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REPORT

on the proposal for a Council Regulation amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy
(COM(94)0498 - C4-0232/94 - 94/0265 (CNS))

Committee on Agriculture and Rural Development

Rapporteur: Mr Jan Mulder

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PE 210.812/fin.
Nl - Or.En

C O N T E N T S

By letter of 28 November 1994 the Council consulted the European Parliament pursuant to Articles 42 and 43 of the EC Treaty on the proposal for a Council Regulation amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy.

At the sitting of 12 December 1994 the President of the European Parliament announced that he had referred this proposal to the Committee on Agriculture and Rural Development as the committee responsible and to the Committee on Budgets and the Committee on Economic and Monetary Affairs and Industrial Policy for their opinion.

By letter of 28 November 1994 the Council asked for the application of urgent procedure pursuant to Article 97 of the Rules of Procedure. At the sitting of 13 December 1994 the Plenary rejected to this request.

By letter of 10 January 1995 the Council asked again for the application of urgent procedure pursuant to Article 97 of the Rules of Procedure.

At its meeting of 14 November 1994 the Committee on Agriculture and Rural Development appointed Mr Jan Mulder rapporteur.

At its meetings of 1/2 December 1994, 19/20 December 1994 and 16 January 1995 the committee considered the Commission proposal and the draft report.

At the latter meeting it adopted the draft legislative resolution unanimously.

The following were present for the vote: Jacob, chairman; Happart, Funk, vice-chairmen; Mulder, rapporteur; Arias Cañete, Baldarelli, Botz (for Fantuzzi), Burtone (for Filippi), Colino Salamanca, Cunha, De Luca, Dimitrakopoulos, Ephremidis, Fraga Estevez, Gillis, Goepel, Görlach, Hardstaff, Hyland, Keppelhoff-Wiechert, Kindermann, Kofoed, Laignel, Lambraki, Lulling (for Ebner), Marset Campos (for Jové Peres), P. Martin, Mayer, Parigi, des Places (for Poisson), Redondo Jimenez, Rehder, Rosado Fernandez, Santini, Sonneveld, Spiers and Sturdy.

The opinion of the Committee on Budgets is attached. The Committee on Economic and Monetary Affairs and Industrial Policy will not deliver an opinion.

The report was tabled on 16 January 1995.

The deadline for tabling amendments will be announced in plenary.

A

LEGISLATIVE PROPOSAL

Proposal for a Council Regulation amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy (COM(94)0498 - C4-0232/94 - 94/0265 (CNS))

The proposal is approved with the following amendments:

Commission text[1]	Amendments
	(Amendment 1) Before the first recital (new)
	Whereas Article 39 of the Treaty underlines the need to ensure a fair standard of living for the agricultural community;
	(Amendment 2) After the third recital (new)
	Whereas the switch-over mechanism is estimated to have increased prices by 20 % in the years 1982-1994; whereas it is important to return to a more market based system;
	(Amendment 3) After the eighth recital (new)
	whereas the conclusions of the Edinburgh Council referred to the possibility of use of the monetary reserve if agricultural expenditure should exceed the Guideline as a result of changes to the central rate of the EMS ; whereas the Commission should initiate a trialogue with a view to obtaining consent of the budgetary authority to the use of the reserve;

[1] OJ C 360, 17.12.1994, p. 17

(Amendment 4)
ARTICLE 1, PARAGRAPH 6
Article 4, paragraph 2(a)

a) the absolute value of its monetary gap is greater than the threshold referred to in paragraph 5, less 0,5 points, or	a) the absolute value of its monetary gap is greater than the threshold referred to in paragraph 5, or

(Amendment 5)
ARTICLE 1, PARAGRAPH 6

In Article 7, the last paragraph is deleted and the first paragraph is replaced by the following: Should there be an appreciable fall in the agricultural conversion rate applicable to an amount of a structural or environmental nature, the aid or amounts concerned shall be increased in ecus in accordance with the prodcedure laid down in Article 12.	deleted

(Amendment 6)
ARTICLE 1, PARAGRAPH 10
Article 8, paragraph 1, introduction

1. Member States may grant farmers compensatory aid for three years.	1. Member States may grant farmers compensatory aid for four years.

