COMMISSION OF THE EUROPEAN COMMUNITIES

REPORT FROM THE COMMISSION

on the impact on EAGGF Guarantee Section expenditure of movements
of the dollar/ecu exchange rate in 1992

R E P O R T

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I.   INTRODUCTION

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

Other things being equal, a change in the value of the dollar in relation to the ECU necessarily implies a change in the gap 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 the basis of that guideline, the Council adopted, by its Decision of 24 June 1988 concerning budgetary discipline[2], enacting terms providing 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 that of the budget year.

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 as compared with the rate used in the budget, the additional budget costs are financed by a transfer from the monetary reserve. Equally, savings of up to a maximum of ECU 1 000 million in the Guarantee Section when the dollar strengthens are to be transferred to the monetary reserve.

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. Similarly, the amount of the transfer relates to that fraction of the impact exceeding the margin (*franchise*) of ECU 400 million.

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(1)   Pursuant to the Council Decision of 24 June 1988 concerning bugetary discipline and in particular Articles 9 to 13 thereof (OJ No L 185, 15.07.1988, p.29).

(2)   OJ No L 185, 15.07.1988, p.29

The factors for deciding whether a transfer should be proposed from or to the reserve and the amount thereof are to be provided by the Commission in a report which it is required to forward in October each year to the budget authority.

This report, relating to the impact of the dollar on expenditure in the 1992 financial year, is the result of the fifth application of the Council Decision.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1992

To gauge the impact of the dollar/ecu rate on the 1992 financial year, consideration must be given, pursuant to the Council Decision, to the gap between the average rate recorded for the dollar between 1 August 1991 and 31 July 1992 and the rate used in the 1992 budget. The rate used to assess appropriations for the 1992 financial year is $ 1 = ECU 0,75. 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 1991).

The following table gives the monthly exchange rate gaps recorded in the period under review.

	Recorded rate $ 1 = ECU	Budget rate. $ 1 = ECU	Gap in ECU	Gap as %
a	b	c	d = b–c	e
August	0.8503	0.7500	+ 0.1003	+ 13.4
September	0.8281	0.7500	+ 0.0781	+ 10.4
October	0.8256	0.7500	+ 0.0756	+ 10.1
November	0.7951	0.7500	+ 0.0451	+ 6.0
December	0.7693	0.7500	+ 0.0193	+ 2.6
January	0.7729	0.7500	+ 0.0229	+ 3.1
February	0.7921	0.7500	+ 0.0421	+ 5.6
March	0.8127	0.7500	+ 0.0627	+ 8.4
April	0.8049	0.7500	+ 0.0549	+ 7.3
May	0.7887	0.7500	+ 0.0387	+ 5.2
June	0.7677	0.7500	+ 0.0177	+ 2.4
July	0.7297	0.7500	− 0.0203	− 2.7
Average 1/8/91–31/7/92	0.7948	0.7500	+ 0.0448	+ 6.0

Over the period under consideration the average dollar rate rounded off was $ 1 = ECU 0.79, 6.0% above the budget rate. This appreciation of the dollar led to savings for the Guarantee Section of the EAGGF.

The estimated size of these savings – the detailed calculations for which are given in Annex I – is ECU 355 million, which breaks down by sector as follows :

	m ECU
Cereals	170
Sugar	29
Oilseeds	103
Protein plants	35
Cotton	18
TOTAL	355

It should be noted that, like last year, in the case of livestock products (milk products, beef and veal, pigmeat, eggs and poultry) the refund rates applied during the period under review remained steady despite the fluctuation of the dollar. As a consequence, these is no need to evaluate the impact of the dollar-rate changes on refunds for these products.

The saving to the budget was less than the margin (*franchise*) of ECU 400 million, so a transfer does not have to be made from the Guarantee Section of the EAGGF to the monetary reserve (Chapter B1-50).

