COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.11.1999
COM(1999) 591 final

REPORT FROM THE COMMISSION TO THE BUDGET AUTHORITY

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

1999 FINANCIAL YEAR

REPORT FROM THE COMMISSION TO THE BUDGET AUTHORITY

on the impact on EAGGF Guarantee Section expenditure in 1999 of movements in the dollar/euro 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 euros, and world prices, generally expressed in dollars.

Other things being equal, a change in the value of the dollar in relation to the euro automatically implies a change in the gap in euro 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"*[2]. The latter is equal to the average market rate during the first three months of the year preceding 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 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[3].

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

---

[1] OJ L 185, 15.7.1988, p. 29.

[2] Following the introduction of the single currency on 1 January 1999, the legislative references to the term “ECU” are replaced by the term “EUR”.

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

The Edinburgh European Council of 11 and 12 December 1992 confirmed that the monetary reserve would remain in place for the period 1993-1999 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[4] 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[5] 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.

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 1999 of movements in the average dollar/euro exchange rate in the period 1 August 1998 to 31 July 1999 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.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1999

To gauge the impact of movements in the dollar/euro rate on the 1999 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 1998 and 31 July 1999 and the rate used in the 1999 budget. The rate used to assess appropriations for the 1999 financial year is $ 1 = EUR 0.92. 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 1998).

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

4 OJ C 331, 7.12.1993, p.1.
5 OJ L 293, 12.11.1994, p. 14.

	Recorded rate 1$ = ... EUR[1]	Budget rate 1$ = ... EUR	Gap in EUR	Gap in %
a	b	c	d = b – c	e = b/c
August	0,9078	0,9200	- 0,0122	- 1,3
September	0,8666	0,9200	- 0,0534	- 5,8
October	0,8377	0,9200	- 0,0723	- 8,9
November	0,8589	0,9200	- 0,0611	- 6,6
December	0,8532	0,9200	- 0,0668	- 7,3
January	0,8616	0,9200	- 0,0584	- 6,3
February	0,8924	0,9200	- 0,0276	- 3,0
March	0,9189	0,9200	- 0,0011	- 0,1
April	0,9343	0,9200	+ 0,0143	+ 1,6
May	0,9410	0,9200	+ 0,0210	+ 2,3
June	0,9636	0,9200	+ 0,0436	+ 4,7
July	0,9663	0,9200	+ 0,0463	+ 5,0
Average 1.8.98-31.7.99	0,9006	0,9200	- 0,0194	- 2,1

1 For the period August to December, the ECU was used.

Over the period under consideration the average dollar rate, rounded off, was $ 1 = EUR 0.90, i.e. 2.2% below the budget rate.
That drop in the value of the dollar involved additional expenditure for the EAGGF Guarantee Section.

The recorded average rate of $ 1 = EUR 0.90 is the arithmetical mean of the daily rates for the twelve-month period in question. The average monthly rate fluctuated around that 12-month average, between a minimum of $ 1 = EUR 0.84 in October 1998 and a maximum of $ 1 = EUR 0.97 in July 1999.

To make an accurate assessment of the expenditures due to the depreciation 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 euros is affected by the dollar, taking account of the seasonal variation in the quantities exported with a refund or in quantities eligible for Community aid.

On that basis, the additional expenditure for the EAGGF Guarantee Section as a result of the depreciation of the dollar in relation to the budget rate is estimated at EUR 219 million for the 1999 financial year.

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

B1-10:	Arable crops (cereals)	EUR 120 million
B1-11:	Sugar	EUR 21 million
B1-13:	Cotton	EUR 62 million
B1-18:	Other plant sectors	
-	Islands and most remote regions	EUR 4 million
-	Rice	p.m.
B1-30:	Non-Annex I products (cereals, sugar, rice)	EUR 12 million
TOTAL		EUR 219 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.

The additional expenditure in 1999 for the EAGGF Guarantee Section arising from the movements in the dollar is EUR 19 million above the margin of ECU 200 million.

Total additional expenditure:	EUR 219 million
Margin:	EUR 200 million
Expenditure above the margin:	EUR 19 million

The amount of EUR 19 million is liable to be taken from the monetary reserve under Article 10 of the Decision of 31 October 1994. However, in view of Article 12(1) of that Decision, the Commission considers that, on the basis of the foreseeable implementation of all agricultural expenditure for 1999, all the additional expenditure arising from the fall in the dollar rate may be financed within the budget appropriations entered in Titles B1-1 to B1-5 of the EAGGF Guarantee Section. There is no need therefore to call on the reserve.