(Amendment 7)
ARTICLE 1, PARAGRAPH 10
Article 8, paragraph 1 b)

b) where the agricultural conversion rate applicable to: - flat-rate aid calculated per hectare or per livestock unit, or - a compensatory premium per sheep or goat falls by an appreciable amount. Each successive annual instalment shall be reduced, in relation to the previous instalment, by at least one third of the amount granted in the first year.	deleted

(Amendment 8)
ARTICLE 1, PARAGRAPH 10
Article 8, paragraph 3

4. The Community contribution to the financing of the compensatory aid shall amount to: - 75% of the aid actually granted to farmers in regions covered by Objective 1 as referred to in Article 1 of Regulation (EEC) No 2052/88, - 50% of the amounts actually granted in other cases. For the purposes of the financing of the common agricultural policy, this contribution shall be deemed to be part of intervention intended to stabilize the agricultural markets.	deleted

DRAFT LEGISLATIVE RESOLUTION

Legislative resolution embodying Parliament's opinion on the proposal for a Council Regulation amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy (COM(94)0498 - C4-0232/94 - 94/0265 (CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council, COM(94)0498 - 94/0265(CNS),[2]

- having been consulted by the Council pursuant to Articles 42 and 43 of the EC Treaty (C4-0232/94),

- having regard to the report of the Committee on Agriculture and Rural Development and the opinion of the Committee on Budgets (A4-0005/95),

1. Approves the Commission proposal subject to Parliament's amendments;

2. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;

3. Asks to be consulted again should the Council intend to make substantial modifications to the Commissions proposal;

4. Instructs its President to forward this opinion to the Council and Commission.

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[2] OJ C 360, 17.12.1994, p. 17

B.

EXPLANATORY STATEMENT

INTRODUCTION

Under Regulation 3813/92 amended by 3528/93 the present agri-monetary system contains elements which will lapse on 31.12.1994. These are the switch-over mechanism, and the present system of adjusting green rates to respect a maximum monetary gap of 5 points.

The Commission's proposals for the system which will apply from 1 January 1995 proposes amendments in three areas:

1) the switch-over system, ie the factor of 1.207509 which reflects the gap between the green ECU in which farm prices are fixed and the commercial ECU
2) the system of adjusting green rates of exchange, which at present is not symmetrical but rather +3/-2 with the possibility of extending this to +5/0 in order to avoid green rate revaluations
3) the mechanisms of compensation which can take place in the event of revaluation

ANALYSIS OF THE COMMISSION'S PROPOSALS

1. The switch-over mechanism

What it is: The system was designed as a means of maintaining farmers' incomes in a country which revalued its currency (which would otherwise mean that it would receive smaller amounts in national currency) while allowing farmers in other countries to receive larger amounts. In other words, it increases the advantage which other countries receive, without reducing incomes for farmers in the revaluing country. It has been estimated that the switch-over mechanism alone increased common prices by 20% in the period 1984-94.

Proposals: In the last two years, as has been made very clear in the Commission report on the operation of the system from 1 January 1993 to 30 June 1994, the agri-monetary system has gone through a period of considerable fluctuation, which are detailed in the report accompanying the proposal. Since no currencies respect fixed parities in the EMS,[3] the switch-over mechanism is at the moment non-operational, and its elimination will have no impact. The Commission proposes that the switch-over mechanism be abolished at the end of the year and that from 1 January 1995 agricultural prices will be fixed in commercial ECU; prices will continue to be converted into national currency at green rates, but the green rate will be fixed against the commercial ECU rather than the agricultural ECU.

The Commission also proposes that the present possibility of the reapplication of the switch-over should not exist, pointing out that the switch-over mechanism is incompatible with the reform of the CAP, the GATT agreements and budget discipline in the medium term.

2. More stable agricultural conversion rates

The second aspect of the Commission's proposals is the introduction of a symmetrical threshold and limitation of its movability in order to prevent unnecessary expenditure and reduce the frequency of devaluations which are

[3] The DM and HFL are fixed in relation to each other.

caused by over protection against falls in the agricultural conversion rate (ACR). The present threshold (which reflects the maximum possible monetary gaps between the green rate and market rate of two currencies) is 5 points made up of -2/+3 (moveable if necessary up to 0/+5), and the proposal is that this should be replaced by the possibility of a symmetrical movement in either direction. The green rates can in principle be adjusted if the monetary gap exceeds 4.5 points although the treatment of strong currencies will be slightly different from that of weak currencies.

