COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.02.1997
COM(97) 59 final

Proposal for a

COUNCIL REGULATION (EC)

determining measures and compensation relating to appreciable revaluations that affect farm incomes

(presented by the Commission)

EXPLANATORY MEMORANDUM

Council Regulation (EEC) No 3813/92 provides for compensation measures when, following a revaluation, the agricultural conversion rate falls below certain thresholds established as a function of past currency developments. In order to enable compensation to be paid, the Member States may request the application of the following provisions:

- Article 7 of the Regulation, for an increase in the amount of most direct aid to producers as expressed in ecus, to prevent a reduction in terms of revalued national currency;

- Article 8 of the Regulation, for digressive compensatory aid over a three-year period, with the European Union contributing 50% or 75% of the cost, as the case may be.

The cost of applying Article 7 is about ECU 250 million a year for each percentage point of revaluation. The maximum amount of compensatory aid under Article 8 is established by the Council, at least 12 months after the revaluation, on the basis of an estimate of actual income loss.

However, under Article 9 of Regulation (EEC) No 3813/92, the Council must take all necessary measures in the event of an appreciable revaluation, which, primarily to comply with obligations under the GATT Agreement and budgetary discipline, may involve derogations from the provisions of the said Regulation concerning aid and the amount by which the monetary gaps are dismantled, without, however, resulting in the five-point threshold being extended.

To avoid the financial and international consequences of applying Articles 7 and 8 of Regulation (EEC) No 3813/92, the Council adopted Regulations (EC) No 1527/95 and (EC) No 2990/95; for appreciable reductions in agricultural conversion rates before 31 December 1996, those Regulations replace the measures of Articles 7 and 8 by:

- a freeze on the agricultural conversion rate applicable to the amounts referred to in Article 7, for the Member State concerned, until 1 January 1999, the date of the planned introduction of the euro;

- the possibility of digressive compensatory aid over three years, of a maximum amount determined on the basis of a flat-rate forward estimate of future losses of annual incomes.

The currencies of eight Member States have been concerned by the provisions referred to. However, no compensatory aid was granted for the 2% reduction in the agricultural conversion rate of the Irish pound on 8 November 1996, since, despite the fact that 0.3%

of this reduction was regarded as "appreciable", the Council did not establish a maximum amount of aid in this case.

The impact of all these measures was analysed in the Annual Report on the agri-monetary system for 1995/96.[1] The approximate cost of freezing agricultural conversion rates is ECU 185 million a year, and that of compensatory aid ECU 200 million in 1996, one third less the following year, and two thirds less the year after that. For the future, despite the various problems arising, the report concludes that care should be taken to ensure similar treatment when appreciable revaluations occur, although the measures should not aggravate the risk of problems that could interfere with the changeover to the euro on 1 January 1999.

At present, any further decline in an agricultural conversion rate, except for that of the Greek drachma, would be regarded as "appreciable" under Article 1(e) of Regulation (EEC) No 3813/92. The declines in the rates of the Irish pound and of sterling in January 1997 are "appreciable" reductions comparable to those that occurred in 1995 and 1996. In view of the agri-monetary situation, the United Kingdom would thus be in a position to request the application of Article 7 for an 8.5% increase in ecus for certain direct aid payments from July 1997, and Ireland that of Article 8 from April 1997. The criteria set out in Article 1(e) do not, in fact, correspond exactly to those for triggering Articles 7 and 8. The level of the Italian lira in January 1997, for example, if maintained, would enable Italy to request the application of Article 8 in March and Article 7 in July.

It would thus appear necessary to take measures at Community level to avoid problems, and especially financial problems, in implementing the common agricultural policy. In accordance with the conclusions of the Annual Report on the agri-monetary system, it is proposed to follow the approach determined by Regulations (EC) No 1527/95 and (EC) No 2990/95, taking due account of experience.

More specifically, it is proposed to extend the scope of the compensatory measures to all cases that lead to the application of Articles 7 and 8 of Regulation (EEC) No 3813/92. When the appreciable revaluation does not correspond to an appreciable reduction in the agricultural conversion rate within the meaning of Article 1(e) of the Regulation, the conditions for applying Articles 7 and 8 would be fulfilled, for example, following one or more reductions in the rate over the previous twelve months that were not offset by devaluations occurring in the same period. For such cases, a date must be determined to be deemed to be that of the appreciable revaluation. It is proposed to take the first date on which the conditions for applying either Article 7 or Article 8 are fulfilled, with the exception of the request by the Member State concerned.

