



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT**

ON THE IMPACT ON EAGGF GUARANTEE SECTION EXPENDITURE OF:

- MOVEMENTS OF THE DOLLAR/ECU EXCHANGE RATE
- INCREASES IN THE CORRECTING FACTOR RESULTING
FROM MONETARY REALIGNMENTS WITHIN THE
EUROPEAN MONETARY SYSTEM

1996 FINANCIAL YEAR

REPORT

on the impact on EAGGF Guarantee Section expenditure in 1996 of:

- movements of the dollar/ecu exchange rate, and
- increases in the correcting factor resulting from monetary realignments within the European Monetary System

I. INTRODUCTION

The value of the dollar affects a major proportion of EAGGF Guarantee Section expenditure. A number of production aids and almost all export refunds are fixed on the basis of the gap existing between Community prices, expressed in ecus, and world prices, generally expressed in dollars (USD).

Other things being equal, a change in the value of the dollar in relation to the ecu automatically implies a change in the gap in ecus between Community prices and world prices and consequently a change in the production aids and export refunds concerned. If the dollar rises, the gap diminishes, leading to a reduction in expenditure; if the dollar falls, the gap widens, raising expenditure.

The European Council of 11 and 12 February 1988, in its conclusions, expressed the will to take explicit account of the impact of the change in the dollar on agricultural expenditure.

On that basis, by its Decision of 24 June 1988 concerning budgetary discipline,¹ the Council provided for the inclusion of ECU 1 000 million in a reserve of the general budget of the European Communities "as a provision for covering developments caused by significant and unforeseen movements in the dollar/ecu market rate compared to the dollar/ecu rate used in the budget". The latter is equal to the average market rate during the first three months of the year preceding the budget year.

¹ OJ No L 185, 15.7.1988, p. 29.

If the average value of the dollar in the period from 1 August of the preceding year to 31 July of the current year falls in relation to the rate used in the budget, the additional budget costs are financed by a transfer from the monetary reserve. Equally, savings in the Guarantee Section when the dollar strengthens are to be transferred to the monetary reserve.²

Recourse is to be had to the monetary reserve when the said expenditure (or, as the case may be, the saving) exceeds a margin ('franchise') - ECU 400 million up to and including the 1994 financial year. Similarly, the amount of the transfer relates to that fraction of the impact which exceeds that margin.

The Edinburgh European Council of 11 and 12 December 1992 confirmed that the monetary reserve would remain in place for the period 1993-99 but decided that the amount should be cut to ECU 500 million from 1995 onwards and the 'franchise' reduced from ECU 400 million to ECU 200 million.

Noting also that the monetary movements between the Member States' currencies at the time would substantially increase EAGGF Guarantee Section expenditure, the Edinburgh European Council agreed that adjustments should be made to the arrangements for the operation of the monetary reserve so as to make due allowance for the costs resulting from the monetary alignments between Member States.

The Edinburgh European Council also agreed that if such an increase should cause agricultural expenditure to exceed the guideline and thus jeopardise the financing of the new common agricultural policy as already approved, appropriate measures would be taken by the Council to fund the EAGGF Guarantee Section.

Under the Interinstitutional Agreement between the Parliament, the Council and the Commission of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure,³ the monetary reserve is intended to cover the financial impact on budgetary expenditure of substantial and unforeseen divergences in the dollar exchange rate as compared with that used in the budget; the reserve may also be used when the agricultural guideline prevents the budgetary cost directly due to monetary realignments within the European monetary system from being absorbed. In that agreement, the institutions took note that, if the agricultural guideline were exceeded as a result of realignments within the monetary system and the lack of available appropriations within the monetary reserve, the Council would take appropriate steps to provide funds for the EAGGF Guarantee Section.

² Up to ECU 1 000 million up to the 1994 financial year and up to ECU 500 million from 1995 onwards.

³ OJ No C 331, 7.12.1993, p. 1.

