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REPORT TO THE COUNCIL OF THE EUROPEAN UNION
ON THE AGRIMONETARY SYSTEM FOR THE SINGLE MARKET

Period from 1 January 1993 to 30 June 1994

This Commission report has been drawn up pursuant to Article 13(2) of Council Regulation (EEC) No 3813/92.

Proposal for a

COUNCIL REGULATION (EC)

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

(presented by the Commission)

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Contents

Abbreviations used in this report

National currencies

BLF	Belgian francs and Luxembourg francs
DKR	Danish kroner
DM	German marks
DRA	Greek drachmas
ESC	Portuguese escudos
FF	French francs
FMK	Finnish markkaa
HFL	Dutch guilders
IRL	Irish pounds
LIT	Italian lire
NKR	Norwegian kroner
OS	Austrian schillings
PTA	Spanish pesetas
SKR	Swedish kronor
UKL	Pounds sterling

EAGGF:	European Agricultural Guidance and Guarantee Fund
CAP:	Common agricultural policy
EMS:	European monetary system
ACR:	Agricultural conversion rate

REPORT TO THE COUNCIL OF THE EUROPEAN UNION ON THE AGRIMONETARY SYSTEM FOR THE SINGLE MARKET

This Commission report to the Council has been drawn up pursuant to Article 13(2) of Council Regulation (EEC) No 3813/92. It analyses the functioning of the agrimonetary system over the period 1 January 1993 to 30 June 1994. The results and conclusions it contains should be treated with caution in view of the relatively short period examined.

A. ESTABLISHMENT OF THE AGRIMONETARY SYSTEM FOR THE SINGLE MARKET

The new agrimonetary system on the basis 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 (OJ No L 387, 31.12.1992, p.1) entered into force on 1 January 1993, at the same time as the single market was completed.

This abolished the previous system of monetary compensatory amounts which had been in existence for more than 20 years. The old system was based on agricultural conversion rates with a relatively fixed value, valid as a rule for one year. In trade in sensitive agricultural products between Member States or between them and non-member countries, amounts were levied or granted to compensate for the effect on prices of the difference between the agricultural conversion rate and the real exchange rate. The system of monetary compensatory amounts no longer applies in the single market since there are no longer any goods controls at intra-Community borders.

The new system applies to all legislation based on Article 43 of the Treaty establishing the European Community and legislation relating to goods processed from agricultural products subject to specific trade arrangments, with the exception of the following:

- customs legislation;
- amounts fixed in ecus <u>by the Commission</u> under the structures policy in agriculture and fisheries;
- some amounts excluded by legislation based directly on Article 43 of the Treaty specifying the use of a particular conversion rate.

<u>The principles</u> governing the agrimonetary arrangements introduced at the same time as the single market are as follows:

- The ecu[1] is used as the unit of account to fix prices and amounts, while payments are made in national currencies.

- The national currencies are divided into two categories: the "fixed" currencies are those which remain within a maximum fluctuation band of less than 2.25% within the EMS. All the other currencies are "fl : currencies.

- Amounts are converted from ecus into national currency using an agricultural conversion rate close to the real rate, i.e.:
  - the central rate for the fixed currencies;
  - a rate close to the average market rate for the floating currencies

- Except in certain special cases, the agricultural conversion rates for all currencies are adjusted when monetary realignments take place . . the EMS. In the case of floating currencies, they may also be changed . the 1st, 11th or 21st day of each month.

- A special mechanism, known as the "switchover" mechanism, is to be applied until 31 December 1994. Using this mechanism, all conversion rates for the ecu are multiplied, directly or indirectly, by a correcting factor. In this way the correcting factor determines the level of the corrected ecu used temporarily in the CAP. When monetary realignments take place within the EMS, the switchover is increased to offset the highest revaluation of the fixed currencies. This means, therefore, that the conversion rates for the (corrected) ecu cannot be reduced for the fixed currencies.

- The agricultural conversion rate applicable to a given price or amount is that valid at the time the operative event takes place, i.e. the event whereby the economic objective of the operation concerned is attained. However, advance fixing is also possible, although the scope for this is limited.

- Prices and certain amounts fixed in (corrected) ecus are reduced when the correcting factor is increased. This reduction amounts to 25% of effect on prices of the annual increase in the correcting factor. The main income losses due specifically to agrimonetary factors may be offset in the form of an increase in certain amounts fixed in (corrected) ecus or in the form of degressive aid.

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(1) This is the ecu as defined in Council Regulation (EEC) No 3180/78 (OJ No L 379, 31.12.1978, p. 1.), converted into national currencies using the rates published in the C-series of the OJ. Where it is necessary to make a distinction, that ecu is referred to as the (budget) ecu in this report, in order to distinguish it from the ecu multiplied by the correcting factor inherent in the switch-over mechanism, which referred to as the (corrected) ecu.

The period in which the new agrimonetary arrangements were introduced was very turbulent in monetary terms. After almost five years of remarkable monetary stability, except as regards the Greek drachma which had declined considerably in value, autumn 1992 was very eventful:

- The pound sterling and Italian lira were taken out of the exchange rate mechanism of the EMS in September 1992. Therefore, from an agrimonetary point of view, these currencies became floating currencies, the same as the Greek drachma. The other floating Community currencies on 1 January 1993 were the Spanish peseta and the Portuguese escudo, which were in the exchange rate mechanism of the EMS with a fluctuation range of 6%.

- Three realignments which changed the central rates of the fixed currencies in the EMS led to an increase of 4.4% in the correcting factor for the ecu. On 1 January 1993 this factor was 1.195066.

- On 1 January 1993 the monetary gaps between the agricultural conversion rates and the representative market rates of the (corrected) ecu were as follows:

  - in the case of the fixed currencies, all had been zero since 1 January 1991,

  - in the case of the floating currencies, they were reduced to zero or close to zero[1].

  As for the floating currencies, given the monetary gaps which had existed previously, but above all the devaluations in autumn 1992, the agricultural conversion rates for the DRA, LIT, PTA and UKL had had to be increased sharply before 1993.

(1) Monetary gaps of zero for the PTA and DRA; - 0.786 for the ESC; - 1.000 for the LIT and - 2.000 for the UKL.

B. CHANGES MADE TO THE AGRIMONETARY SYSTEM

From the beginning of 1993, we can distinguish between three agrimonetary periods based on monetary events and changes in legislation, as follows:

- the original arrangements from January to July 1993
- the special measures from August to December 1993
- the revised arrangements from January to June 1994.

Details of the changes in the agricultural conversion rates (ACRs) and the monetary gaps are given in Annexes 1, 2 and 3. The table below is a of developments, given in percentages:

Changes in the agricultural conversion rates (%)

Period from to	1.9.1992 1.1.1993	1.1.1993 1.8.1993	1.8.1993 1.1.1994	1.1.1994 30.6.1994	1.1.1993 30.6.1993
BLF	0	0	+ 1,5	0	+ 1,5
DKR	0	0	+ 4,1	0	+ 4,1
DM	0	0	0	0	0
DRA	+13,0	+ 2,8	+ 3,0	+ 4,5	+11,7
ESC	+ 3,0	+13,1	0	+ 1,0	+14,2
FF	0	0	+ 1,1	0	+ 1,1
HFL	0	0	0	0	0
IRL	0	+11,1	0	0	+11,1
LIT	+18,5	+ 3,8	+ 2,6	+ 0,5	+ 9,0
PTA	+ 9,6	+14,6	0	+11,0	+15,8
UKL	+18,1	- 1,9	0	0	- 1,9

1. Period of application of the original system: January to July 1993

(a) Main events and monetary movements

In monetary terms the period is characterized by two realignments within EMS. In relation to the other currencies in the exchange rate mechanism:

- on 30 January 1993 the Irish pound was devalued by 10%
- on 13 May 1993, the Spanish peseta and the Portuguese escudo were devalued by 8% and 6.5% respectively.

For those currencies considered to be floating from the agrimonetary point of view, the market conversion rates were as follows:

- for the UKL and LIT, they were devalued up to the end of February and beginning of April respectively (4% and 6.7%) before being revalued in relation to their levels at the beginning of 1993 (5.7% and 0.2%).
- for the DRA, there was an almost continuous, slight devaluation (2.4%)
- for the ESC and PTA, they were devalued sharply (11.9% and 13.6%), in particular during the last few days of July 1993, during which the devaluation previously registered increased considerably (7.4% and 9.1% on 20 July 1993).

(b) <u>The first detailed rules for applying the agrimonetary arrangements</u>

From 1 January 1993, Commission Regulation (EEC) No 3819/92 (OJ No L 387, 31.12.1992, p.17) laid down the first detailed rules necessary for immediate application of the arrangements as follows:

- the reference periods on the basis of which the representative market rates for the floating currencies are calculated are defined as being the (as a rule) ten-day periods beginning on the first, eleventh and twenty-first day of each month,

- the agricultural conversion rate (ACR) is adjusted at the beginning of a reference period when the difference between it and the new representative market rate exceeds the permitted thresholds:

  * at the beginning of the month, if the monetary gap for a given currency exceeds two points (unilateral threshold), the agricultural conversion rate (ACR) for that currency is adjusted so as to reduce the gap by half;

  * at the beginning of each reference period, if the monetary gaps relating to two currencies produce an "aggregate"[1] greater than four points (bilateral threshold), the ACRs concerned are adjusted so as to reduce each of the gaps in question to two points;

- a special adjustment rule was introduced to prevent very large monetary gaps from persisting for a long time during a reference period. Where the "aggregate" of the gaps relating to two currencies exceeds six points, on the basis of the market rates recorded over three consecutive quotation days for the ecu, the ACRs concerned are immediately adjusted so as to reduce each of the gaps in question to two points.

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(1) More precisely, this is the absolute value of the difference between the algebraic values of the two monetary gaps.

- the conditions for the advance fixing of the ACR are specified. In accordance with the provisions adopted by the Council, advance fixing limited to amounts fixed in ecus by tendering procedure or those which themselves can be fixed in advance in ecus. Such advance fixing is up to the end of the third month following the current month at the latest. In addition, in order to avoid the risk of major market distortion, the ACR fixed in advance is adjustable if it differs by than 4% from that which would have been used if no advance fixing had taken place.

  In addition, as from 1 January 1993, Commission Regulation (EEC) No 3824/92 (OJ No L 387, 31.12.1992, p.29) determines the prices and amounts fixed in ecus to be amended as a result of monetary real Commission Regulation (EEC) No 3820/92 (OJ No L 387, 31.12.1992, p.22) laid down measures for the transition from the old to the new agrimonetary arrangements, principally as regards the operative events for the ACRs.

(c) <u>Review of the operative events for the agricultural conversion rates</u>

The performance of operations eligible for the grant of a price or an under the CAP almost always takes a certain amount of time, during which value of the agricultural conversion rate may change. By definition the "operative event" is the event which takes place on the date which determines the value of the ACR to be applied to the price or amount in question.

The problem of choosing the operative events has existed since the agrimonetary system first came into being. As a general rule, Council provisions since 1985 indicate that the operative event is "the event whereby the economic objective of the operation is attained". Any more precise definition is to be laid down by the Commission as required and for each particular case.

Under the new agrimonetary arrangements, the operative events have gained considerably in importance. Firstly, operative events are used much more frequently since, by the nature of the system, there are more changes in ACRs. Secondly, the consequences of the operative events, which mainly affected the relative interests of operators in any one Member State, now have repercussions for trade throughout the single market: the gap between the market rate and the agricultural conversion rate used, by reference to the operative event, can no longer be offset by measures at the internal borders of the Community.

Consequently, the Commission has undertaken, on the basis of criteria laid down by the Council[2], a general review of all the operative events in force on 1 January 1993.

(2) See Article 6(2) of Regulation (EEC) No 3813/92.

In order not to introduce differences in treatment during the marketing year, Commission Regulation (EEC) No 3820/92 specifically extended the period of validity of the operative events established under the former agrimonetary arrangements up to the end of the marketing years which ended in 1993. At the same time it announced a general review of the rules in question by the beginning of the following marketing years.

In the analysis of the situation obtaining on 1 January 1993, the main problem encountered, except for certain special cases, was those operative events which have the effect of a long-term fixing of the value of the ACR.

These operative events may entail the creation of very large monetary gaps, exceeding the thresholds laid down by the Council, between the conversion rate actually applied and the market rate in force at the time the operation is actually completed. In such cases the result would be distortion of the trade flows between the Member States for which gaps exist and those for which none exist.

In practice, this type of operative event concerned mainly the following:

- dates set annually, such as the beginning of the marketing year, for prices or amounts linked to market organizations
- the closing dates for invitations to tender for prices or amounts, for operations to be completed within long deadlines
- the conclusion of contracts relating to future operations.

The sectors most affected by these operative events were:

- wine, fruit and vegetables and fishery products, as regards fixed dates
- beef and milk and milk products, as regards invitations to tender and contracts.

Therefore, in these sectors, the effective applicability of variations in the ACRs was hindered, to a greater or lesser extent, up to the middle of 1993 by the extension of the operative events existing in 1992.

Commission Regulation (EEC) No 1068/93 of 30 April 1993 on detailed rules for determining and applying the agricultural conversion rates (OJ No L 108, 1.5.1993, p.106) repealed Regulation (EEC) No 3819/92, but adopted the provisions it contained in improved form. In addition, it laid down the new operative events applicable from the beginning of the marketing years following.

These operative events are directly applicable, subject to sectoral provisions laid down on the legal basis of Regulation (EEC) No 3813/92 define them more closely or derogate from them for reasons specific to a particular amount or market.

The principle pursued was to establish operative events which are:

- close to the physical completion of the operation in cases where this linked to markets
- determined by a date fixed annually for other operations.

Therefore, for example, the operative events adopted were:

- acceptance of the customs declaration for amounts linked to trade with non-member countries
- the taking-over of products for buying-in and selling prices, and for marketing aid
- the beginning of the calendar year or marketing year for aid per or livestock unit or for structural aid.

(d) Consequences for the agricultural conversion rates and prices in ecus

As a result of the monetary realignment at the beginning of 1993, the correcting factor for the ecu was increased by 1.04%. Its value on 1 1993, i.e. 1.195066, increased to 1.205454, then 1.207509, and has remained unchanged since 14 May 1993.

As a result of the switchover mechanism at the beginning of the various 1993/94 marketing years, prices and amounts linked to the markets were reduced in ecus, and therefore for all Member States, by 25% of the in the correcting factor for the ecu registered over the twelve preceding months.

For all products, the reduction(3) was 1.29%. It was made at one single time, as a rule on 1 July 1993, where all the monetary realignments in 1992 and 1993 occurred over the twelve months preceding the date of the reduction. For some products, including sheepmeat, olive oil and some fruit and vegetables, prices were reduced in two stages, at the start of the 1992/93, 1993/94 or 1994/95 marketing years, which begin during the months from October to May.

As regards the floating currencies, between 1 January and 1 August 1993 the ACRs were changed twelve times for the LIT (five increases and seven decreases) and eleven times for the UKL (three increases and eight decreases). They were increased eight times for the PTA, seven times for the ESC and three times for the DRA.

(3) The price reduction is not the same as 25% of the increase in the correcting factor, i.e. 1.36%, because that increase was made before after the beginning of 1993. It was calculated according to the rules laid down under the agrimonetary arrangements prior to 1993.

The ACR for the IRL was increased in two stages: the main increase, 8.9%, was made immediately after the monetary realignment in question, with a further 2% increase at the beginning of the main marketing years, on 1 July 1993.

The rule for the urgent adjustment of the ACRs had to be applied four times in order to prevent monetary gaps totalling more than six points between two currencies from lasting for more than three days. The currencies involved were, on the one hand, the UKL, accompanied once by the LIT, and on the other hand the LIT, PTA or ESC.

2. Period of application of the special measures, August to December 1993

a) Main events and monetary movements:

On 2 August 1993 the fluctuation ranges of the exchange rate mechanism of the EMS were raised to 15%.

After these new rules had been introduced, the DM and HFL were revalued progressively, by 1.6% in two-and-a-half months, before regaining their original level. For the other currencies which until 1 August 1993 had been considered to be fixed currencies, a devaluation of 1% to 2.5% over one to three months was eventually totally offset in the case of the BLF and partially offset in the case of the DRK and FF, and even reversed in the case of the IRL.

Of the previously floating currencies, the ESC and PTA were devalued particularly sharply by approximately 5% in the last few days of July 1993. Subsequently the ESC stabilized whereas the PTA strengthened slightly before reaching, at the end of the year, its level at the beginning of August 1993. The DRA and LIT were devalued fairly steadily (3.4% and 5.7%), whereas the UKL, following a slight devaluation over two months, regained its August 1993 level at the end of the year.

(b) Special measures

Following the decision on the EMS of 2 August 1993, pursuant to agrimonetary legislation(4) and in spite of a bilateral agreement between Germany and the Netherlands to maintain their currencies within a band of 2.25%, all Community currencies are considered to be floating.

Under these circumstances, it is no longer possible to have a revaluation of the central rates for the fixed currencies and therefore changes to the correcting factor for the ecu. For this reason, all the ACRs, which are subject to the rules laid down for floating currencies, must be adjusted upwards or downwards in order to follow changes in the representative market rates. In August 1993, application of these rules led to two increases in the ACRs for the DKR and FF, and to one increase for the DRA.

(4) Article 1(b) of Regulation (EEC) No 3813/92.

At the beginning of September 1993 the Commission noted that for the past month the market rates had been highly volatile. For example, the daily monetary gaps fluctuated as follows:

Date	4 August	16 August	20 August	10 September
BLF	- 0.5	- 1.4	- 0.6	- 1.9
DM	+ 0.6	+ 2.1	+ 1.1	+ 1.9
UKL	+ 1.1	- 0.2	+ 0.7	- 1.0

The rules in force could have triggered frequent adjustments of the ACRs. These adjustments could have had serious consequences for the agricultural markets, producers' incomes and Community finances, without being based on clear, confirmed trends on the money markets.

Therefore, in order to obtain a longer observation period, Commission Regulation (EEC) No 2496/93 (OJ No L 229, 10.9.1993, p.17) provisionally amended, from 10 to 30 September 1993, the rules for applying the reference periods on which adjustments of the ACRs are based.

Since the monetary circumstances and their possible agricultural consequences had not changed fundamentally, at the end of that observation period the Commission decided as a safeguard measure to suspend all the rules for the automatic adjustment of ACRs. At the same time it submitted the Council a proposal for an amendment of the basic agrimonetary Reg in order to adapt it to the new monetary variability made possible by the decision on the EMS of 2 August 1993.

Initially intended to cover the period 1 to 20 October 1993, the safeguard measure had to be extended until 21 December 1993, the day before the entry into force of the Council amendment of the basic agrimonetary Regulation.

(c) <u>Consequences for the agricultural conversion rates</u>

In October 1993 the Commission had to adjust, on an ad hoc basis, the ACRs for the BLF, the LIT and the DRA in order to avoid the risk of the deflection of trade flows as a result of the negative monetary gaps which had arisen for these currencies. The bilateral monetary gaps of 13 October 1993 had reached a level of approximately six points between those currencies on the one hand and the DM, HFL and PTA on the other. Large bilateral gaps persisted for three reference periods between the PTA on the one hand and the LIT and DRA on the other. They appeared during one reference period between the BLF on the one hand and the HFL and DM on the other.

In the end, between September and December 1993 the monetary gaps for the ESC, FF, IRL and UKL remained smaller than two points. The positive monetary gaps of more than two points narrowed of their own accord for the DM, HFL and PTA after having reached almost three points. For the DKR they appeared at the end of the period, in December 1993.

At the end of 1993, as a result of the agricultural conversion rate adjustments which had been made, there was one single monetary gap which still exceeded the unilateral threshold of two points: +2.393 for the DKR.

3. <u>Period of application of the amended system: January to June 1994</u>

(a) <u>Main events and monetary movements</u>

Compared with previous movements, the first half of 1994 was a much quieter period.

The levels reached by the DKR, DM, FF and HFL in January 1994 remained virtually stable. The BLF rose steadily by just under 2%. The IRL was revalued by approximately 2% in January 1994, then, from the end of February onwards, its value fluctuated at around the level it had reached at the beginning of the year.

The picture for the LIT and PTA varied, and no overall trend is discernible in the first half of 1994.

For the other currencies, the overall trend is towards devaluation, at least since February 1994 (about 2% for the ESC and 4% for the DRA and UKL).

(b) <u>Amendment of the system</u>

At the end of December 1993, Council Regulation (EC) No 3528/93 (OJ No L 320, 28.12.1993, p.32) amended the basic agrimonetary Regulation to take account of the risk of greater variablility in ACRs.

The Regulation restricts the conditions for granting compensation for revaluations in cases where these occur before or after devaluations.

The main amendments cover the rules for ACR adjustment, which it suspends and replaces by new rules up to 31 December 1994.

The detailed rules for applying the arrangements were adjusted by Commission Regulation (EC) No 547/94 (OJ No L 69, 12.3.1994, p.1). Under the new rules, at the beginning of each reference period (1st, 11th and 21st of each month), the ACR is adjusted so as to reduce, always by half, the gap between it and the representative market rate, if that gap exceeds the new thresholds.

The unilateral threshold which was previously fixed at two points is now restricted:

- in the case of positive gaps, to +3 points, which can be extended . necessary, i.e. if a larger gap exists, to a maximum of +5 points;

- in the case of negative gaps, to the level of the threshold applicable to positive gaps, less 5 points, i.e. as a rule -2 points, although it may be reduced to zero.

If, after the gaps which exceed the unilateral threshold have been reduced by half, there are "aggregate" gaps greater than 5 points, the ACRs in question are immediately adjusted so as to reduce the gaps in question to the level of their respective thresholds.

