and being concentrated in Italy, the United Kingdom, and Ireland, whereas loans were no longer attractive in Germany, the Benelux countries, and France, a trend confirmed in Table 5.1.[38]

While lending to the state-owned corporation in the United Kingdom raised concerns, the EIB showed readiness to lend for operations in the energy sector. The energy crisis of the early 1970s underscored weaknesses that the European Council and the Commission called upon the EIB to address, pinpointing the priorities to pursue. Following these indications, the EIB gave priority to projects which could help to make the Community self-sufficient in energy supplies. In 1976, operations in the energy sector represented about 35% of the Bank's total activity.[39] Against this background, the Bank financed several North Sea projects, and in 1975, the Management Committee paid a visit to the Energy Department with the aim of increasing loans in this field.[40]

The British borrowing experience in the 1970s showed that a development was taking place in the determinants of the lending policy of the EIB. On the one hand, as in the 1960s, governments received loans according to the priorities they had individually elaborated at the national level, in spite of the doubts of the EIB. The EEC still lacked a common regional policy, with goals and instrument properly defined. Lacking criteria, the Bank financed those areas and activities the member states had selected as a priority for their development.

On the other hand, the Commission and the European Council were becoming more active in orientating the priorities the EIB would have to address and, hence, in shaping the lending policy. With regard to the Commission, until the early 1970s, it made little use of its power of authority over the EIB, largely because it lacked a clear idea of what policies the EIB should adopt. The lack of a common regional policy further weakened the role of the Commission.[41] Yet, in the 1970s, the urgency to define this policy intensified. The economic crisis drew attention to the link between the declining industries and specific areas so that regional development was not anymore only an Italian problem. In 1970, the Werner plan for an Economic and Monetary Union emphasized the connection between monetary integration and regional unbalances. Finally, the 1973 expansion to countries with regional unbalances led to a new coalition of EEC members in favor of strengthening this policy. In the mid-1970s, the EEC started to define its common regional policy and the effort culminated in the late 1980s when the EEC moved from a member state-controlled model to a policy grounded on common objectives, priorities, and controls. With the formulation of a common regional policy and the economic shocks, the Commission became more assertive in pinpointing the priorities the EIB should pursue and in examining ways in which it could exert greater influence on the Bank.[42]

As for the European Council, the final declaration of the European Council of Rome in March 1977 on Growth, Inflation, and Employment invited the Board of Governors of the EIB to conduct a study of how they could more effectively make a greater contribution to the alleviation of labor market problems, the encouragement of investment within the Community, and the promotion of convergence amongst the various Member States. The declaration was the direct result of an initiative of the British Prime Minister James Callaghan, fully supported by France, Italy, and Ireland.[43] At the Prime Minister's request, the Belgian Finance Minister Willy de Clercq, Chairman of the Board of Governors, formally invited the Management of the Bank to proceed with the study.[44] Upon a report of the Management Committee, the Board of Directors reviewed the possibilities for expanding the Bank's activities in accordance with the aims expressed by the European Council. The Board of Directors considered taking the necessary decisions in the course of 1978 to authorize an increase in the capital of the Bank and asked member states to consider measures to facilitate borrowing from the Bank, particularly by the private sector by providing the provision of an exchange risk cover. It also decided to render the terms of disbursement of the Banks' loans more flexible and drew its attention to the desirability of deciding on the amount and timing of the increase in the Bank's capital.[45] The Board of Directors recommended increasing the support for investment in energy and, to enable the Bank to make a more important contribution toward large-scale projects, the size of individual loans was raised up to 50% of the capital cost of a project. For small and medium-scale ventures which, in general terms, created jobs more cheaply, the Bank aimed at giving more support by extending the practice of global loans to intermediary bodies at the national or regional level which then on lent funds to their own clients.[46] The initiative of the European Council paved the way to the capital increase in 1979 and led the British Treasury to introduce the Exchange Risk Guarantee Scheme in 1978.[47] The European Council of Rome would turn out to be the first of a series of Councils where the EEC members oriented the EIB lending in response to the priority they had highlighted.