On 31 October 1994 the Council adopted a new Decision on budgetary discipline⁴ which took account of the conclusions of the Edinburgh European Council and the inter-institutional agreement. Articles 7 to 12 of that Decision contain the provisions relating to consideration of the dollar exchange rate and of the impact of monetary realignments. The Decision specifies that the special provisions relating to the financing of costs arising from monetary realignments within the European Monetary System will apply until the end of the 1997 financial year (Article 11(3)) and that the transfers from the reserve will only be used if the additional costs (due either to the variation in the dollar rate or to monetary realignments) cannot be met from the budget appropriations entered in Titles 1 to 5 of the EAGGF Guarantee Section (Article 12(1)).

Under Article 9 of the Decision of 31 October 1994 the Commission is required to present a report to the budgetary authority by the end of October each year on the impact on EAGGF Guarantee Section expenditure of:

- movements in the average dollar/ecu market rate for the period from 1 August of the preceding year to 31 July of the current year in relation to the rate used in the budget;
- the monetary realignments within the European Monetary System since 1 September 1992.

This report, which relates to the 1996 financial year, contains information to be used to assess:

- whether, on account of the impact of changes in the dollar/ecu exchange rate, a transfer should be proposed to or from the monetary reserve and, if so, the relevant amount;
- whether, on account of the impact of the monetary realignments within the European Monetary System, a transfer from the monetary reserve should be proposed and whether, if the reserve is used up, appropriate arrangements should be made by the Council to finance the EAGGF Guarantee Section in accordance with the conditions laid down in Article 11 of the Decision on budgetary discipline of 31 October 1994.

⁴ OJ No L 293, 12.11.1994, p. 14.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1996

To gauge the impact of movements in the dollar/ecu rate on the 1996 financial year, consideration must be given, pursuant to Article 7 of the Council Decision of 31 October 1994, to the gap between the average rate recorded for the dollar between 1 August 1995 and 31 July 1996 and the rate used in the 1996 budget. The rate used to assess appropriations for the 1996 financial year is \$ 1 = ECU 0.79. In accordance with the Council Decision, this corresponds to the average rate in the first three months of the year preceding the financial year in question (January, February and March 1995).

The following table gives the monthly exchange rate gaps recorded in the reference period:

	Recorded rate 1\$ = ... ECU	Budget rate 1\$:= ... ECU	Gap in ECU	Gap in %
a	b	c	d = b - c	e = b/c
August	0.7670	0.7900	- 0.0230	- 2.9
September	0.7761	0.7900	- 0.0139	- 1.8
October	0.7564	0.7900	- 0.0336	- 4.3
November	0.7553	0.7900	- 0.0347	- 4.4
December	0.7667	0.7900	- 0.0233	- 2.9
January	0.7742	0.7900	- 0.0158	- 2.0
February	0.7761	0.7900	- 0.0139	- 1.8
March	0.7805	0.7900	- 0.0095	- 1.2
April	0.7912	0.7900	+ 0.0012	+ 0.2
May	0.8027	0.7900	+ 0.0127	+ 1.6
June	0.7981	0.7900	+ 0.0081	+ 1.0
July	0.7871	0.7900	- 0.0029	- 0.4
Average 1.8.95-31.7.96	0.7773	0.7900	- 0.0127	- 1.6

Over the period under consideration the average dollar rate, rounded off, was \$ 1 = ECU 0.78, 1.3% below the budget rate. That reduction in the value of the dollar involved additional expenditure charged to the EAGGF Guarantee Section.

The recorded average rate of \$ 1 = ECU 0.78 is the arithmetical mean of the daily rates for the twelve-month period in question. The average monthly rate fluctuated around that 12-month average, between a minimum of \$ 1 = ECU 0.7553 in November 1995 and a maximum of \$ 1 = ECU 0.8027 in May 1996.

In general, the dollar rate tended to increase gradually over the period, with the rounded-off averages for the last four months equal to or slightly above the budget rate.

If an accurate assessment of the additional expenditure incurred owing to the depreciation of the dollar is to be made during a period when the gaps compared to the budget rate were variable, it is necessary to establish for the period concerned a weighted average dollar rate for every agricultural product for which expenditure in ecus is affected by the dollar, taking account of the seasonal variation in exports with refund or in quantities eligible for Community aid.

