European Federation for TRANSPORT and ENVIRONMENT

CEE bankwatch network

19 November 2008

Dear President Barroso,

We are writing to express our deep concern over the European Commission's reported plans (1) to offer up to EUR 40 bn in taxpayer-backed loans to the car industry through the European Investment Bank.

At the core of our concern is the precendent that would be set by offering financial support to an industry in order to meet an environmental regulation, one of the stated reasons behind the car industry's request. But importantly, we also believe that both the substance of the request and the process surrounding consideration of such a large loan have so far been extremely flawed and undemocratic.

It is relevant to mention here that between 2003 and 2007 the EIB has provided over EUR 6.5 bn in loans to the car industry. Those loans included funding for Land Rover and Jaguar, makers of high-consuming cars, to develop new models.

Meanwhile progress on improving fuel efficiency has ground to a halt. So on past record it appears that the European Union has been unwilling or unable to link genuine progress in fuel efficiency to loans to the car industry.

It is also astonishing that the European car industry is now asking for loans to develop fuel efficient models when it has spent the last decade and a half attacking each and every proposal of the European Union to legislate on new car fuel efficiency. Even as we write, the European Parliament and European Council are in negotiations over a compromise proposal on a law that is a shadow of the one proposed by the Commission in December 2007.

That compromise looks likely to lead to the target of the 1998/9 voluntary agreements being reached in 2015, seven years later than planned. Needless to say, this situation has developed entirely as a result of lobbying by carmakers and car-producing countries that has relied on new extremes of scaremongering and misinformation.

The bottom line? It is clearly not in the public interest that any further loan even be considered until the European car industry drops opposition to the original proposal of the European Commission – 130g/km CO_2 in 2012 – and supports a longer term target of 80g/km in 2020. The latter target in particular is crucial to ensure the car industry remains on the right track, and makes appropriate investment decisions for the long term.

Second, the process surrounding consideration of this substantial loan of taxpayers' money lacks many of the attributes one would expect in developed democracies.

The loan asked for is a very substantial figure and is comparable to the entire annual European Common Agricultural Policy budget and the entire annual lending portfolio of the EIB. It is equivalent to EUR 80 from every European citizen.

And yet European citizens have been given no opportunity to engage in a public debate. This is in stark contrast to the United States, where the recent bailout package for American carmakers was debated by elected representatives and in public hearings.

Worryingly, there has been no mention, let alone debate, over conditions applying to the loans. In 1980, the US government bailout of Chrysler involved conditions including the end of sales of inefficient rear-wheel-drive cars, an equity stake later sold for profit, and the sale of the corporate jets. In contrast the European plan sounds rather more like a blank cheque, and a very large one at that.

The Commission itself has given mixed signals. Initially a Commission spokesperson rejected the idea out of hand. But the Commission changed its tune after the behind-closed-doors session of the Cars 21 group, when Vice-President Verheugen appeared to give it the Commission's full political backing. We would like an explanation as to how that change of policy came about.

The lack of transparency continues. As of last week, spokespersons at both the European Commission and the European Investment Bank told us that no loans were on the table.
If indeed the Commission and the EIB are planning a loan package on this scale, we consider that it would be presumptuous and undemocratic to approve it based on this level of consultation and public debate. And furthermore the issue of the conditions that would apply must be opened up to a full and frank discussion by all stakeholders, including civil society.

On these grounds, the danger of setting a precedent, the failure of previous EU loans to affect change, scant progress on efficiency and resistance to EU targets, plus the absence of any public debate and democratic oversight on a crucial multi-billion euro decision – we reiterate our call for the Commission not to approve this proposal.

We look forward to your early reply.

Yours sincerely,

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(1) The Financial Times newspaper and the Reuters news agency have reported that an announcement of a loan package is expected on 26 November.