ANNEX - Calculation of the impact on EAGGF Guarantee Section expenditure of changes in the dollar rate: 1999 financial year

	Average world price recorded	Technical adjustment coefficient	Average world price used	Weighted average rate	World price converted into EUR		Unit impact of gap in rates	Quantities concerned	Total budget impact		
					At rate $1= EUR 0.92	At average weighted rate recorded			EUR (A) million	Dual rate	EUR (B) million
	($ / t)		($ / t)	($ 1 = EUR ..)	(EUR / t)	(EUR / t)	(EUR / t)	(1 000 t)			
a	b	c	d = b x c	e	f = d x 0,	g = d x e	h = f – g	i	j = h x i	k	l = j x k
A. <u>EXPORT REFUNDS</u>											**110,7**
Cereals and rice											
- Common wheat	95	1,00	95	0,88	87,4	83,6	3,8	11.558 (1)	43,9	1,006	44,2
- Barley	62	1,00	62	0,87	57,0	53,9	3,1	6.315 (1)	19,6	1,006	19,7
- Durum wheat	145	1,00	145	0,88	133,4	127,6	5,8	158 (1)	0,9	1,005	0,9
- Other cereals	70	1,00	70	0,86	64,4	60,2	4,2	3.387 (1)	14,2	1,006	14,3
- Rice (milled equivalent)	390	1,00	390	0,91	358,8	354,9	3,9	114	0,4	1,006	0,4
Sugar	216	1,00	216	0,89	198,7	192,2	6,5	2.915	18,9	1,006	19,0
Non-Annex I products											
- Common wheat	95	1,00	95	0,88	87,4	83,6	3,8	170	0,6	1,006	0,6
- Barley	62	1,00	62	0,87	57,0	53,9	3,1	410	1,3	1,006	1,3
- Durum wheat	145	1,00	145	0,88	133,4	127,6	5,8	212	1,2	1,006	1,2
- Other cereals	70	1,00	70	0,86	64,4	60,2	4,2	1.503	6,3	1,006	6,3
- Rice	390	1,00	390	0,91	358,8	354,9	3,9	9	0,0	1,006	0,0
- Sugar	216	1,00	216	0,89	198,7	192,2	6,5	430	2,8	1,006	2,8
B. <u>EXPORTS FROM PUBLIC STORAGE</u>											**16,0**
- Common wheat	103	1,00	103	0,91	94,8	93,7	1,1	1.523	1,7	1,005	1,7
- Barley	75	1,00	75	0,89	69,0	66,8	2,2	5.543	12,2	1,005	12,3
- Maize	103	1,00	103	0,93	94,8	95,8	-1,0	39	0,0	1,005	0,0
- Rye	62	1,00	62	0,87	57,0	53,9	3,1	632	2,0	1,005	2,0
C. <u>AIDS</u>											**92,7**
Starch (production refunds)	84	1,60	134	0,86	123,3	115,2	8,1	3.020	24,5	1,005	24,6
Sugar for chemical industry	216	1,00	216	0,89	198,7	192,2	6,5	300	2,0	1,005	2,0
Fibre plants (cotton)	1.233	0,206	254	0,87		221,1					
	1.233	0,23	254		261,0		39,9	1.549	61,8	1,011	62,5
Islands and most-remote regions											
- Common wheat	95	1,00	95	0,88	87,4	83,6	3,8	250	1,0	1,005	1,0
- Barley	62	1,00	62	0,87	57,0	53,9	3,1	62	0,2	1,005	0,2
- Durum wheat	145	1,00	145	0,88	133,4	127,9	5,8	7	0,0	1,005	0,0
- Other cereals	70	1,00	70	0,86	64,4	60,2	4,2	518	2,2	1,005	2,2
- Rice (milled equivalent)	390	1,00	390	0,91	358,8	354,9	3,9	19	0,1	1,005	0,1
- Sugar	216	1,00	216	0,89	198,7	192,2	6,5	23	0,1	1,005	0,1
TOTAL A + B + C									217,9		**219,4**

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 EUR 472 million

(1) Excluding quantities exported subject to charge or with zero refund.

<u>EXPLANATORY REMARKS TO THE ANNEX</u>

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 Community products when exported or to prices used for the calculation of the various aids.
These prices are multiplied by an adjusting coefficient [column (c)] indicating the weighting of the world price used to determine an aid or refund. For example, 1.6 times the world price for maize is used in 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/euro 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 euros using the exchange rate adopted in the budget of $ 1 = EUR 0.92 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 EUR 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 EUR [column (j)] and budget EUR [column (l)].