Experience has shown that the principle of freezing agricultural conversion rates for the amounts referred to in Article 7 may lead to very wide monetary gaps. These gaps have very little short-term impact on the markets; and although they could over the longer term

[1] Report from the Commission to the Council and the European Parliament on the agri-monetary system for the single market; 1 July 1995 to 30 June 1996. COM(96) 636 final.

create difficulties of a structural nature between Member States or between production sectors in the same Member State the freeze is limited to 1 January 1999. On the other hand, large monetary gaps may lead to major problems when they have to be closed up in order to substitute the euro for national currency. Consequently, it is proposed to limit the size of these monetary gaps. The gap between the frozen agricultural conversion rate and the agricultural conversion rate which it replaces should never exceed 7%. The choice of a threshold value of 7% takes account of the fact that in July 1996, for the Swedish krona, the gaps were 14.7% for per hectare aid for arable crops and 6.9% for beef and veal premiums, ewe premiums and structural aid. If necessary, the loss of income due to a decline in the agricultural conversion rate for the amounts referred to in Article 7 could be taken in to account when granting compensatory aid.

Compensatory aid, like the aid granted under Regulations (EC) No 1527/95 and (EC) No 2990/95, would not be linked to current production, would be digressive in three annual tranches, could be extended for a limited period, and would be eligible for Community financing to cover 50% of the maximum amount. The amounts of the second and third tranches would be reconsidered in the case of a devaluation affecting incomes, but experience has also shown that the maximum amount of the first tranche can and must be revised if there is a devaluation in the first six months of the first year, since in that case the full amount of aid would no longer be justified. At all events, the first aid payments are made only after the national arrangements for granting the aid have been drafted, notified and approved, a process that takes at least six months. When the "appreciable" fraction of the revaluation is small, the amount of compensatory aid per holding does not correspond to a notable and significant loss of income. It is proposed to introduce a minimum of ECU 150 per existing holding, below which aid is not granted. In the past, the smallest amounts paid in aid corresponded to a maximum amount possible of about ECU 200 per holding.

In fact, the method of calculating the amount of aid was approved by the Council under Regulations (EC) No 1527/95 and (EC) No 2990/95. It is proposed to formalize this method so that the Commission may apply it, through the management committee procedure, whenever necessary, and as a function of the latest available economic and financial data. This method is based on determining the extent to which a given revaluation is appreciable in terms of a percentage (the "appreciable part"), and determining the expected flat-rate income loss for each percentage point of appreciable revaluation.

The appreciable part of a revaluation corresponding to an appreciable reduction in the agricultural conversion rate as defined in Article 1(e) of Regulation (EEC) No 3813/92 derives directly from that definition. In other cases of appreciable revaluation, the problem is more complex, since the difference between the level of the conversion rate obtaining on average and the level beyond which a revaluation is regarded as appreciable varies both upwards and downwards over time. In such cases, the proposal takes the average over twelve months of the reductions that would have made it possible to request the application of Article 8 of Regulation (EEC) No 3813/92.

The assessment of income loss by percentage point of appreciable revaluation is based on the economic accounts for agriculture and on documents relating to the budget of the European Union. It is assumed, on a flat-rate basis, that the effects of the reduction in agricultural conversion rates are passed on in full in:

(i) the value of products where an intervention price usually effectively influences market prices: cereals and rice, sugar beet, milk and milk products, beef and veal;

(ii) products subject to a minimum price, aid or premiums paid direct to farmers, to the extent that the said reduction in the agricultural conversion rate is actually applied.

However, for the amounts referred to in point (ii), losses affecting, in the sector concerned, less than 0.01% of the value of total agricultural production by percentage point of appreciable revaluation are regarded as not being significant, and no account is taken of them.

It is also assumed, on a flat-rate basis, that the income loss will be reduced by the impact of the agricultural conversion rate on the value of feedingstuffs and on tax payments, since they may be expected to decline as a function of cereal prices, on the one hand, and gross value added on the other. Finally, in accordance with the agreement established under Regulations (EC) No 1527/95 and (EC) No 2990/95, a deduction is applied for budgetary reasons, in particular to contribute to financing the freeze on agricultural conversion rates for the amounts referred to in Article 7 of Regulation (EEC) No 3813/92.

The provisions of this Regulation will help to prevent the main adverse effects of currency revaluations on farm incomes, while limiting the risk of possible problems when national currencies are phased out. It will provide optimum protection for the financial interests of the Community, without leading to discrimination between Member States. It should be regarded as a transitional stage pending reform and simplification of the agri-monetary arrangements that will be possible after the introduction of the euro on 1 January 1999.

