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Proposal for a

COUNCIL REGULATION (EC)

establishing agrimonetary arrangements for the euro

Proposal for a

COUNCIL REGULATION (EC)

on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro

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(presented by the Commission)

EXPLANATORY MEMORANDUM

A. GENERAL ANALYSIS OF AGRIMONETARY ARRANGEMENTS

1. SPECIFIC MONETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY

In all economic sectors, the effects of currency variations on national markets are amplified as a function of the volume of trade, and deferred as a function of the volume of stocks.

In addition to the effects induced by trade, agriculture has experienced specific currency problems for almost 30 years, since the breakdown of the Bretton Woods agreements, which had ensured stable exchange rates.

Pursuant to Article 40(3) of the Treaty on European Union, the price policy pursued under the common agricultural policy (CAP) is "based on common criteria and uniform methods of calculation". To this end, prices and amounts are fixed in a common unit of account, which has been known since 1979 as the ecu. These institutional prices and amounts must be converted into national currencies, at least for payment to recipients.

When currency movements occur, the value in national currency of the agricultural prices and amounts fixed in ecus changes immediately and in the same proportion as the variations in the conversion rates. At national level, these specifically agricultural currency effects, known as "agrimonetary effects", influence market prices and farm incomes more or less directly, depending on how closely those prices and incomes are linked to the prices and amounts fixed in ecus.

Currency appreciation tends to lead to a reduction in the conversion rate of the ecu, as well as in prices and amounts - and therefore farm incomes - in national currency in the Member State concerned, while general consumer price inflation continues. Depreciation tends to lead to an increase in those rates, prices and incomes in national currency, which rise faster, and often further, than inflation.

2. THE DEVELOPMENT OF AGRIMONETARY EFFECTS

Before the 1992 reform of the CAP, institutional prices and amounts almost always guided market prices for almost half of agricultural production, on average. In certain sensitive sectors, in particular cereals, sugar, beef and veal and milk products, market prices developed virtually in line with institutional prices converted into national currency. Direct aid to producers was fairly limited, but concentrated on a few sectors such as olive oil.

Since the 1992 CAP reform, the share of total output that may be affected has remained at 50% or so, but the specifically agricultural monetary effects have changed. In the first place, the impact of conversion rates on market prices is much more variable, depending on market situations and the extent of the currency movement. Where market prices substantially exceeded intervention prices, which was the case in several sensitive sectors over fairly long periods, market prices did not react to small changes in the conversion rates. Secondly, direct aid to producers has become significant in many sectors, where it represents a substantial share of farm incomes.

Thus, as the CAP has developed, agrimonetary effects on market prices and consequently on incomes have become less systematic, and therefore weaker on the whole. However, when market prices are low, and directly influenced by institutional prices, the effects in a given sector may be considerable. In all cases, agrimonetary effects subsist, at least through the intermediary of direct aid to producers.

3. AGRIMONETARY ARRANGEMENTS

A number of successive agrimonetary schemes have been introduced to deal with the specifically agricultural monetary problems. The basic principle of all these schemes has been to slow down the process whereby the effects of currency developments are passed on to the farming sector. This helps to avoid cyclical fluctuation, and gives production costs time to adapt to more lasting monetary trends. This objective involves constraints relating to the need to avoid distortion of trade flows, loss of income and EU budget costs due to agrimonetary factors.

Until 1992, the system of monetary compensatory amounts was based on agricultural conversion rates that were fixed for a long period, usually a year. Monetary compensatory amounts were paid or collected on trade in sensitive products, as a function of the gap between agricultural conversion rates and the rates obtaining on the financial markets.

Since 1993, in view of the impossibility of monitoring products traded in the single market, the arrangements are based on agricultural conversion rates which follow daily ecu rates, within certain limits. Longer adjustment periods and larger gaps are authorised in cases of currency appreciation than in cases of depreciation. When a currency revaluation leads to an appreciable reduction in the agricultural conversion rate, and thus to CAP prices and amounts expressed in national currency, temporary aid may be granted to offset the loss of income to farmers.

These agrimonetary schemes have had mixed success. On the one hand, it has been possible to continue to base the CAP on the principle of common prices and amounts, while limiting the distortion of trade or loss of income which the common organisation of markets would have produced in combination with the development of daily rates. On the other, all the agrimonetary schemes have been very costly to the Community budget, and have gradually accrued layer upon layer of highly complex rules.

The “green ecu” machinery, introduced in 1984 and discontinued in 1995, involved increasing prices and amounts in ecus so as to offset declines in the agricultural conversion rates of certain currencies. This led to a permanent cost of about ECU 8 000 million a year for the EAGGF, a kind of financial inheritance from the agrimonetary problems encountered before 1995.

The present agrimonetary arrangements generate extra costs of between ECU 1 000 million and ECU 1 500 million a year, mainly because of the authorised monetary gaps, which encourage agricultural conversion rates to remain higher than the observed market rates. In particular, the arrangements include agricultural conversion rates whose value is frozen until 1 January 1999 for most of the direct aid to producers.

The present arrangements also involve compensation for losses caused by appreciable revaluation. Assessing such losses is not an easy matter, even in flat-rate terms, because compensatory aid needs to be paid straight away, before the actual losses can be duly declared and analysed. The present arrangements are very finely balanced on a set of gradually incorporated and increasingly complicated technical rules.