I. CALCULATION OF THE GAP IN RATES

1. RATE USED IN THE 1992 BUDGET	:	$ 1	=	ECU 0.750
2. RATE RECORDED	:	$ 1	=	ECU 0.790
3. GAP IN RATES (IN ECU)	:	$ 1	=	ECU 0.040
4. GAP IN RATES (%)	:			5.333 %

II. CALCULATION OF IMPACT OF GAP IN RATES ON THE 1992 BUDGET

a	AVERAGE WORLD PRICE RECORDED ($/t)	TECHNICAL ADJUSTMENT COEFFICIENT	AVERAGE WORLD PRICE USED ($/t)	AVERAGE WORLD PRICE CONVERTED INTO ECU AT RATE $ 1 = ECU 0.75 (CORR. FACTOR = 1.145 (ECU/t) (1)	UNIT IMPACT OF GAP IN RATES 5.333% (ECU/t)	QUANTITIES CONCERNED '000 t	TOTAL BUDGET IMPACT m ECU (A)	TOTAL BUDGET IMPACT DOUBLE RATE	TOTAL BUDGET IMPACT m ECU (B)
a	b	c	d = b x c	e	f = e x gap	g	h = f x g	i	j = h x i
A. REFUNDS									**199**
CEREALS AND RICE									
- COMMON WHEAT	110	1.00	110	72	3.8	18840	71.6	1.140	82
- DURUM WHEAT	120	1.00	120	79	4.2	2870	12.1	1.146	14
- BARLEY	100	1.00	100	66	3.5	9700	34.0	1.146	39
- OTHER CEREALS	100	1.00	100	66	3.5	2880	10.1	1.145	12
- STARCH	110	1.60	176	115	6.1	2565	15.6	1.145	18
- RICE (MILLED EQ.)	340	1.00	340	223	11.9	340	4.0	1.146	5
- SUGAR	255	1.00	255	167	8.9	2800	24.9	1.145	29
MILK PRODUCTS									
- BUTTER		1.00	0	0	0.0		0.0		0
- BUTTEROIL		1.00	0	0	0.0		0.0		0
- SKIMMED-MILK POWDER		1.00	0	0	0.0		0.0		0
- OTHER IN MILK EQUIVALENT		1.00	0	0	0.0		0.0		0
BEEF AND VEAL									
- FRESH MEAT		0.50	0	0	0.0		0.0		0
- FROZEN MEAT		0.50	0	0	0.0		0.0		0
PIGMEAT									
- CUTS AND SAUSAGES		0.50	0	0	0.0		0.0		0
EGGS AND POULTRY									
- EGGS		0.50	0	0	0.0		0.0		0
- POULTRY		0.75	0	0	0.0		0.0		0
B. AID									**156**
OILSEEDS									
- RAPESEED	240	1.00	240	157	8.4	5145	43.2	1.142	49
- SUNFLOWER	260	1.00	260	170	9.1	3637	33.1	1.153	38
- SOYA BEANS	230	1.00	230	151	8.1	1540	12.5	1.144	14
- LINSEED	189	1.00	189	124	6.6	270	1.8	1.135	2
PROTEIN PLANTS									
- PEAS(HUMAN CONSUMPTION)	250	1.00	250	164	8.7	200	1.7	1.142	2
- PEAS(ANIMAL CONSUMPTION)	200	0.45	90	59	3.1	4232	13.1	1.142	15
- LUPINS	200	0.60	120	79	4.2	10	0.0	1.146	0
- DRIED FODDER	118	1.00	118	77	4.1	3811	15.6	1.146	18
FIBRE PLANTS									
- COTTON	1453	0.32	465	305	16.3	999	16.3	1.095	18
TOTAL							**309.6**		**355**

NB: ON THE BASIS OF THE FIGURES IN THE TABLE, A CHANGE IN THE RATE OF THE DOLLAR OF 10% WOULD LEAD TO A CHANGE IN EXPENDITURE OF ECU 665.6 MILLION.

(1) THE CORRECTING FACTOR REPRESENTS THE DIFFERENCE BETWEEN THE "GREEN" CENTRAL RATES OF THE ECU

(AGRICULTURAL ECU) AND THE CENTRAL RATES OF THE NORMAL ECU.

EXPLANATORY REMARKS TO THE ANNEX

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

Column (b) gives estimated average world prices in dollars for the period concerned. They correspond either to average selling prices of Community products when exported or to prices used for the calculation of the various aids.

These prices are multiplied by an adjusting coefficient [column (c)] indicating the weighting of the world price used to determine an aid or refund. By way of example, 1.6 times the world price for maize is used in the determination of the production refund for starch while only 45% of the world price for soya cake is used to calculate the production aid for peas intended for animal consumption.

Column (d) gives average world prices corrected by the adjusting coefficient while column (e) gives the same prices converted into ECU using the exchange rate adopted in the budget. The unit impact of the higher value of the dollar is given in column (f) in ECU per tonne. This unit amount multiplied by the estimated quantities qualifying for aids and/or refunds during the period under review gives the impact in million agricultural ECU [column (h)] and in million budget ECU [column (j)].