COUNCIL REGULATION (EC) No ..../97

of ....

determining measures and compensation relating to appreciable revaluations that affect farm incomes

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the proposal from the Commission,

Having regard to 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 policy,[2] and in particular Article 9 thereof,

Whereas appreciable revaluations have occurred for the Irish pound, the pound sterling and the Italian lira; whereas it is necessary to take steps at Community level to prevent distortions in the implementation of the common agricultural policy due to monetary causes;

Whereas Article 9 of Regulation (EEC) No 3813/92 provides for the Council to take all necessary measures in the event of an appreciable revaluation, which, primarily to comply with obligations under the GATT Agreement and budgetary discipline, may involve derogations from the provisions of the said Regulation concerning aid and the amount by which the monetary gaps are dismantled, without, however, resulting in the threshold being extended; whereas the measures provided for in Articles 7 and 8 of the said Regulation cannot be applied as they stand;

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[2] OJ L 387, 31.12.1992, p.1; last amended by Regulation (EC) No 150/95 (OJ L 22, 31.1.1995, p.1).

Whereas compensation for appreciable reductions in the agricultural conversion rates before 1 January 1997 was regulated by Council Regulations (EC) No 1527/95[3] and (EC) No 2990/95[4]; whereas equality of treatment requires that new cases should be dealt with in the same way, while taking account of experience; whereas on the basis of the information available it is impossible to know what the situation will be for more than twelve months ahead;

Whereas problems could arise, in particular upon the introduction of the euro, if the conversion rates applicable to the amounts referred to in Article 7 of Regulation (EEC) No 3813/92 were maintained until 1 January 1999, the planned date for the implementation of the third stage of Economic and Monetary Union; whereas the monetary gap for the agricultural conversion rate applicable to the amounts in question should consequently be limited;

Whereas the rules for granting compensatory aid should be amplified on the basis of experience; whereas the amplification should involve taking account of currency developments in the months following appreciable revaluation, and introducing an amount per holding below which the grant of aid makes little economic sense;

Whereas the amount of compensatory aid should be established in each case as a function of the latest known economic and financial data; whereas this amount should be determined by the Commission by the management committee procedure, as a function of the methods devised and applied under Council Regulations (EC) No 1527/95 and (EC) No 2990/95; whereas these methods lead to calculation, on a flat-rate basis, of a forward estimate of annual income loss related to the appreciable revaluation, with a deduction for budgetary purposes;

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3 OJ L 148, 30.6.1995, p.1.

4 OJ L 312, 23.12.1995, p.1; amended by Regulation (EC) No 1451/96 (OJ L 187, 26.7.1996, p.1).

Whereas the appreciable revaluation of the Irish pound on 8 November 1996 did not lead to the granting of compensatory aid; whereas aid should be authorized in this case in accordance with the conditions of this Regulation,

HAS ADOPTED THIS REGULATION:

Article 1

1. This Regulation shall apply in the event of appreciable revaluations occurring from 1 January 1997 until the end of the twelfth month following that of its publication.

2. For the purposes of this Regulation, an appreciable revaluation shall mean a reduction in the agricultural conversion rate leading to the application of Articles 7 and 8 of Regulation (EEC) No 3813/92, and any other reduction as defined in Article 1(e) of that Regulation.

3. The appreciable revaluation shall be deemed to have occurred:

   - where applicable, on the date of the appreciable reduction in the agricultural conversion rate, as defined in Article 1(e) of Regulation (EEC) No 3813/92, or

   - in other cases, on the earliest date on which all the conditions for applying Articles 7 or 8 of Regulation (EEC) No 3813/92, with the exception of the request from the Member State concerned, are fulfilled.

Article 2

Articles 7 and 8 of Regulation (EEC) No 3813/92 shall not be applicable in cases of revaluation as referred to in Article 1.

Article 3

1. The agricultural conversion rate applied to one of the amounts referred to in Article 7 of Regulation (EEC) No 3813/92, on the day preceding that on which the conditions for applying that Article are fulfilled, except for the request from the Member State concerned, shall remain unchanged until 1 January 1999.

   However, without prejudice to Article 3 of Regulation (EC) No 1527/95 or to Article 3 of Regulation (EC) No 2990/95, in cases where the agricultural conversion rate referred to in the first subparagraph exceeds by more than 7% the agricultural conversion rate it replaces, the rate applied until 1 January 1999 shall be the rate replaced increased by 7%.