4. AGRICULTURAL BACKGROUND TO THE INTRODUCTION OF THE EURO

The introduction of the euro on 1 January 1999 will be a major change, which would eliminate the agrimonetary problem at a stroke if it covered the whole of the European Union. For the Member States which adopt the euro, it will no longer be necessary to convert common prices and amounts for payment to payees. There will no longer be any risk of agrimonetary market distortion between the Member States, or of fluctuations in farm incomes due to the conversion of common prices and amounts into the currency of payment. Consequently, measures to guard against these risks or offset their effects can be repealed, which will relieve pressure on the Community budget. In the other Member States, however, it will still be necessary to convert CAP prices and amounts fixed in euros, before the money can be used nationally.

In view of the aims and thrust of the economic and monetary policy laid down in the Treaty on European Union, the euro will encourage price stability, and should therefore be regarded as a strong currency. The national currencies of present or future Member States not participating in the euro may, however, appreciate or depreciate against the euro at longer or shorter intervals. Currency movements might even be wider than those recorded against the ecu, which is a basket of currencies where variations in participant currencies are cushioned.

Consequently, if the CAP prices and amounts continue to be fixed in euros, a currency that will replace the common unit of account for the non-participant Member States, the specifically agricultural monetary effects will continue to operate. They will be apparent in the present or future Member States that do not adopt the euro, and in the trade of these Member States with each other or with Member States that do use the euro.

However, the effects will be different and less marked than previously. First, the number and overall economic importance of the national currencies likely to cause problems will be considerably reduced. Secondly, the future thrust of the CAP should further weaken the agrimonetary effects related to market prices, or restrict the circumstances in which such effects occur, and on the other hand increase the agrimonetary impact of direct aid to producers.

5. TRANSITIONAL MEASURES

The introduction of the euro will involve a general transitional stage, to be completed on 1 January 2002. During the transitional stage, payments denominated in national currencies will be deemed to have been made in a non-decimal subunit of the euro bearing the same name as the national currency.

The changeover from the present agrimonetary arrangements to the new arrangements for agriculture after 1 January 1999, i.e. direct use of the euro in certain Member States and the application of new rules for currency conversion in the others, will also require transitional measures.

First, legal continuity will need to be guaranteed for rights acquired in national currency before 1 January 1999 in the Member States that adopt the euro. When such rights lead to settlements after 1 January 1999, they may be settled in national currency or in euros, at the par values defined by the euro conversion rate. This means, in particular, that payments after 1 January 1999 in respect of prices or amounts in ecus relating to an operative event for the agricultural conversion rate occurring before that date will be made at the level originally agreed in national currency.

Consequently, for a few months after 1 January 1999, certain CAP prices and amounts paid to recipients will still correspond, as they have for over 30 years, to values in a common unit of account that differ from one Member State to another.

As time goes on, the divergence will eventually fade away. In view of existing operative events, over 80% of the effects on EAGGF expenditure for the Member States concerned will be cancelled out after one year. Therefore except in the fairly rare cases where final payments are very late, for example for multi-annual works, which are often structural operations spread over five years, there should be no more disparities in euros after the transitional stage of introduction of the euro, which ends on 1 January 2002.

There will be a disparity, for all the Member States, between the agricultural conversion rates applicable on 31 December 1998 on the one hand, and the euro conversion rate or the rates applicable under new agrimonetary arrangements on 1 January 1999 on the other.

There will be several different levels of disparity for the same currency, because of the effects of operative events and freezes decided for certain agricultural conversion rates applicable for most direct aid to farmers. In view of the rules in the present agrimonetary arrangements, the new rates will usually be lower. Thus the dismantling of disparities will often involve a reduction in CAP prices and amounts in national currency.

The consequences of this dismantling on the markets and on farm incomes will depend, as mentioned above, on the type of amount concerned. The measures taken to deal with transition to the euro therefore need to be consistent with the measures planned in the longer term to deal with the agrimonetary problems due to the continued existence of certain national currencies.

B. PROPOSED MEASURES

The legislation governing the agrimonetary system basically comprises 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, and Council Regulation (EC) No 724/97 of 22 April 1997 determining measures and compensation relating to appreciable revaluations that affect farm incomes.

It is proposed to repeal these two Regulations, and to replace them with a single Regulation establishing the agrimonetary arrangements for the euro.

Another Regulation will also be needed to govern the transition from the present arrangements to the new arrangements.

It is, of course, possible that the new arrangements may need to be adapted when the Union is enlarged, but this cannot be done until the conditions for accession have become clear.

In the shorter term, they must take account of the outcome of discussions on Agenda 2000.

The general approach adopted for these proposals is based first on the principle that 1 euro will be worth ECU 1 on 1 January 1999, and secondly on the present situation of the various exchange rates for the currencies in relation to their announced bilateral parity and in relation to their agricultural conversion rate.

Monetary gaps are narrow at present, a helpful circumstance for the introduction of agrimonetary arrangements which are much <u>closer to the reality of the monetary situation</u>.