To summarize, the range of the bilateral threshold which used to be 4 has been increased to 5 points. This threshold is positioned asymmet[illegible] between -2 and +3 and is movable up to an upper limit of +5.

(c) Consequences for the agricultural conversion rates

The ACRs for the DRA, ESC, LIT and PTA were adjusted in order to reduce their negative monetary gaps.

The positive monetary gaps for the BLF and DKR stabilized at between +2 +3 points. The gap for the IRL remained greater than +3 over a period of more than one month, its daily level even reaching between +4.0 and +4.3 over 12 days. As a result, it triggered dismantling of the relatively negative gaps for the DRA and LIT. Since the end of February the gap for IRL has been fluctuating widely around +2 points. The positive gap greater than 2 points for the UKL which appeared at the end of January disappeared of its own accord in mid-February, and became a negative gap.

4. Simulated variations in the agricultural conversion rates

The ACRs which would have been fixed on the basis of various theoretical adjustment rules provide a comparison for analysing the impact of the rules and measures actually adopted in the monetary situation obtaining from January 1993 to June 1994. The overall results of these simulations are given in Part 1 of Annex 7.

(a) Effects of the components of the original rules

If there had been no switch-over mechanism and no thresholds for the averag market rates for each reference period, the increases in the ACRs would hav been considerably lower than those actually applied, except in the case of the DRA and ESC. The increases would have been at least 3% lower than those actually registered for the DKR and IRL. There would have been a fall of more than 2% for the BLF, DM and HFL, and the fall would even have exceeded 3% in the case of the UKL.

In contrast with the above theoretical situation, the introduction of the original threshold rules, between -2 and +2 points, without a switchover mechanism, would have considerably reduced the fall in the ACRs for the BLF, DM, HFL and UKL, and limited the increases for the DRA, ESC, IRL and PTA. Nevertheless the general level of ACR increases would have been significantly lower compared with the situation which actually occurred.

(b) <u>Interruption and amendment of the original rules</u>

If the rules originally adopted by the Council for the automatic adjustment of the ACRs had been applied without interruption, the correcting factor would have been frozen at its July 1993 level, resulting in a fall in the ACRs for the DM and HFL of less than 1%. The increases in the ACRs would have been approximately 1% less than those actually applied for the BLF, DKR, IRL and PTA. In the case of the other currencies, the situation would have differed little from that which actually occurred.

During the period of application of the special measures, from August to December 1993, maintaining the original rules would have led to a fall in the ACRs for the DKR (1.0%), DM (0.5%), HFL (0.7%) and PTA (0.8%). The increases in the ACRs applied for the BLF, DRA and LIT would have been triggered in any case (0.1% lower for the BLF and 0.7% higher for the LIT), and the stability of the other ACRs would not have been affected.

Renewed application of the original rules from 1 January 1994 onwards would have produced no change in the ACRs for the DM, ESC, FF and HFL. The ACRs in force on 1 January 1994 would have been reduced for the BLF (1.2%), DKR (0.6%), IRL (2.1%), as well as the UKL (1.2%), which, however, would then have returned to its original level. The reduced ACRs would still have remained greater than the levels they were at on 31 December 1992. As regards the other currencies, the increases in the ACRs would have been less than those actually applied for the PTA (-0.1%) and LIT (-0.5%), but would have been higher for the DRA (+0.8%).

(c) <u>Other assumed situations</u>

As part of the analysis of the situation in the past, an examination was also made of what would have happened to the ACRs on 30 June 1994 in the two following assumed scenarios:

- if, in addition to the original Council rules for adjusting the ACRs, a switchover mechanism for the floating currencies had been introduced from August 1993 onwards: if there was a risk that an ACR could fall below the ACR applicable on 31 December 1992, the correcting factor for the ecu would be increased to reduce the positive monetary gap in question to +2 (assumption D in Annex 7);

- if the amended rules on the threshold, which became asymmetrical and movable from the end of December 1993 onwards, had been applied without a switchover mechanism from 1 January 1993 onwards (assumption E in Annex 7).

In these two assumed cases, the changes in the ACRs would have been different from those which actually occurred. Differences of more than 1% would have consisted of a slight reduction in the ACR for the UKL, and a slight increase in the ACRs for the IRL in the first case, and for the and PTA in the second.

The switchover mechanism linked to the floating currencies would have been triggered on two occasions to prevent a fall in the ACRs for the HFL and The correcting factor for the ecu would then have been fixed at 1.216238 from the end of October 1993 onwards, i.e. an increase of 0.72%.

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<u>Summary of agrimonetary developments</u>

1. The agrimonetary situation from January 1993 to June 1994 was very turbulent with:

- the introduction of the new regime, in particular the review of the operative events for ACRs
- freezing of the switchover mechanism
- the disappearance, for all currencies, of the qualifications required for fixed-currency status
- the suspension, then amendment, of the original rules for ACR adjustment with the introduction of asymmetrical, movable bilateral threshold extended to five points.

2. On the whole, a close link was maintained throughout this series of events and measures between the overall trend followed by market exchange rates and the ACRs. However, the ACRs were made relatively stable vis-à-vis erratic and minimal monetary movements.

The special measures taken in the last few months of 1993 restricted ACR movements in response to fluctuations of the market rates which had become excessive, making both upward and downward necessary. In particular, they prevented a fall in the ACRs for the DM, HFL and PTA, which, given monetary developments, would have proved to be useless two months later. Thus, the provisions introduced, which would have led to the application of a fixed threshold of -2 to +2, with the switchover mechanism not being implemented after 2 August 1993, would have proved to have an unnecessarily destabilizing effect on the ACRs.

Furthermore, considering market trends, the new provisions applied in 1994, based on an extended, asymmetrical and movable threshold, tend to overprotect positive monetary gaps. For example, positive monetary gaps, mostly between 2% and 3%, were maintained for more than four months for the BLF, DKR IRL, thus preventing their preceding devaluations from being corrected.

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C. ECONOMIC AND FINANCIAL CONSEQUENCES

1. Effects on agricultural prices

The relationship between ACRs and market prices in national currencies was examined from July 1992 onwards. The analysis covered a number of products chosen on the basis of their economic importance and the quality of the available data. A selection of the most significant results is given in Annex 4. The trends and quantities indicated are only approximations. They may be invalidated by major events on the markets, such as changes in the marketing years.

As could have been assumed, the relationship between the ACRs and market prices in national currency depends to a large extent on the nature of the common market organizations in question. The prices of products covered by an intervention mechanism are all linked to the ACRs in the short term, although the extent of these links varies. For the other products, the relationship between the two is either very general and discernible only in the medium to long term, or non-existent, at least in the short or medium term.

(a) Products with an intervention price

As regards cereals, normally market prices for common wheat and feed barley closely follow changes in intervention prices in national currency. The same applies to maize and durum wheat, with certain time lags at the beginning of the marketing year as a result of the dates of the actual harvests.

Roughly speaking, a shift of 1% in the intervention price in national currency is reflected in a movement in the market price in the same direction, as a rule between 0.5% and 1.5%.

However, to a certain degree prices are independent of monetary impact during the marketing year. As a rule, these independent variations are approximately ± 2.5% at least. As a result, the slight increase in the ACR for the BLF (1.5%) in October 1993 was not reflected in a clear rise in market prices. The effects of the increase in the ACR for the DKR (4.1%) in August 1993 were concealed by the price levelling at the beginning of the 1993/94 marketing year.

For sugar, although considerably influenced by major changes in ACRs, prices seem to be more independent of agrimonetary movements than is the case with cereals.

Olive oil prices are also clearly influenced by the ACRs. However, ... the general trends are the same, delays in price adjustments may exceed three months, and there are large independent variations. Compared with agrimonetary developments, these independent variations provoke sig... overcompensation or undercompensation in relation to prices, often ... 10%.

In the milk sector, the ACRs seem to have a very direct impact on market prices for butter. In those Member States in which the ACRs changed considerably, the link between ACRs and the price of butter is practically automatic, for both upward and downward shifts: for the IRL, LIT, PTA and UKL, price rises reached 80% to 100% of the ACR increases. The extent to which prices change may be delayed by the effects of aid and export

As a rule, over the periods examined, butter prices did not fluctuate much apart from the monetary adjustments: ± 2%. The fall of 4.25% in the intervention price at the beginning of the 1993/94 marketing year was reflected in market prices to a lesser extent and only after a delay, with possible compensation due to the increase in ACRs for the BLF, DKR, FF and IRL.

In those currencies which were devalued sharply, milk powder (whole or skimmed) prices also closely follow the ACRs, both upwards and downwards, without major delays. However, there are wide variations within this tendency: price movements independent of the rates frequently exceed ± 5%. In spite of the non-existent or slight influence of intervention prices, markets of those Member States involved in sharp devaluations have had to take account of prices charged on the main markets in terms of European production and consumption, expressed in currencies which have remained practically stable.

In the case of cheese, the relationship between prices and ACRs is indiscernible in the short term (with the exception of Grana Padano in Italy). General price trends follow long-term monetary developments, but very rigidly and with few independent variations.

In the beef/veal sector, ACR movements are also closely followed by price movements: an increase of 1% is reflected in a price increase of 0.5% to 1.5%.

However, price movements may not occur until after a delay of two to three months (United Kingdom, Greece). Furthermore, they may be distorted by very large variations independent of the monetary causes, as in Ireland. These variations can easily reach ± 5% and totally cancelled out the effects of the increases of less than 1.5% in the ACRs for the BLF and FF. By co... the increase of 4.1% for the DKR in August 1993 was reflected in prices before being cancelled out by market developments.

(b) Products with no intervention price

Table wine prices did not follow the increases in the agricultural conversion rates for the PTA and LIT between July 1992 and August 1993. The contrary would have been surprising since the operative events for the ACRs applicable in this sector were all frozen at dates closely following the beginning of the 1992/93 wine year. Since 1 September 1993, after revision of the operative events, market prices have been catching up with the level reached by the ACRs. However, these price developments are gradual, and there are major variations.

In the fresh fruit and vegetable sector, there are seasonal variations in apple prices and above all tomato prices, by a factor of 1 to more than 3, i.e. considerably greater than ACR variations. Only withdrawal prices are directly influenced by monetary developments since the reform of the operative events which took effect as from 1 July 1993.

As regards livestock products, sheepmeat and pigmeat prices cannot be linked to the effects of the ACRs, at least in the medium term, because of the size of variations on the markets.

(c) General consequences

The main feature is that, for the majority of products, there are delays of several months in the effects of ACR movements on market prices. The effects make themselves felt earlier for those products subject to an intervention price system. Finally, whatever products are involved, the impact is significant only beyond a certain margin of independent variation in market prices.

Obviously, the size of this margin depends on the products in question, but also on market conditions, and the time at which the monetary movement takes place. For example, market prices are sensitive to ACRs to a greater or lesser extent depending on whether intervention buying-in takes place, and the state of supply and demand. They are also influenced by the level of aid, intervention stocks and export refunds. In the case of those products for which there is no intervention, prices in some non-preponderant Member States may also be very closely linked to the ACRs, with markets being relatively fluid.

In general, the prices of the most sensitive products (for example cereals and butter) are influenced by shifts in the ACRs of more than 2%. For ... her prices there is a margin of the order of 5% (for example milk in some Membe States, beef/veal). The price of a large number of products changes by more than 10% without being influenced by the ACRs (for example olive oil and wine). Finally, the market prices of seasonal products appear to be unaffected by changes in ACRs, except as regards their floor prices.

There are three major consequences of the above:

- As regards producer incomes, it is clear that there are wide dif... in the impact of reductions in ACRs through prices.

  In addition, in the case of livestock products utilizing large quantities of cereals, the fact that prices for these are not very sensitive to a fall in ACRs should, in principle, produce an increase i incomes.

  Finally, in the case of Community aid granted directly to producers, movements are passed on in full, but with a delay of up to twelve ...hs as a result of the operative events. On the whole, whether income losses have agrimonetary causes or not must be examined case by case.

- From the point of view of the common agricultural policy, sharp devaluations have led to compensations received in national currencies developing in a way contradictory to the objectives of the reform.

  For example, for a producer who marketed his cereals at the beginning the 1993/94 marketing year, a compensatory payment based on almost 30% of the fall in prices was granted. However, prices obtained in national currency were down on the preceding year by only 16% in LIT, 17% in PTA, 18% in UKL and 20% in DRA. Therefore, for a large number of producers these Member States, the reform of the CAP has led to a considerable increase in incomes, in particular as a result of the prices applied to the quantities marketed.

- The overall index of consumer price inflation is increased by about 0.3% in the short to medium term when the ACRs increase by 10%.

  This indicates the order of magnitude of the direct effects of agrimonetary variations in prices for basic agricultural products, without taking account of the greater or lesser extent to which their impact may be passed on to the level of consumer prices by the market.

  An idea of the scale of this impact for all Member States is given by the fact that 16% of household expenditure is allocated to food, and that 40% of the value of food depends on the value of agricultural production.

In addition, as a result of the existence of the common market organizations concerned, the main agricultural products whose prices are influenced by ACRs in the short or medium term are: cereals and rice, sugar, milk and milk products, beef, some processed fruit and vegetables, olive oil, table wine and must. These products account for 48% of the value of agricultural production.

2. Effects on trade

In general, and theoretically, prices affect trade when they do not undergo the same short-term shifts as the currencies in which they are expressed. In this way, devaluations stimulate exports and curb imports in the Member State whose currency is affected. Revaluations have the opposite effect.

In the case of agricultural products, these phenomena, which apply to all sectors of the economy, are logically accentuated to the detriment of the Community budget if there are guaranteed prices which do not keep in step with monetary developments in all Member States. Under these circumstances, and in order to comply with the principles of the CAP in the single market, it is necessary that the ACRs should keep in step with changes in market rates, and that they should apply directly to the guaranteed prices, taking account of the operative events.

However, changes in trade flows for monetary reasons can occur only if the price differential exceeds the costs, in particular the transport costs, generated by a change in the destination of the product. These costs depend in particular on the distances, means of transport and products concerned. Furthermore, unusual movements of goods occur only if there is sufficient probability of the price differences persisting over the period necessary to achieve the anticipated profit.

Consequently, there is a margin of fluctuation of market exchange rates which does not make it necessary to adjust the ACRs, and thus justifies the introduction of thresholds. The optimum level of this ACR adjustment threshold is dependent on a very large number of factors which may be cyclical. To a certain extent this level must therefore be a standard level which could prove to be too high in certain circumstances and more restrictive than necessary in others. Practical experience indicates that a general level of 5 points should not be exceeded, since at that stage specific movements of goods between some Member States become clearly identifiable.

In cases where the range of the threshold is smaller than the margin of variation of those market prices which are independent of changes in conversion rates, it has hardly any impact on price developments. On the contrary, if it is higher than that margin of variation, it may provoke a delay in price adjustment. However, these delays concern price gaps which, by the definition of the threshold, are smaller than those which could lead to distortions of trade flows between Member States. Therefore, in theory, the ACR adjustment threshold has no distorting effects on trade other than those which are due to the fact that it is a flat-rate figure.

From a practical point of view, the number, complexity and volatility of factors which play a role in the effects of conversion rates on trade make it very difficult to analyse the causes of the movements observed.

Furthermore, examination of the quantities of products which leave the territory of each Member State each month indicates that they are subject very wide variations which do not repeat each year. Examples of these variations are given in Annex 5. Under these circumstances, it is almost impossible to establish any average or precise statistical trend for trade. Consequently, no statistical relationship can be identified in the short or medium term between these movements of goods and changes in ACRs market prices.

More generally, a comparison of the annual quantities exported to the rest of the European Union and non-member countries in 1992 and 1993 by those Member States whose currency was sharply devalued between those two years could have given some indication. Assuming that exports in 1992 were not exceptionally high, it is doubtful whether there was any monetary effect on those exports which did not expand notably in 1993. The results of this comparison are set out below in simplified form:

Variations in exports to the European Union and non-member countries between 1992 and 1993

+ or - = increase or decrease by more than 20%
++ or -- = increase or decrease by more than 40%
0 = variation of less than 20%

	UK	IRL	I	P	E
Wheat and barley	+	+	-		--
Milk	0	-	0	++	0
Butter	0	--	--	0	--
Beef	++	-	--	++	--
Sheepmeat	+	--	--	++	+
Pigmeat	++	0	++	++	+
Wine	+	0	+	0	++
Fresh tomatoes	--		++	--	0
Apples	--		+	++	++

Exports of cereals from the United Kingdom increased, whereas cereals exports from Spain and Italy, which are smaller, fell. The effects of devaluations are far from obvious, in particular since in the United Kingdom market prices at the end of 1992 followed and even anticipated the increase in the ACR, which prevented the creation of competitive advantages of monetary origin.

Trade in milk products did not increase significantly. In all those Member States which devalued their currency sharply, prices closely followed monetary developments, taking account of the conditions in and special characteristics of the market in question.

Exports of beef from the United Kingdom increased considerably and a monetary influence cannot be excluded, since a delay in price adjustments in relation to ACR changes was observed at the end of 1992. Ireland does not seem to have benefited from the same movements, but on the one hand no delay in price adjustment of the same length was observed and, on the other, the UKL was devalued more than the IRL.

As regards sheepmeat, there is an increase in exports from the United Kingdom and Spain, but this can hardly be explained by changes in the relationship between prices and the ACRs.

Prices for pigmeat in those Member States with a relatively stable currency have been at a relatively low level since the beginning of 1993, with some major variations. In those Member States which devalued sharply, prices in national currency fell less sharply, although they did not compensate totally for the increase in the ACRs. Therefore, very broadly, there is a certain theoretical competitive advantage which in principle can be related to the increase in exports recorded.

Exports of wine from Spain and Italy were encouraged by the fact that prices in national currency remained stable in PTA and even fell in LIT up to the end of the 1992/93 wine year. This downward trend is the result of a structural surplus of supply on the markets, in particular for the table wines marketed. Given the major devaluations of the LIT and PTA, the prices of wine from Spain or Italy, expressed in a currency which did not change or changed only slightly, fell.

Finally, movements of goods for monetary reasons can, in agriculture as in the other sectors of the economy, be set off by price adjustments to changes in exchange rates which are neither complete nor immediate.

In principle these distortions of trade flows are diminished in agriculture as a result of the guaranteed prices which speed up the rate at which the full effects of monetary movements are passed on. However, these dist... are not to be ruled out and, from a logical point of view, are even highly probable for a large number of products, although it would be difficult to demonstrate them statistically. Such distortions of trade are inherent in a system with large monetary movements in a single market without a single currency.

3. Compensatory measures

The only aid granted at least in part for monetary reasons has been n...ional aid in some Member States. It is intended to offset the effects of major devaluations of the currencies of other Member States.

A national aid scheme for small and medium-sized enterprises in Ireland was approved by the Commission in November 1992, for a period ending at the end of March 1993. The purpose of this aid was to help businesses adapt to the market conditions which were suddenly created by the sharp devaluations in autumn 1992, in particular of the UKL. For food industries, or more precisely those which sell the products listed in Annex II to the Treaty, this aid was to be limited to training, market development or promotion measures. Certain investment subsidies and short-term loans were authorized under special conditions.

Against the Commission's advice, the Council decided to recognize two French national aid measures as being compatible with the common market. The reasons given for these were, inter alia, monetary. The aid was granted for the 1993/94 marketing year in the sheepmeat sector and for the 1993/94 wine year. The justification for this aid was claimed to be the negative impact of devaluations of the currencies of other Member States in abnormally unfavourable market situations.

No compensatory measures were introduced for revaluations, mainly because most of them fluctuated, but also because of legal constraints.

The agrimonetary compensatory aid provided for in Articles 8 and 9 of Regulation (EEC) No 3813/92 was not triggered.

The conditions laid down in Article 8 for nationally part-financed aid were never met. Since the beginning of the operation of the new agrimonetary arrangements, there has never been a 12-month period for any floating currency during which the average ACR was lower than the average rate over the 12 months preceding that period.

As regards the nationally financed aid referred to in Article 9 of Regulation (EEC) No 3813/92, it could have been justified in some Member States by the fall in prices in ecus of 1.29% which occurred as a result of the increase in the correcting factor for the ecu from September 1992 to May 1993.

However, the grant of this aid is subject to conditions which the Council must lay down. Since the Council has not yet come to a decision on the proposal submitted by the Commission on 9 July 1993 for a Regulation on the grant of agrimonetary aid (COM(93) 297 final), it has not been possible to make provision for this aid.

Article 7 of Regulation (EEC) No 3813/92 provides for <u>the increase of certain amounts in ecus</u> in cases where the equivalent amount in a national currency is reduced.

The amounts concerned are aid granted per hectare or per livestock unit, together with aid of a structural or environmental nature. The ACRs applicable to these amounts, taking account of the operative events, are those at the beginning of the marketing year for aid per hectare (as a rule at the beginning of July), and those at the beginning of January for other amounts. Thus, in principle, these amounts remain unchanged in national currency for a period of twelve months.

The value of the increase in ecus is determined by the fall in the ACR applicable in a given year over the rate applicable in the preceding year. Since Regulation (EEC) No 3813/92 was amended by Regulation (EEC) No 3528/93, it is also conditional upon the rate being lower than the level in the year before the preceding year.

As regards the amounts financed by the EAGGF Guarantee Section, the conditions laid down in Article 7 of Regulation (EEC) No 3813/92 were never met by the ACRs concerned. Only the ACR for the UKL applicable in 1994 fell below that in 1993, but it remains considerably higher than that in 1992.

As regards the amounts financed by the EAGGF Guidance Section, the agricultural conversion rates are specified as being the same as those applicable for the entry into the accounts of expenditure under the general budget of the European Communities. These rates fell two years running for four Community currencies. The fall in 1994 over 1993 is 0.10% for the DKR, 1.05% for the DM, 1.37% for the FF and 1.46% for the HFL.