2. The agricultural conversion rate referred to in paragraph 1 shall apply to the amount in question and to any additions or changes to the value of that amount decided before 2 January 1999.

Article 4

1. The Member State affected may make compensatory payments to farmers in three successive tranches lasting twelve months each, starting with the month following the appreciable revaluation.

   These compensatory payments shall not take the form of aid linked to production, other than production during a stipulated period prior to introduction of the compensation scheme; they shall not favour any particular type of production or be dependent on production subsequent to the period stipulated.

2. The maximum amount of the first tranche of compensatory aid shall be established, for the Member State concerned as a whole, by multiplying:

- the appreciable part of the revaluation, as a percentage, determined in accordance with Article 5

by

- the flat-rate income loss for each percentage point of appreciable revaluation, determined in accordance with Article 6.

To the sum resulting from these calculations shall be added the part of the aid referred to in Article 7 of Regulation (EEC) No 3813/92 for which the agricultural conversion rate has been reduced in accordance with Article 3.

3. The maximum amount referred to in paragraph 2 shall be reduced or cancelled if necessary as a function of the effect on income of the development of agricultural conversion rates until the end of the sixth month following that of the appreciable revaluation.

However, no aid shall be granted when the amount calculated in accordance with paragraph 2 and the first subparagraph of this paragraph corresponds to an average of less than ECU 150 per agricultural holding in the Member State concerned.

4. The amounts paid out under the second and third tranches shall each be reduced, vis-à-vis the previous tranche, by at least a third of the amount paid out in the first tranche.

The amounts paid out under the second and third tranches of compensatory aid shall be reduced or cancelled as a function of the effect on incomes of the development of agricultural conversion rates until the beginning of the month preceding the first month of the relevant tranche.

5. The Community contribution to financing these compensatory payments shall be 50 % of the amounts that may be paid out.

For the purposes of the financing of the common agricultural policy, this contribution shall be considered to form part of the assistance designed to regularize agricultural markets. The Member State may withdraw from national participation in financing the aid.

Article 5

1. The appreciable part of the revaluation, expressed as a percentage, referred to in the first indent of Article 4(2) shall:

(a) in cases of appreciable reduction of the agricultural conversion rate within the meaning of Article 1(e) of Regulation (EEC) No 3813/92, be equal to the difference between, on the one hand, the threshold beyond which a reduction becomes appreciable and, on the other, the new agricultural conversion rate, expressed as a percentage of that threshold;

(b) in other cases, be equal to the average, over the twelve months following that of the appreciable reduction, of the reductions in average agricultural conversion rates below the thresholds triggering the possible application of Article 8 of Regulation (EEC) No 3813/92; such reductions shall be established on the first day of each month, and expressed as a percentage of the said thresholds.

2. Where several successive appreciable revaluations occur, the reductions in the agricultural conversion rates taken into account for determining the appreciable part leading to the grant of aid may not be taken into account more than once.

Article 6

1. The flat-rate income loss referred to in the second indent of Article 4(2) shall be equal to:

(a) the sum of 1%:

- of final agricultural production of cereals including rice, sugar beet, milk and milk products and beef and veal,

and

- of the value of the quantities of products supplied under a contract imposing, in accordance with Community rules, a minimum price to the producer, for products not referred to in the first indent,

and

- of aid or premiums paid to farmers, with the exception of those referred to in Article 7 of Regulation (EEC) No 3813/92;

(b) after subtraction of:

- 0.5% of the value of intermediate consumption in the form of animal feed,

and

- the impact on tax of the reduction in gross value added at market prices resulting from the operations concerning point (a) and the first indent of point (b),

and

- a deduction corresponding to 1% of forecast EAGGF expenditure on the following items:

- the full amount of flat-rate per hectare aid,
- half the amount of structural or environmental aid, and
- 130% of ewe premiums.

2. The amounts referred to in the second and third indents of paragraph 1(a) shall not be taken into account when their sum is less than 0.01% of the final agricultural production of the relevant Member State in the product sector concerned.

For the purposes of this Regulation, the product sectors shall be those set out in the Annex.

3. The flat-rate income loss shall be determined on the basis of information relating to:

(a) economic accounts for agriculture available from Eurostat for the last calendar year ending before the date of the appreciable revaluation, for the first indent of paragraph 1(a) and the first and second indents of paragraph 1(b);

(b) the budget outturn, or, failing that, the budgets or draft budgets or preliminary draft budgets relating to:

- income for the year referred to in (a), for the second and third indents of paragraph 1(a),

- the budget year beginning during the marketing year for cereals in which the appreciable revaluation occurred, for the third indent of paragraph 1(b).

