

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT ON THE IMPACT ON EAGGF
GUARANTEE SECTION EXPENDITURE
OF MOVEMENTS OF THE DOLLAR/ECU EXCHANGE RATE

1991 FINANCIAL YEAR

(presented by the Commission pursuant to the Council Decision of
24 June 1988 concerning budgetary discipline and in particular
Articles 9 to 13 thereof (OJ No L 185, 15.7.1988, p. 29))

REPORT

on the impact on EAGGF Guarantee Section expenditure of movements of the dollar/ecu exchange rate in 1991⁽¹⁾

I. INTRODUCTION

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

Other things being equal, a change in the value of the dollar in relation to the ECU necessarily implies a change in the gap between Community prices and world prices and consequently a change in the production aids and export refunds concerned. If the dollar rises, the gap diminishes, leading to a reduction in expenditure; if the dollar falls, the gap widens, raising expenditure.

The European Council of 11 and 12 February 1988, in its conclusions, expressed the will to take explicit account of the impact of the change in the dollar on agricultural expenditure.

On the basis of that guideline, the Council adopted, by its Decision of 24 June 1988 concerning budgetary discipline⁽²⁾, enacting terms providing for the inclusion of ECU 1 000 million in a reserve of the general budget of the European Communities "as a provision for covering developments caused by significant and unforeseen movements in the dollar/ecu market rate compared to the dollar/ecu rate used in the budget". The latter is equal to the average market rate during the first three months of the year preceding that of the budget year.

If the average value of the dollar in the period from 1 August of the preceding year to 31 July of the current year falls as compared with the rate used in the budget, the additional budget costs are financed by a transfer from the monetary reserve. Equally, savings of up to a maximum of ECU 1 000 million in the Guarantee Section when the dollar strengthens are to be transferred to the monetary reserve.

Recourse is to be had to the monetary reserve when the said expenditure (or, as the case may be, the saving) exceeds a margin (*franchise*) of ECU 400 million. Similarly, the amount of the transfer relates to that fraction of the impact exceeding the margin (*franchise*) of ECU 400 million.

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

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

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

This report, relating to the impact of the dollar on expenditure in the 1991 financial year, is the result of the fourth application of the Council Decision.

11. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1991

To gauge the impact of the dollar/ecu rate on the 1991 financial year, consideration must be given, pursuant to the Council Decision, to the gap between the average rate recorded for the dollar between 1 August 1990 and 31 July 1991 and the rate used in the 1991 budget. The rate used to assess appropriations for the 1991 financial year is \$ 1 = ECU 0,83. In accordance with the Council Decision, this corresponds to the average rate in the first three months of the year preceding the financial year in question (January, February and March 1990).

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

	Recorded rate \$ 1 = ECU	Budget rate. \$ 1 = ECU	Gap in ECU	Gap as %
a	b	c	d = b-c	e
August	0.76	0.83	- 0.07	- 8.4
September	0.76	0.83	- 0.07	- 8.4
October	0.74	0.83	- 0.09	- 10.8
November	0.72	0.83	- 0.11	- 13.3
December	0.73	0.83	- 0.10	- 12.0
January	0.74	0.83	- 0.09	- 10.8
February	0.72	0.83	- 0.11	- 13.3
March	0.78	0.83	- 0.05	- 6.0
April	0.83	0.83	- 0.00	0.0
May	0.83	0.83	- 0.00	0.0
June	0.87	0.83	+ 0.04	+ 4.8
July	0.87	0.83	+ 0.04	+ 4.8
Average 1/8/90-31/7/91	0.78	0.83	-0.05	-6.0

The dollar fell in the first half of the period under review to reach its lowest level in February 1991. It subsequently staged a dramatic recovery, attaining very high levels in June and July. Over the period as a whole the average rate was \$ 1 = ECU 0.78, 6.0% below the budget rate. This depreciation of the dollar led to added spending for the Guarantee Section of the EAGGF.

The estimated size of this extra expenditure - the detailed calculations for which are given in Annex I - is ECU 430 million, which breaks down by sector as follows :

	<u>m ECU</u>
Cereals	155
Sugar	43
Oilseeds	161
Protein plants	45
Cotton	26
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TOTAL	<u>430</u>

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

The extra burden on the budget was more than the margin (*franchise*) of ECU 400 million, so a transfer is to be made from the monetary reserve (Chapter B1-50) to the chapters covering the Guarantee Section of the EAGGF.

The amount of the transfer is calculated as follows:

	<u>m ECU</u>
Total additional expenditure	430
Margin (<i>franchise</i>) (from Guarantee Section)	400
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TOTAL	<u>30</u>

III. PROPOSED TRANSFERS FROM THE MONETARY RESERVE (B-50)
TO TITLES B1-1 AND B1-2 OF EAGGF (GUARANTEE)

The following transfer is proposed:

	<u>m ECU</u>
From Chapter B1-50: Monetary reserve	-30
To Chapter B1-10: Cereals and rice	+15)
To Chapter B1-13: Protein plants	+15) +30

The articles and headings affected by this transfer are set out in Annex II.