The argument in favour of the earlier system, that it brought some stability into the CAP framework against a background of sometimes very turbulent currency movements, is no longer as telling as it was. Experience has shown that the agrimonetary arrangements could lead to fairly frequent changes in conversion rates, which did not cause practical difficulties. It may well be that the persistence of monetary gaps between the green rate and the real exchange rate, with practical advantages that were growing less obvious, was actually a factor of distortion.

A further consideration is the effect of the development of the common agricultural policy, with the declining importance of classic intervention mechanisms leading to a decline in the impact of institutional prices on farm incomes, and a corresponding increase in the impact of direct aid.

All these factors create a favourable background for the introduction of a major simplification: discontinuing the specific agricultural conversion rate and generalising the use of the market exchange rate, i.e. the rate irrevocably fixed for the Member States participating in the euro, and the rate obtaining on the date of the operative event for the other Member States. This does away with the cumbersome system of asymmetrical margins, and reference and confirmation periods.

With this simplified approach, devaluations of the national currencies of the non-participant Member States will be good for farm incomes. However, the negative impact of revaluations calls for special treatment. Compensatory aid will be needed to cushion the effects of revaluation on incomes.

Separate arrangements will be needed for compensation when the amount involved consists in direct aid, and when it consists in prices or in other aid. The reason for making the distinction is that the impact of revaluation on income can be calculated with accuracy and certainty in the case of direct aid, but not in that of prices or of other aid.

The second proposal for a Regulation refers to the dismantling of monetary gaps on 1 January; the approach adopted involves treating all these gaps in the same way, whether or not the Member State concerned is a participant in the euro. The arrangements for compensation will be very close to those provided for under present rules, for the application of new rates on 1 January can be analysed in technical and economic terms as the last in a series of changes to the green rate. The compensation should be gradually phased out, so as not to sustain factors distorting competition between and within Member States.

In budgetary terms, these arrangements represent a considerable reduction in the cost of the agrimonetary system, since only four Member States will be subject to currency fluctuations, and most of the effect of the dual rate, which represents a cost of 600 MECU in the preliminary draft budget 1999, (i.e. the increase in CAP expenditure due to positive monetary gaps) will disappear. Moreover, the new arrangements for part-financing will be more conducive to budget savings than the present arrangements, and thus will contribute to budgetary discipline.

In commercial terms, taking account of the market exchange rate eliminates the risk of deflection of trade and distortion of competition that may result from the existence of artificial conversion rates.

Detailed remarks on the proposed arrangements are given below.

<u>Proposal for a Regulation establishing agrimonetary arrangements for the euro</u>

<u>Article 1</u> (definitions)

The purpose of this Article is to define usual terms so as to avoid a cumbersome, repetitive text, and also to define important concepts in the machinery proposed.

The idea of the "green rate" disappears, not only for the participating countries, but also for the Member States that do not take part; for the latter, it is replaced by the exchange rate.

For the first time since 1969, there is no specific agricultural conversion rate. Of course, it will still be necessary to apply a rate different from that obtaining on the day of payment (for non-participants), because the principle of the operative event is retained; but the rate applied is that observed on the exchange markets, not a *sui generis* rate decided by the authorities. This represents considerable progress towards a CAP that is simpler and closer to the reality of the market.

The concept of "appreciable revaluation" has been adapted to the new situation. The present definition is based on the observation that revaluation of the green rate occurs on a given date, and the revaluation is compared to the levels of green rates over the preceding three years. In the new system, there is no given date for appreciable revaluation that would trigger examination of developments over the previous three years. There is no decision on revaluation (no rate is fixed by the authorities), but developments are kept under observation. Consequently, the present definition of an appreciable revaluation cannot be retained. The proposal suggests comparing each year the average exchange rate observed over year n with the exchange rate on 1 January 1999 and the averages for years n-1, n-2 and n-3, and calculating the appreciable part of the revaluation as a function of the difference between the average for year n and the lowest of the exchange rates on 1 January 1999 and of the three averages n-1, n-2 and n-3. This system is much simpler and easier to understand than the present system.

Article 2 (conversion rates)

Conversion of amounts expressed in euros into the national currency unit of a Member State participating in the euro will be done at the fixed and irrevocable parity that will not be known until 1 January 1999.

For the Member States that do not participate, the rate of exchange between the euro and national currency will be used.

As there will no longer be a conversion rate fixed by the authorities, the system of permitted margins and exceptional three-day periods will be discontinued.

For import charges, the customs rate will be used.

Article 3 (operative events)

The present definition of operative events is retained. Of course, different definitions can still be adopted in the context of specific sectoral rules.

The prefixing of the conversion rate is not retained. That possibility was justified mainly by the fact that the agricultural conversion rate was subject to sudden and sometimes wide variations, which were artificially concentrated on a single day. With the new system, the variations are those of the foreign exchange markets. The proposed new agrimonetary system, designed to be as close as possible to market reality thanks to the new principle of conversion at the market rate, justifies abandoning prefixing of conversion rates. However, operators may take precautions, as in other economic sectors, by means of the hedging mechanisms available through the banks.

Article 4 (compensatory aid in cases of appreciable revaluation)

This Article does not apply to direct aid, which is covered by Article 5, but only to other aid and to prices.

This provision introduces into the basic Regulation the machinery for compensation in cases of appreciable revaluation that was previously governed by Council Regulation (EC) No 724/97. Thus a derogation becomes a basic provision.