Reorienting and refocusing

Margaret Thatcher was not a fan of the EEC, as it is very well known. Although she should be credited for the creation of the single European market, the British Prime Minister showed her skepticism toward further economic and political integration between the European countries and her hostility to the EEC institutions and policies. The only institution that apparently was saved from her hostility was rightly the EIB and not because the British Prime Minister was a fan of the Bank, but rather – as Unwin put it – because she "was hardly aware of the role of the EIB." Rightly because the "EIB was not a controversial institution, never had a scandal that could increase her distress for the EEC" but "quietly did a good work" to finance very large projects in the United Kingdom. The EIB remained unknown and was spared from Thatcher's attacks. As Unwin noted, when in 1983 he became the senior UK director in the Board, the EIB remained "pretty well unknown in London," apart from the major investment banks which had businesses with it. And this was in spite of the fact that the United Kingdom had received a substantial share of the EIB lending.[48]

Yet in the 1980s, the EIB refocused and redeployed its activities, also thanks to the single European market project of which, Thatcher was an architect. In the first half of the 1980s, the EEC members were still facing problems of high inflation and unemployment, a sluggish rate of economic growth, and the energy crisis. Against this situation, the EEC Council of Ministers and the European Council called for the development of a common industrial policy and a definition of some common objectives in the energy field. Environmental protection was reaffirmed as a priority. Being policy-driven, these developments affected the action of the EIB which was called to reorient and adapt its operations within a more coherent framework than that of those during the 1960s and 1970s. Loans in the industrial policy framework were aimed at modernizing facilities, increasing the competitiveness of business, and developing new technology. As the EEC stepped in to support SMEs, the EIB also intensified its loans. In the energy sector, the aim was to reduce oil dependence, increase energy efficiency, and introduce new renewable energies. Coherently, the EIB increased its loans in the sector.[49] The definition of the regional policy already started in the 1970s was in parallel to the broadening of the areas of operations of the EEC and, together, contributed to reorienting and refocusing the Bank's lending. This became more strictly related to the policy priorities established by the European Council and the EC Council of Ministers and was not only country related. The approval of the Single European Act in 1986 reinforced the policy logic as the European Council and the Commission called upon the EIB to intensify the lending in the areas necessary to achieve a single market.[50]

In 1981, the European Council of Luxembourg stressed that optimal use should be made of the Community's financial instruments and of the facilities of the EIB to promote the flow of productive investment, including the growth potential in small and medium businesses.[51] While holding that the major responsibility for tackling the problems of unemployment and inflation rested with national governments, Prime Minister Thatcher considered that the effectiveness of the actions by national governments could be increased by co-ordination within a Community framework and full use of the resources of the European Investment Bank, in particular, to stimulate the development of a modern industry.[52]

In 1982, the Commission and the European Council drew the Bank's attention to the disquieting downturn in investment in productive enterprise within the Community and urged the EIB to commit itself more resolutely to encourage investment in the fields of energy and industrial and agrifoodstuffs development. Both institutions also expressed their wish for the EIB to commit itself to project loans based on the use of advanced technology. In response, the Management Committee proposed to increase Bank lending on a number of high technology sectors through loans to small and medium enterprises.[53]

It is against this refocusing that the British lending in the 1980s should be considered. In 1981, lending dipped sharply under the influence of Thatcher's policy of pruning the public debt and as a result of the progressive privatizing of many nationalized industries. Almost 90% of the funds were given over to infrastructural works: water supply, sewerage, sewage treatment and disposal schemes, telecommunications and road and rail transport facilities, and other infrastructure.[54] In 1982, financing doubled mainly as a result of the resumption of lending for investment in the energy sector, while financing for transport infrastructure, water supply and sewage treatment schemes, and various other infrastructure projects was maintained at a high level.[55] From 1983 to 1985, the financing operations enjoyed a further spate of growth. The trend was shaped mainly by rising investment in the energy sector, water schemes, and regional infrastructure, while funding for industry fell back.[56] The same trend could be observed from 1986 to 1990. Lending was concentrated on transport and telecommunications infrastructure – with the Channel Tunnel – water schemes and the energy sector, with a sharp upturn of projects helping to