In the case of strong currencies (a.i. positive monetary gaps) when the monetary gap exceeds 4.5 points for two successive reference periods it will be reduced by half. A country with a positive monetary gap of 5 points over a 20 day period will have its monetary gap reduced to 2.5 points, which will bring about a similar reduction in institutional farm prices and amounts. However, if this represents an "appreciable" green rate reduction (interpreted as being a revaluation which exceeds earlier devaluations)[4] the green rate revaluation required can be suspended for a maximum of four successive reference periods, ie normally up to 40 days. The extent of the threshold can however be reduced depending on the national currency concerned, in order to avoid the risk of deflection of trade. This reduction can be made by the Management Committee if it takes the view that there is or will be a distortion of trade.

These proposals increase slightly the likelihood of green rate revaluations but with greater possibility of delaying the revaluation to see if the currency trend is confirmed.

In the case of weak currencies, when the monetary gap exceeds 4.5 points for one reference period it is reduced by half. In addition, if the difference between a weak currency's gap and that of another currency (known as the bilateral gap) exceeds 5 points, its gap is reduced by half.

3. Compensation for green rate revaluations

The third element of the Commission's proposals concern the revision of the mechanisms for compensation. A short period is introduced for confirmation of movements in currency before any reduction in agricultural conversion rates. There will be a period suspending a fall in the ACR in the event of appreciable revaluation, (ie those which go beyond preceding revaluations taking account of the time they have applied.) Further, possibilities will be limited for triggering compensatory measures to cases of appreciable revaluations and there will be an extension of the principle of the degressive transitional aid mechanism to aid per hectare or live stock unit and the introduction of the possibility to take short term measures. These aids per hectare and livestock units are presently guaranteed against any decrease in national currency by a system which in case of revaluation increases the amount in ECU for all Member States (rather like the switch-over system). It has been estimated that each 1% rate increase costs ECU 200 million. Under the proposed system, a Member State may grant compensation to farmers for 3 years when a green rate applied to the reform aids is revalued appreciably. The amount of compensation in the first year is such as to neutralise the reduction in aid caused by the revaluation. The aid is only granted to farmers affected by the reduced amounts, and is abolished or reduced if there is a subsequent devaluation. The Community contributes 50%

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4 An appreciable revaluation is considered to be one which is bigger than any devaluation over the previous year and bigger than two thirds of any devaluation over the previous year minus one year and bigger than one third of any devaluation over previous year minus two years.

to the cost of compensation rising to 75% in Objective 1 regions under the Guarantee Section.

ASSESSMENT

1) Switch-over: The European Parliament called for the abolition of the switch-over mechanism in the McCartin Report in 1992 (A3-0338/92). In the subsequent report by Mr Böge (A3-0339/93) in November 1993, the rapporteur acknowledges that "there is surely no denying that continuing with the switch-over without modification is the most expensive solution in the long term." The switch-over system does not accord with the agreed reforms of the CAP, or with budgetary requirements. The elimination of switch-over is therefore to be welcomed.

2) Green rate adjustments: The effect of the proposals will be that green rate revaluations will not take place unless the positive threshold has been breached for at least two reference periods and possibly up to four reference periods depending on whether the revaluation would lead to price falls which were not off-set by previous price rises resulting from earlier devaluations (the "appreciable" criterion.) The proposal increases slightly the likelihood of green rate revaluations (4.5 instead of 5 point gap) but introduce a greater delay before revaluation is decided, to see if the currency trend is confirmed. . The maximising trigger for green rate devaluation has been increased from -2 to -4.5 points, which should reduce the likelihood of green rate devaluations. The Management Committee has considerable flexibility to adjust the reference periods, and in an extreme case of currency fluctuation, the reference period could be reduced to 1 day, ie the delay of 4 reference periods could vary from a maximum of 4 months to a minimum of 4 days.