On 30 June 1994 reactions to requests for the application of Article 7 of Regulation (EEC) No 3813/92 were deferred in view of the proposal for a Council Regulation amending Regulations (EEC) No 2328/91 and (EEC) No 866/90 to accelerate the adjustment of production, processing and marketing structures under the reform of the CAP. The Commission proposal comprises considerable increases in ecus of the amounts concerned and its adoption could make increases for agrimonetary reasons superfluous.

4. Effects on the EAGGF Guarantee Section

(a) Components of the real impact

From an agrimonetary point of view, expenditure taken into account every month by the EAGGF Guarantee Section depends principally on the values of the following:

- the agricultural conversion rate used to establish the amounts to be paid in national currencies, i.e. the date of the operative event relating to the operation for which the expenditure was incurred.
- the rate applicable for the entry into the accounts in ecus, i.e. the rate for the month in which the expenditure made in national currency registered in the accounts;

Furthermore, the switchover mechanism generates specific budgetary consequences. For example, any increase in the correcting factor leads to:

- a reduction in (corrected) ecus of prices and amounts linked to the market, at the beginning of the following marketing year;
- an increase in the amounts in (corrected) ecus which are determined on the basis of the world market price in dollars.

<u>The agricultural conversion rates</u> which influence expenditure in national currency are those applicable on the date of the operative event for the operation in question. It should be borne in mind here that the operative events were brought into line with the new agrimonetary arrangements as the beginning of the 1993/94 marketing years, i.e. seldom before July 1993.

51% of expenditure taken into account in 1993 relates to ACRs prior to established under the old agrimonetary arrangements.

For 1994, forecast expenditure - which by its very nature corresponds to identifiable operative events - represents only 46% of expenditure in the budget. The operative events for the other expenditure may have taken place on several dates at some time in the past. For example, monthly export refund expenditure is an amalgam of advances on and balances of amounts due for exports which took place at least two months previously, but sometimes up to more than one year previously.

Agrimonetary developments in the first half of 1994 will have a strong impact on the 1995 budget, especially the substantial proportion of it accounted for by aid per hectare. However, it will depend mainly on mc developments as yet unknown on 30 June 1994.

Under these circumstances, the effects of changes in ACRs on real expenditure from January 1993 to June 1994 can only be estimated very approximately.

The fall in prices and certain amounts in ecus caused by the monetary realignments of 30 January and 13 May 1993 was 0.26% applicable from the beginning of the various 1993/94 marketing years. Therefore, it will almost exclusively affect budgets after 1993.

Included in the supporting documents on the financial consequences of the proposals on prices and related measures for the 1994/95 marketing year (COM(94) 10 final-Volume II) was a detailed analysis of the budgetary impact of the falls in prices in ecus due to all the monetary realignments from 1992 to 1993.

In general it is concluded that a 1% fall in ecus of the prices and amounts linked to the markets entails a reduction of 0.7% in EAGGF Guarantee Section expenditure for the 1994 financial year. This order of magnitude is confirmed by the work carried out on the basis of the preliminary draft budget for 1995. Thus, the fall in ecus in question brought about by the monetary realignments since 1 January 1993 produces a saving in Community expenditure of approximately ECU(B=budget) 67 million for 1994, and ECU(B) 70 million for 1995.

World market prices expressed in dollars are not affected by the switchover mechanism and therefore theoretically remain unchanged in dollars. On the other hand, any increase in the correcting factor for the ecu automatically leads to a fall in their equivalent value in (corrected) ecus. Therefore, world market prices expressed in (corrected) ecus fell by 0.87% from 3 February 1993, then by 1.04% from 14 May 1993, in relation to the situation which would have occurred if the correcting factor for the ecu applicable on 1 January 1993 had not been changed.

Export refunds fixed in (corrected) ecus felt the full impact of this increase in the correcting factor for the ecu in the cereals and sugar sectors. The amount of the refund for these products is established directly on the basis of world market prices in dollars converted into (corrected) ecus. For the other products, the level of export refunds is influenced by world market prices but the link is not as close. The effect of the correcting factor becomes less and less, at least in the short or medium term, in relation to other causes of variations.

In addition, the amounts of the production refunds for starch and for sugar used by the chemical industry, and the aid for dried fodder and cotton, are adjusted rapidly and automatically on the basis of the variations in world prices expressed in dollars.

The effects of the switchover mechanism on world market prices also have a direct impact on aid per hectare for oilseeds. However, the financial on the budget becomes apparent only from the budget year following the marketing year during which the monetary realignment in question took

Finally, the budgetary impact of the effects of the switchover mechanism on the rates for converting the dollar into (corrected) ecus may be estimated for 1994 as indicated in Annex 6. According to these estimates, the i in the correcting factor for the ecu implemented in 1993, i.e. 1.04%, led additional expenditure of ECU(B) 78 million for the 1994 budget. This represents 1.04% of the expenditure concerned.

The effects on the 1993 budget year are negligible and the effects on the 1995 and subsequent budgets will depend on future dollar levels, world prices and the quantities concerned.

(b) Estimate of the real impact

In arriving at an approximation of the total real budgetary impact, the following were considered:

- expenditure taken into account for 1993,
- the estimate in January 1994 of appropriation requirements for 1994[1],
- appropriation requirements in the preliminary draft 1995 budget.

It is necessary to establish a reference situation[2] which excludes almost all the effects of thresholds and the effects of the switchover mechanism. This situation is determined by the expenditure which would have been incurred if, since 1 January 1993, the ACRs had been equal to the representative market rates established on the basis of a correcting factor for the ecu frozen at its January 1993 level, i.e. 1.195066.

(1) Supporting documents on the financial consequences of the proposals on prices and related measures for the 1994/95 marketing year (COM(94) 10 final - volume II).

(2) The situation is called reference situation with regard to the assumed situations examined under point (c).

For each of the financial years 1993 to 1995, expenditure was, firstly, broken down on a historical basis according to the national currency of payment and secondly, where possible, classified in accordance with the date of the operative event relating to the type of expenditure concerned. Expenditure relating to indiscernible operative events was spread out over the budget year. Thus, for each beginning of an agrimonetary reference period, the 1st, 11th and 21st of each month, there is a corresponding portion of annual expenditure, or forecast expenditure, which is influenced by the ACR applicable for that period, covering approximately ten days.

The expenditure thus broken down was adjusted to eliminate, in the case of the reference situation, the specific effects of the switch-over mechanism. Thus, for the 1994 and 1995 financial years:

- expenditure which is affected by the agrimonetary reductions in prices and amounts in ecus, i.e. 58% and 48% of the budget respectively, was increased to cancel out the 25% compensation for changes in the correcting factor in 1993;

- expenditure relating to amounts fixed directly on the basis of world prices was reduced by the effect on the conversion of the dollar of the increase in the correcting factor in 1993.

It was necessary to replace the conversion rates used to establish the budget forecasts by the ACRs actually fixed for each agrimonetary reference period. In order to establish the reference situation, the rates used for the ACRs were the representative market rates, without application of the switch-over mechanism from 1 January 1993.

A comparison of the results obtained in the two situations points to a cost due to the agrimonetary system of approximately:

- ECU(B) 107 million, i.e. 0.3% of expenditure, for 1993
- ECU(B) 456 million, i.e. 1.2% of appropriation requirements, for 1994
- ECU(B) 536 million, i.e. 1.4% of appropriation requirements, for 1995.

(c) Comparison of monetary effects

In order to analyse the agrimonetary costs in greater detail, in particular as regards the threshold and switch-over mechanisms, the budgetary effects of various assumed versions of the rules for adjusting the ACRs were simulated.

Interpreting the results of these simulations is very difficult when the calculation has been made on the basis of budget years. For example, nearly half of 1993 expenditure does not depend on the ACRs in 1993, and, what is more, the value of the ACR on 30 June 1994, assumed to have remained unchanged since then, has an exaggerated effect on expenditure for 1994 and 1995.

In order to avoid these difficulties, the simulations were carried out on the budget structure established in accordance with the criteria given under point (b) above, but using only that expenditure relating to operative events which took place from 1 January 1993 to 1 July 1994.

Thus, the budget structure serving as a model represents ECU(B) 68 405 million, 32% of which is attributable to 1993, 45% to 1994 and 23% to 1995.

The results of the situation which actually occurred and of the following assumed situations were quantified, as compared with the reference situation:

(a) Switch-over without threshold: ACRs equal to the representative market rates, multiplied by the values of the correcting factor for the ecu fixed in 1993 and 1994;

(b) Fixed threshold, without switch-over: ACRs resulting from application of a fixed threshold of -2 to +2, but with no change in the value of the correcting factor for the ecu on 1 January 1993;

(c) Continuation of the original rules: ACRs resulting from the rules originally laid down at the beginning of 1993: fixed threshold from -2 to +2, correcting factor for the ecu linked only to the fixed currencies, at the level it was fixed at in 1993 and 1994;

(d) Fixed threshold and switchover becoming floating: ACRs resulting from application of a fixed threshold of -2 to +2, but the correcting factor for the ecu as fixed until 1 August 1993 becomes linked to the floating currencies after that date, in order to prevent the agricultural conversion rates from falling below their level at 31 December 1992.

(e) Asymmetrical and movable threshold since the beginning of 1993: ACRs resulting from a threshold of (-2 to +3) movable up to a level of (0 to +5), applicable since 1 January 1993, with no change in the value of the correcting factor for the ecu on that date.

The effects on Community expenditure of all these assumed situations were quantified on the basis of the same budget structure. Therefore, they can be compared with each other even if the intrinsic value of the results in millions of ecus is of little interest. It should be borne in mind that the resultant hierarchy of the various assumed situations reflects the monetary events actually recorded over the 18 months studied.

These effects, which are given in Part 1 of Annex 8, must be compared with the results given in Annex 7, as regards the changes in the ACRs, and may be summarized as follows:

- Almost 90% of the budgetary effects of the fixed ACRs is due to the switchover mechanism, and approximately 10% to the gaps between them and the representative market rates resulting from the thresholds and the special measures at the end of 1993.

- The fixed, symmetrical threshold from -2 to +2, without the switchover mechanism, would have had a very minor budgetary effect, of approximately 13% of expenditure resulting from the fixed ACRs.

- The special measures taken at the end of 1993 and the changes to the system introduced in 1994 increased expenditure directly linked to ACRs by 18% compared to what would otherwise have occurred.

- The assumed situation of a switchover mechanism becoming linked to the floating currencies from August 1993 onwards would have increased agrimonetary costs by 19% in relation to the effects of the ACRs actually fixed.

- Application from 1 January 1993 onwards of the threshold mechanism adopted in 1994, without the switchover mechanism, would have reduced agrimonetary expenditure by 11% in relation to the expenditure resulting from fixed rates.

In the case of assumed situations B and C in Annex 8, the results of which are given in the second and third indents above, the saving which would have resulted from application of the rules in question would have been accompanied by a significant fall in some ACRs and, in principle, would therefore have given rise to compensatory expenditure. The maximum costs of this compensation given in Annex 8 should be treated with particular caution in view of the approximations they contain. However, they do point to a considerable expenditure risk.

Summary of the economic and financial consequences

1. In general, the effect of agricultural conversion rates on general price inflation is small for the European Union as a whole. Agricultural prices in national currencies follow shifts in the ACRs in the short or medium term only under special conditions. These conditions, which have the effect of strengthening the links between prices and ACRs, concern less than half of agricultural production, and this proportion is falling as a result of the reform of the CAP. Furthermore, the effect of ACRs on prices may occasionally be strengthened or diminished by the supply and demand situation, the grant of aid or export refunds, or stock levels.

   With the exception of a few rare occasions, there are always fluctuation ranges for the ACRs within which market prices do not show any specific reaction. These margins are very variable in size, but examination of the statistical data gathered over the period studied suggests that there is a minimum elasticity of prices in relation to the ACR of approximately 2%.

2. For farm incomes, these ranges, the size of which must be assessed case by case according to the specific market situation, may cancel out any effect on prices of slight variations in the ACRs. By contrast, major shifts in the ACRs have a considerable and immediate effect in some product sectors. For example, in the case of cereals, the sharp devaluations at the end of 1992 and the beginning of 1993 ran counter to the objectives of the reform of the CAP in the Member States concerned. This means that compensation for income losses due to agrimonetary movements may be necessary, but not systematically. Consequently, whether and how much compensation should be paid must be examined in the light of actual circumstances.

3. As regards trade, major devaluations logically create distortions of trade flows in the agricultural sector as in the other sectors of the economy, although they are difficult to quantify from a statistical point of view. This phenomenon is not due particularly to the agrimonetary system, but to the lack of a single currency, or at least strict monetary discipline, in the single market.

   For agricultural products, the existence of a buying-in mechanism at guaranteed common prices diminishes distortions, provided that the operative events for the ACRs applicable to those prices make it possible to pass on changes in the exchange rates directly and rapidly.

   However, a threshold for adjusting the ACRs to changes in market rates may bring some stability to agricultural prices without engendering specific movements of goods. The optimum level of this threshold depends on a large number of factors, some of which are highly dependent on the economic situation. It is therefore necessary to take a flat-rate level. The present level of five points must be considered to be the maximum possible, on average, for the European Union.

4. Agrimonetary developments were given as part of the reasons for granting national aid in Ireland and France. The purpose of this aid was to diminish the effects of devaluations in other Member States.

   Not one of the compensatory mechanisms provided for in the event of revaluations was triggered on 30 June 1994. The conditions for the floating currencies were not met as regards amounts covered by the EAGGF Guarantee Section. Furthermore, the Council rules necessary for granting most of the aid in the case of the fixed currencies have not been adopted.

5. From the point of view of Community expenditure, the impact of the agrimonetary system results from the monetary gaps between the ACRs and the market rates for the (corrected) ecu, and from the switchover mechanism.

   The monetary gaps were created either by the threshold mechanism or by the special measures freezing the ACRs at the end of 1993. The fixed, narrow threshold between -2 and +2 points has only a slight financial impact. The measures introduced from August 1993 onwards increased expenditure directly linked to the ACRs by 18% over that which would have been incurred had they not been introduced, but they avoided the need for compensatory measures.

   Apart from its impact on ACRs which it maintains or raises to a relatively high level, the switchover mechanism results in a fall in (corrected) ecus of prices and amounts linked to the market, as well as an increase in (corrected) ecus of the amounts fixed on the basis of world market prices in dollars. The overall cost of the switchover mechanism is approximately 90% of total expenditure due to agrimonetary developments from January 1993 to June 1994.

   In total, the cost of the agrimonetary system for the period under review is, very approximately, of the order of:

   - ECU 107 million, i.e. 0.3% of expenditure taken into account for 1993
   - ECU 456 million, i.e. 1.2% of appropriation requirements, in 1994
   - ECU 536 million, i.e. 1.4% of appropriation requirements, in 1995.

   These costs would have been increased by about 19% if a switchover mechanism triggered by the floating currencies had been introduced in August 1993. They would have been reduced by 11% if the extended, asymmetrical and movable threshold applied since the beginning of 1994 had been implemented from January 1993 onwards.

D. OUTLOOK FOR THE AGRIMONETARY SYSTEM

In the longer term, an agrimonetary system laying down at least the agricultural conversion rate to be used will remain necessary for as long as CAP amounts in ecus have to be paid in the national currency of any Member State of the European Union. The adoption of the ecu as a national currency by all or some Member States will require a revision of the basic agrimonetary Regulation and even its repeal once the ecu becomes the single currency. That revision must apply from the beginning of the third stage of economic and monetary union, depending on the conditions prevailing.

In the shorter term, on 1 January 1995 the agrimonetary system will undergo major changes:

- under Article 4a of Regulation (EEC) No 3813/92, the original rules for adjusting the ACRs will apply once more;

- under Article 13(2) of that Regulation, the switchover mechanism will no longer apply.

In order to ensure that the effect of the elimination of the correcting factor for the ecu is financially neutral, the Commission may, pursuant to Article 13(1) of Regulation (EEC) No 3813/92, adjust the prices and amounts fixed in ecus before 1 January 1995.

However, on the basis of this report and suitable proposals from the Commission, the Council may adjust the future agrimonetary policy in accordance with Article 13(2) of that Regulation.

When the way the agrimonetary system for the single market has operated in the past and the development of the EMS are examined, the main issues arising fall under three headings:

- the way the system works as a whole,
- stabilizing the ACRs,
- the need for compensation.

However, the problems must be assessed within the framework of future rules required as a result of the GATT Agreements on the one hand and budgetary discipline on the other.

For purposes of comparison, Annex 8 sets out the estimated costs of the various options for adjusting the agrimonetary system considered in this report. It should also be remembered that these results are based on the particular monetary developments observed from January 1993 to June 1994 and they could be profoundly affected by other developments. As regards the appraisal of the theoretical effect in the medium term, the conclusions suggested should be assessed with great caution. On the one hand, they are based on fairly imprecise approximations of the maximum compensation which may be granted while on the other hand they depend on the ACR at 30 June 1994. The level of the ACR seems to be highly dependent on the economic cycle and could alter greatly if the date taken into account, i.e. the end of June, were changed by a few days.

1. <u>International and financial constraints</u>

(a) GATT Agreement

As far as the application of an agrimonetary system is concerned, certain aspects of the agreement within GATT, applying from 1 July 1995 at the latest, should be reiterated:

- The customs tariffs agreed are expressed and must be observed in (budget) ecus.
- The commitments regarding domestic support are fulfilled where the Total Aggregate Measure of Support (Total AMS) remains below the level for 1986-88 as reduced annually; the AMS depends in general, with the exception of negligible amounts, on the quantities produced and the institutional prices expressed in (budget) ecus.
- The commitments regarding export subsidies are to be observed, depending on the type of product, in terms of expenditure entered in the accounts in (budget) ecus.
- The provisions on due restraint are subject, for each type of product, to the limits decided during the 1992 marketing year:

    * on expenditure in (budget) ecus on certain aids, in particular most aids granted under the reform of the CAP, and
    * on domestic support as measured by the AMS.

These international commitments conflict to a greater or lesser extent with the probable consequences of the various components of the present agrimonetary system. The 1986-88 level, which Total AMS must not exceed, and the maximum funds which may be allocated to export refunds are less binding than the 1992 level, to which the provisions on due restraint refer.

<u>The switchover mechanism</u> reduces the Community preference since it raises the common prices expressed in (budget) ecus while the tariff protection at the frontier, agreed under GATT in (budget) ecus, remains unaltered.

This mechanism increases the AMS and, to an even greater extent, refunds fixed on the basis of prices in dollars. However, in view of the level of the commitments in question, this risk of difficulties is fairly low at present. In the longer term, problems could arise.

However, problems could arise very soon with the provisions on due restraint. Switchover brings about a simultaneous rise in the aids concerned, in particular those introduced under the reform of the CAP, and in total domestic support.

In that case, assuming production remains constant, the effects of the switchover mechanism should be wiped out by decisions to reduce prices or aid.

The threshold mechanism, which is not subject to the switchover, has no effect on the AMS since the latter is calculated in ecus on the basis of institutional prices, without using any exchange rate.

However, as regards the commitments to be observed in terms of expenditure entered in the accounts, e.g. on export refunds and the aid referred to in the provisions on due restraint, the threshold mechanism plays a part during the double conversion carried out, firstly in the ACR and then in the rate applicable for entry in the accounts.

As compared with the common levels fixed, the threshold mechanism results in a reduction in expenditure entered in the accounts in the case of currencies which are devalued and an increase in the case of currencies which are revalued. The symmetry in the way the threshold mechanism functions may involve systematic bias, and difficulties, albeit relatively limited, may arise with the provisions on due restraint.

The compensation mechanisms which may be triggered in the case of revaluation involve the following possibilities:

- an increase in terms of ecus, i.e. for all Member States, in aid per hectare or per livestock unit and in amounts of a structural or environmental nature;
- the granting of compensatory aid for losses of income, falling progressively over three years and part-financed by the European Community to the extent of 75% or 50% depending on the region.

As aid per hectare or per livestock unit is affected by the provisions on due restraint laid down in the GATT, an increase in the amounts in question should require reductions in the prices of the types of products concerned if the corresponding AMS for the same annual period and for subsequent periods does not fall spontaneously.

Aid of a structural or environmental nature is in principle excluded from commitments on reduction and is therefore not subject to any constraint under GATT. Compensatory aid for agrimonetary losses of income could be classified in the same way if the amount is not tied to production, except in a previous reference period, and is not dependent on a particular crop.

(b) Budgetary discipline

Budgetary discipline, which was introduced by Council Decision 88/377/EEC (OJ No L 185, 15.7.1988, p.29), requires that annual expenditure under the EAGGF Guarantee Section does not exceed the agricultural guideline.

Following on the conclusions of the Edinburgh European Council of 11 and 12 December 1992, the Commission proposed (OJ No C 68, 11.3.1993, p.6) that the Council replace Decision 88/377/EEC in order to maintain and strengthen budgetary discipline.

As regards the switchover mechanism, certain possibilities of financing outside the agricultural guideline are provided for in Article 10 of the proposed Decision. In accordance with that European Council and having regard to the joint position adopted by the Council on 21 March 1994, those possibilities concern the direct consequences of an increase in the correcting factor for the ecu:

- maintenance or increase in the ACRs,
- increase in amounts fixed on the basis of world prices in dollars,
- reduction in prices and amounts in ecus to offset 25% of the increase due to the switchover mechanism.

Under Article 10 of the proposed Decision, such expenditure incurred as a result of the monetary realignments within the EMS between 1 September 1992 and 15 October 1997 may be financed from the monetary reserve. In the use use of the latter, financing this expenditure will compete with the financing of the consequences of the fluctuations in the dollar against the (budget) ecu. Where the reserve (ECU 500 million from 1995) is exhausted, suitable measures should be taken by the Council to replenish the EAGGF Guarantee Section funds.