Table 5.2 Financing provided by countries – EIB own resources

	1981–1985		*1986–1990*	
Country	*Million of ECU*	*Share*	*Million of ECU*	*Share*
Belgium	353.4	1.7	368.7	0.8
Denmark	1047.5	4.9	2054.9	4.5
Germany	690.7	3.3	3041.3	6.6
Greece	1518.7	7.2	1047.4	2.3
Spain			5414.0	11.8
France	3062.4	14.5	5822.0	12.7
Ireland	1155.9	5.5	952.1	2.1
Italy	9227.8	46.9	16636.0	36.2
Luxembourg	16.4	0.1	31.6	0.1
Netherlands	69.1	0.3	938.4	2.0
Portugal			2651.1	5.8
United Kingdom	3278.4	15.5	7020.9	15.3

Source: EIB annual reports database, years 1986 and 1990, available at https://www.eib.org/en/publications/index.htm, data retrieved on 20 August 2021.

protect the environment.[57] Overall, as Table 5.2 shows, in the 1980s, the lending to the United Kingdom increased in absolute terms but, as a share of total EIB operations within the EEC, it never reached the record level of the 1975–1977 period, as it stabilized at 15%.

The British directors and the Treasury were generally satisfied with the way the EIB operated. However, they critically underlined that the policies had to be developed within the boundaries of financial feasibility and within an overall framework of budgetary discipline. Since 1981, the British directors concentrated their efforts in trying "to rein in somewhat the enthusiasm of the Management and Staff for expanding the Bank's balance sheet year by year." The EIB was dependent for the bulk of its funds on monies raised on the financial markets, and the markets had from time to time shown signs of rebellion at the prospect of yet more paper. The Bank's credit standing had to be monitored and this could restrain lending activity.[58] This line drove the stance of the British directors at critical junctures. Contrary to the policy of the 1970s, in discussing the capital increase, the British took a restrictive approach and pressed to put a ceiling for lending outside the Community and to nonassociated countries. In particular, they resisted "any suggestions for spreading the EIB operations to South America or Asia."[59] The senior British director Unwin opposed external lending to Central America or to the EIB "burning its fingers" in this area, as he put it.[60] Loans to Central America would increase existing pressure from other countries, notably India. In 1982, the government of India approached the British government asking for support to obtain access to EIB funds. Extending EIB lending to India would set a precedent for other nonassociates and subject the British to renewed claims from ASEAN countries that were turned down in 1981. The informal EIB's rule of operation was that external lending should never exceed 20% of the total outstanding lending. Any major expansion of the Bank's external lending would ultimately entail increasing the capital base, requiring a capital increase which the Treasury wanted to avoid. While the Foreign Office was more inclined to agree to extend the lending, the Treasury and Unwin were against on the grounds that these would necessitate a capital increase and turn the EIB into a world development bank. The majority of EIB partners shared the British opposition. The French preferred to concentrate operations on the ACP countries while the Germans were hostile to any operation that could lead to an increase in the subscribed capital. Moreover, a solid block of member states – the British included – remained firm in opposition to extending loans to Central American countries and India and, in general, to the nonassociates countries as this would make EIB's operations global and convert it from a bank for European development into a world development bank.[61]

In 1983, the EEC members renegotiated the ACP convention. While the French pressed for an increase in the size of the aid, the British government sought a reduction in the multilateral share of the aid budget and to minimize the cost of British commitment. The British government showed unsatisfaction about the Lomé Convention. They held that the quality of regional projects was poor and aimed to increase the development effectiveness of aid through, among the other things, a more effective evaluation of the programs. As the EIB lending played a role in the Lomé Convention, the Treasury opposed any increase in the lending to the ACP countries, more or so due to the high rate of the indebtedness of many of them. As a result, a congruent ceiling was put on external lending.[62]

Under a British President

In 1992, the EIB Presidency of the German Ernst-Günther Bröder was coming to an end. Until that time, the presidency had been covered by Italy, France, and Germany. The British government of John Major held that it was now time for a British person to take over the presidency. Assigning the presidency to the United Kingdom could have been looked at with suspect by the other member states. Many EU institutions were still controversial in London, even if Prime Minister Major did not have the same confrontational attitude toward the Commission and the European Parliament as Thatcher had had. The only EU institution that was not controversial in London and was considered to have played a positive role for the entire EEC/EU and its balanced development was rightly the EIB. As such, a British Presidency could be positively considered by the other member states.[63]

The request of Prime Minister Major paved the way to the presidency of Sir Brian Unwin from 1993 to 1999. Unwin had been a diplomat in the

Foreign Office and a senior official in the Treasury where he had also been in charge of international finance. He worked in the Cabinet of Prime Minister Thatcher and helped her to get her "many back" at the European Council of Fontainebleau in 1984. Unwin already knew the EIB and its functioning as he had served as the British director from 1983 to 1985.