CALCULATION OF THE IMPACT OF THE DOLLAR ON THE COMMUNITY BUDGET: 1991 FINANCIAL YEAR

I. CALCULATION OF THE GAP IN RATES										
1. RATE USED IN THE 1991 BUDGET	:	\$ 1	=	ECU 0.830						
2. RATE RECORDED BETWEEN 1/8/90 AND 31/7/91	:	\$ 1	=	ECU 0.780						
3. GAP IN RATES (IN ECU)	:	\$ 1	=	ECU -0.050						
4. GAP IN RATES (%)	:		=	-6.024 %						
II. CALCULATION OF IMPACT OF GAP IN RATES ON THE 1991 BUDGET										
	ESTIMATED AVERAGE WORLD PRICE	TECHNICAL ADJUSTMENT COEFFICIENT	AVERAGE WORLD PRICE USED	AVERAGE WORLD PRICE CONVERTED INTO ECU AT RATE \$ 1 = ECU 0.830 (CORR. COEFF. = 1.145 (ECU/t) (1))	UNIT IMPACT OF GAP IN RATES	QUANTITIES CONCERNED	TOTAL BUDGET IMPACT			
							m ECU (A)	DOUBLE RATE	m ECU (B)	
	(\$/t)		(\$/t)	(ECU/t) (1)	(ECU/t)	'000 t				
a	b	c	d = b x c	e	f = e x gap	g	h = f x g	i	j = h x i	
A. REFUNDS										-199
CEREALS AND RICE										
- COMMON WHEAT	85	1.00	85	62	-3.7	16710	-61.8	1.144	-71	
- DURUM WHEAT	105	1.00	105	76	-4.6	2160	-9.9	1.141	-11	
- BARLEY	90	1.00	90	65	-3.9	9520	-37.1	1.143	-42	
- OTHER CEREALS	90	1.00	90	65	-3.9	2230	-8.7	1.147	-10	
- STARCH	90	1.60	144	104	-6.3	2255	-14.2	1.146	-16	
- RICE	330	1.00	330	239	-14.4	330	-4.8	1.146	-5	
SUGAR	290	1.00	290	210	-12.7	2950	-37.5	1.144	-43	
MILK PRODUCTS										
- BUTTER	1460	0.00	0	0	0.0	160	0.0	1.143	0	
- BUTTEROIL	1800	0.00	0	0	0.0	63	0.0	1.143	0	
- SKIMMED-MILK POWDER	1415	0.00	0	0	0.0	220	0.0	1.141	0	
- OTHER IN MILK EQUIVALENT	171	0.00	0	0	0.0	9450	0.0	1.141	0	
BEEF AND VEAL										
- FRESH MEAT	1500	0.00	0	0	0.0	475	0.0	1.143	0	
- FROZEN MEAT	950	0.00	0	0	0.0	375	0.0	1.143	0	
PIGMEAT										
- CUTS AND SAUSAGES	1400	0.00	0	0	0.0	525	0.0	1.144	0	
EGGS AND POULTRY										
- EGGS	1050	0.00	0	0	0.0	120	0.0	1.145	0	
- POULTRY	1300	0.00	0	0	0.0	450	0.0	1.142	0	
B. AID										-231
OILSEEDS										
- RAPESEED	265	1.00	265	192	-11.6	5790	-67.2	1.139	-77	
- SUNFLOWER	270	1.00	270	196	-11.8	3994	-47.1	1.170	-55	
- SOYA BEANS	245	1.00	245	178	-10.7	2221	-23.8	1.143	-27	
- LINSEED	212	1.00	212	154	-9.3	166	-1.5	1.137	-2	
PROTEIN PLANTS										
- PEAS (HUMAN CONSUMPTION)	280	1.00	280	203	-12.2	200	-2.4	1.142	-3	
- PEAS (ANIMAL CONSUMPTION)	185	0.45	83	60	-3.6	4744	-17.1	1.142	-20	
- LUPINS	185	0.60	111	80	-4.8	10	0.0	1.144	0	
- DRIED FODDER	123	1.00	123	89	-5.4	3573	-19.3	1.150	-22	
FIBRE PLANTS										
- COTTON	1682	0.32	538	390	-23.5	983	-23.1	1.104	-26	
TOTAL							-375.6			-430

NB : ON THE BASIS OF THE FIGURES IN THE TABLE, A FALL IN THE RATE OF THE DOLLAR OF 10% WOULD LEAD TO ADDITIONAL EXPENDITURE OF ECU 713.3 MILLION.

(1) THE CORRECTION FACTOR REPRESENTS THE DIFFERENCE BETWEEN THE "GREEN" CENTRAL RATES OF THE ECU (AGRICULTURAL ECU) AND THE CENTRAL RATES OF THE NORMAL ECU.

EXPLANATORY REMARKS TO ANNEX I

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

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

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

Column (d) gives average world prices corrected by the adjustment coefficient while column (e) gives the same prices converted into ECU using the exchange rate adopted in the budget. The unit impact of the 6% lower value of the dollar is given in column (f) in ECU per tonne. This unit amount multiplied by the estimated quantities qualifying for aids and refunds during the period under review gives the impact in million agricultural ECU [column (h)] and in million budget ECU [column (j)].

G E N E R A L B U D G E T 1 9 9 1
 S E C T I O N I I I - C O M M I S S I O N
 P A R T B - O P E R A T I O N A L A P P R O P R I A T I O N S
 S U B - S E C T I O N B 1 - E A G G F G U A R A N T E E S E C T I O N

TRANSFERS FROM CHAPTER TO CHAPTER	IN ECU
From Chapter B1-50: Monetary reserve	- 30 000 000
To Chapter B1-10: Cereals and rice	
= Article 100 - Refunds for cereals	
= Heading 1003 - Refunds for other cereals	+ 15 000 000
To Chapter B1-13: Protein plants	
= Article 131 - Production aid for dried fodder	+ 15 000 000