The exception regarding compliance with the agricultural guideline by the switchover mechanism does not apply beyond 1997. Accordingly, the total expenditure resulting each time the switchover mechanism is triggered should be financed within the guideline as from the 1998 financial year.

Other agrimonetary expenditure should all be financed as of now within the agricultural guideline.

The threshold mechanism may have a significant cost, as shown by the results in Annex 8, varying substantially depending on the rules adopted for adjusting the ACRs. Over the period of 18 months considered, only a system of narrow, fixed and symmetrical thresholds of between -2 and +2 could have limited expenditure to around 13% of that actually incurred (hypothesis B) while a system of wider, asymmetrical and movable thresholds (-2, +3) to (0, +5) would have left more than 90% of expenditure actually incurred (hypothesis B).

An increase in ecus in aid per hectare or per livestock unit and in aid of a structural or environmental nature may result in considerable expenditure in view of the reform of the CAP. On the basis of appropriation requirements in the 1995 preliminary draft budget, a 1% increase in the aid in question would result in additional expenditure of almost ECU 210 million.

The cost of aid to offset losses of income depends on the estimate of the actual loss suffered by the Member States concerned. As an indication of the magnitude of the financial risks incurred, the impact of a fall of 1% in the ACR is close, as a general Community average, to 1.5% of the family farm income.

Where the compensatory aid granted by the Member States were to make up a major proportion of farm income in the European Union the cost to the Community may prove very high despite national part-financing.

2. Coherence of the system

(a) Abandonment of the switchover mechanism

Linked to the agrimonetary concept of fixed currencies, the switchover system has not operated since August 1993 and will be abolished as from 1 January 1995 pursuant to Regulation (EEC) No 3813/92.

Despite the advantages it may have afforded as a guarantee for incomes of producers in certain Member States, an overall assessment of the switchover mechanism seems clearly negative. As a result of its effects on prices, its main drawback is the fact that it works counter to the objectives of controlling production laid down by the reform of the CAP; furthermore, it generates permanent, excessive Community expenditure by overcompensating across the board, in respect of all Member States and all products, losses of income of agrimonetary origin which have in fact been felt only in a few Member States and with regard to a few products.

As to the future, a switchover system in a form adjusted to floating currencies which devalue only slightly would aggravate the difficulties experienced in the past and in particular its cost to the Community, as the results of hypothesis D in Annex 8 show. Furthermore, the mechanism in question would be incompatible with commitments under the GATT. In the longer term, as from 1998 observance of budgetary discipline could make it difficult for expenditure incurred by the switchover to be financed within the agricultural guideline.

Where a switchover mechanism in a degressive form is contemplated e.g. involving a gradual tailing-back of further increases in the correcting factor, the problems mentioned above would diminish or become temporary, even if lasting several years. However, in that case, the risks of serious difficulties in GATT would persist and politically sensitive price reductions in the national currencies of all the Member States would have to be accepted.

Accordingly, the renewal of the switchover mechanism in any form can only be ruled out.

(b) Conversion rate applicable to the common customs tariff

The customs tariffs agreed under the GATT are expressed in (budget) ecus replace the import levies on agricultural products fixed in (corrected) ecus.

The conversion rate provided for in the Customs Code (Article 18 of [illegible] Regulation (EEC) No 2913/92, OJ No L 302, 19.10.1992, p.1) for the collection of customs tariffs in national currency is generally an annual rate. In view of the variations recorded in exchange rates, the CAP must apply a rate for the (budget) ecu which is closer to reality. By analogy with the application of the agrimonetary system to the common customs tariff, the agricultural conversion rates for the ecu could be used with no correcting factor.

However, in so far as the need to adjust the conversion rate to the common customs tarrif is not specific to products listed in Annex II to the Treaty it would be preferable to amend Article 18 of the Customs Code.

(c) Conversion rate for structures

Amounts covered by the EAGGF Guidance Section and fixed by the Commission are to be converted using the accounting rate[1] in accordance with the Structural Fund rules. The conversion rate applicable to amounts covered by the EAGGF Guidance Section and fixed by the Council is not determined by Structural Fund rules. In accordance with Article 3(2) of Regulation (EEC) No 3813/92 and in order to ensure some measure of consistency with the amounts covered by the Structural Funds as a whole, conversion is carried out with a special ACR, specifically defined as equal to the accounting rate.

Until the end of 1993, structure amounts for fisheries not covered by the Structural Funds were converted by means of the general ACR. Since 1 January 1994, the FIFG (Financial Instrument for Fisheries Guidance) has been included among the Structural Funds. As a consequence, since that date FIFG amounts fixed by the Commission are to be converted using the accounting rate but those fixed by the Council are to be converted using general ACR since there is no specific derogation covering that rate. As situation regarding fisheries and agricultural structure amounts is analogous from the agrimonetary viewpoint, the same conversion rate should apply. Accordingly the derogation from the use of the general ACR int for the EAGGF Guidance Section could be extended to the FIFG.

(1) The accounting rate is the rate for the (budget) ecu used to enter expenditure under the general budget for the European Union in the accounts.

However, in the absence of a switchover mechanism, the difference between the accounting rate and the general ACR is not very great. In both cases, given the operative events which stabilize the conversion rates each year, there is divergence with the trend in the market rates.

Accordingly, in view of the agrimonetary mechanisms to protect against falls in value affecting the amounts in question, it seems preferable to do away with the derogation relating to the general ACR which exists for agriculture. As a result, the ACR in force on 1 January each year would apply to amounts covered by the EAGGF Guidance Section and the FIFG which are fixed by the Council.

(d) Period for which ACRs are fixed in advance

The advance fixing of ACRs increases the risk of defection of trade flows since the gap between an ACR fixed in advance and an ACR in force may come on top of the differences with the market rates which the thresholds authorize.

To limit such risks, Article 6 of Regulation (EEC) No 3813/92 only allows ACRs to be fixed in advance for certain types of amounts in ecus and for a period of less than four months.

Moreover, among the rules for determining and applying the ACR, Article 15 of Commission Regulation (EEC) No 1068/93 provides for an adjustment of the ACR fixed in advance where the gap with the ACR in force exceeds 4%.

Where the limit in the period for which the ACR is fixed in advance does not concern the whole duration of advance fixing of the amounts in ecus themselves, it may cause difficulties in trade. This constraint could be done away with without any significant increase in the risk of deflection of trade if the rule on the 4% threshold were to be strengthened by a Council provision.

3. Stable agricultural conversion rates

Stabilizing the ACRs evens out erratic or short-term movements in agricultural prices. It delays the adjustment of national agricultural prices to trends in currencies. As a consequence, it restricts any falls in farm income linked to revaluations and any increases in Community costs linked to devaluations.

Delaying adjustments to the real trends in currencies reduces changes in agricultural prices in anticipation of reductions in production costs due to revaluation or general inflation due to devaluation.

However, the stabilization of ACRs is limited by the risks of deflection of trade flows which it creates. In addition, in the case of strong currencies, deferred reductions in the ACR tend to increase Community expenditure.

In certain monetary circumstances, the return to the original rules entailing a narrow, fixed threshold between -2 and +2 would certainly be of the least costly possibilities. This would be the case, for example, if the DM and the HFL were the only strong currencies. However, this hypothesi would be less advantageous financially than others if the BLF and the FF were also strong currencies. Furthermore, at the end of 1993 such a fixed, narrow threshold was considered unsuitable in view of the risks of changes in ACRs as a result of the floating of currencies. A simulated trial of would have happened if there had been no change in the threshold mechanism shows that the risk was quite real; however, the EMS has not evolved on point. The results set out in Annex 8 for hypothesis B are highly in: by the monetary trend concerned. The costs in question may explode in the case of a major revaluation, creating a conflict with GATT.

The provisions on thresholds adopted in December 1993 have enhanced the stability of the ACR considerably and have allowed agrimonetary falls in prices to be avoided, which, in the case of certain currencies, would have been due to temporary strengthening. However, they have also prevented certain falls in ACRs which would simply have involved corrections to preceding increases, and have considerably increased certain risks of distortion of trade flows.
The cost of the mechanism is limited by the fact that shifts in the threshold are limited to the magnitude and duration strictly necessary, but it is far from negligible (hypothesis E in Annex 8).

Accordingly, the stability of the ACRs in 1994 should be preserved or strengthened with a concomitant fall in the risks incurred vis-à-vis Community costs and in some of the risks of a deflection of trade.

(a) A symmetrically movable threshold

Under the system applying in 1994, the asymmetry in the movability of the threshold between the level (-2, +3) and the level (0, +5) creates additional costs where there is an increase in the positive monetary gaps. In such cases, the fall in certain ACRs is slowed while the rise in other ACRs is speeded up.

However, where the positive gaps fall below +3, the budget does not benefit from the savings which should be possible through slowing of increases in the ACRs for certain currencies where the negative gap falls below -2 without exceeding the bilateral threshold of 5 points.

For the threshold's movability to be symmetrical, the upper limit for the latter should be equal on a permanent basis to the highest possible gap. Thus, depending on the maximum positive gap, the threshold could fall between the minimum (-5, 0) and the maximum (0, +5). Accordingly, there would be some compensation between excessive costs and savings on expenditure.

One should not, however, expect such symmetry to bring about considerable reduction in expenditure as the threshold continues to be governed by the maximum positive gap and there is almost always one currency for which that gap is fairly high. A trial simulation of this rule along the lines set out in part C (4)(c) shows that with the monetary trend for the period January 1993 to June 1994, there would have been no savings on expenditure. The results are given in Annex 8 in respect of hypotheses E and F. However, unnecessary expenditure should be avoided wherever possible.

(b) Restricting the movability of the threshold

Under the rules applicable in 1994, where the upper limit of the threshold approaches +5, the stability of the ACRs for weak currencies becomes critical as the possible margin of variation for negative gaps becomes very narrow.

To avoid this difficulty, the movability of the threshold below its technical maximum of +5 should be limited.

The result would be a reduction in protection against falls in the ACRs. In cases of revaluations following earlier devaluations, which are fairly frequent, this permits savings without major difficulties. In other cases, an exceptional temporary overrun could be permitted to allow the situation to be examined and suitable solutions to be found, without creating the risk of disastrous deflection of trade.

Overall, Annex 8 gives the results of a trial simulation on such a rule of symmetrical movability, limited to between (-4, +1) and (-1, +4) (hypothesis H). Over the eighteen-month period considered, that rule would have significantly reduced the agrimonetary cost without creating falls in ACRs below their June 1992 level. The limits which could have triggered falls have, however, been approached on several occasions and have thus almost triggered off costly compensation.

(c) Reducing and varying the extent of the threshold

The extent of the bilateral threshold, currently 5 points, was initially set at 4 points in early 1993. The actual extent is mainly limited by the risks of deflection of trade to which it gives rise.

The optimum economic level for the threshold is not necessarily the same all Community currencies taken in pairs or for all products or all periods of the year. It depends on the markets for the products in question and cost of transporting such products between Member States.

The five-point level adopted in late 1993 has always been considered the maximum average level as regards risks of deflection.
It does not entail risks for trade in certain products, e.g. wine, between geographically distant Member States, like Ireland and Greece. However, it is likely to be too high for trade in important commodities like sugar or butter in the Benelux countries. Overall, to avoid all risks, it should be reduced.

However, as the results of the trial simulation on hypothesis G as set out in Annex 8 show, the reduction to 4 points in the present bilateral threshold of 5 points destabilizes the ACR and increases Community costs.

A reduction of the extent of the threshold between certain currencies, on the proximity of the Member States concerned and therefore on the transport costs, could be envisaged. In spite of the complexity which this would introduce, each currency would maintain one single ACR under such a system. By contrast, variations in thresholds by type of product or type of amount should be ruled out totally from the technical and economic viewpoints. These hypotheses result in multiple ACRs for each currency and therefore lead inevitably to distortions between agricultural sectors and Member States.

4. Compensation mechanisms

As the switchover mechanism is ruled out, a reduction in the ACRs must be contemplated if they are to remain linked to monetary reality and if the is to operate in the single market.

The practical consequences of falls in the ACRs may be very different depending on the circumstances. Certain falls may be acceptable without too many problems. This is the case in particular of falls of slight magnitude or in the wake of recent increases, or in a context of rising prices, etc. No measure accompanying the fall in the ACRs then appears necessary.

However, one cannot ignore the fact that the agricultural consequences of certain major revaluations occurring against a background of depressed markets may create considerable political, economic and social difficulties. In such cases, suitable measures to lessen the agrimonetary effects on incomes may be justified.

However, given the implications they have, in particular financial implications, compensation mechanisms should not be triggered until the need for them has been confirmed, and they should be restricted to the most important cases.

(a) Time limits for decisions

The present rules compel the Commission to adjust the ACRs immediately once certain thresholds are attained. Having regard to the normal way the agrimonetary arrangements operate, this is necessary and economically justified.

In the case of revaluations, the scale of their effects justifies the need for a reduction in ACRs to be confirmed by a clear monetary trend.

Accordingly, the requirement that results triggering off reductions in ACRs should be confirmed over an additional reference period should be enshrined in the rules. For several days there is a heightened risk of deflection of trade, but this is a controlled risk as a result of the possibility of shortening the reference period in question under the management committee procedure.

In addition, for more sensitive cases, an additional period could be necessary where revaluations exceed a certain threshold to be established on the basis of the combined past devaluations and the periods for which they applied.
This additional, temporary protection could be obtained by suspending, under the circumstances concerned, the reduction in the ACR concerned for a maximum of four consecutive reference periods.

The introduction of this exceptional rule would involve all the less risk of deflection of trade because the extent and movability of the bilateral threshold will have been determined rigorously for the normal operation of the system, as proposed in point 2. Furthermore, this risk of deflection would in general be eliminated by the continuation of the adjustments to the other ACRs. In any case it could still be controlled by the introduction of protective measures.

(b) Suitable measures

The financing of all agrimonetary compensatory measures by the EAGGF should be made within the annual level of the agricultural guideline, which may call for difficult choices.

Also, provision should be made for taking suitable compensatory measures, confined to "appreciable" revaluations with definite negative effects, i.e. those which exceed the preceding devaluations, taking the period they applied into account.

The automatic measures currently provided for by Article 7 of Regulation (EEC) No 3813/92 may create difficulties with regard to commitments under the GATT or the EAGGF budget. As with the switch-over mechanism, this leads to a general increase in aid for all Member States and all the main product groups, although the potential income losses are much smaller. From the viewpoint of GATT, the increase in "aid per hectare or livestock unit" should be offset by reductions in domestic support for each type of product concerned, either by taking advantage of low annual production or by reducing the guaranteed prices.

Consequently, these provisions should continue to exist and apply automatically only in the case of amounts of a structual or environmental nature, which are often multiannual and granted on the basis of programmes.

Elimination of the present rules on aid per hectare or livestock unit will make it neccesary to have national measures to protect the level of aid against falls of an agrimonetary origin. Therefore, in order to maintain the principles of the CAP, these measures can only be degressive and limited in time.

The compensatory aid currently provided for in Article 8 of Regulation (EEC) No 3813/92 will continue to be compatible with GATT undertakings if they are determined on the basis of certain historical criteria. Their cost may remain limited, but there is a risk that they may get out of control if the Member States concerned account for a major part of agricultural incomes in the European Union. They can only provide a solution after several months of difficulties, because a certain amount of time is needed to assess and confirm the impact of monetary developments on incomes.

Therefore it may be necessary to adopt suitable measures in the very short term, having regard to the actual context of the fall in the ACR. These measures may be decided only if the actual prevailing conditions are known. Most factors affecting the decision are fairly short-term, namely the actual losses and direct compensation as a result of the trend in market prices, the general socio-political situation and the situation on the various markets, the funds available having regard to commitments under the GATT and budget resources. These measures should relate either to market support, including where applicable an increase in certain prices in ecus, or the granting or authorization of compensatory aids.

In order not to relaunch the general debate on the agrimonetary system each time and to ensure that the rules laid down apply to operators for a certain period, changes to the rules regarding conversion rates should be excluded from measures which may be taken under the circumstances laid down here.

The procedure for deciding on short-term compensatory measures in the case of an "appreciable" revaluation could be one of the procedures recommended by the Council[1] and already laid down for agrimontary protective measures.

Under that procedure, the Commission would decide to apply any necessary market measures or additional aid measures. In the three working days following the communication of the Commission's decision, a Member State would be able to refer the decision to the Council, which would have one month to adopt a different decision where appropriate.

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(1) Article 3 of Council Decision 87/373/EEC laying down the procedures for the exercise of implementing powers conferred on the Commission (OJ No L 197, 18.7.1987, p.33.).

General conclusions

1. Council Regulation (EEC) No 3813/92, which provides, as from 1 January 1995, for the discor of the switchover system and a return to the original mechanism involving a fixed, narrow threshold between -2 and +2, may raise difficulties.

The resulting arrangements would, in the current context of the EMS, involve significant in , in the ACRs as was feared at the end of 1993 when the Council decided to amend the rules originally laid down. Accordingly, relatively short-term monetary fluctuations could bring about disturbance the market, falls in family farm incomes, and Community expenditure which is not strictly necessary.

In the case of appreciable revaluations, the compensation mechanisms which should be triggered off at the request of the Member States concerned are highly likely to result automatically in major conflict with the provisions on due restraint agreed under the GATT and with the agricultural guideline imposed by budgetary discipline. In that case, harsh choices between the various levels of agricultural support would have to be made. The original 1993 system, although not appearing very burdensome, thus entails serious risks of a surge in costs and of highly conflictual situations arising.

2. Simply to carry over the agrimonetary rules existing at the end of 1994 does not appear a suitable solution either. It provides overprotection for certain positive monetary gaps and accelerates certain increases in ACRs at the expense of the Community budget. Furthermore, the enlarged five-point threshold could create deflection in trade flows between certain neighbouring Member States.

Furthermore, this situation maintains in principle the switchover mechanism, albeit rendered inoperable by the present rules of the EMS. That mechanism is incompatible with the reform of the CAP, the GATT Agreements and budgetary discipline in the medium term. Lastly, the mechanisms for compensation in the case of an appreciable revaluation are the same as those mentioned previously and thus entail the same drawbacks.

3. As a consequence, in the light of experience and the changes in the background conditions, the agrimonetary system could apparently be improved by measures of three types:

(a) <u>Strengthening the way the system works as a whole</u>

- Abandonment of the switchover mechanism, which is incompatible with the reform of the CAP, the GATT Agreements and budgetary discipline in the medium term.

- Technical adjustments relating to the conversion rates applicable for the common customs tariff and for structures, and detailed rules for advance fixing of the ACRs.

(b) <u>More stable ACRs</u>

- Symmetrical threshold and limitation of its movability in order, under certain circumstances, to prevent unnecessary expenditure and reduce the frequency of devaluations induced by overprotection against falls in the ACRs;

- Possibility of reducing the extent of the threshold depending on the national currencies concerned, in order to avoid the risk of deflection of trade.

(c) <u>Revising the mechanisms for compensation</u>

- Introduction of a short period for confirmation of movements in currencies before any reduction in ACRs.

- Introduction of a period suspending falls in ACR in the event of "appreciable" revaluations, i.e. those which go beyond preceding devaluations, taking account of the time they have applied.

- Limiting possibilities for triggering compensatory measures to cases of "appreciable" revaluations.

- Extension of the principle of the degressive, transitional compensatory aid mechanism to aid per hectare or livestock unit and the introduction of the possibility to take short-term measures.