However, a number of adjustments are required, to simplify the machinery, and can be introduced thanks to the revised definition of an appreciable revaluation. In particular, the period of observation can correspond to the one-year period used for the calculation of the appreciable revaluation; there will no longer be situations where several appreciable revaluations occur successively.

The criteria for taking account of the market situation may be amended by the Management Committee procedure.

The present permitted margin of 2.6% is retained.

Article 5 (direct aid)

In principle, the operative event for direct aid is a single date for the whole farming year; consequently, it is possible that the rate of exchange to be applied in a given year may be lower than that for the previous year. In this case, compensatory aid can be paid, according to the calculation method introduced by Regulation No 724/97.

However, if the new rate of exchange is higher than the rate of exchange applied 24 months previously, this article would not apply. This provision reproduces a provision of Council Regulation (EEC) No 3813/92. Moreover, no aid would be granted if it would correspond to a revaluation of less than 0.5%.

Article 6 (part-financing)

The basic rule is still, as at present, that the EAGGF contributes 50% to the financing of agrimonetary aid.

However, the present rules also provide that the national share is optional. Several Member States have taken advantage of this option.

In the Commission's view, as the Member State is allowed but not required to pay agrimonetary aid, and as it is also allowed to pay the aid in part, the saving to the budget resulting from the decision not to grant the aid in full may legitimately be shared between the Community and the national budgets. Consequently, the EAGGF will contribute 50% to actual expenditure, which is more in line with usual practice under part-financing arrangements.

However, for direct aid (unlike other aid and prices), the impact of a decline in rates on farm incomes can be precisely calculated, and farmers are fully aware of changes in the level of aid. The importance of this type of aid in relation to traditional support mechanisms is set to increase in the common agricultural policy. For these reasons, the Commission is proposing optional national part-financing to facilitate the granting of agrimonetary aid in the especially sensitive area of direct aid.

Article 7 (safeguard measures)

This Article merely reproduces existing provisions.

Article 8 (direct payment in euros)

It is to be expected that the paying agencies in the non-participating Member States will make payments (or collect levies) in national currency.

However, provision needs to be made for the case where a non-participating Member State decides to make payments or collect levies in euros, in so far as it may do so under national legislation.

On the one hand, the use of the euro by the non-participating Member States should not be discouraged; but on the other, the use of the euro should not give non-participating Member States an advantage over participating Member States.

Consequently, the Member State must notify the Commission, for approval, of the measures taken to ensure that the value in national currency of the amounts paid or collected in euros is not more advantageous for the payee or the payer than if payment had been made in national currency.

Article 9 (implementation)

Implementation will involve the so-called Management Committee procedure.

Article 10 (transitional measures)

As usual when new arrangements are introduced, the Commission would be entitled to adopt transitional measures in accordance with the Management Committee procedure.

These transitional measures should not be confused with the transitional measures for the introduction of the euro, to be adopted by the Council, which are covered by the proposal below.

Earlier arrangements are repealed.

However, to avoid having to amend all the instruments that refer to the agricultural conversion rate, it is specified that references to the agricultural conversion rate should be understood to refer to the parity between the euro and the national unit or national currency from 1 January 1999. There is a similar provision for the representative market rate.

Article 11 (entry into force)

The Regulation will be applicable from 1 January 1999, but will enter into force on the seventh day following its publication. The provisions on compensatory aid will cease to apply after 31 December 2001, given that the agricultural sector must eventually adapt to monetary reality, like the rest of the economy.

Annex

In order to simplify the body of the text, the method of calculating aid, which was incorporated into Regulation No 724/97, is appended as an annex. The only change is the presentation.

<u>Proposal for a Regulation on the transitional measures for the introduction of the euro into the common agricultural policy</u>

<u>Article 1</u> (definitions)

Notwithstanding the provisions of the Regulation dealt with above, the present definition of an appreciable revaluation can be kept unchanged, since the reasons that make it inapplicable under the new arrangements are not relevant (see the comments on Article 1 of the preceding proposal).

<u>Article 2</u> (appreciable revaluation)

A decline in the conversion rate due to the changeover to the euro will be treated as a revaluation in the agrimonetary arrangements for the euro if it is appreciable.

<u>Article 3</u> (direct aid)

For direct aid, where operative events occur in 1999, if the new conversion rate is lower than that applied previously, compensation will be calculated in accordance with Article 5 of the basic Regulation. However, the first year, it will be financed in full by the Community budget.

For the following years, in order to make the system more adaptable to developments in the monetary situation and the common agricultural policy, the proposal provides that the compensation system in the basic arrangements will apply, but the Council may adapt it, as long as the principle of degressive compensation is respected.

<u>Article 4</u> (implementation)

Implementation will involve the so-called Management Committee procedure.

<u>Article 5</u> (entry into force)

The Regulation will be applicable from 1 January 1999, but will enter into force on the seventh day following its publication.

These two proposals need to come into force before 1 January 1999.