The European Council of December 1992 invited the Bank to increase its infrastructure lending to stimulating employment and starting operations in Eastern European countries that were aspiring to become member of the EIB. In addition to the priorities indicated by the European Council, Unwin set a number of other aims. Based on his experience as director from 1983 to 1985 and that of other senior EIB officials, especially the British director Hugh Evans, "the most important were to raise the profile and visibility of the bank; modernize the corporate and management ethos and structure; to harness even further the bank's huge potential for supporting the EU's economic objectives, and to become more directly involved in the process of determining them; and to contribute positively through the bank's operations on the bond markets to the path towards monetary union and the single currency."[64]

President Bröder held that "The more discreet we are, the better it is," referring to the role that EIB should have in the EU political process.[65] According to Unwin, his predecessor had been too cautious and the Management of the Bank had been too passive. Unwin held that it was not for the Bank to make the EU policy but it ought to be, nevertheless, involved and engaged in the EU policy-making and political process. It had to be "at the front line," rather than sit back and "wait for things to happen."[66]

Unwin operated to ensure that the President of the EIB would be invited to attend the monthly meetings of finance ministers at the Ecofin and the informal lunches following them "where discussion was often franker and less constrained." This allowed the EIB president to meet the governors on a more regular basis and to intervene on issues concerning the bank. This involvement also allowed keeping an eye on the Commission's aspiration to set up and manage new financing facilities. This was the case of the Trans-European Networks (TENs). The Commission, in spite of the limited borrowing powers, sought new borrowing facilities to finance the TENs. The EIB president successfully opposed them on the ground that the EIB already had the experience, personnel, technical know-how, and financial resources to do it. Periodic meetings were also arranged between the Management Committee and the commissioners. As a result, by making regular visits to Brussels to meet commissioners and attend Ecofin meetings, Unwin was able to embed the EIB in the political process and to make it have a say at the crucial time. The activism of Unwin was not much appreciated by Jacques Delors who then affirmed that Unwin was "trop dynamic," which Unwin took as a compliment even though it was not sure that making a compliment was in Delors' intention.[67]

The objective of the EIB president to make sure that his institution would be involved in the political process and be the initiator of the financing in new areas became evident at the European Council of Amsterdam in June 1997. Here, thanks to the support of the Prime Minister of Luxembourg Jean-Claude Juncker and of Wim Kok who would chair the Council, the EIB was invited by the European Council to develop a new program of venture-capital lending for high-tech small and medium enterprises and investment in projects in the "human capital" field. Moreover, the EIB moved away from accepting only financing government and public-sector guarantees. At the end of 1999, the majority of EIB loans were guaranteed by the first-class bank or other highly rated institutions in the private sector.[68] All in all, under Unwin, the Bank acquired a more assertive role in the formulation of economic policy of the EU.

According to Unwin, the EIB "was in good working order when I joined," but the management had to be modernized.[69] His presidency took initiatives to try opening up the Bank by making it less formal, achieving gender equity, and enhancing equal opportunities.

When Unwin left the presidency, the EIB management was less French and a little more English – more informal with English used more as a working language – except in the Director of General Finance which remained dominated by the French René Karsenti.[70] Moreover, the predominance of the French and the Italian had been diluted by the presence of the officials of new member states, Austria, Finland, and Sweden.

While Unwin was successful in getting the EIB more involved in the EU decision-making process and in modernizing its management, the task of making the EIB more visible was more complicated to achieve. In 1993, the EIB was well known in France, Italy, and the southern member states but was still unknown in the United Kingdom and often confused with the recently established European Bank for Reconstruction and Development (EBRD), which was based in London. Given the "widespread misinterpretation of and hostility to the EU in the British media," Unwin held important that there "ought to be greater knowledge and appreciation of at least the one politically uncontroversial EU institution whose operations were wholly beneficial to the British economy." But the EIB remained unknown not only in the United Kingdom. Unwin, while addressing a meeting of the IMF and World Bank in Washington, reminds us that "I was once introduced as the president of the best-kept secret on the international financial circuit."[71]