Annex 1: **AGRICULTURAL CONVERSION RATES**

(1 ecu = ... NC)

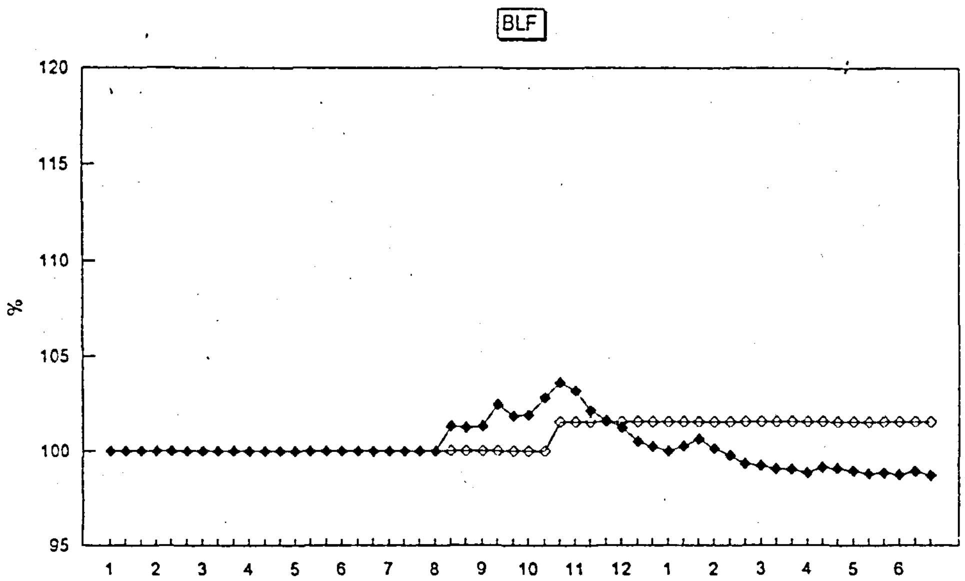
BLF	DKR	DM	DRA	ESC	FF	HFL	IRL	LIT	PTA	UKL
48.5563	8.97989	2.35418	274.609	203.418	7.89563	2.65256	0.878786	1761.45	151.756	0.795423
48.5563	8.97989	2.35418	292.133	207.327	7.89563	2.65256	0.878776	1990.00	161.262	0.897525
48.5563	8.97989	2.35418	310.351	209.523	7.89563	2.65256	0.878776	2087	166.075	0.939052
								2133		
										0.951031
							0.957268	2156.72		0.968391
				212.128				2207.67		0.980715
								2262.06		
			314.412	214.525				2287.88		
										0.978559
									166.261	0.970726
								2264.05	169.628	0.964017
								2230.20		
								2226.76		
				222.758				2195.05	176.247	
								2194.16	176.451	
									179.488	0.959111
									182.744	
			315.843					2191.78		
			319.060				0.976426	2166.58		0.948645
				223.071						0.937041
				228.151						0.930787
				233.112					186.835	
				236.933					190.382	0.920969
	9.14292				7.95622					
	9.34812									
					7.98191					
			322.728							
49.3070			328.567					2222.98		
								2264.19		
			331.890							
									192.319	
			334.226					2274.93		
			337.814							
			342.048							
				239.331						
			346.789							
49.3070	9.34812	2.35418	346.789	239.331	7.98191	2.65256	0.976426	2274.93	192.319	0.920969

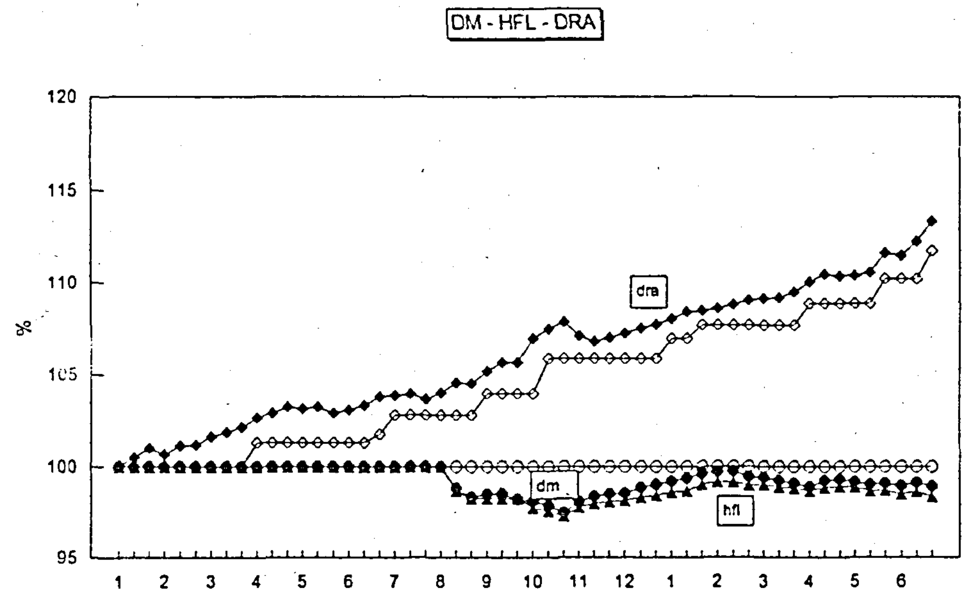
re the monetary movements in automn 1992. Rate for the PTA applies to cereals. Correcting factor for the ecu 1.145109.
of monetary system for single market. Correcting factor for the ecu 1.195066.
realignement: 10% devaluation of the IRL. Correcting factor for the ecu 1.205454.
realignement: ESC devalued by 6.5% and PTA by 8%. Correcting factor for the ecu 1.207509.
93, fluctuation range of exchange rate mechanism of EMS extended to 15%.
9/93, suspension of original rules for adjusting the agricultural conversion rate.
2/93, amendment of basic agrimonetary Regulation.

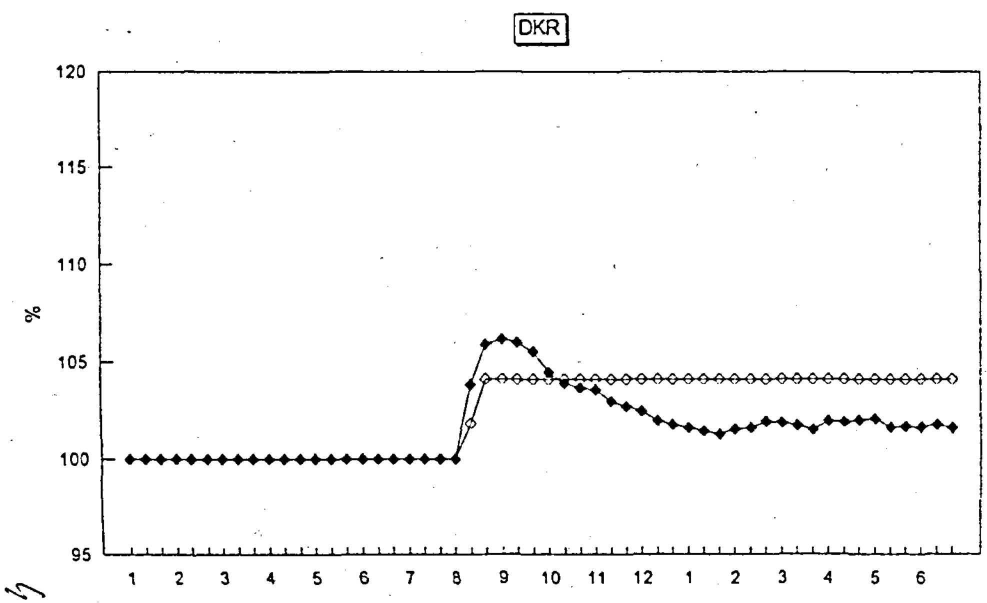
Annex 2: MONETARY GAPS BY REFERENCE PERIOD

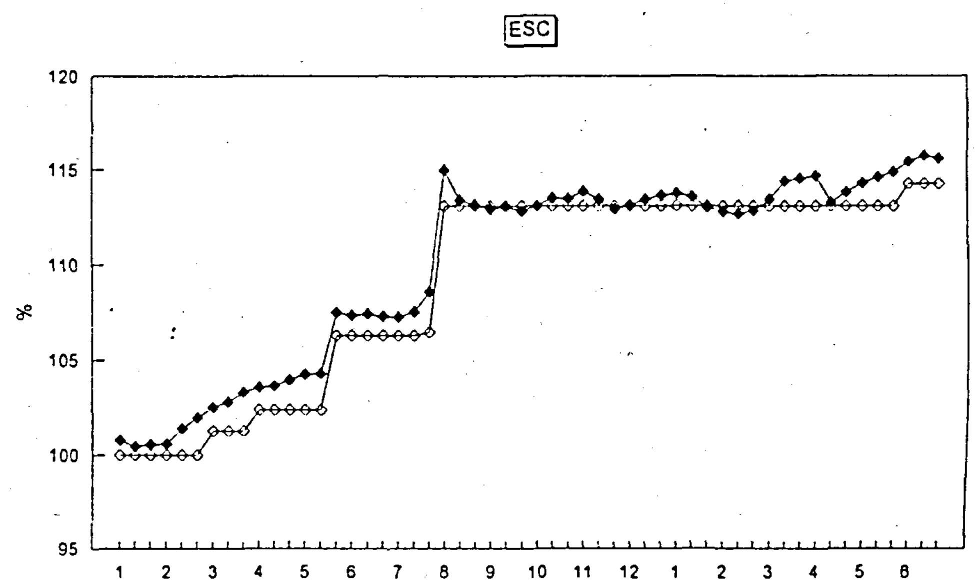
Period	BLF	DKR	DM	DRA	ESC	FF	HFL	IRL	LIT	PTA	UKL
01 – 1993											
1	0.000	0.000	0.000	0.000	−0.787	0.000	0.000	0.000	−0.997	0.000	−2.000
2	0.000	0.000	0.000	−0.479	−0.134	0.000	0.000	0.000	−1.982	−0.134	0.374
3	0.000	0.000	0.000	−0.979	−0.540	0.000	0.000	0.000	−0.950	−0.157	0.411
02											
1	0.000	0.000	0.000	−0.666	−0.567	0.000	0.000	0.000	−1.220	0.257	−1.293
2	0.000	0.000	0.000	−1.122	−1.375	0.000	0.000	−2.000	−0.776	−0.428	−2.089
3	0.000	0.000	0.000	−1.181	−1.974	0.000	0.000	−2.000	−2.253	−0.843	−2.590
03											
1	0.000	0.000	0.000	−1.627	−1.260	0.000	0.000	−2.000	−2.419	−1.460	−1.290
2	0.000	0.000	0.000	−1.874	−1.532	0.000	0.000	−2.000	−1.435	−0.848	−0.027
3	0.000	0.000	0.000	−2.121	−2.035	0.000	0.000	−2.000	−2.400	−0.611	0.860
04											
1	0.000	0.000	0.000	−1.327	−1.144	0.000	0.000	−2.000	−1.155	−0.590	1.656
2	0.000	0.000	0.000	−1.576	−1.232	0.000	0.000	−2.000	−1.240	−0.897	2.000
3	0.000	0.000	0.000	−1.928	−1.512	0.000	0.000	−2.000	1.308	−2.114	2.000
05											
1	0.000	0.000	0.000	−1.808	−1.808	0.000	0.000	−2.000	1.474	−1.940	1.965
2	0.000	0.000	0.000	−1.930	−1.873	0.000	0.000	−2.000	2.000	−1.733	1.400
3	0.000	0.000	0.000	−1.575	−1.102	0.000	0.000	−2.000	2.000	−2.000	1.493
06											
1	0.000	0.000	0.000	−1.764	−0.977	0.000	0.000	−2.000	1.727	−1.848	1.383
2	0.000	0.000	0.000	−1.988	−1.062	0.000	0.000	−2.000	1.912	−0.022	0.521
3	0.000	0.000	0.000	−2.000	−0.928	0.000	0.000	−2.000	2.000	1.038	1.229
07											
1	0.000	0.000	0.000	−1.029	−0.878	0.000	0.000	0.000	1.138	1.074	1.079
2	0.000	0.000	0.000	−1.104	−1.139	0.000	0.000	0.000	0.588	1.081	2.438
3	0.000	0.000	0.000	−0.819	−2.000	0.000	0.000	0.000	−0.409	−0.530	2.000
08											
1	0.000	0.000	0.000	−1.170	−1.166	0.000	0.000	0.000	−1.321	−1.936	1.044
2	−1.320	−2.000	1.176	−1.718	−0.277	−2.000	1.311	0.261	−1.067	−0.467	1.067
3	−1.245	−1.759	1.664	−1.665	−0.068	−2.000	1.743	−1.148	−1.205	−0.289	0.374
09											
1	−1.317	−1.996	1.493	−1.164	0.153	−1.397	1.730	−1.246	−1.870	1.506	−0.218
2	−2.460	−1.843	2.115	−1.628	0.040	−1.572	2.429	−1.662	−2.843	1.650	−0.879
3	−1.849	−1.402	1.770	−2.987	0.251	−1.109	2.083	−1.708	−2.647	2.813	−1.444
10											
1	−1.918	−0.351	1.914	−2.865	0.003	−0.912	2.245	−1.330	−3.483	2.508	−1.859
2	−2.808	0.175	2.135	−3.334	−0.348	−0.855	2.414	−0.430	−4.291	2.013	−1.522
3	−2.038	0.405	2.534	−1.888	−0.320	−1.450	2.703	−0.274	−1.129	2.467	−1.864
11											
1	−1.596	0.504	1.914	−1.163	−0.670	−1.237	2.206	−0.371	−0.504	2.943	−1.015
2	−0.593	1.082	1.640	−0.845	−0.310	−1.157	2.023	0.043	−1.266	2.553	−0.419
3	−0.054	1.341	1.506	−1.047	0.156	−0.870	1.091	0.445	−2.153	1.653	0.041
12											
1	0.309	1.574	1.465	−1.296	−0.027	−0.645	1.857	1.314	−3.390	0.863	0.585
2	1.021	2.054	1.146	−1.550	−0.280	−0.218	1.685	1.546	−3.661	−0.251	0.877
3	1.283	2.257	0.971	−1.741	−0.479	0.194	1.568	1.387	−3.543	−0.399	0.536
01 – 1994											
1	1.504	2.393	0.795	−1.023	−0.577	0.194	1.383	1.710	−1.776	−0.757	0.667
2	1.252	2.557	0.615	−1.380	−0.425	0.334	1.331	3.115	−1.059	−1.028	1.503
3	0.897	2.714	0.372	−0.709	0.087	0.210	0.988	4.062	−0.477	−0.284	2.429
02											
1	1.397	2.455	0.276	−0.812	0.272	0.111	0.837	4.025	−0.600	0.845	2.351
2	1.750	2.398	0.255	−1.028	0.379	0.159	0.820	3.380	0.083	1.070	1.621
3	2.195	2.081	0.569	−1.250	0.217	0.232	1.023	2.075	0.123	0.613	0.489
03											
1	2.278	2.134	0.594	−1.348	−0.314	0.347	0.964	2.225	−0.371	0.933	0.439
2	2.248	2.284	0.786	−1.366	−1.142	0.447	1.121	2.133	−1.404	0.231	0.452
3	2.497	2.503	0.923	−1.647	−1.266	0.591	1.175	1.550	−1.326	0.410	−0.368
04											
1	2.641	2.049	1.110	−1.085	−1.384	0.291	1.309	1.195	−0.597	0.783	−1.079
2	2.381	2.117	0.785	−1.483	−0.135	−0.102	1.159	1.157	1.445	1.726	−1.018
3	2.419	2.010	0.700	−1.373	−0.644	−0.275	1.075	2.186	1.938	1.119	−0.590
05											
1	2.531	1.949	0.833	−1.419	−1.057	−0.342	1.101	2.165	1.649	1.037	−0.672
2	2.671	2.370	0.971	−1.576	−1.324	−0.078	1.320	1.672	1.491	0.478	−1.549
3	2.630	2.342	0.907	−1.269	−1.583	−0.128	1.296	2.523	1.765	−0.139	−1.201
06											
1	2.742	2.384	1.032	−1.165	−1.023	0.192	1.497	2.107	0.949	0.193	−1.881
2	2.581	2.233	0.878	−1.848	−1.299	0.250	1.375	2.468	0.554	0.310	−1.012
3	2.786	2.409	1.066	−1.406	−1.181	0.407	1.618	1.995	−0.032	0.021	−1.660

ANNEX 3-1 : CHANGE IN REPRESENTATIVE MARKET RATES (IN BLACK) AND AGRICULTURAL CONVERSION RATES (IN WHITE) FROM JANUARY 1993 TO JUNE 1994

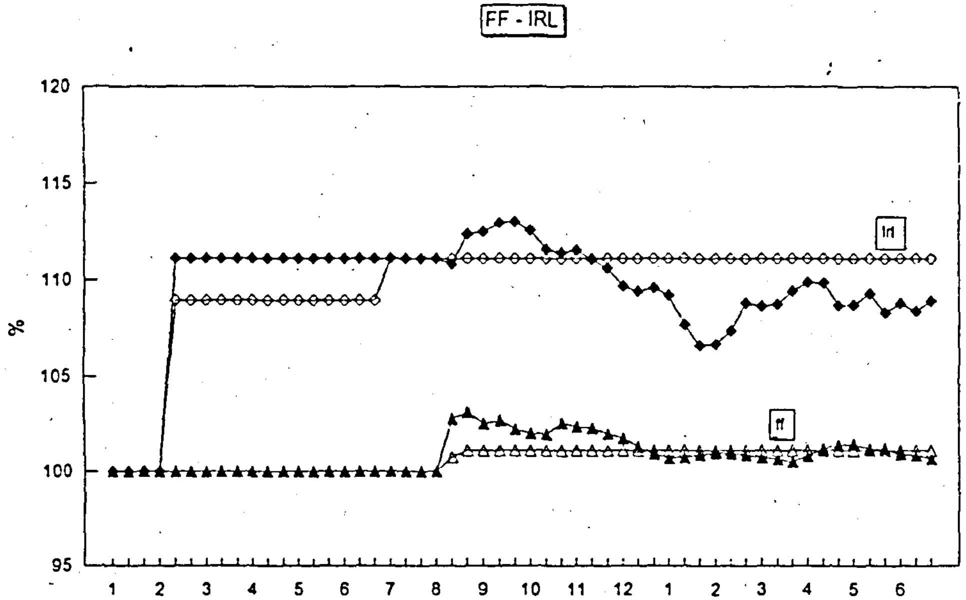


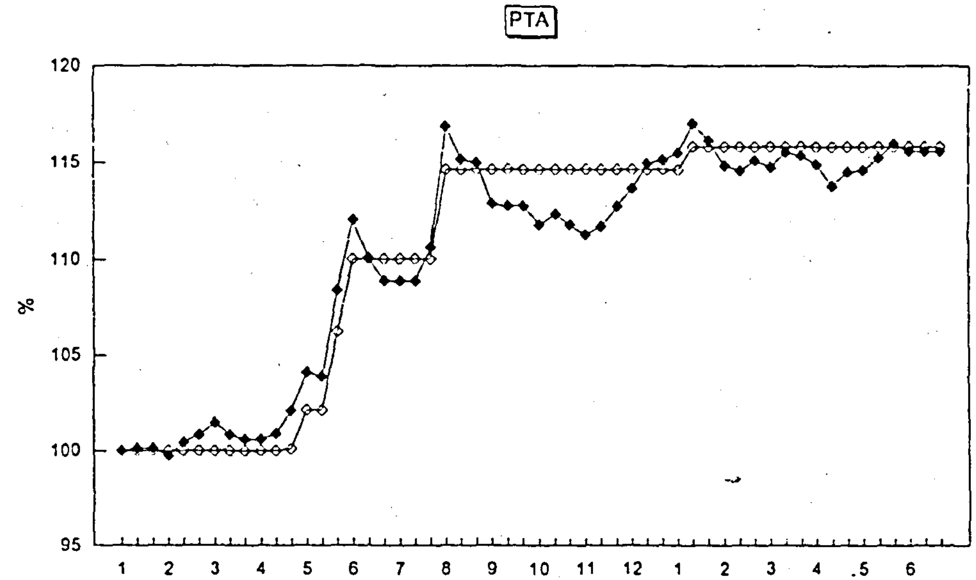


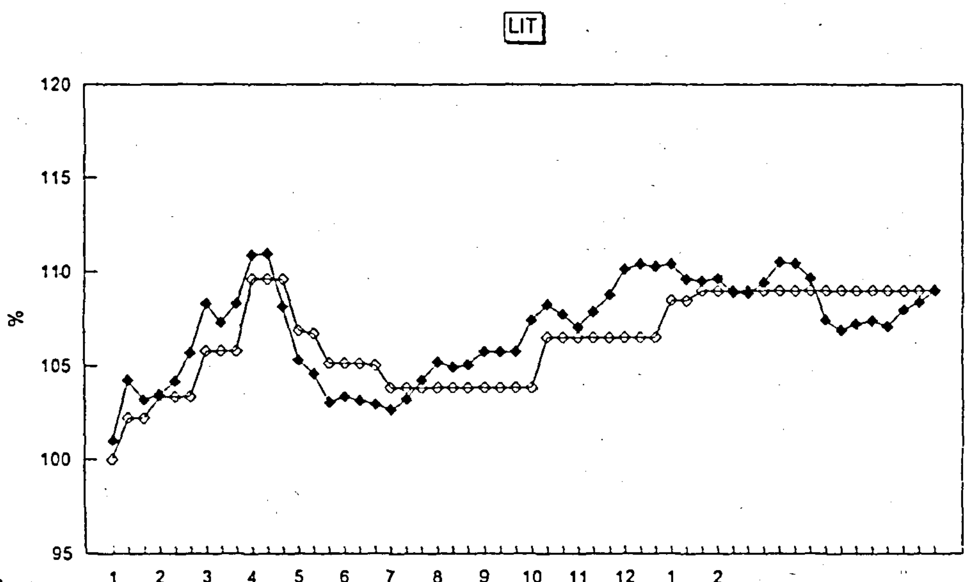


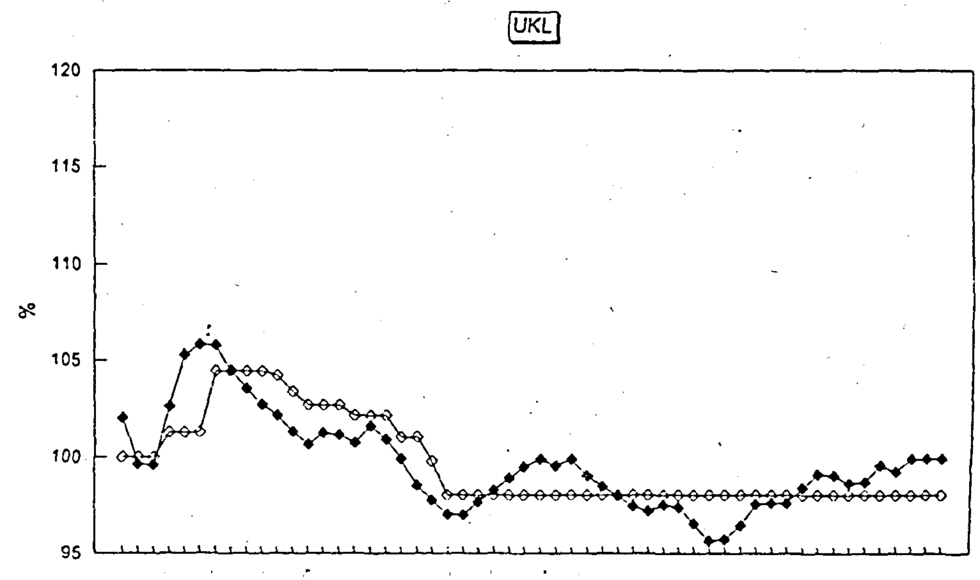


ANNEX 3-2 : CHANGE IN REPRESENTATIVE MARKET RATES (IN BLACK) AND AGRICULTURAL CONVERSION RATES (IN WHITE) FROM JANUARY 1993 TO JUNE 1994