On that basis, additional expenditure charged to the EAGGF Guarantee Section as a result of the depreciation of the dollar in relation to the budget rate is estimated at ECU 87 million for the 1996 financial year.

Annex I gives a detailed calculation of this expenditure, which breaks down by sector as follows:

	(ECU million)
Cereals:	54
Sugar:	10
Rice:	1
Non-Annex II products:	6
Fibre plants:	14
Islands and most remote regions:	2

TOTAL:	87

It should be noted that, like last year, it was considered that the refund rates for livestock sector products were influenced very little by the short or medium-term variation in the dollar rate. There was therefore no need to evaluate the impact of changes in the value of the dollar on refunds for those products.

The increase in EAGGF Guarantee Section expenditure in 1996 arising from movements in the dollar is therefore less than the margin of ECU 200 million and so there is no need to call upon the monetary reserve.

III. THE IMPACT ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1996 OF INCREASES IN THE CORRECTING FACTOR RESULTING FROM MONETARY REALIGNMENTS WITHIN THE EUROPEAN MONETARY SYSTEM SINCE 1 SEPTEMBER 1992

Between the beginning of September 1992 and mid-May 1993 there were five monetary realignments within the European Monetary System.

To gauge the impact of these realignments on EAGGF Guarantee Section expenditure, two factors have to be taken into account:

- As a direct consequence of the monetary realignments since September 1992, the correcting factor (switchover) used for the purposes of the common agricultural policy rose by 5.4% from 1.145109 to 1.207509 from 14 May 1993.
Other things being equal, this increase in the correcting factor is reflected in a corresponding increase in the double rate, the coefficient expressing the difference between EAGGF Guarantee Section expenditure expressed, on the one hand, in terms of agricultural ('green') ecus, known as ECU(A) and, on the other, the expenditure charged to the budget (budget ecus), designated ECU(B).
This increase in the double rate coefficient, from 1.145 to 1.207, thus leads to a corresponding increase in agricultural expenditure expressed in budget ecus.⁵
- Article 9 of Council Regulation (EEC) No 3813/92 of 28 December 1992 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy⁶ lays down that where the correcting factor is increased, the prices fixed in ecus are to be reduced at the beginning of the following marketing year by 25% of the percentage of the change in the correcting factor. The other amounts fixed in ecus, with the exception of certain aids provided for under the 1992 reform of the common agricultural policy, are to be altered appropriately as the need arises.⁷

⁵ It should be noted that, even though the correcting factor was abolished with effect from 1 February 1995, the impact of monetary realignments on EAGGF Guarantee Section expenditure continues to be felt because abolition was accompanied by an increase in prices and aids in green ecus of 20.7509%. Without the effect of the monetary realignments which occurred between September 1992 and mid-May 1993 that increase would have been limited to 14.5109%.

⁶ OJ No L 387, 31.12.1992, p. 1.

⁷ Among the amounts excluded from the reduction are the majority of aids per hectare for arable crops, beef premiums, the amounts fixed in the context of accompanying measures and amounts of a structural nature or not affecting

By virtue of this provision and in line with the increase in the correcting factor between September 1992 and May 1993, prices and aids in ecus were cut by 1.29% by the application of a reduction coefficient of 1.013088 from the start of the 1993/94 marketing year in the majority of cases. The resulting reduction in EAGGF Guarantee Section expenditure partially offsets the increase in expenditure resulting from the increase in the double rate.

Bearing in mind these two factors, the impact on EAGGF Guarantee Section expenditure in 1996 of the monetary realignments within the European Monetary System and potentially eligible for financing under the mechanisms decided by the Edinburgh European Council, as laid down in Article 11 of the 31 October 1994 Decision on budgetary discipline, is put at ECU 1 728 million, made up as follows:

	(ECU million)
- Rise in the double rate (from 1.145 to 1.207):	+ 2 051
- Cut in prices and some aids (-1.29%):	<u>- 348</u>
TOTAL:	+ 1 703

However, since it has been possible to finance this additional expenditure from within the budget appropriations entered in Titles 1 to 5 of the EAGGF Guarantee Section and within the agricultural guideline, there is no need to have recourse to Article 11 of the Decision of 31 October 1994.