Proposal for

COUNCIL REGULATION (EC) No

98/ 0214(CNS)

of

establishing agrimonetary arrangements for the euro

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Having regard to the opinion of the Monetary Committee,

Whereas Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro[1] provides that from 1 January 1999 the currency of the Member States participating in economic and monetary union shall be the euro; whereas the agrimonetary arrangements provided for on the basis 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 policy[2]
- Council Regulation (EC) No 724/97 of 22 April 1997 determining measures and compensation relating to appreciable revaluations that affect farm incomes[3]

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1 OJ L 139, 11.5.1998, p. 1.
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).
3 OJ L 108, 25.4.1997, p.9. Amended by Regulation (EC) No 942/98 (OJ L 132, 6.5.1998, p.1).

essentially consist in a system of specific agricultural conversion rates different from the actual exchange rates of the currencies; whereas such a system is incompatible with the introduction of the euro; whereas agrimonetary arrangements adapted to the new situation should therefore be established;

Whereas in the present monetary situation, where the gaps between exchange rates and agricultural conversion rates are moderate, it is possible to establish a simpler agrimonetary system closer to the actual monetary situation; whereas consequently the conversion into the national currency of the non-participating Member States prices and amounts fixed in euros in legal instruments relating to the common agricultural policy may be done with the exchange rate of the euro in those currencies; whereas such a provision has the further advantage of considerably simplifying the management of the common agricultural policy;

Whereas the rate of exchange of the euro into national currency may vary in the course of the period during which an operation is carried out; whereas the rate applicable to the amounts concerned must be determined; whereas in general account must be taken of the event through which the economic objective of the operation is attained; whereas the rate of exchange applied should be that of the date on which this event occurs; whereas it may be necessary to specify this operative event or to waive its application, observing certain criteria and in particular the rapidity with which currency movements are passed on;

Whereas, in cases of major currency revaluation with potential effects on prices and amounts other than direct aid, farm incomes may in certain conditions be reduced; whereas as a consequence provision could justifiably be made for temporary, degressive aid to offset the effects of revaluations, and keep pace with the development of agricultural prices in a manner compatible with the rules of the general economy;

Whereas specific rules adapted to the type of aid are required to offset the effects of major currency revaluations on the level of certain direct aids in national currency;

Whereas the arrangements for financing compensatory aid must foresee a financial contribution from the European Union and the Member State;

Whereas in the longer term the agricultural sector must adjust, like other sectors of the economy, to the monetary reality; whereas consequently a cut-off date should be set for

[redacted]

the compensation arrangements; the setting of such a cut-off date is part of the budgetary discipline.

Whereas reason dictates that special rules be laid down for dealing with exceptional situations arising either within the European Union or on the world market and requiring immediate action to ensure that the arrangements established under the common agricultural policy operate effectively;

Whereas a Member State that is not participating in economic and monetary union must have the option of making payments for expenditure resulting from legal instruments relating to the common agricultural policy in euros rather than in national currency; whereas steps should be taken to ensure that this option does not lead to any unjustified advantage for parties making or receiving payment;

Whereas provision should be made for the possibility of interim measures to facilitate the introduction of the new agrimonetary arrangements,

HAS ADOPTED THIS REGULATION:

<u>Article 1</u>

For the purposes of this Regulation:

(a) 'legal instruments relating to the common agricultural policy' means:

- legal instruments based directly or indirectly on Article 43 of the Treaty, with the exception of the Common Customs Tariff and other legal instruments of customs legislation applicable to both agricultural and industrial products,

- legal instruments applicable to goods processed from agricultural products and subject to specific trade arrangements;

(b) 'participating Member States' means: the Member States which have adopted the single currency in accordance with the Treaty;

(c) 'non-participating Member States' means: the Member States which have not adopted the single currency;

[redacted]

(d) 'national currencies' means: the national currencies of the non-participating Member States and of third countries;

(e) 'exchange rate' means: the currency market exchange rate between the euro and national currency published in the Official Journal of the European Communities;

(f) 'appreciable revaluation' means: a situation where the annual average exchange rate is below a threshold defined as the lowest average annual exchange rate of the preceding three years and the exchange rate of 1st January 1999;

(g) 'appreciable part of a revaluation' means: the percentage by which the annual average falls short of the threshold referred to in point (f).

Article 2

1. Prices and amounts fixed in legal instruments relating to the common agricultural policy shall be expressed in euros.

2. They shall be granted or collected in euros in the participating Member States. In the other Member States, they shall be converted into their national currency by means of an exchange rate, and, without prejudice to Article 8, granted or collected in national currency.

3. However, for amounts relating to imports and for export taxes, fixed in euros by a legal instrument relating to the common agricultural policy and applicable by the Member States in national currency, the conversion rate shall be specifically equal to the rate applicable pursuant to Article 18(1) of Regulation (EEC) No 2913/92[4].

Article 3

1. The operative event for the exchange rate shall be:

- the completion of customs import or export formalities in the case of amounts collected or granted in trade with third countries,

- the event whereby the economic objective of the operation is attained in all other cases.

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[4] OJ L 302, 19.10.1992, p. 1

[redacted]

2. Where the operative event as referred to in paragraph 1 has to be specified or cannot be taken into account for reasons peculiar to the market organisation or the amount in question, a specific operative event shall be determined in accordance with the procedure laid down in Article 9, taking account of the following criteria:

   (a) actual applicability as soon as possible of adjustments to the exchange rate;

   (b) similarity of the operative events for analogous operations carried out under different market organisations;

   (c) coherence in the operative events for the various prices and amounts relating to a single market organisation;

   (d) practicability and effectiveness of checks on the application of suitable exchange rates.