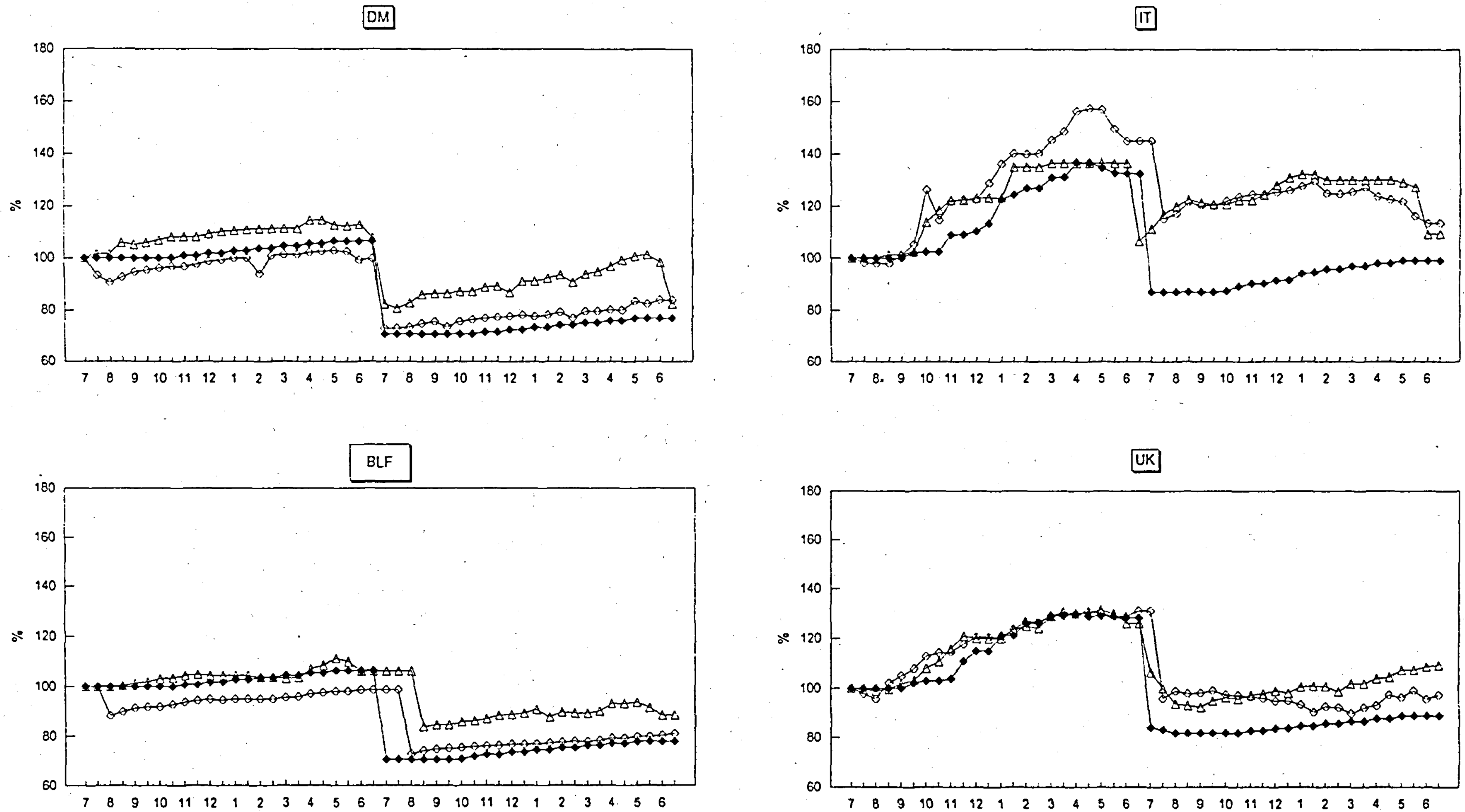






CEREALS

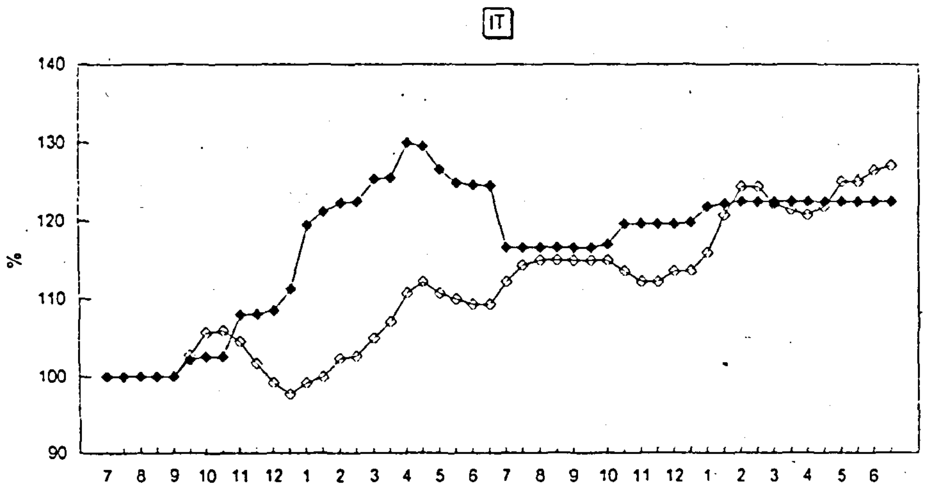
Intervention price (in black) and market price (in white)
for common wheat (lozenge) and barley (triangle)

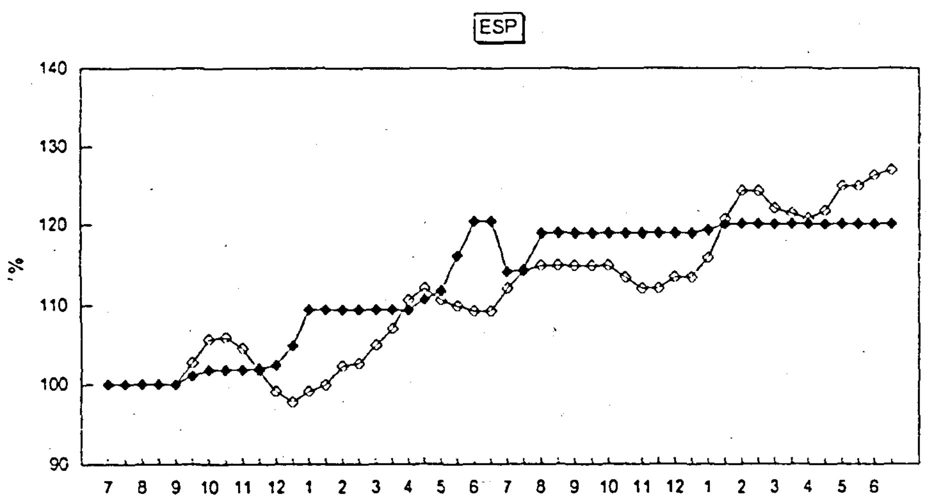


15

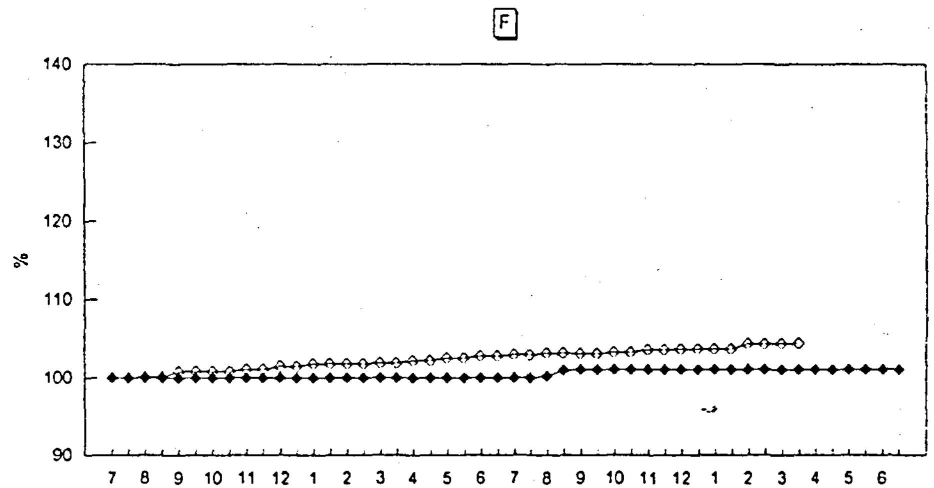
ANNEX 4-2 : MONTHLY PRICE CHANGES IN NATIONAL CURRENCY BETWEEN JULY 1992 AND JUNE 1994

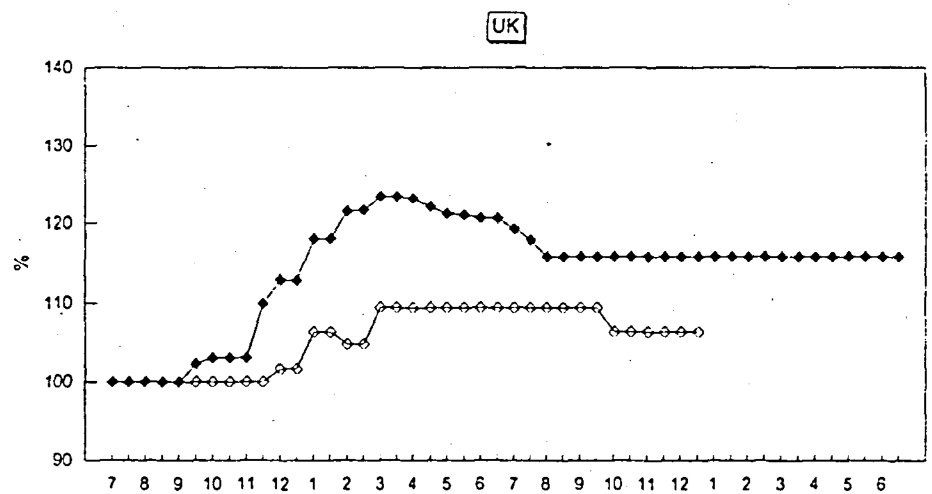
<u>OLIVE OIL</u> :
Intervention price (in black) and
market price for extra virgin oil (in white)





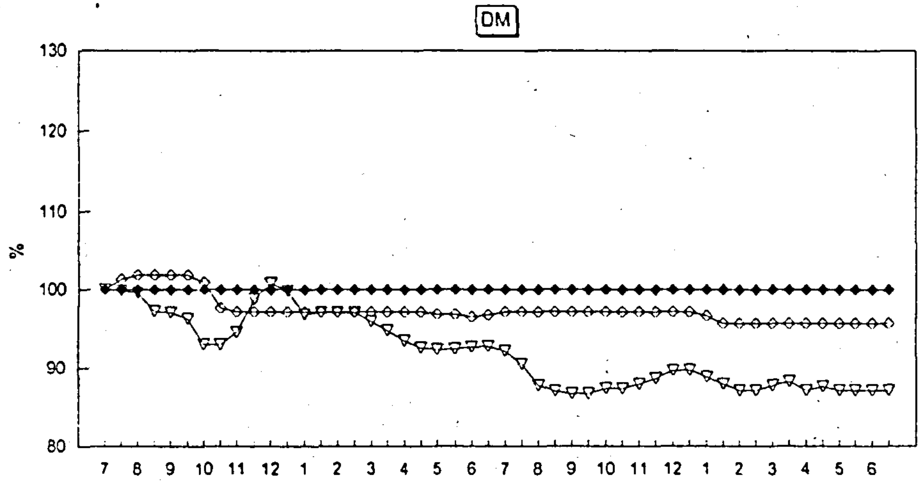
<u>SUGAR</u> :
Intervention price (in black) and
market price for white sugar (in white)

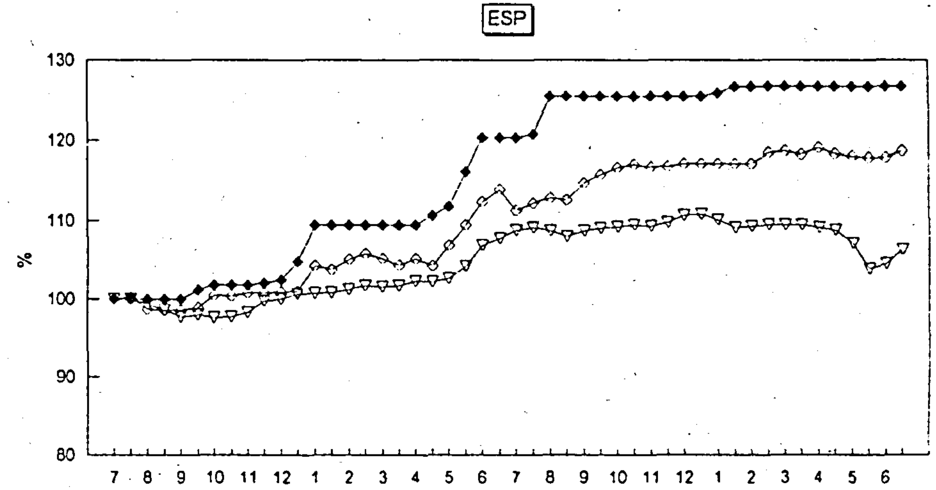


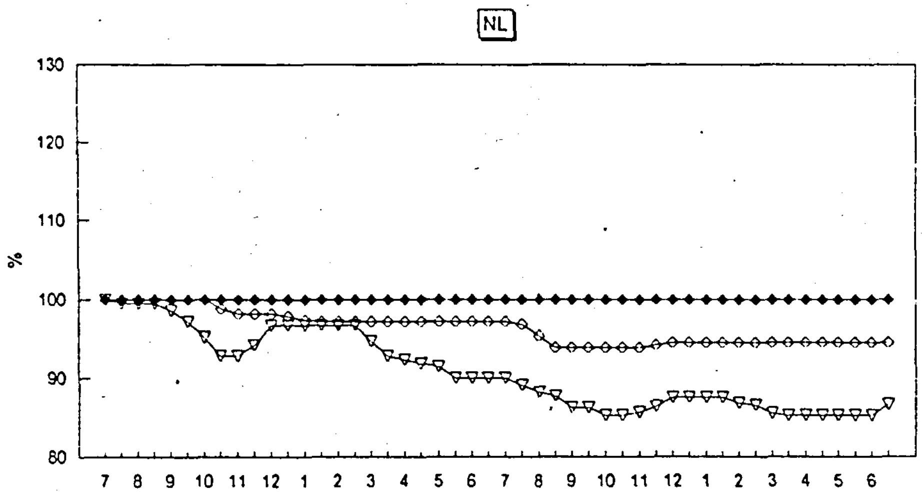


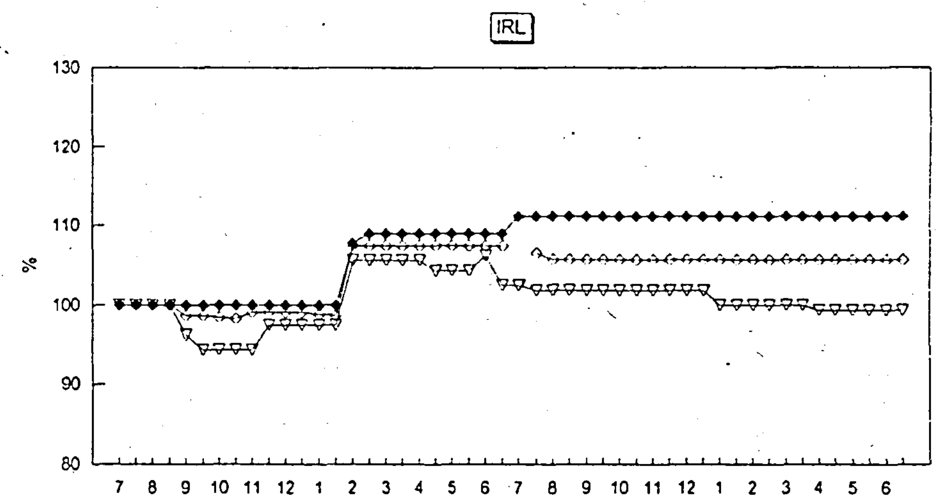
MILK PRODUCTS

Agricultural conversion rate (in black) and market price (in white) for butter (lozenge) and whole milk (triangle)





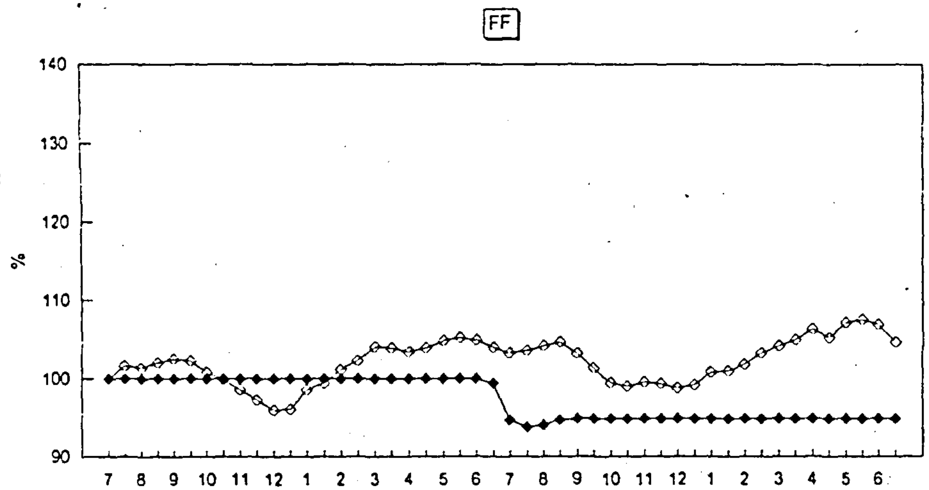


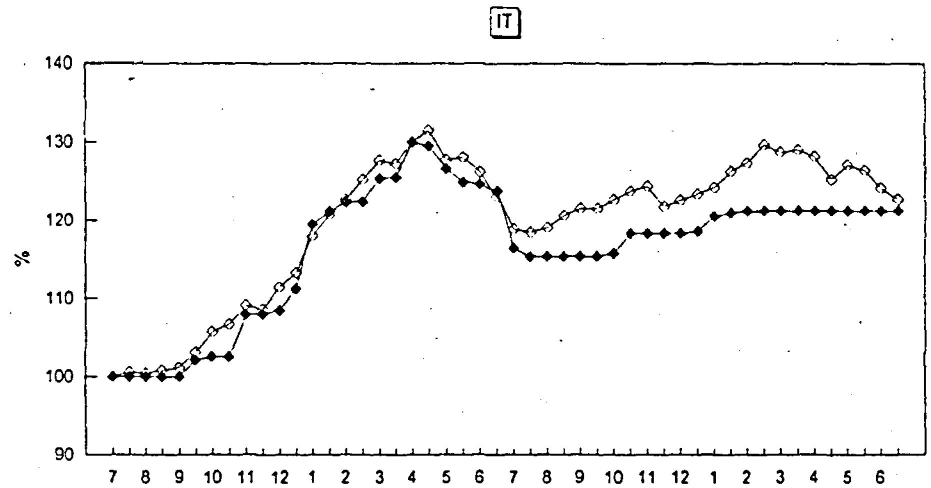


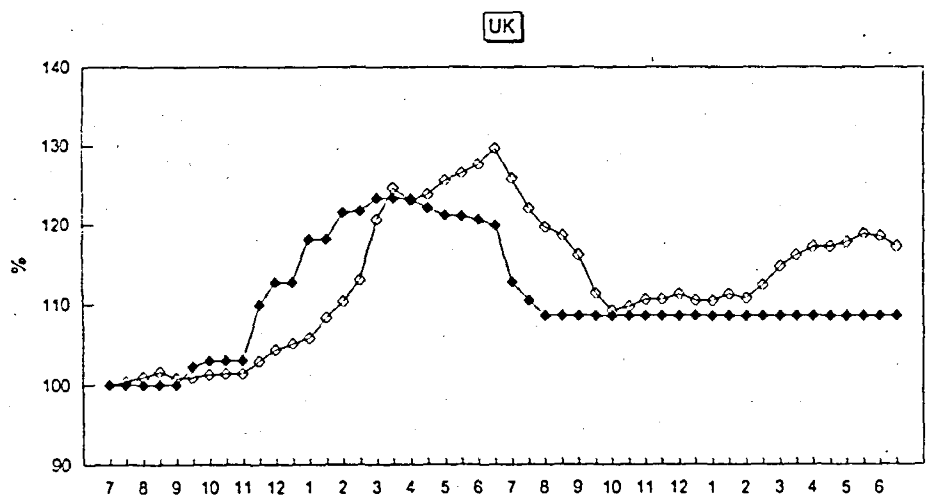
ANNEX 4-4 : MONTHLY PRICE CHANGES IN NATIONAL CURRENCY BETWEEN JULY 1992 AND JUNE 1994

