COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE BUDGET AUTHORITY ON THE IMPACT ON EAGGF GUARANTEE SECTION EXPENDITURE OF MOVEMENTS IN THE DOLLAR/ECU EXCHANGE RATE

PROPOSAL FOR A TRANSFER No 35/98 TO THE MONETARY RESERVE PRESENTED BY THE COMMISSION TO THE BUDGET AUTHORITY

1998 FINANCIAL YEAR

REPORT

on the impact on EAGGF Guarantee Section expenditure in 1998 of movements in the dollar/ecu exchange rate

I. INTRODUCTION

The value of the dollar affects a major proportion of EAGGF Guarantee Section expenditure.
The budget appropriations for a significant number of export refunds for agricultural products, notably cereals, rice and sugar and for some Community aids such as aid for the production of starch, aid for the use of sugar by the chemical industry and aid for cotton, are fixed on the basis of the gap existing between Community prices, expressed in ecus, and world prices, generally expressed in dollars.

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[1].

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') of 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' should be reduced from ECU 400 million to ECU 200 million. 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 [2] 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;

On 31 October 1994 the Council adopted a new Decision on budgetary discipline[3] which took account of the conclusions of the Edinburgh European Council and the inter-institutional agreement. Articles 7 to 10 and Article 12 of that Decision contain the provisions relating to consideration of the dollar exchange rate.

It should be recalled that Article 11 of the new Decision on budgetary discipline stipulates that the monetary reserve is to be used where it becomes apparent that the agricultural guideline cannot cover the budget costs to the EAGGF Guarantee Section that arise directly from monetary realignments within the European monetary system since 1 September 1992. This provision does not apply after the end of the 1997 financial year, however.

In accordance with Article 9 of the Decision of 31 October 1994, the Commission is presenting the budgetary authority with this report on the impact on EAGGF Guarantee Section expenditure in 1998 of movements in the dollar/ecu exchange rate in the period 1 August 1997 to 31 July 1998 in relation to the rate used in the budget. The report contains information used to assess whether, on account of the impact of these changes, a transfer should be proposed to or from the monetary reserve and, if so, the relevant amount.

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

2 OJ No C 331, 7.12.1993, p.1

3 OJ No L 293, 12.11.1994, p. 14.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1998

To gauge the impact of movements in the dollar/ecu rate on the 1998 financial year, consideration must be given, under Article 7 of the Council Decision of 31 October 1994, to the gap between the average rate recorded for the dollar between 1 August 1997 and 31 July 1998 and the rate used in the 1998 budget. The rate used to assess appropriations for the 1998 financial year is $1 = ECU 0.85. 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 1997).

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

	Recorded rate $1 = ECU x	Budget rate $1 = ECU x	Gap in ecu	Gap in %
a	b	c	d = b - c	e = b/c
August	0.9324	0.8500	+ 0.0824	+ 9.7
September	0.9093	0.8500	+ 0.0593	+ 7.0
October	0.8927	0.8500	+ 0.0427	+ 5.0
November	0.8777	0.8500	+ 0.0277	+ 3.3
December	0.8996	0.8500	+ 0.0496	+ 5.8
January	0.9194	0.8500	+ 0.0694	+ 8.2
February	0.9188	0.8500	+ 0.0688	+ 8.1
March	0.9222	0.8500	+ 0.0722	+ 8.5
April	0.9166	0.8500	+ 0.0666	+ 7.8
May	0.9017	0.8500	+ 0.0517	+ 6.1
June	0.9080	0.8500	+ 0.0580	+ 6.8
July	0.9112	0.8500	+ 0.0612	+ 7.2
Average 1.8.97-31.7.98	0.9091	0.8500	+ 0.0591	+ 7.0

Over the period under consideration the average dollar rate, rounded off, was $ 1 = ECU 0.91, i.e. 7.1% above the budget rate.
That increase in the value of the dollar involved savings for the EAGGF Guarantee Section.