   The rapporteur believes that the threshold should be retained. On balance, however, the changes represent an improvement to an arcane system, even though the additional flexibility will create problems (as COPA and other organisations have pointed out). Increased flexibility does not improve the transparency of the system. Farmers and traders would of course prefer clear, practical and simple rules so that they, and those engaged in agricultural trading, know the parameters in which they have to operate. However, until such time as an alternative system is devised (for example a single currency) the greater priority is to protect farmers from monetary instability, and in this cause, it is perhaps preferable to accept an agri-monetary system which is invented, understood and run by a handful of bureaucrats.

3) Compensation: With regard to the proposals for compensation in the event of revaluation, notably the reform aids, these have been put under Article 8 instead of Article 7. At present the reform aids are treated in the same way as structural and environmental aids. The rapporteur accepts the Commission's argument that aid of this kind is both expensive and/or discriminatory, but proposes that each successive instalment of aid should be reduced over a period of four years, rather than three. Secondly, this type of aid should be 100% financed by the Community.

   In view of the lateness of the Commission's proposal, the request for urgency of the Council, and the consequent shortness of time available for the rapporteur to draw up this report, he may put forward additional amendments.

OPINION

of the Committee on Budgets

Letter from the chairman of the Committee on Budgets to Mr C. JACOB, chairman of the Committee on Agriculture and Rural Development

Strasbourg, 16 January 1995

Subject: **Council Regulation amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy (COM(94)0498 final)**

Dear Mr Jacob,

At its meeting of 16 January the Committee on Budgets considered the above proposal for a Regulation.

The Commitee on Budgets noted that the proposed changes to the Regulation forming the basis of the agrimonetary system introduced in January 1993 (Regulation (EEC) No 3813/92) stem from the conclusions of the Commission's report on its application and are essentially concerned with the following three areas:

- abolition of the switch-over mechanism,
- adjustment of the stabilization of the ACRs (agricultural conversion rates),
- revision of the compensation mechanisms.

The committee noted that the Commission proposal represented an acceptable compromise between the necessary budgetary discipline and the decisions taken at the Edinburgh European Council.

The committee also noted that the Commission considered it impossible to assess the financial impact of the proposal, given that this would depend on future currency movements. It did state, however, that if the proposed new system had been applied between 1 January 1993 and 30 June 1994, there would have been a saving of between ECU 72 m and ECU 168 m.

In view of the present constraints, the committee considered that the proposal to abandon the switch-over mechanism, as put forward, was an acceptable solution, given that a continuation of the system was now incompatible with the principles of budgetary discipline, the CAP reform and the GATT agreements; moreover, a return to the previous mechanism involving a fixed threshold could lead to difficulties entailing serious instability of the ACRs.

The committee also took the view that the logic of budgetary discipline meant that the Commission's proposal to limit the Community's contribution to funding compensatory aid to 75% (Objective 1 regions), or 50% (other regions), of the amounts actually paid to farmers must also be supported.

The committee stressed that the application of the new system must allow use of the monetary reserve, under paragraph 15(a) of the Interinstitutional Agreement of October 1993.

The Committee on Budgets, while emphasizing the above comments, therefore called on the Committee on Agriculture and Rural Development to adopt the attached amendment concerning paragraph 15(a) of the Interinstitutional Agreement.

(sgd) Detlev SAMLAND

The following were present for the vote: Samland, chairman; Porto, 2nd vice-chairman; Willockx, 3rd vice-chairman; Bloch von Blotnitz (for Müller), Böge, Bourlanges, Brinkhorst, Colom I Naval, Dankert, Dührkop Dührkop, Elles, Fabra Valles, Fabre-Aubrespy, Garriga Polledo (for Bebear), Ghilardotti, Haug, Kellett-Bowman (for Bardong), Krehl, McCartin, Miranda, Tappin, Theato, Tomlinson, Wemheuer (for Trautmann) and Wynn.

Amendment

After the eighth recital (new)

Whereas it may prove necessary to use the monetary reserve in the Community budget if agricultural expenditure exceeds the guideline as a result in changes of the EMS central rate; whereas, to that end, the Commission must initiate the procedures laid down in paragraph 15 of the Interinstitutional Agreement of 29 October 1993; whereas a transfer proposal submitted by the Commission shall be deemed to have been adopted if it fails to secure the agreement of the two arms of the budgetary authority, as expressed through the adoption of a common position;