Article 4

1. For prices and amounts other than those referred to in Article 5, the Member State may grant compensatory aid to farmers in cases of appreciable revaluation. The payments shall be made in three successive tranches lasting twelve months each, starting in March following the month of the appreciable revaluation.

   These compensatory payments shall not take the form of aid linked to production, other than production during a stipulated, prior period. 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, in accordance with the procedure laid down in Article 9, by multiplying the appreciable part of the revaluation by the flat-rate income loss determined in accordance with paragraphs 1 to 3 of Annex.

3. The maximum amount may be reduced or cancelled if necessary, taking account of the market situation observed during the year up to the time of the appreciable revaluation.

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[redacted]

4. No aid shall be granted for the portion of the amount calculated in accordance with paragraph 2 that does not exceed appreciable revaluation of 2.6%.

5. The amounts paid out under the second and third tranches shall each be reduced, vis-à-vis the level of 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 exchange rates recorded until the beginning of the month preceding the first month of the relevant tranche, and taking account of the market situation observed over the same period.

6. The market situation shall be taken into account pursuant to paragraph 3 and the second subparagraph of paragraph 5 in accordance with the following criteria :

   The amount of one or more tranches in one or more sectors may be reduced when it has been observed that :

   (a) over the year during which an appreciable revaluation occurs or over the period between the beginning of the preceding ranche and the beginning of the month preceding the first month of the tranche concerned, the market price for the Member State concerned was on average equal to or higher than the average market prices in the Member States whose currencies had not been appreciably revalued during the same period. Market prices shall be compared using an index of base 100 for market prices in national currency or in euros.

or

   (b) the relation between the dates of operative events in the sector concerned and the date of the appreciable revaluation is such that there is no justification for concluding that the revaluation had an impact throughout the period considered.

   In cases where point (b) is applied, the reduction of at least one third referred to in Article 4(5) shall be calculated on the basis of the amount of the first tranche that would have been granted if point (b) had not been applied.

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[redacted]

These criteria may be amended, in the light of experience, in accordance with the procedure laid down in Article 9.

Article 5

1. In cases where the exchange rate applicable on the date of the operative event for:

- flat-rate aid calculated per hectare or per livestock unit,

or

- a compensatory premium per sheep or goat,

or

- amounts of a structural or environmental nature

is below that applicable previously, the Member State concerned may make compensatory payments to farmers in three successive tranches lasting twelve months each, starting on the date of the operative event.

Compensatory aid must be granted in the form of an addition to the aid, premiums and amounts referred to in the first subparagraph.

2. The maximum amount of the first tranche of compensatory aid shall be established, for the Member State concerned as a whole, in accordance with the procedure laid down in Article 9, in accordance with paragraph 4 of Annex. However, no payment shall be made when this amount corresponds to a revaluation of less than 0.5%.

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

4. The amounts referred to in paragraph 3 shall be reduced or cancelled if necessary as a function of the effect on income of the development of the exchange rates recorded on the first day of the second and third tranches.

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[redacted]

5. The provisions of this Article shall not apply to amounts to which a rate lower than the new rate was applicable during the twenty-four months immediately before the new rate took effect.

Article 6

1. The Community's contribution to financing shall be:

   - 50% of the amounts actually paid for the compensatory aid referred to in Article 4;

   - 50% of the amounts that may be granted for the compensatory aid referred to in Article 5. However, the Member State may withdraw from national participation in financing the aid.

2. For the purposes of the financing of the common agricultural policy, this contribution shall be deemed to be part of intervention intended to stabilise the agricultural markets.

Article 7

1. Where exceptional monetary practices are liable to jeopardise the application of the legal instruments relating to the common agricultural policy, the Commission shall decide upon suitable safeguard measures, which may, where necessary, derogate from the existing legal instruments relating to the common agricultural policy.

   The Council and the Member States shall be notified forthwith of the measures referred to in the first subparagraph.

   Any Member State may refer the Commission's decision to the Council during the three working days following that on which they are notified of safeguard measures.

   The Council, acting by a qualified majority, may take a different decision within one month of notification of the measures in question.

2. Where exceptional monetary practices are liable to jeopardise the application of the legal instruments relating to the common agricultural policy, the Commission may, by virtue of the powers conferred on it by these instruments in each individual case derogate from this Regulation, in particular in the following cases:

- where a country uses abnormal exchange techniques such as multiple exchange rates or operates barter agreements,

- where countries have currencies which are not quoted on official foreign exchange markets or where the trend in such currencies is likely to create distortion in trade.

Article 8

1. If a non-participating Member State decides to pay the expenditure resulting from legal instruments relating to the common agricultural policy in euros rather than in its national currency, the Member State shall take the requisite measures to ensure:

   - that amounts granted in euros are in no case larger when converted into national currency at the rate obtaining on the date of payment than the amount that would have been paid in national currency pursuant to Articles 2 and 3;

   - that amounts collected in euros are in no case smaller when converted into national currency at the rate obtaining on the date of payment than the amount that would have been collected in national currency pursuant to Articles 2 and 3.