The recorded average rate of $ 1 = ECU 0.91 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 maximum of $ 1 = ECU 0.93 in August 1997 and a minimum of $ 1 = ECU 0.88 in November 1997. For most of the months in question, the average rate remained between $ 1 = ECU 0.90 and $ 1 = ECU 0.92.

To make an accurate assessment of the savings made owing to the appreciation of the dollar during a period when the gaps compared to the budget rate were variable, it is necessary to establish, over 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 assisted with a refund or in quantities eligible for Community aid.

On that basis, the savings for the EAGGF Guarantee Section as a result of the appreciation of the dollar in relation to the budget rate are estimated at ECU 278 million for the 1998 financial year.

Annex I gives a detailed calculation of these savings, which break down by sector as follows:

B1-10: Arable crops (cereals)	ECU 185 million
B1-11: Sugar	ECU 55 million
B1-18: Other plant sectors	
- Islands and most-remote regions	ECU 6 million
- Rice	ECU 3 million
B1-30: Non-Annex II products (cereals, sugar, rice)	ECU 29 million
TOTAL	ECU 278 million

For other sectors, livestock products in particular, it should be noted that, like last year, the world prices expressed in dollars were not used to establish the budget. There was therefore no need to evaluate the impact of changes in the value of the dollar on refunds or aid to those sectors.

As the savings in 1998 of ECU 278 million are above the margin of ECU 200 million, a transfer of ECU 78 million should be made to the monetary reserve (Chapter B1-60), in accordance with Article 10 of the Decision of 31 October 1994.

III. PROPOSAL FOR A TRANSFER TO THE MONETARY RESERVE

It should be emphasised that the estimated savings for each sector need not necessarily result in identical end-of-year availabilities. Factors other than the dollar exchange rate have a very significant impact on final appropriations requirements for the various chapters for a year, for example the volume of exports, the level of world prices in dollars or fluctuations in the rate of payments. The availability or otherwise of appropriations for a chapter at the end of the year is determined therefore by all of these factors.

The availability of funds in Chapter B-15: fruit and vegetables, means that a transfer can be made to the monetary reserve.

The Commission is therefore presenting the following transfer proposal to the Budget Authority:

		ECU million
From Chapter B1-15: :	Fruit and vegetables	- 78
To Chapter B1-60: :	Monetary reserve	+ 78

The budget headings to which the transfer applies are shown in Annex II.

It should again be made clear that, under Article 12(3) of the Decision of 31 October 1994, any savings made and transferred to the monetary reserve which remain there at the end of the financial year are cancelled and contribute therefore to the build-up of a budget surplus which is entered as a revenue item in the budget for the following year by means of a letter of amendment to the preliminary draft budget for the following year.

ANNEX I - Calculation of the impact on EAGGF Guarantee Section expenditure of changes in the dollar rate: 1998 financial year