Unwin concludes that "despite many speeches, interviews and press releases on the projects in the United Kingdom which the bank financed," such as the Skye Bridge, the Channel Tunnel, and the fast link to Dover, almost all the post-privatization investment by the water industry, loans to road, rail, power, urban development, "I failed to get the work of the EIB much better known in the United Kingdom." As a result, Unwin wonders how many British passengers traveling from London to Paris are aware that the Channel Tunnel, the greatest of all the EIB projects and the result of a joint Anglo-French project of 1985, largely owed its completion to the EIB.[72]

Conclusions

Upon becoming shareholder of the EIB in 1973, the British government did not alter the way the Bank operated or the power relations between the big shareholders. Only in the 1980s, the United Kingdom contributed to more actively shape the lending and the functioning of the Bank. The United Kingdom joined the EIB in a period of changes in the lending policy of the EIB and in the relations with the EEC institutions. In the 1960s, the lending policy and operations of the EIB were dictated by the Italian priorities and the culture of the management was dominated by France. The lending policy reflected above all the national choices of each individual government, and the EIB was scarcely subject to the input and priorities pinpointed by the EEC institutions and, notably, the Commission. The "house" was in good order and the United Kingdom received loans in support of the public sector and nationalized undertakings in the 1970s. At the same time, a development was taking place. The lending policy started to be also the result of the interplay with the Commission and the priorities pinpointed by the European Council in the context of the economic crisis of the decade. The EIB started to operate on the ground of policy hints elaborated by the EEC and the autonomy of each member state to use the EIB loans to carry out a development policy along priorities elaborated on a national basis became more limited. This development was strengthened in the 1980s with the definition of a common regional policy and the approval of the Single European Act, of which Thatcher was one of the architects. The EIB maintained its role of favoring greater economic cohesion, in particular, of the new members but, at the same time, the EIB refocused and redeployed its activities, also along the objectives of the Single European Act. As a result, the lending became more policy-related and more concerned with SMEs, energy, environment, infrastructure. The role of the bank changed in responses to developments of the political, economic, and financial environments.

In the 1990s, under the Unwin presidency, a second development occurred. Whereas until the 1980s, the EIB operations had been shaped by the hints and priorities emphasized by the European Council and the Commission, by 1999, the Bank had become more actively embedded and involved in the EU political process, and had initiated the financing in new areas. Internally, the EIB embarked on a series of reforms, which made it less formal, more oriented to gender equity and equal opportunities.

Notes

1. The National Archives – Kew Gardens, UK (hereinafter TNA) – FCO 30/2793, Note by the Clerk "Visit to the EIB – 16.04.1975."