2. The Member State shall notify the Commission of the measures planned before they come into effect. The measures may not take effect until the Commission has notified its agreement thereto.

Article 9

Detailed rules for the application of this Regulation shall be adopted in accordance with the procedure laid down in:

(a) Article 23 of Council Regulation (EEC) No 1766/92[5] of 30 June 1992 on the common organisation of the market in cereals

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[5] OJ L 181, 1.73.1992, p. 21

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[redacted]

or

(b) the corresponding articles of the other regulations on the common organisation of the markets in agricultural or fishery products,

or

(c) the corresponding articles of other Community provisions introducing a similar procedure.

Article 10

1. Where transitional measures prove necessary to facilitate the initial application of this Regulation, such measures shall be adopted by the Commission in accordance with the procedure laid down in Article 9 and shall remain applicable for the period strictly necessary to facilitate the introduction of the new arrangements.

2. Regulations (EEC) No 3813/92 and (EEC) No 724/97 are hereby repealed.

3. References to the agricultural conversion rate in legal instruments relating to the common agricultural policy shall be taken from 1 January 1999 to refer to the conversion rate irrevocably fixed by the Council in accordance with Article 109l(4) of the Treaty for national currency units, and the rate referred to in Article 2(2) and, where applicable, Article 2(3) of the present regulation for national currencies.

References to the representative market rate of the ecu in legal instruments relating to the common agricultural policy shall be taken from 1 January 1999 to refer to the rate of exchange of the euro.

References to the compensatory aid provided for in Regulation (EEC) No 3813/92 and Regulation (EC) No 724/97 shall be deemed to be references to Articles 4, 5 and 6 of this Regulation.

References to the operative events provided for in Article 6 of Regulation (EEC) No 3813/92 shall be deemed to be references to Article 3 of this Regulation.

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[redacted]

Article 11

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

It shall apply from 1 January 1999.

Articles 4, 5 and 6 shall only apply to appreciable revaluations having occurred before 1.1. 2002 .

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

Done at Brussels,

For the Council

The President

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[redacted]

ANNEX

1. The flat-rate income loss referred to in 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

and

- of aid or premiums paid to farmers, with the exception of those referred to in Article 5;

(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 preceding indent,

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

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- 130 % of sheepmeat and goatmeat 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 correspond to the statistical aggregates identified in the economic accounts for agriculture, drawn up by Eurostat, or to groups of those aggregates, as listed below:

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

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

(a) the economic accounts for agriculture available from Eurostat for the last calendar year ending before the date of 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.

4. The aid referred to in Article 5 (1) shall be calculated as a function of the data referred to in the first indent of point 3 (b) of the present annex.

98/ 0215(CNS)

Proposal for

COUNCIL REGULATION (EC) No .....

of .....

on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Having regard to the opinion of the Monetary Committee,

Whereas Council Regulation (EEC) No ..... of establishing agrimonetary arrangements for the euro[1] does away with the possibility of fixing specific agricultural conversion rates that are different from the real conversion rates for the currencies;

Whereas the agricultural conversion rates in force at 31 December 1998 pursuant 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] could be different from the conversion rates fixed irrevocably by the Council for the currencies of the participating Member States in accordance with the first sentence of Article 109l(4) of the Treaty and from the real exchange rates applying on 1 January 1999 for non-participating Member States;

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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).

[redacted]

Whereas the disappearance of the agricultural conversion rates on 1 January 1999 may be regarded under certain conditions as an appreciable revaluation; whereas it may accordingly result in a reduction in agricultural income; whereas, as a consequence, provision could justifiably be made for temporary, degressive aid to be granted to keep pace with the development of agricultural prices in a way that is compatible with the rules of the general economy;

Whereas it must be made possible to offset the effect of the disappearance of the agricultural conversion rates on the level of certain types of direct aid in terms of national currency in accordance with specific rules adapted to such aid;

Whereas provision should be made for a procedure introducing close cooperation between the Member States and the Commission to facilitate the implementation of this Regulation,

HAS ADOPTED THIS REGULATION:

Article 1

For the purposes of this Regulation, notwithstanding Regulation (EC) No of establishing agrimonetary arrangements for the euro:

(a) "appreciable revaluation" means a reduction in the conversion rate applicable on 1 January 1999 which is greater in absolute value than the differences between that rate and the lowest levels of the conversion rates applicable:

- over the last 12 months, and
- at any time more than 12 months but not more than 24 months previously, and
- at any time more than 24 months but not more than 36 months previously.

Only two thirds and one third respectively of the differences covered by the second and third indents shall be taken into account;

(b) "appreciable part" means the difference between, on the one hand, the threshold between appreciable and non-appreciable revaluations and, on the other hand, the conversion rate for the euro into national currency units or the exchange rate for the euro into national currency on 1 January 1999. This difference is expressed as a percentage of the said threshold.

Article 2

Where the conversion rate for the euro into national currency units of any Member State or the exchange rate for the euro into the national currency of any Member State at 1 January 1999 undergoes an appreciable revaluation within the meaning of Article 1 against the agricultural conversion rate in force on 31 December 1998, Articles 4 and 6 of Regulation (EC) No establishing agrimonetary arrangements for the euro shall apply to that appreciable revaluation and the appreciable part thereof shall be as specified in Article 1(b).