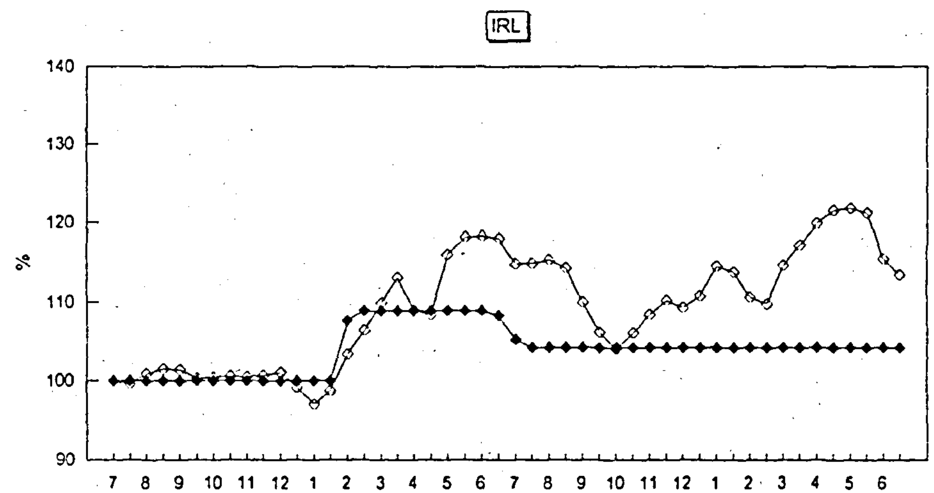
BEEF

Intervention price (in black) and market price for carcases (in white)

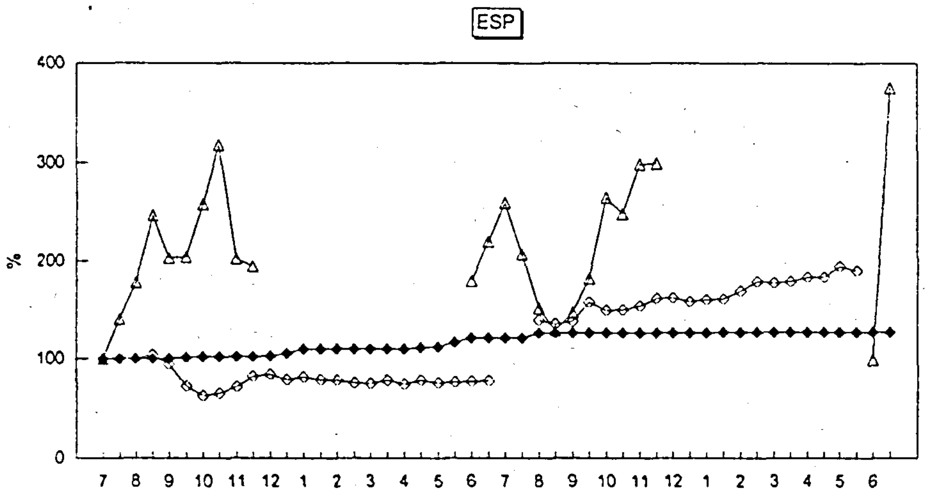








FRESH FRUIT AND VEGETABLES
Agricultural conversion rate (in black) and market price (in white) for apples (lozenge) and tomatoes (triangle)



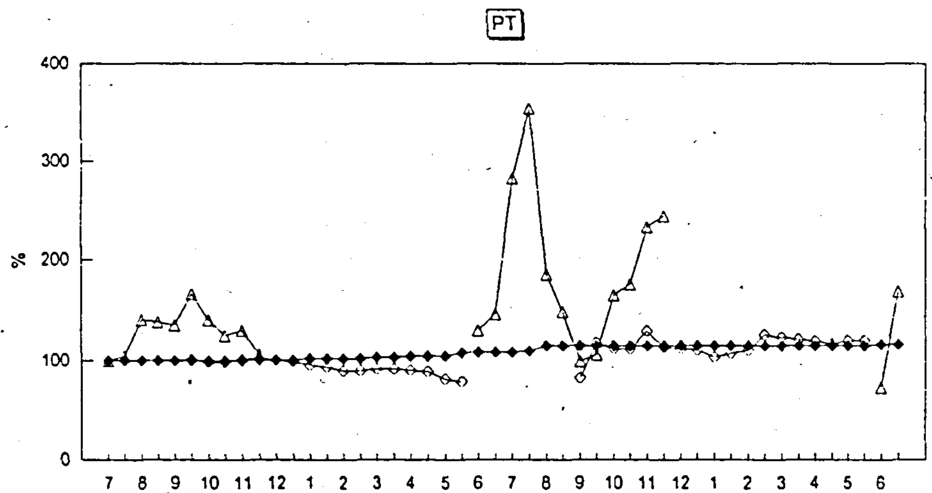
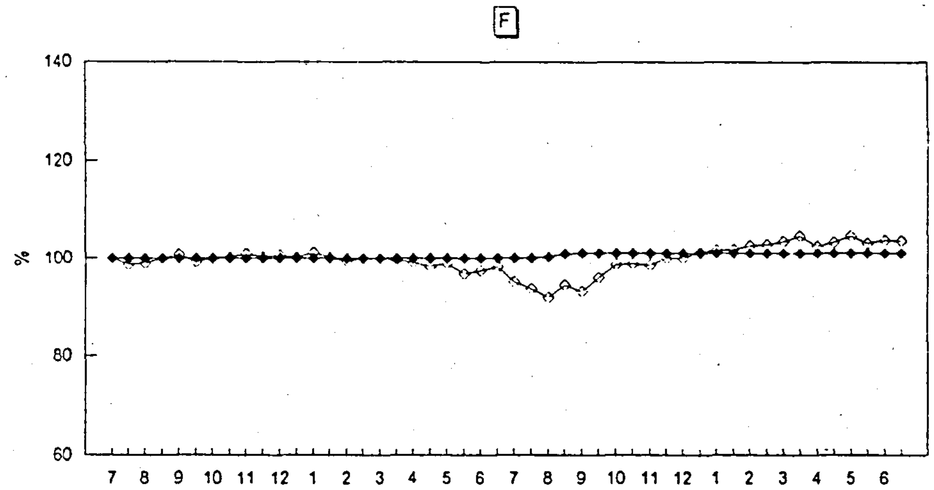
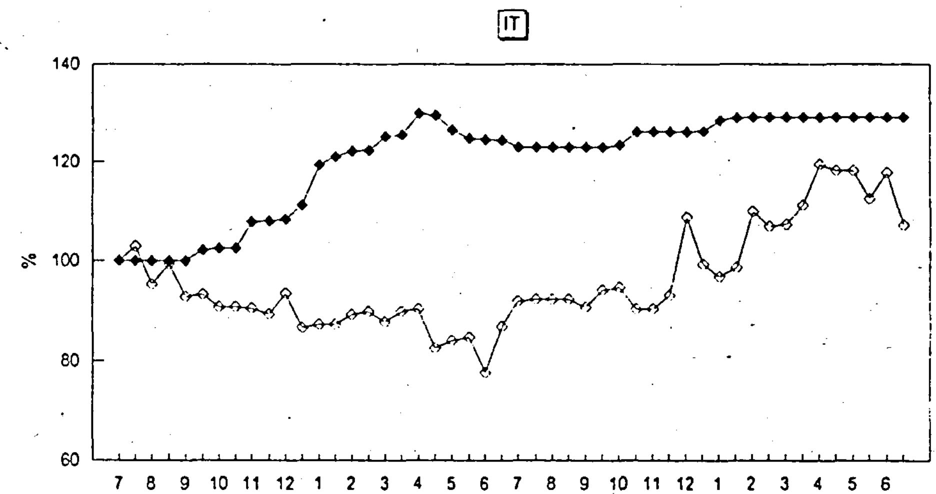


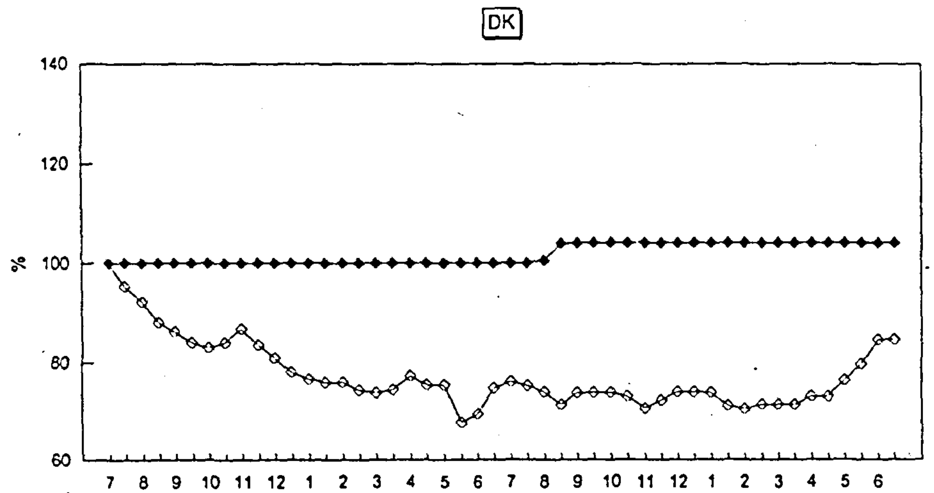
TABLE WINES
Agricultural conversion rate (in black) and market price for wines of type R1 (in white)

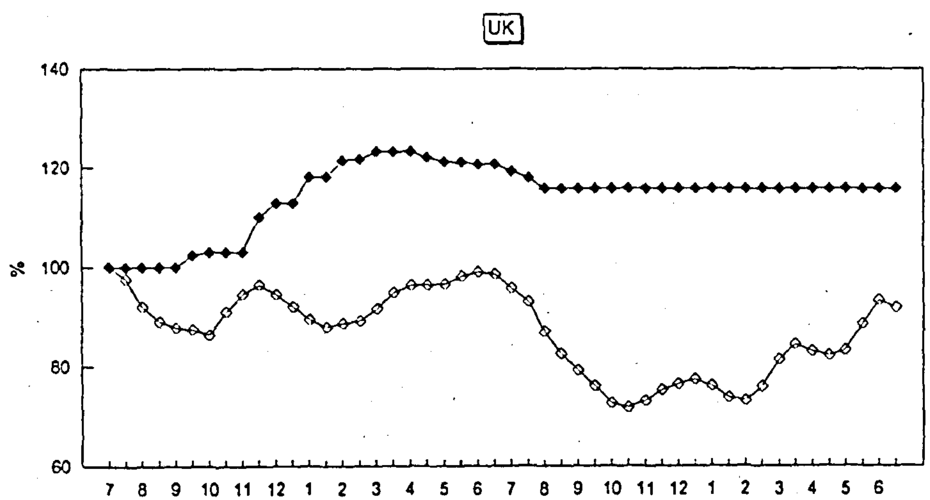




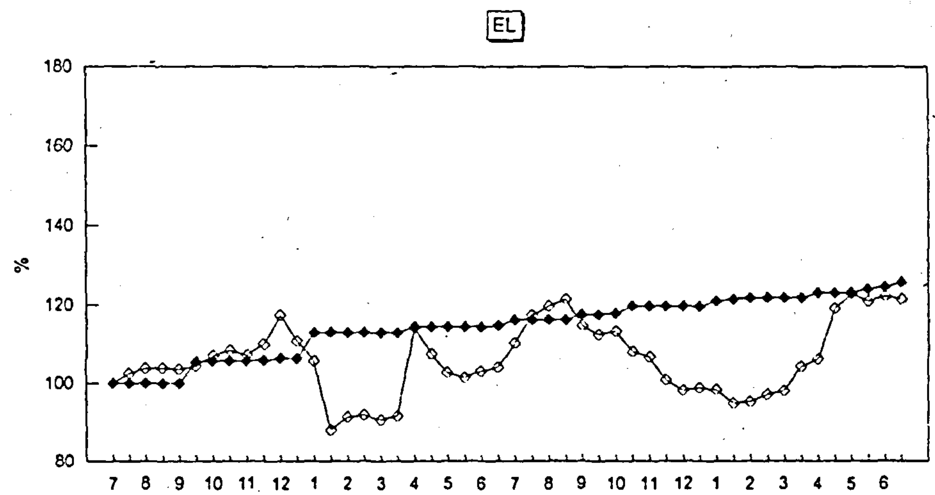
ANNEX 4-6 :   MONTHLY PRICE CHANGES IN NATIONAL CURRENCY BETWEEN JULY 1992 AND JUNE 1994

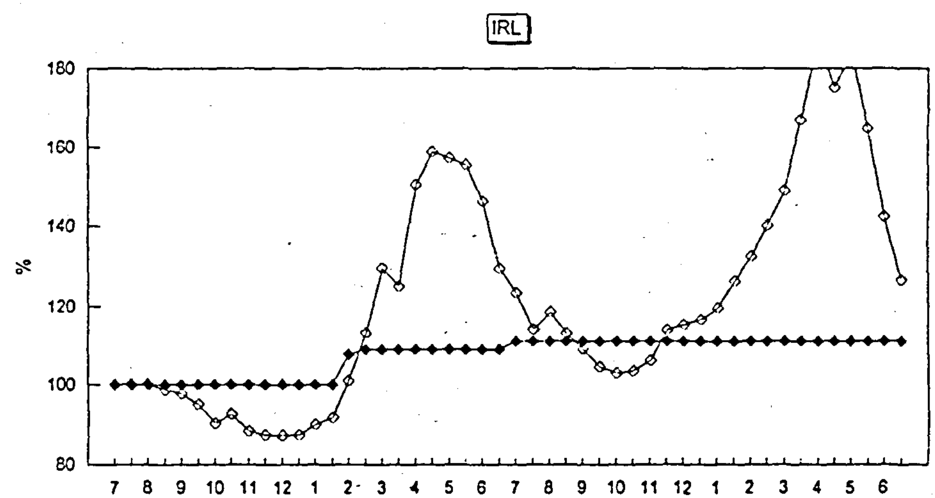
PIG MEAT
Agricultural conversion rate (in black)
and market price for meat of class 1
(in white)





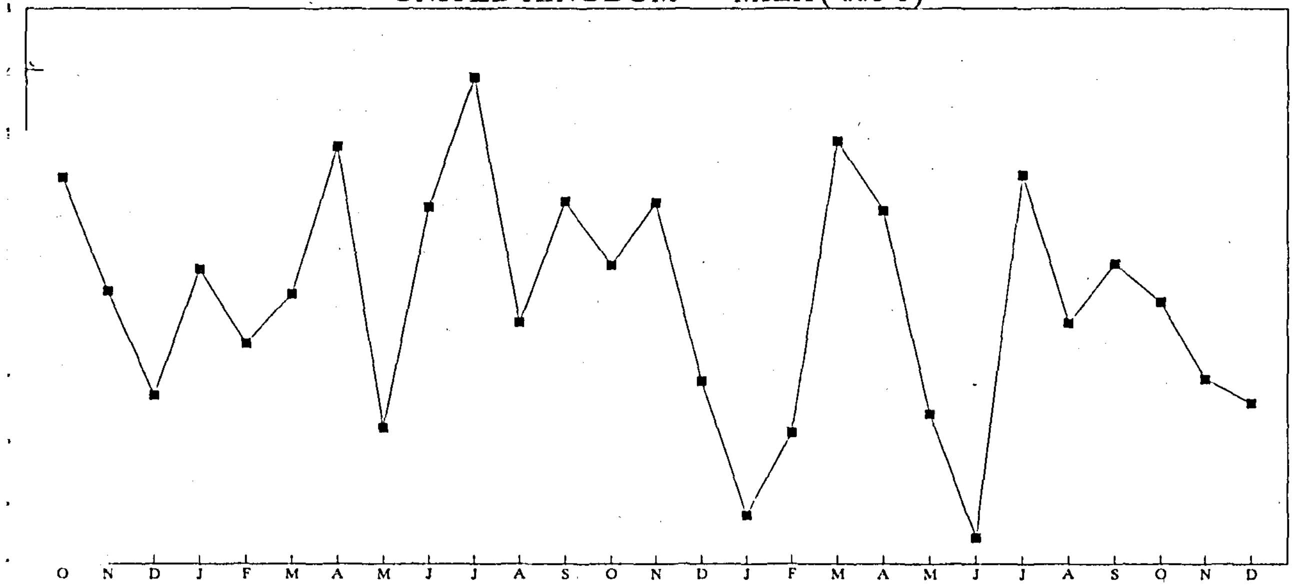
SHEEP MEAT
Agricultural conversion rate (in black)
and market price for lamb carcases
(in white)



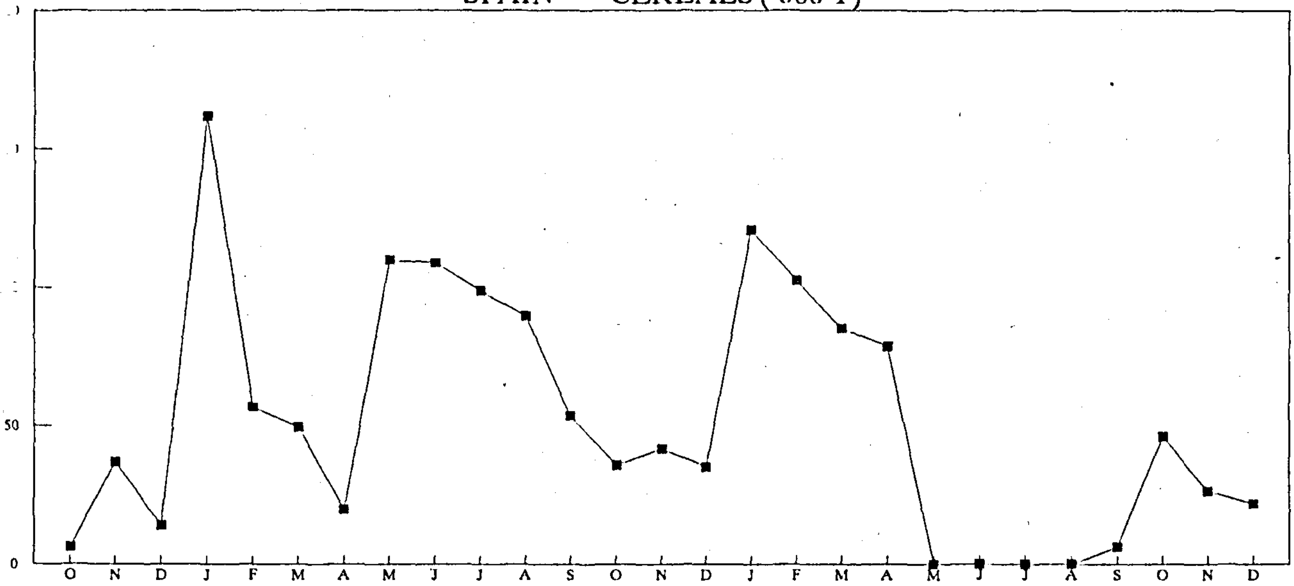


ANNEX 5: MONTHLY EXPORTS

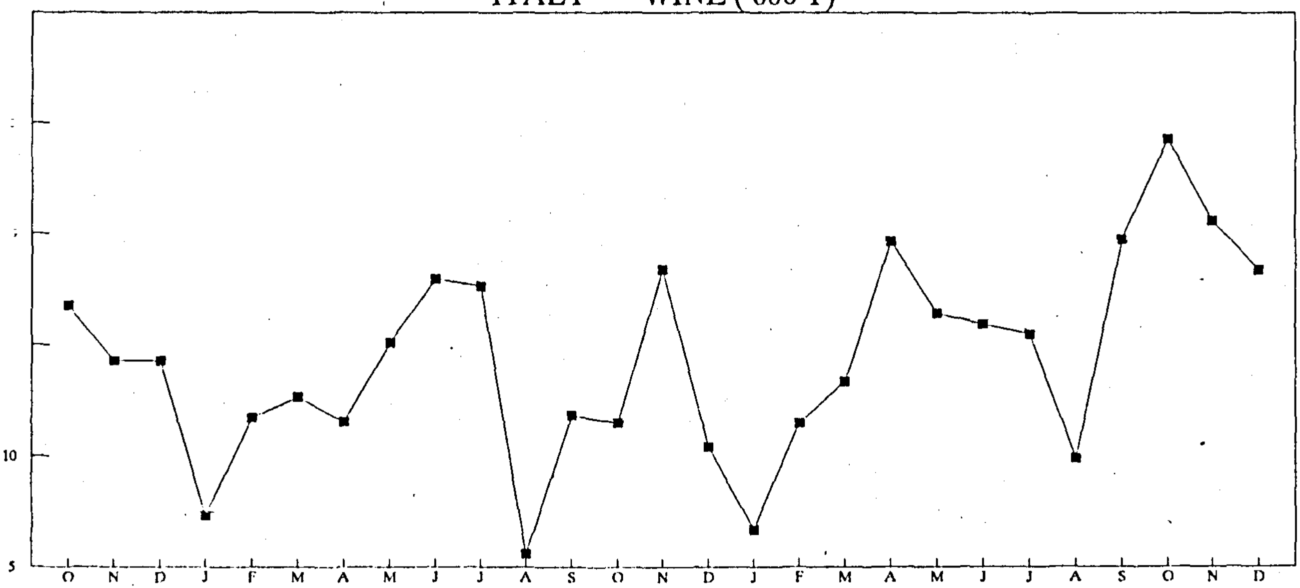
UNITED KINGDOM – MILK ('000 T)



SPAIN – CEREALS ('000 T)



ITALY – WINE ('000 T)



ANNEX 6

Impact on refunds and aid of the dollar effect of the ecu correcting factor

Amount	World price $/t	Price effect of correcting factor ecu/t	Quantities concerned 1 000 t	Impact on 1994 expenditure ECU m (budget)
A	B	C	D	E
Export refund				
Common wheat	92	0,69	20 883	17,2
Barley	72	0,54	8 778	5,7
Maize	120	0,90	3 888	4,2
Durum wheat	192	1,44	1 016	1,7
Rye	61	0,46	500	0,3
Rice	350	2,63	120	0,4
Sugar	280	2,10	2 970	7,5
Production refund				
Starch	192	1,44	1 750	3,0
Sugar for the chemical industry	(1)	-	-	0,4
Aid				
Oilseeds	265	(2)		28,6
Dried fodder	121	0,91	4 541	4,9
Cotton	416	3,12	1 085	4,0
TOTAL	-	-	-	77,9