2. Brian Unwin, *With respect, Minister. A view from inside Whitehall* (London: Bloomsbury, 2016), 303.
3. TNA – T224/2511, Letter from Peterson to Croft, 27.04.1972.
4. TNA– FCO 30/2467, Note from G.W. Wilson to MR Slater "The EIB, 28.09.1971," Annex A.
5. TNA– FCO 30/2467, Note from Fitchew (Treasury) to Peterson (Treasury) to 13.12.1972.
6. TNA – T 224/2768, Letter from the Chancellor of the Exchequer to the Secretary of State for Trade and Industry, 21.12.1972.
7. TNA T 312/3351, Note of the Bank of England "The European Investment Bank" 10.06.1970 and Note "Euro (70) 33 - European Investment Bank" written by C.V. Peterson (Treasury) and incorporating comments from the Bank of England, 6.07.1970.
8. TNA– FCO 30/2467 – British Economic Council "Community Agencies Operating in the Field of Regional Policy" Note by Economics and Statistics Unit, Scottish Office, 1972; TNA– FCO 30/2467, Letter from G. Wilson (Treasury) to Ryrie (Treasury), 21.10.1972.
9. TNA– FCO 30/2467, Note from G.W. Wilson to MR Slater "The EIB, 28.09.1971," Annex A
10. TNA– FCO 30/2467 Note by Colin Peterson of a meeting at the DTI on the EIB, 11.10.1972.
11. TNA– FCO 30/2467, Letter from J. Barfoot (Department of Trade and Industry) (Department of Trade and Industry) to Colin Peterson (Treasury), 6.10.1972.
12. Bussière et al., 120–122.
13. TNA – T 224/2511, Letter from Peterson to Croft, 27.04.1972.
14. TNA – T 224/2511 – Visit of the Management Committee of the EIB, 27.01.1972 and Letter from Peterson to Croft, 27.04.1972; TNA– FCO 30/2467 Note by Colin Peterson of a meeting at the DTI on the EIB, 11.10.1972 and Note of a meeting held on 16.10.1972 between UK officials and officials of the EIB.
15. TNA – T 312/2951, Note of the General Secretariat of the Council of Ministers of the EEC, "Negotiations with the United Kingdom," 23.02.1971.
16. On this aspect see Lucia Coppolaro and Helen Kavvadia, Chapter 1 in this volume
17. Éric Bussière, Michel Dumoulin, and Émilie. Willaert (eds.), *The Bank of the European Union: The EIB, 1958–2008* (Luxembourg: EIB, 2008), 120.
18. Ibidem, 120–123.
19. TNA T – 224/2768 "Note of a meeting held in the Minster of State's room, 30.01.1973," 31.01.1973.
20. TNA– FCO 30/2467 Letter from J. Barfoot (Department of Trade and Industry) to Colin Peterson (Treasury), 5.10.1972 and Note from Fitchew (Treasury) to Peterson (Treasury) to 13.12.1972; TNA T – 224/2768, Letter from the Chancellor of the Exchequer to the Secretary of State for Trade and Industry, 21.12.1972.
21. TNA – T 199/1262, Letter from G. Raymond Bell to Mr. Maughan, 21.06.1972.
22. Author's interview with Sir Brian Unwin – 18.12.2020.
23. TNA T – 224/2768 Note of C.V. Peterson to the Chancellor of the Exchequer "European Investment Bank," 11.04.1973.
24. TNA – BT 177/2865, CBI – Booklet on the EIB– August 1975.
25. TNA – BT 177/2859, Brief for Minister from Raymond Prosser (Treasury), 25.10.1973; TNA - T224/3036, Note "Economic Progress Report" by the Treasury, 10. 1973 and Letter from Tom Boardman (Chief Secretary of the Treasury) to John Davis Chancellor of the Duchy of Lancaster, Cabinet Office, 25.01.1974.