For the purposes of applying paragraph 2 in marginal cases, consideration of the information referred to in point (a) above shall take account of the relevant figures for the preceding two years also.

The increase referred to in the second indent of Article 4(2) shall be calculated as a function of the data referred to in the first indent of point (b) above.

Article 7

The Commission shall, in accordance with the procedure laid down in Article 12 of Regulation (EEC) No 3813/92, adopt detailed rules for applying this Regulation, and in particular the amounts of the aid tranches referred to in Article 4 and the factors for calculating them referred to in Articles 5 and 6.

Article 8

Before the end of the third period during which the compensatory aid is granted, the Commission shall examine the effects on agricultural income of the appreciable revaluation concerned.

Where it is found that income losses are likely to continue, the Commission may, in accordance with the procedure laid down in Article 12 of Regulation (EEC) No 3813/92, extend the possibility of granting compensatory aid as provided for in Article 4 by a maximum of two additional 12-month tranches, the maximum amount per tranche being equal to that granted in the third tranche.

Article 9

This Regulation shall enter into force on the seventh day following its publication in the *Official Journal of the European Communities*.

Articles 4 to 8 shall apply to the reduction in the agricultural conversion rate of the Irish pound that occurred on 8 November 1996.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, For the Council

ANNEX

The production sectors correspond to the statistical aggregates identified in the economic accounts for agriculture, drawn up by Eurostat, or to groups of aggregates, as listed below:

1. Cereals and rice
2. Sugar beet
3. Milk and milk products
4. Beef and veal
5. Oilseeds and olive oil
6. Fresh fruit
7. Fresh vegetables
8. Potatoes
9. Wines and musts
10. Flowers and nursery plants
11. Pigmeat
12. Sheepmeat and goatmeat
13. Eggs and poultry
14. Other

FINANCIAL STATEMENT

1. BUDGET HEADING:390 APPROPRIATIONS:ECU 140.9 m

2. TITLE:Council Regulation determining measures and compensation relating to appreciable revaluations that affect farm incomes

3. LEGAL BASIS: Article 9 of Regulation 3813/92

4. AIMS OF PROJECT:To define measures and degressive aid financed from the Community Budget to offset loss of farm income following a decline in the agricultural conversion rate

5.	FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS	CURRENT FINANCIAL YEAR (97)	FOLLOWING FINANCIAL YEAR (98)
5.0.	EXPENDITURE - CHARGED TO THE EC BUDGET (~~REFUNDS~~/INTERVENTION) - ~~NATIONAL ADMINISTRATION~~ ~~-OTHER~~		263	369
5.1.	~~REVENUE~~ ~~-OWN RESOURCES OF THE EC~~ ~~-(LEVIES/CUSTOMS DUTIES)~~ ~~-NATIONAL~~			

		1999	2000	2001	2002
5.0.1.	ESTIMATED EXPENDITURE	306			
5.1.1.	~~ESTIMATED REVENUE~~				

5.2. METHOD OF CALCULATION:

6.0. CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET? ~~YES~~/NO

6.1. CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET? ~~YES~~/NO*

6.2. IS A SUPPLEMENTARY BUDGET NECESSARY? ~~YES/NO~~

6.3. WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY? YES/~~NO~~

OBSERVATIONS: The lack of appropriations is due to the abatement of ECU 1 000 million in the draft Budget for 1997. If sufficient global appropriations are available under heading 1, the Commission will transfer funds to the relevant headings in this chapter.

If global appropriations are insufficient, the Commission will propose a SAB to provide the necessary funds, as agreed in the joint declaration of the Council and the Commission of 21 July 1996.

ANNEX

Measures have become necessary as a consequence of recent revaluations of the Irish pound, the pound sterling and the Italian lira.

The proposed measure avoids the application of Articles 7 and 8 of Regulation 3813/92, which could have a financial impact on the budget in 1998 and subsequent years of the order of ECU 1 800 million.

The cost of the measure is based on the monetary situation on 21.1.1997.

The maximum amounts of compensatory aid were established on the basis of the latest forecasts available at the time.

Cost of the measure (ECU million)

	IRL	UK	IT	TOTAL
1997				
- Compensatory aid	62	104	97	263
1998				
- Compensatory aid	41	69	65	175
- freeze on green rate	-	143	51	194
TOTAL	41	212	116	369
1999				
- Compensatory aid	21	35	32	88
- freeze on green rate	-	167	51	218
TOTAL	21	202	83	306

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