	Average world price recorded	Technical adjustment coefficient	Average world price used	Weighted average rate	World price converted into ecus		Unit impact of gap in rates	Quantities concerned	Total budget impact		
					At rate $1= ECU 0.85	At average weighted rate recorded					
	($/t)		($/t)	($1 = ECU)	(ECU/t)	(ECU/t)	(ECU/t)	(1.000 t)	ECU (A) million	Dual rate	ECU (B) million
a	b	c	d = b x c	e	f = d x 0.85	g = d x e	h = f - g	i	j = h x i	k	l = j x k
A. <u>EXPORT REFUNDS</u>											-223
Cereals and rice											
- Common wheat	135	1.00	135	0.91	114.8	122.9	-8.1	11.589 (1)	-93.9	1.011	-95
- Barley	101	1.00	101	0.90	85.9	90.9	-5.0	5.276 (1)	-26.4	1.011	-27
- Durum wheat	218	1.00	218	0.91	185.3	198.4	-13.1	0 (1)	-0.0	1.007	0
- Other cereals	107	1.00	107	0.91	91.0	97.4	-6.4	2.855 (1)	-18.3	1.008	-18
- Rice (milled equivalent)	375	1.00	375	0.90	318.8	337.5	-18.7	176	-3.3	1.014	-3
Sugar	288	1.00	288	0.91	244.8	262.1	-17.3	2.902	-50.2	1.010	-51
Non-Annex II products											
- Common wheat	135	1.00	135	0.91	114.8	122.9	-8.1	325	-2.6	1.009	-3
- Barley	101	1.00	101	0.90	85.9	90.9	-5.0	550	-2.8	1.009	-3
- Durum wheat	218	1.00	218	0.91	185.3	198.4	-13.1	0	-0.0	1.009	0
- Other cereals	116	1.00	116	0.91	98.6	105.6	-7.0	1.742	-12.2	1.009	-12
- Rice	375	1.00	375	0.90	318.8	339.0	-20.2	11	-0.2	1.009	0
- Sugar	288	1.00	288	0.91	244.8	262.1	-17.3	635	-11.0	1.009	-11
B. <u>EXPORTS FROM PUBLIC STORAGE</u>											-11
- Common wheat	140	1.00	140	0.89	119.0	124.6	-5.6	620	-3.5	1.007	-4
- Barley	71	1.00	71	0.91	60.4	64.6	-4.2	570	-2.4	1.007	-2
- Maize	104	1.00	104	0.92	88.4	95.7	-7.3	200	-1.5	1.007	-2
- Rye	79	1.00	79	0.92	67.2	72.7	-5.5	450	-2.5	1.007	-3
C. <u>AIDS</u>											-44
Starch (production refunds)	116	1.60	186	0.90	158.1	168.1	-10.0	3.350	-33.5	1.009	-34
Sugar for chemical industry	288	1.00	288	0.91	244.8	262.1	-17.3	255	-4.4	1.008	-4
Fibre plants (cotton)									p.m.		p m
Islands and most-remote regions											
- Common wheat	135	1.00	135	0.91	114.8	122.9	-8.1	300	-2.4	1.004	-2
- Barley	101	1.00	101	0.90	85.9	90.9	-5.0	104	-0.5	1.004	-1
- Durum wheat	218	1.00	218	0.91	185.3	198.4	-13.1	7	-0.1	1.004	0
- Other cereals	107	1.00	107	0.91	91.0	97.4	-6.4	347	-2.2	1.004	-2
- Rice (milled equivalent)	375	1.00	375	0.90	318.8	337.5	-18.7	14	-0.3	1.004	0
- Sugar	288	1.00	288	0.91	244.8	262.1	-17.3	46	-0.8	1.004	-1
TOTAL A + B + C									-275,1		-278

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 411 million

(1) Excluding quantities exported subject to charge or 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 as against the exchange rate used in the budget.

Column (b) gives estimated average world prices in dollars for the period concerned. They correspond either to the average selling prices of Comunity 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 determining 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 per 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 0.85 and the recorded weighted average rates in column (e).

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

GENERAL BUDGET 1998
SECTION III - COMMISSION - PART B

TRANSFER OF APPROPRIATIONS No 35/98

COMPULSORY EXPENDITURE

In ECU

FROM

CHAPTER B1-15:	**FRUIT AND VEGETABLES**		
Article B1-150 :	FRESH FRUIT AND VEGETABLES		
Item B1-1500 :	Export refunds	Commitments/ payments	- 10.000.000
Item B1-1502 :	Operational fund for producer organisations	Commitments/ payments	- 20.000.000
Item B1-1505 :	Measures to improve production	Commitments/ payments	- 23.000.000
Article B1-151 :	PROCESSED FRUIT AND VEGETABLES		
Item B1-1511 :	Production aid for processed tomato products	Commitments/ payments	- 10.000.000
Item B1-1513 :	Production aid and intervention for processed dried grape products	Commitments/ payments	- 15.000.000

TO

CHAPTER B1-60:	**MONETARY RESERVE**		
ARTICLE B1-600 :	MONETARY RESERVE	Commitments/ payments	+ 78.000.000

THE FINANCIAL CONTROLLER APPROVED THIS PROPOSAL ON 05.10 1998 IN ACCORDANCE WITH ARTICLE 26(7) OF THE FINANCIAL REGULATION AND CERTIFIED THAT THE APPROPRIATIONS ARE AVAILABLE.