It should also be pointed out that the change in the correcting factor also has an effect on the gap between internal prices and world prices for agricultural products expressed in green ecus.

The increase in the correcting factor has raised internal prices expressed in green ecus and, consequently, automatically increased the main export refund rates and the rates for some aids. The impact of the increase in the correcting factor on refunds and aids is estimated at ECU 171 million.

Overall, therefore, the monetary realignments that occurred in 1992 and 1993 have resulted in additional expenditure for the EAGGF Guarantee Section in 1996 of ECU 1 874 million, which, thanks to the favourable trend in the agricultural economy, has been covered in full within the budget appropriations and the agricultural guideline.

Annex II gives the details of the calculation of these estimates.

ANNEX I - Calculation of the impact on EAGGF Guarantee Section expenditure of changes in the dollar: 1996 financial year

	Average world price recorded (\$/t)	Technical adjustment coefficient	Average world price used (\$/t)	Weighted average rate (1 \$ = ... ECU)	World price converted into ecu		Unit impact of gap in rates (ECU/t)	Quantities concerned (1000 t)	Total budget impact		
					At rate 1\$ = ECU 0.79 (ECU/t)	At average weighted rate recorded (ECU/T)			ECU (A) million	Double rate	ECU (B) million
a	b	c	d = b x c	e	f = d x 0.79	g = d x e	h = f - g	i	j = h x i	k	l = j x k
A. REFUNDS :											71
Cereals and rice											
- Common wheat	139	1,00	139	0,75	109,8	104,3	5,5	3.585 (2)	19,7	1,018	20
- Barley	170	1,00	170	0,76	134,3	129,2	5,1	4.307 (2)	22,0	1,018	22
- Other cereals	118	1,00	118	0,76	93,2	89,7	3,5	2.059	7,2	1,024	7
- Starch	145	1,60	232	0,78	183,3	181,0	2,3	2.250	5,2	1,021	5
- Rice (milled equivalent)	315	1,00	315	0,78	248,9	245,7	3,2	142	0,5	1,062	1
Sugar (incl. chemicals industry)	348	1,00	348	0,78	274,9	271,4	3,5	2.746	9,6	1,014	10
Milk products											
- Butter		1,00									
- Butteroil		1,00									
- Skimmed-milk powder		1,00									
- Other in milk equivalent		1,00									
Beef and veal											
- Fresh meat		0,50									
- Frozen meat		0,50									
Pigmeat											
- Cuts and sausages		0,50									
Eggs and poultry											
- Eggs		0,50									
- Poultry		0,75									
Non-Annex II products											
- Common wheat	154	1,00	154	0,78	121,7	120,1	1,6	650	1,0	1,021	1
- Barley	137	1,00	137	0,78	108,2	106,9	1,3	475	0,6	1,021	1
- Other cereals	117	1,00	117	0,78	92,4	91,3	1,1	1.320	1,5	1,021	2
- Sugar	340	1,00	340	0,78	268,6	265,2	3,4	530	1,8	1,015	2
B. AIDS											16
Oilseeds (1)											
Fibre plants (cotton)	1.913	0,244	466,8	0,77	368,8	359,4	9,4	1.469	13,8	1,015	14
Islands and most-remote regions											
- Common wheat	159	1,00	159	0,78	125,6	124,0	1,6	294	0,5	1,021	1
- Durum wheat	185	1,00	185	0,78	146,2	144,3	1,9	16	0,0	1,021	0
- Barley	136	1,00	136	0,78	107,4	106,1	1,3	121	0,2	1,021	0
- Other cereals	145	1,00	145	0,78	114,6	113,1	1,5	313	0,5	1,021	1
- Rice (milled equivalent)	315	1,00	315	0,78	248,9	245,7	3,2	18	0,1	1,021	0
- Sugar	340	1,00	340	0,78	268,6	265,2	3,4	20	0,1	1,021	0
TOTAL A + B											87

N.B. : On the basis of the figures in the Table, a change in the dollar rate of 10% would lead to a change in expenditure of ECU 361 million (not counting oilseeds).