A: Amounts directly dependent on a world market price in $
B: Estimate of the prices or price percentages in $ directly linked to the amounts to be fixed and with impact on 1994 expenditure.
C: Effect based on an average exchange rate of $1 = (budget) ECU 0.87 and an ecu correcting factor of 1.195066 on 1.1.1993 and 1.207509 on 14.5.1994
E: (C) x (D) x 1.195066

(1) Same effect (0.5%) as for export refunds on sugar
(2) 10% reduction in aid instead of 11%

ANNEX 7: CHANGES IN THE AGRICULTURAL CONVERSION RATES
UNDER VARIOUS ADJUSTMENT RULES

·ting the ıversion rates (ACRs)		BLF	DKR	DM	DRA	ESC	FF	HFL	IRL	LIT	PTA	UKL
:R with no threshold, no "switch-over"	%	−2.3	0.6	−2.1	12.1	13.5	−0.4	−2.6	7.8	6.9	14.6	−3.3
	N+	11	11	17	42	35	12	18	17	29	27	22
	N−	23	23	17	11	18	22	16	17	24	26	31
:h actually occurred	%	1.6	4.1	0	11.7	14.2	1.1	0	11.1	9	15.8	−1.9
	N+	1	2	0	10	6	2	0	2	7	6	3
	0	0	0	0	0	0	0	0	0	5	0	7
hreshold, over" for the fixed currencies	%	−1.3	1.6	−1.1	13.3	14.7	0.7	−1.6	8.9	8	15.8	−2.3
	N+	10	11	17	44	37	12	19	18	30	28	22
	N−	22	21	15	9	16	20	13	15	23	25	31
d threshold (−2,+2), :h−over"	%	−0.8	2.3	−1.6	10	12.9	0.1	−1.7	7.7	7.3	13.5	−2.3
	N+	1	3	0	14	6	1	0	3	8	7	3
	N−	2	4	4	0	0	0	4	2	5	2	9
ıtinuation of the original rules	%	0.3	3	−0.5	11	14.2	1.1	−0.7	8.8	9.1	14.7	−2
	N+	3	2	0	13	6	2	0	2	9	7	4
	N−	2	1	2	0	0	0	2	2	6	2	8
ıd threshold (−2,+2), with " becoming floating as from august 1993	%	1	4.1	0	11.9	14.3	1.3	0	9.6	9.9	15.5	−0.5
	N+	3	3	0	15	6	4	0	4	9	6	5
	N−	2	2	0	0	0	0	0	1	6	1	8
ʼmmetrical threshold (−2,+3), 0,+5), with no "switch−over"	%	1.7	4	0	11	13.2	0.9	0	10.9	8.4	14.8	−0.6
	N+	2	3	0	14	9	1	0	5	9	6	3
	N−	0	0	0	0	0	0	0	0	1	0	2
point threshold, movable between (−5,0) with no "switch−over"	%	1.7	4	0	11.2	13.5	0.9	0	10.9	8.3	14.8	−0.6
	N+	2	3	0	15	7	1	0	5	5	5	1
	N−	0	0	0	0	0	0	0	0	1	0	1
point threshold, movable between (−4,0) with no "switch−over"	%	0.1	2.3	0	10.8	13.5	1.5	0	8.8	9.1	15.7	−2.4
	N+	4	3	0	17	7	1	0	6	10	9	1
	N−	1	1	0	0	0	0	0	1	1	1	2
point threshold, movable between (−4,+1) , with no "switch−over"	%	1.7	3.2	0	11.2	13.6	0.9	0	8.7	8.3	14.2	−1.7
	N+	2	2	0	12	7	1	0	4	6	4	2
	N−	0	0	0	0	0	0	0	1	1	0	2

s from 01.01.1993 to 30.06.1994

N+ et N− = Numbers of increases (devaluations) and decreases (revaluations)

ANNEX 8: COMPARISON OF THE COST OF VARIOUS RULES FOR ADJUSTING THE AGRICULTURAL CONVERSION RATES

(Budget) ecu million

	Rules for adjusting the agricultural conversion rates (ACRs)	Effects of changes in ACRs/1.5 years (1.1.93/1.7.94) (1)	% of (a)	Theorical medium-term effects 1993/97: ACR /3.5 years (2)	↑ Aid /4 years (3)	↓ Incomes /3 years (4)	TOTAL average / year (5)	%	Main Observations
00	Reference: ACR with no threshold, no "switch-over" 18-month budget: ecu 68405 m (a)	0	0	0	2184	572	551	100 (+14)	ACRs unstable. Cost of compensal Incompatible with the GATT.
01	Situation which actually occurred	688	+1.01	1726	0	0	483	−12 (100)	Costly overprotection of some positive gaps. Threshold sometimes too high.
PART ONE									
A	ACR with no threshold, with "switch-over" for the fixed currencies	630	+0.92	1300	1344	272	709	+29 (+47)	(For reference)
B	ACR with fixed threshold (−2,+2), with no "switch-over"	89	+0.13	−146	1428	316	337	−39 (−30)	Strong risk of high automatic compensation, and difficulties with the GATT (With different monetan
C	ACR with continuation of the original rules	582	+0.85	1179	588	104	491	−11 (+2)	Compensation for conjunctural revaluation.
D	ACR with fixed threshold (−2,+2), with "switch-over" becoming floating as from august 1993	817	+1.19	1990	0	0	561	+2 (+16)	General overprotection of the "switch – over". Incompatible with the GATT.
E	ACR with asymmetrical threshold (−2,+3), movable to (0,+5), with no "switch-over"	611	+0.89	1430	0	0	408	−26 (−16)	Costly overprotection of some positive gaps. Threshold sometimes too high.
PART TWO									
F	ACR with 5-point threshold, movable between (−5,0) and (0,+5), with no "switch-over"	616	+0.90	1453	0	0	414	−25 (−14)	Little different from E according to monetary developments taken i
G	ACR with 4-point threshold, movable between (−4,0) and (0,+4), with no "switch-over"	674	+0.99	1438	0	0	422	−23 (−13)	Unstable result. Significant fall in ACRs, and compensation just missed.
H	ACR with 5-point threshold, movable between (−4,+1) and (−1,+4), with no "switch-over"	520	+0.78	1128	0	0	330	−40 (−32)	Result highly unstable. Significant fall in ACRs, and high compensation just missed. Threshold sometimes too high.

(2) Effect of ACR as at 30.06.1994 on expenditure from july 1994 to december 1997, taking account of the structure of the 1995 preliminary draft budget.

(3) Effect over 4 years of compensation for the highest "perceptible" revaluation by increasing certain amounts in ecus. Ecu 210 million for every 1% of revaluation. Article 7 of Regulation (EEC) 3813/92.

(4) Community financing over 3 years of the maximum compensatory aid for loss of income in the case of a "perceptible" revaluation. 1.5% of family agricultural income for every 1% of revaluation. Article 8 of Regulation (EEC) 3813/92.

(5) Criterion for estimating the theoretical medium-term effect: [(1) + (2) + (3) + (4)] / 5

EXPLANATORY MEMORANDUM

In accordance with Article 13(2) of Regulation (EEC) No 3813/92, the Commission has presented a report to the Council on the way the agrimonetary system introduced on 1 January 1993 has functioned. In view of the conclusions of the report, it is proposed that the basic agrimonetary Regulation be amended.

As this is an area where the Community has exclusive competence, the measures must be taken at Community level. They amend an existing Council Regulation and have as their overall objective the uniform application of the CAP. More precisely, they seek to improve the overall consistency of the arrangements, to enhance the stability of the agricultural conversion rates and to revise the compensation mechanisms in the light of experience gained and economic developments.

1. Regulation (EEC) No 3813/92, which provides, as from 1 January 1995, for the discontinuation of the switchover system and a return to the original mechanism involving a fixed, narrow threshold between -2 and +2, may raise difficulties.

   The resulting arrangements would, in the current context of the EMS, involve significant instability in the ACRs as was feared at the end of 1993 when the Council decided to amend the rules originally laid down. Accordingly, relatively short-term monetary fluctuations could bring about disturbance on the market, falls in family farm incomes, and Community expenditure which is not strictly necessary.

In the case of appreciable revaluations, there is a risk that the compensation mechanisms which should be triggered off at the request the Member States concerned could cause major problems with the provisions on due restraint agreed under the GATT and with the agricultural guideline imposed by budgetary discipline. In that case, difficult choices between the various levels of agricultural support would have to be made. The original 1993 system, although not appearing very burdensome, thus entails serious risks of a surge in costs and of highly conflictual situations arising.

2. Simply to carry over the agrimonetary rules existing at the end of 1994 must also be excluded. It would maintain the principle of the sw: mechanism, albeit rendered inoperable by the present rules of the EMS. That mechanism is incompatible with the reform of the CAP, the GATT Agreements and budgetary discipline in the medium term. The mechanisms for compensation in the case of an appreciable revaluation are the same as those mentioned previously and thus entail the same drawbacks. Furthermore this solution overprotects certain positive monetary gaps accelerates certain increases in ACRs at the expense of the Community budget. What is more, the enlarged five-point threshold is likely to create deflection in trade flows between certain neighbouring Member States.

3. As a consequence, in the light of experience and the changes in the background conditions, it is proposed to improve the agrimonetary by measures of three types:

(a) <u>Strengthening the way the system works as a whole</u>

- Abandonment of the switchover mechanism, which is incompatible with the reform of the CAP, the GATT Agreement and budgetary discipline in the medium term.

- Technical adjustments relating to the conversion rates applicable for the common customs tariff and for structures, and detailed rules for advance fixing of the ACRs.

(b) <u>More stable ACRs</u>

- Symmetrical threshold and limitation of its movability in order, under certain circumstances, to prevent unnecessary expenditure and reduce the frequency of devaluations induced by overprotection against falls in the ACRs;

- Possibility of reducing the extent of the threshold depending on the national currencies concerned, in order to avoid the risk of deflection of trade.

(c) <u>Revising the mechanisms for compensation</u>

- Introduction of a short period for confirmation of movements in currencies before any reduction in ACRs.

- Introduction of a period suspending falls in ACR in the event of "appreciable" revaluations, i.e. those which go beyond preceding devaluations, taking account of the time they have applied.

- Limiting possibilities for triggering compensatory measures to cases of "appreciable" revaluations.

- Extension of the principle of the degressive, transitional compensatory aid mechanism to aid per hectare or livestock unit and the introduction of the possibility to take short-term measures.

COUNCIL REGULATION (EC) No /94

of ......

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

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission[1],

Having regard to the opinion of the European Parliament[2],

Whereas Article 13(2) of Regulation (EEC) No 3813/92[3], as amended by Regulation (EC) No 3528/93[4], provides for an examination to be conducted by the Council, before 1 January 1995, of the agrimonetary arrangements introduced at the beginning of 1993; whereas measures must be taken at Community level for uniform application in all Member States to prevent distortion of monetary origin in the implementation of the common agricultural policy;

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(1) OJ No C .....

(2) OC No C ...

(3) OJ No L 387, 31.12.1992, p. 1.

(4) OJ No L 320, 22.12.1993, p. 32.

Whereas, as a consequence of the decision of 2 August 1993 raising the marginal intervention thresholds under the European Monetary System to 15%, the currencies of the Member States are all treated as floating currencies from the agrimonetary viewpoint; whereas the correcting factor referred to in Article 1(c) of Regulation (EEC) No 3813/92 has remained at 1,207509;

Whereas the correcting factor linked to the fixed currencies was abolished by Article 13(2) of Regulation (EEC) No 3813/92 and must not be reintroduced in view of its implications for the reform of the CAP, international agreements and the Community budget; whereas the prices and amounts fixed in ecus must be adjusted as a consequence in order to maintain their value in national currencies;

Whereas the initial agricultural conversion rates for the currencies of the new Member States must be determined;

Whereas, in view of the elimination of the correcting factor, a specific agricultural conversion rate as provided for in Article 3(2) of Regulation (EEC) No 3813/92 is not needed for the agricultural structure policy;

Whereas until 31 December 1994 Council Regulation (EEC) No 3528/93 temporarily replaces the threshold for adjusting the agricultural conversion rates, which was initially symmetrical, narrow and fixed at between -2 and +2 points, by a threshold which is not symmetrical, is wider and movable between -2 to +3 and 0 to +5 points; whereas the application of the initial threshold as from 1 January 1995 is likely, on account of the possibility of monetary fluctuations persisting within the Exchange Rate Mechanism of the European Monetary System, to create instability adversely affecting the agricultural conversion rates;

Whereas, however, the rules in force at the end of 1994 must be adjusted reduce their cost to the Community; whereas, in order to avoid, firstly, some overprotection against falls in agricultural conversion rates and, secondly, unnecessary Community expenditure, the movability of the (should be limited to below its technical maximum and it should be made symmetrical;

Whereas, in view of the impact of falls in the agricultural conversion on farm incomes, the monetary trends which trigger them off must be confirmed;

Whereas advance fixing of the agricultural conversion rates, provided for certain cases in Article 6 of Regulation (EEC) No 3813/92, may be extended to the period of applicability of the amount in ecus concerned provided the gap with the monetary trend remains within a certain limit;

Whereas the possibility of applying the compensatory measures provided for in Articles 7 and 8 of Regulation (EEC) No 3813/92 should be limited to cases of appreciable reductions in the agricultural conversion rates; whereas such appreciable reductions must be defined in terms of the scale and the period that prior increases in agricultural conversion rates have applied;

Whereas application of Article 7 of Regulation (EEC) No 3813/92 should be restricted to structural or environmental aid, in view of its particular nature, in order to avoid the risk of unnecessary Community expenditure difficulties with international agreements; whereas reductions in aid per hectare or per animal should be offset by a degressive, temporary aid supplement;

Whereas, in the event of an appreciable reduction in the agricultural conversion rates, the need for and type and scale of the compensatory measures most suitable must be determined in the light of the actual circumstances surrounding the reduction;

Whereas this Regulation should apply from 1 January 1995, when the provisions on the correcting factor and the extension of the threshold expire,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EEC) No 3813/92 is hereby amended as follows:

(1) Article 1(c) is replaced by the following:

"(c) "representative market rate" shall mean:

- in the case of a fixed currency, the central rate for the ecu for that currency, fixed within the framework of the European Monetary System,

- in the case of a floating currency, the average exchange rate for the ecu with respect to that currency, recorded over a reference period of no more than one month, determined in accordance with the procedure laid down in Article 12;"

(2) In Article 1, point (d) is deleted and points (e) and (f) become points (d) and (e) respectively:

(3) In Article 1, the following point (f) is added:

"(f) "appreciable reduction in the agricultural conversion rate" shall mean:

a reduction in the last agricultural conversion rate applicable which is greater, in absolute value, than the difference between that rate and the lowest conversion rate applicable:

- in the last 12 months, and

- in the period between 24 months and over 12 before, and

- in the period between 36 months and over 24 months before.

Two thirds and one third respectively of the value of the differences in the second and third indents shall be into account."

(4) The second subparagraph of Article 3(1) is replaced by the following:

"The agricultural conversion rate applicable on 1 January 1995 be equal to that determined for that date in accordance with the rules in force on 31 December 1994, divided by 1,207509.

The agricultural conversion rate for the national currency of a Member State shall initially be equal to the representative market rate established in accordance with Article 1(c) for the last reference period ending before the date of first application of Regulation to the currency in question."

(5) In Article 3, paragraph 2 is deleted and the words "Taking into account the correcting factor" are deleted from paragraph 3.

(6) Articles 4 and 4a are replaced by the following:

"Article 4

1. The agricultural rates for the fixed currencies shall be adjusted immediately, without prejudice to Article 9, so as to eliminate their monetary gaps in the case of a monetary realignment the of which is to change the central rates determined for those States with a fixed currency.

2. The agricultural conversion rate for a floating currency shall be adjusted where:

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

(b) in the case of a negative monetary gap, the absolute value of the difference between that gap and the gap for another currency is greater than that threshold.

However, without prejudice to paragraph 6, where the agricultural conversion rate for a particular currency should be reduced on the basis of a single reference period, the first subparagraph shall not apply to that currency or to those currencies which, with respect to it, are in the situation referred to in point (b) thereof.

3. In the case referred to in paragraph 2, the new agricultural conversion rate shall be determined by reducing the absolute value of the monetary gap in question by half.

4. Paragraph 2 shall apply iteratively in respect of the same reference period, where appropriate starting with a reduction in the positive monetary gaps, on the basis of the agricultural conversion rates calculated in accordance with paragraph 3.

5. The threshold shall be 5 points. However, the threshold between two particular currencies may be reduced in accordance with the procedure laid down in Article 12 in order to avoid the risk of trade distortion.

6. Should paragraph 1 or 2 result in an appreciable fall in the agricultural conversion rate for a currency, the application of those provisions shall be suspended for the currency in question, as necessary and for no more than four consecutive reference periods."

(7) In Article 5(2), the words "Without account being taken of the correcting factor" are deleted.

(8) The second subparagraph of Article 6(1) is deleted and the
paragraph is inserted:

"2a. For amounts fixed in advance in ecus and amounts established in
under an invitation to tender, the agricultural conversion rate
be fixed in advance.

In that case, the agricultural conversion rate shall be that in force, respectively, on the date on which it was fixed in advance
the closing date for the submission of tenders. However, that
shall be adjusted where it diverges by more than 4% from the agricultural conversion rate which would have applied had the rate not been fixed in advance.

The term of validity of agricultural conversion rates fixed in advance shall be equal to that for the advance fixing of the
concerned or that of the award."

(9) In Article 7, the last paragraph is deleted and the first pa
is replaced by the following:

"Should there be an appreciable fall in the agricultural con
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 procedure laid down in Article 12."

(10) Article 8 is replaced by the following:

"1. Member States may grant farmers compensatory aid for three years where:

(a) the average agricultural conversion rate over the last 12 months falls appreciably against the agricultural conversion rate over the previous 12 months, or

(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.

2. In the case referred to in paragraph 1(a):

- the periods taken into account for the granting of aid may not be taken into account for the granting of further aid;

- the definition of an appreciable fall in the average agricultural conversion rate shall be established in accordance with the procedure laid down in Article 12, by analogy with Article 1(f);

- the compensatory aid may not be granted in the form of an amount linked to production other than production during a fixed, previous period; it may not be granted for any specific output or be dependant on there being any output;

- the first annual instalment of the aid shall be determined on the basis of the reduction in the average farm income in the Member State concerned, due to the reduction in the agricultural conversion rate;

- where the average rate which triggered the granting of aid is, twelve consecutive months, below the average agricultural rate applied subsequently the annual instalments of aid be after the twelve months in question shall be cancelled or in accordance with the procedure laid down in Article 12;

- the Council shall, acting by a qualified majority on a proposal the Commission and subject to the attainment of minimum limits, establish the maximum amounts which can be granted for each instalment of aid.

3. In the case referred to in paragraph 1(b):

   - the aid shall be granted to farmers affected by the reduction of the amounts in question;

   - the first annual instalment of aid shall be determined so to neutralize the reduction in the amounts in question in national currency occasioned by the fall in the agr conversion rate;

   - where the rate which triggered the granting of aid is that applied subsequently to the amounts in question the annual instalments of aid beginning after the date on the new rate is applied shall be cancelled or reduced in accordance with the procedure laid down in Article 12;

   - the Commission, in accordance with the procedure laid in Article 12, shall establish the maximum amounts which be granted for each instalment of aid.

4. The Community contribution to the financing of the compensatory 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."

(11) Article 9 is replaced by the following:

"In the case referred to in Article 4(6), the Commission shall decide in accordance with the procedure laid down in Article 11(1) which national measures to support certain markets or direct national compensation may be authorized for a period of not more than one year in order to prevent significant falls in farmers' incomes for agrimonetary reasons."

(12) Article 13(2) is replaced by the following:

"2. Prices and amounts in ecus whose value in national currency is subject on 31 December 1994 to the correcting factor 1,207509 shall be multiplied by that correcting factor on the first application, from 1 January 1995, of an agricultural conversion rate established in accordance with Article 3(1) and Article 4."

<u>Article 2</u>

This Regulation shall enter into force on 1 January 1995.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, For the Council

Financial Statement

(MS/94/FF/001)

Date : 15.11.1994

1. BUDGET HEADING : All budget headings covered by the EAGGF Guarantee Section (B1-1, B1-2, B1-3, B1-4, B1-5) APPROPRIATIONS: ECU 36 994 m (PDB 1995)

2. TITLE : Proposal for a Council Regulation amanding Regulation (EEC) No 3813/92 on the unit of account the conversion rates to be applied for the purposes of the common agricultural policy

3. LEGAL BASIS : Articles 42 and 43 of the Treaty

4. AIMS : Pursuant to Article 13(2) of Council Regulation (EEC) No 3813/92, to make appropriate proposals on the agrimonetary system from 1 January 1995, in particular as regards the abandonment of the switch-over mechanism

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS	CURRENT FINANCIAL YEAR (1995)	FOLLOWING FINANCIAL YEAR (1996)
5.0 EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS)		(1)	(1)
5.1 REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)			

	1997	1998	1999	2000
5.0.1 ESTIMATED EXPENDITURE 5.1.1 ESTIMATED REVENUE	(1)	(1)	(1)	(1)

5.2 METHOD OF CALCULATION

See "Report to the Council of the European Union on the agrimonetary system for the single market"

6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?

6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET ?

6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY ?

6.3 WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY ?

COMMENTS :

(1) At present it is impossible to calculate the financial impact of this proposal, since it depends on future currency developments.
However, Annex 8 to the "Report to the Council of the European Union on the agrimonetary system for single market", which retroactively compares the mechanisms proposed with the mechanisms actually applied over the period 1 January 1993 to 30 June 1994, points to a saving between ECU 72 and 168 million.