26. TNA – T 354/451, EIB Press Release 20/75 – 16.06.1975.
27. TNA – T 385/186, Letter from Hall to Nick Jordan-Moss, 10.02.1977.
28. TNA – BT 177/2859, Brief for Minister from Raymond Prosser (UK Director of the EIB) and attached draft speech for EIB dinner on 30.10.1973, 25.10.1973; Draft brief for visit to Luxembourg by the Chancellor of the Duchy of Lancaster, 30.10.1973.
29. TNA – T 385/85, EIB Press Release, 9.10.1977.
30. EIB Annual Reports, 1976, 37; 1977, 37.
31. TNA – BT 177/2867, Note from Faulkener to Prosser, 19.01.1977.
32. TNA – BT 177/2859, Brief for Minister from Raymond Prosser (UK Director of the EIB) and attached draft speech for EIB dinner on 30.10.1973, 25.10.1973; Draft brief for visit to Luxembourg by the Chancellor of the Duchy of Lancaster, 3.10.1973; TNA – BT 177/2867, Call by Mr. Denis Kirby of the EIB, 11.10.1976; present: Kirby, D. Walker, Maurice Hall, F. Partridge.
33. TNA – T 385/85 Note “EIB loan application by BSC to finance the completion of the Ravensraig stage III,” 18.10.1977.
34. TNA – BT 177/2867, Call by Mr. Denis Kirby of the EIB, 11.10.1976; present: Kirby, D. Walker, Maurice Hall, F. Partridge and TNA – T 385/186, Letter from Hall to Nick Jordan-Moss (Deputy Secretary, Treasury), 10.02.1977.
35. TNA – BT 177/2859, Brief for Minister from Raymond Prosser (UK Director of the EIB) and attached draft speech for EIB dinner on 30.10.1973, 25.10.1973; Draft brief for visit to Luxembourg by the Chancellor of the Duchy of Lancaster, 3.10.1973.
36. TNA – BT 177/2867, Note from Jenny Faulkener to Prosser, 19.01.1977.
37. TNA – BT 177/2869, Note from Martin Hall (Treasury) to Jenny Faulkner (Department of Industry), 25.04.1977.
38. Historical Archives of the European Union, Florence, Italy (hereinafter HAEU), BEI/P/CA/119 – Board of Directors, Minutes of the meeting 23.06. 1976 and BEI/P/CA/120 – Board of Directors, Minutes of the meeting 27.07.1976.
39. EIB Annual Report 1976, 35.
40. TNA – BT 177/2865, Letter “Visit from EIB” from M. Vile (Department of Trade and Industry) to W. Denners (Department of Energy), 4.10.1975; HAEU – BEI/P/CA/121 – Board of Directors, Minutes of the meeting 20.10.1976.
41. TNA T – 354/451 Note of the Confederation of the British Industry “European Investment Bank,” 4.04.1975 and Letter from Mr. F.H. Partridge (Treasury) to Christopher W. Fogarty, 7.04.1975.
42. On the origin of the regional policy see Lorenzo Mechi and Antonio Varsori, “At the origins of the Structural and Social policy” in Jan Van der Harst, (ed.), *Beyond the customs Union: the European Community's quest for deepening, widening and completion, 1969-1975*, (Bruylant: Bruxelles, 2007), 223–241.
43. TNA – BT 177/2870, Letter from M. Butler to Nick Jordan-Moss, 23.05.1977.
44. TNA – BT 177/2869, Note from Martin Hall (Treasury) to Jenny Faulkner (Department of Industry), 25.04.1977 and T – 385/187, Letter from British Prime Minister James Callaghan to Willy de Clercq, 13.04.1977.
45. TNA – T 385/187, Board of Directors – The development of the activities of the Bank-Proceedings of the Board of Directors – 8.06.1977 and Letter from the Chairman of the Board to the Chairman of the European Council, 20.06.1977; EIB Presse Release “Increasing investment in the Community,” 20.06.1977.
46. TNA – T 385/187, Resolution of the Board of Governors “The development of the activities of the Bank,” 20.06.1977 and Letter from Gaston Geens (Chairman of the Board of Governors) to James Callaghan (British Prime Minister), 20.06.1977.

47. TNA – T 449/199, Minute written by Ingham and Fitchew, 24.10.1983.
48. Interview of the author with Sir Brian Unwin – 18.12. 2020.
49. EIB Annual Report 1985, 19.
50. On the evolution of the EIB lending in the 1980s see Bussière et al., 133.
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52. MTA – Margaret Thatcher to the House of Commons on the European Council of Luxembourg, 1.07.1981.
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54. EIB Annual Report 1981, 25 and 46.
55. EIB Annual Report 1982, 38.
56. EIB Annual Reports 1983, 45; 1984, 44; 1985, 41.
57. EIB Annual Reports 1987, 35; 1988, 37; 1990, 41–42.
58. TNA – T 449/106, Letter "EIB: annual meeting of the Governors" from M. Hedley-Miller to Geoffrey Howe (Chancellor of the Exchequer), 8.06.1982; TNA OD – 9/430, –Letter "European Innovation Loans" from D. Andren (Treasury) to Mark Dempsey (Department of Trade and Industry), 13.10.1983.
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60. TNA – T 449/280, Letter "EIB: loans to Central America," from Brian Unwin to Fitchew, 7.10. 1984
61. TNA – T 449/104, Letter "India and the EIB," from B. Crowe (European Community Department) to Dales, 21.10. 1982; TNA – T 449/280, Letter from Rosemary Spencer (Office of the United Kingdom Permanent Representative to the European Community) to B. Crowe (Treasury), 29.10.1984.
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63. Author's interview with Brian Unwin– 18.12.2020.
64. Unwin, *With respect, Minister*, 300.
65. Bussière et al., *The Bank of the European Union,* 309
66. Author's interview with Brian Unwin– 18.12. 2020.
67. Unwin, *With respect, Minister*, 306–307.
68. Ibidem, 308.
69. Ibidem, 300.
70. On René Karsenti, see Bernard Gordon chapter 2 in this volume.
71. Unwin, *With respect, Minister*, 302.
72. Ibidem, 303.