Article 3

1. Where the conversion rate for the euro into national currency units or the exchange rate for the euro into national currency applicable on the day of the operative event in 1999 to:

   – flat-rate aid calculated per hectare or per livestock unit

   or

   – compensatory premiums per ewe or she-goat

   or

   – amounts of a structural or environmental nature

   is lower than the rate applied previously, compensatory aid shall be granted. The aid shall be calculated in accordance with Article 5 of Regulation (EC) No establishing agrimonetary arrangements for the euro.

   Notwithstanding the second indent of Article 6(1) of the same Regulation, the first year the Community contribution shall amount to 100% of the aid.

2. In following years, the Council, acting by a qualified majority on a proposal from the Commission, may waive the provisions of paragraph 1 first and second subparagraph and provide for the compensation to fall degressively.

Article 4

Detailed rules for applying this Regulation shall be adopted in accordance with the procedure laid down in:

(a) Article 23 of Council Regulation (EEC) No 1766/92[3] of 30 June 1992 on the common organisation of the market in cereals, or

(b) the corresponding articles of the other regulations establishing a common organisation of the market in agricultural or fishery products, or

(c) the corresponding articles of other Community provisions introducing a similar procedure.

Article 5

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

It shall apply from 1 January 1999.

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

Done at ..... ,

For the Council

The President

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3 OJ L 181, 1.7.1992, p. 21

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FINANCIAL STATEMENT

VI/2167/98-EN

DATE: 2/6/98

1.	BUDGET HEADING: B1-1 to B1-5 (EAGGF Guarantee Section)	APPROPRIATIONS: ECU 40 437 million (including ECU 505 million for Budget heading B1-390)

2. TITLE:
(1) Council Regulation establishing agrimonetary arrangements for the euro
(2) Council Regulation on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro

3. LEGAL BASIS: Articles 42 and 43 of the Treaty

4. AIMS OF PROJECT:
(1) To repeal Regulation 3813/92 and Regulation 724/97, replacing them with a single Regulation establishing agrimonetary arrangements for the euro
(2) To ensure the changeover from the present agrimonetary arrangements to the new system by providing for aid to offset income losses suffered by producers as a result of the disappearance of the existing arrangements

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS million euro	CURRENT FINANCIAL YEAR (98) million euro	FOLLOWING FINANCIAL YEAR (99) million euro
5.0. EXPENDITURE - CHARGED TO THE EC BUDGET (~~REFUNDS~~/INTERVENTION) - ~~NATIONAL ADMINISTRATION~~ - ~~OTHER~~		-	+35
5.1. ~~REVENUE~~ - ~~OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)~~ - ~~NATIONAL~~			

	2000 million euro	2001 million euro	2002 million euro	2003 million euro
5.0.1. ESTIMATED EXPENDITURE	+51	-377	-502	-603
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: SEE ATTACHED PAGE

A. **AID TO COMPENSATE FOR ANY APPRECIABLE REVALUATIONS AFTER 1 JANUARY 1999**

It is not possible at the moment to estimate the cost of agrimonetary aid to offset potential appreciable revaluations for the four Member States that do not participate in monetary union, since that will depend on how their currencies develop.

B. **COMPENSATORY AID RELATING TO TRANSITIONAL MEASURES**

Aid will be paid from appropriations in Chapter B1-39; the calculations used in this proposal are based on the currency situation at 15 May 1998. Changes in the currencies up to 31 December 1998 may affect the financial impact.

B.1 **Prices and aid other than direct aid**

On the basis of the assumptions made, there will be no compensation payable pursuant to Article 2 (permitted margin of 2.6%).

B.2 **Direct aid**

As for the compensatory aid to be granted degressively over three years under Article 3, the aid for Belgium, Luxembourg, Denmark, France, Ireland, Italy, Finland, Sweden and the United Kingdom will fall by between 0.6% to 15% depending on the country. The cost and impact of compensation for the decline in aid is estimated as follows:

Budget year (*ECU million*)

	1999	2000	2001	2002	Total
First tranche	+136	+609			+744
Second tranche		+45	+203		+248
Third tranche			+23	+101	+124
	+136	+654	+226	+101	

C. **ELIMINATION OF COST OF DUAL RATE**

Following the introduction of the euro from 1 January 1999 combined with the fact that from that date the concept of a specific ACR will no longer exist for the four Member States that do not take part in monetary union, the cost of the dual rate will disappear during the period 1999-2000. This cost, estimated at ECU 603 million for the 1999 PDB, will not be finally eliminated until 2000 because the operative events for many of the measures to be financed by the EAGGF Guarantee Section in 1999 will have occurred before 1 January 1999.

Budget year (*ECU million*)

	1999	2000	2001	2002 and thereafter
Savings on dual rate in relation to 1999 PDB	-101	-603	-603	-603

D. **DISTRIBUTION OF TOTAL FINANCIAL IMPACT OVER BUDGET YEARS**

Budget year (*ECU million*)

		1999	2000	2001	2002	2003
B.	Compensatory aid	+136	+654	+226	+101	+0
C.	Savings on dual rate	-101	-603	-603	-603	-603
		+35	+51	-377	-502	-603

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