- Because the reference price recorded in ecus for oilseeds in 1995/96 exceeded the forecast reference price by more than 12% the hectare aids in that sector were reduced by 4% (12% less the 8% margin). The average dollar rate during the period used to record the reference price was 1\$ = ECU 0.76, 4% lower than the budget rate. Without that drop in the dollar, the reference price recorded in ecu would have exceeded 5 % reduction in the aids (9-4%) The impact of not reducing the aids is assessed at ECU 124 million.
- Excluding quantities exported with tax and with zero refund.

EXPLANATORY REMARKS TO ANNEX I

Column (a) of the tables gives all the budget headings which are affected explicitly and directly by movements in the value of the dollar.

Column (b) gives estimated average world prices in dollars for the period concerned. They correspond either to average selling prices of Community products when exported or to prices used for the calculation of the various aids. These prices are multiplied by an adjusting coefficient (column (c)) indicating the weighting of the world price used to determine an aid or refund. For example, 1.6 times the world price for maize is used in the determination of the production refund for starch.

Column (d) gives average world prices in dollars corrected by the adjusting coefficient.

Column (e) gives the average dollar/ecu exchange rates recorded, established by heading on the basis of a weighting taking account of the seasonal nature of the quantities eligible for export refunds or Community aids.

Columns (f) and (g) give the corrected average world prices converted into ecus using the exchange rate adopted in the budget of \$ 1 = ECU 0.79 and the recorded weighted average rates in column (e).

The unit impact of the lower value of the dollar is given in column (h) in ecus per tonne. This unit amount multiplied by the estimated quantities qualifying for aids and/or refunds during the period under review (column i) gives the impact in millions of agricultural ecus (column (j)) and in millions of budget ecus (column (l)).

ANNEX II - Cost of monetary realignments between September 1992 and May 1993 : 1996 financial year

	Sector	Change in double rate	Monetary reduction in prices	Sub-total	Impact of change in the correcting factor on refunds and aids	Total impact
a	b	c	d	e = c - d	f	g = e + f
10	Arable crops	816	26	790	79 (1)	869
11	Sugar	89	29	60	38	98
12	Olive oil	107	35	72	0	72
13	Dried fodder and pulses	19	0	19	0	19
14	Fibre plants	43	21	22	27	49
15	Fresh fruit and vegetables	47	6	41	0	41
	Processed fruit and vegetables	34	7	27	0	27
16	Wine	43	4	39	0	39
17	Tobacco	49	14	35	0	35
18	Other plant sectors	16	2	14	7	21
20	Milk and milk products	189	102	87	0	87
21	Beef/veal	346	32	314	0	314
22	Sheepmeat	72	55	17	0	17
23	Pigmeat	7	0	7	0	7
24	Eggs and poultry	8	0	8	0	8
25	Other animal product aid measures	5	0	5	0	5
26	Fisheries	2	0	2	0	2
30	Non-Annex II products	25	13	12	20	32
33	Food aid	2	2	0	0	0
34	Interest on advance financing	0	0	0	0	0
35	Distribution to deprived persons	0	0	0	0	0
36	Anti-fraud measures	0	0	0	0	0
37	Clearance	0	0	0	0	0
38	Rural development	25	0	25	0	25
39	Other measures	12	0	12	0	12
Titles 1, 2 et 3		1.956	348	1.608	171	1.779
40	Income aid	2	0	2	0	2
50	Accompanying measures	93	0	93	0	93
Total EAGGF-Guarantee		2.051	348	1.703	171	1.874

(1) Impact on refunds and aids for cereals, less quantities exported with tax and with zero refund. In the case of oilseeds, it is estimated that, if there had been no change in the correcting factor, per hectare aids would have been reduced by a further 6%. The impact of this further non-reduction in aids is estimated at ECU 142 million.

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