COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

on progress in the work concerning the consequences to be drawn from the monetary conversion rate used for the application of common agricultural policy measures

Introduction

I. Article 253, fifth paragraph, of Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code[1] provides that before 1 October 1993 the Council shall, on the basis of a Commission progress report on discussions regarding the consequences to be drawn from the monetary conversion rate used for the application of common agricultural policy measures, review the problem of trade in goods between the Member States in the context of the internal market. This report is to be accompanied by any proposals the Commission has to make, on which the Council will take a decision in accordance with the provisions of the Treaty.

The Community Customs Code referred to above replaces and repeals 28 customs-related Regulations and Directives.

Some of these Regulations and Directives contain specific provisions concerning the amounts that may be applicable in trade in agricultural goods between the Member States.

To cite only one example, Article 10 Of Council Regulation (EEC) No 2144/87 of 13 July 1987 on customs debt provides that its provisions apply <u>mutatis mutandis</u> as regards the incurring of a customs debt arising from the application of customs or agricultural charges on Community goods traded between the Member States.[2]

This article was not incorporated in the Community Customs Code, as was the case for other provisions of the Regulation in question.

Whatever the case, any existing customs provisions on trade in goods subject to charges between Member States were rendered null and void by the entry into force on 1 January 1993 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.[3]

Thus the repeal of provisions on such trade by the Community Customs Code merely sanctioned the situation existing since 1 January 1993.

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1 OJ L 302, 19.10.1992, p 1.
2 OJ L 201, 22.7.1987, p. 15.
3 OJ L 387, 31.12.1992, p. 1.

II. <u>Progress in work regarding the consequences to be drawn from the monetary conversion rate used for the application of common agricultural policy measures</u>

1. The main instruments governing agrimonetary arrangements were Regulation (EEC) No 1676/85 and Regulation (EEC) No 1677/85, the basic provisions being:

- the use of fixed agricultural conversion rates (green rates) for converting common prices set in ecus into national currencies, these rates being periodically aligned on real rates;

- the granting or levying of monetary compensatory amounts (MCAs) on Member States' imports and exports to prevent disruption of market organizations and speculative movements of goods resulting from the difference between the green rate and the real exchange rate.

As early as 1985 the White Paper on Completion of the Single Market highlighted the fact that some aspects of the agrimonetary arrangements were incompatible with the single market and that border controls necessitated by the existence of MCAs had to be abolished by 1 January 1993.[1]

In July 1992 the Commission sent the Council a proposal for a Regulation aimed at radically reforming agrimonetary arrangements.[2]

2. In December 1992 the Council adopted Regulation (EEC) No 3813/92 establishing new agrimonetary arrangements applicable from 1 January 1993.

They are governed by the following principles:

- the ecu (provisionally given a correcting factor of 1.207509, value at 1 July 1993) is to be used as the unit of account for setting prices and amounts, whereas payments are made in national currencies;

1 COM(85) 310 final, paragraph 38.
2 COM(92) 275 final.

- the conversion rate used to change ecus (adjusted by the correcting factor) into national currencies is close to reality:
  * a central rate (corrected) for fixed currencies,
  * a rate not much different from the average market rate (corrected) for floating currencies;

- apart from some special circumstances the agricultural conversion rates are adjusted when there are currency realignments: in the case of floating currencies they may also be adjusted at the beginning of the month or, more rarely, the 11th or 21st day of the month;

- the agricultural conversion rate applicable to a particular price or amount is the rate prevailing at the time of the operative event, namely the event by which the economic objective of the operation is achieved: it can, however, be fixed in advance under certain very strict conditions;

- prices, and certain amounts, expressed in (corrected) ecus are reduced if the unit is revalued: in national currency terms, the effects on incomes of such a reduction, or a reduction in agricultural conversion rates, may be compensated by an increase in certain amounts expressed in (corrected) ecus or by regressive aid grants.

Under these arrangements gaps between the conversion rate used to apply common agricultural policy measures and the actual daily exchange rates are kept narrow enough to avoid market distortions between the Member States.

MCAs have therefore been abolished and already existing MCAs were eliminated on 1 January 1993 through the repeal of:

- Council Regulation (EEC) No 1677/85 pursuant to Article 13(3) of Regulation (EEC) No 3813/92;

- Commission Regulation (EEC) No 1641/91 pursuant to Article 16 of Regulation (EEC) No 3819/92.[3]

3 OJ L 387, 31.12.1992, p.17.

Note that the provisional use of the ecu correcting factor in fixing agricultural prices and amounts does not lead to any trade distortions since the method used preserves the real value of all bilateral conversion rates in exchanges between any two national currencies.

3. The procedures for applying the new agrimonetary arrangements were initially established by Regulation (EEC) No 3819/92. Regulation (EEC) No 3820/92 laid down transitional measures to cover the period until the end of the current marketing year.[4]

Commission Regulation (EEC) No 3819/92 has meanwhile been replaced by Commission Regulation (EEC) No 1068/93 of 30 April 1993 laying down detailed rules for determining and applying the agricultural conversion rates.[5]

This Regulation makes the necessary provision for adjusting agricultural conversion rates in relation to movements in real exchange rates. It also redefines operative events in relation to agricultural conversion rates with effect from the start of the 1993/94 marketing year; it lays down conditions for advance fixing of rates to ensure fulfilment of the criteria laid down in Article 6 of Regulation (EEC) No 3813/92.

The aim of defining operative events and limiting the advance fixing of the agricultural conversion rate is to prevent the creation of large monetary gaps (which formerly had to be covered by MCAs) between the value of the rate applicable for a price or amount to be paid in the course of an operation and the rate in force when the economic objective of the operation in question is attained.

Where necessary, the general provisions concerning operative events have been amplified, supplemented or even replaced in respect of individual prices or amounts for a particular market organization where the specific needs of the sector so dictated.

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4 OJ L 387, 31.12.1992, p. 22.
5 OJ L 108, 1.5.1993, p. 106.

The main sectoral provisions are contained in the following Regulations:

- (EEC) No 1445/93 (OJ L 142, 12.6.1993, p. 27) for fruit and vegetables
- (EEC) No 1713/93 (OJ L 159, 1.7.1993, p. 94) for sugar
- (EEC) NO 1756/93 (OJ L 181, 2.7.1993, p. 48) for milk and milk products
- (EEC) No 1759/93 (OJ L 161, 2.7.1993, p 59) for bovine meat

4. On 2 August 1993 the Finance Ministers and Governers of the Central Banks decided to widen to 15% the fluctuation bands laid down by the European Monetary System.

   Consequently, all the currencies are considered as floating for agri-monetary purposes and are therefore subject to the rules used since 1 January 1993 for the Pound Sterling, the Italian Lira, the Spanish Peseta, the Portuguese Escudo and the Greek Drachma.

III. Conclusions

With the goal of the single market to the fore, the monetary conversion rates to be used for the application of common agricultural policy measures were the subject of efforts leading to a process of reform of the agrimonetary system.

The work led to the abolition of MCAs from 1 January 1993.

The reform was completed at the end of the 1992/93 marketing years when the implementation provisions came into operation.

Following reform of the agrimonetary arrangements, conversion rate relativities applicable in agriculture now closely shadow those applicable in other sectors of the economy.

As a result of the monetary events of 2 August 1993, the rules for floating currencies apply to all currencies, and this does not create any new or special conditions as regards trade. It is in the same vein and with the same objectives with regard to the single market that the Commission presented its last agrimonetary proposals.

Therefore, for the moment, it is not necessary to submit any new monetary proposals relating to trade.