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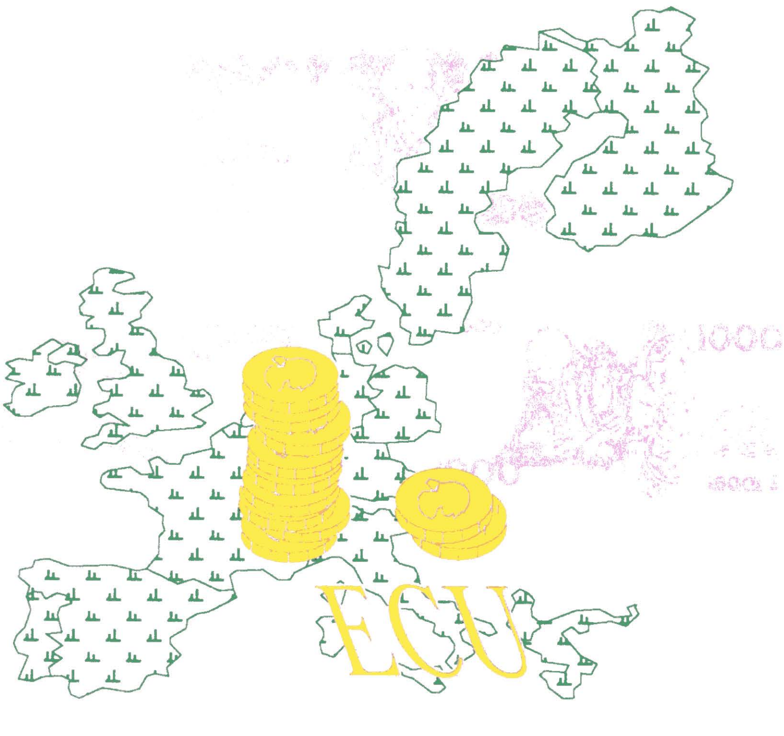

THE AGRIMONETARY SYSTEM IN THE SINGLE MARKET

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Abbreviations for national currencies used

BLF	Belgian/Luxembourg franc
DKR	Danish krone
DM	German mark
DR	Greek drachma
ESC	Portuguese escudo
FF	French franc
FMK	Finnish markka
HFL	Dutch guilder
IRL	Irish pound
LIT	Italian lira
ÖS	Austrian schilling
PTA	Spanish peseta
SKR	Swedish krona
UKL	Pound sterling
USD	US dollar

PREFACE

The agri-monetary system forms an integral part of the common agricultural policy (CAP). As long as the institutional prices and other amounts provided for under that policy are to be fixed in units of account, a method will have to be laid down for converting the unit of account into the national currencies of the Member States. While the existence of the "green rates" is a logical necessity, they have become a permanent source of serious political problems in so far as any adjustment to them has a significant impact on farmers, whose incomes are directly affected by a reduction (where the green rate is revalued) or an increase (where it is devalued) in the amounts they receive in national currency.

In view of the special features of agriculture, the political objective has always been to delay the impact of monetary events on the agricultural sector; the rules followed over the years for fixing the green rates bear witness to this. There have been periods when the gaps between the green rates for currencies and their real values were so wide that, in order to prevent deflection of trade between the Member States and with non-member countries, the monetary compensatory amounts with which we have become familiar had to be applied. The completion of the Single Market and the attendant elimination of all obstacles to intra-Community trade did away with them on 1 January 1993.

Another avenue followed for a decade involved linking the agricultural unit of account to that of the strongest currency in the European Monetary System. Any revaluation of that currency therefore led to a revaluation of the unit of account with the result that the other currencies automatically fell in value and had to be devalued against the unit of account. This "switchover" system was intended to prevent falls in prices in national currency as a result of a revaluation and to transform such a revaluation into a devaluation of the other currencies. In fact these arrangements resulted in an overall increase in the level of Community support of around 20% over ten years, with obvious consequences for agricultural production and the cost to the Community budget, consequences which, in view of the reform of the CAP decided on in 1992, the European Union's budgetary problems and its international commitments on the reduction in levels of internal support, made it imperative that the "switchover" system be abolished in 1995.

While it prevents the immediate repercussions of monetary events from affecting agriculture, the system currently in place endeavours to bring the green rates more closely into line with the actual monetary position, since agriculture, as a component of the general economy, cannot be permanently isolated from general economic and monetary developments. The system must adjust in line with developments and any agri-monetary system must therefore seek to strike what must always be a precarious balance, under the economic and political circumstances applying at the time, between the naturally opposed interests of the people and bodies concerned.

The thoroughgoing reform of the common agricultural policy, the completion of the Single Market and the implementation of the GATT agreements have thus significantly affected the agri-monetary arrangements. A further amendment is already planned, since the introduction of the single European currency will require re-examination and a review of the system in force. It is not yet possible to predict the outlines of such a review as the new European Monetary System itself has not yet been fully defined. Nonetheless, it can be stated that agri-monetary arrangements will be required as long as the national currencies of those Member States not participating in the single currency exist. Only a single currency can spell the end to the agri-monetary arrangements since, in the absence of national currencies, the single currency will render the conversion rates superfluous, with prices and other amounts then being fixed and paid directly in euros. In view of the significant political difficulties that these arrangements have always caused, it is to be hoped that the single currency will be adopted as soon as possible by the whole of the European Union.

Joachim Heine
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1. Basic principles

By determining the conversion rate to be used for the purposes of the common agricultural policy, an attempt is made to reconcile two of the objectives set out in Article 39 of the Treaty establishing the European Community, namely:

- to ensure a fair standard of living for the agricultural community,

- to stabilize markets.

When the agricultural conversion rates diverge significantly from the rates recorded on the markets, there is a risk of destabilization of the agricultural markets. Furthermore, when the agricultural conversion rates follow monetary revaluations, there is a resulting fall in prices and aid in terms of national currencies, which may be detrimental to farmers' incomes.

The agri-monetary arrangements provide a system for reconciling these two requirements, which have beset the Community for over thirty years. They underwent a thoroughgoing reform on 1 January 1993 to take account of the completion of the Single Market (see Annex 1 listing the legal bases for the present arrangements).

The arrangements apply to legislation based directly or indirectly on Article 43 of the EC Treaty, with the exception of customs legislation, and to legislation concerning goods processed from agricultural products and subject to specific trade arrangements. In particular, they concern:

- the common organization of the agricultural and fisheries markets;

- the common agricultural structures and fisheries policy, with the exception of amounts fixed in ecus *by the Commission.*

The agri-monetary arrangements do not apply to some amounts by virtue of legislation based directly on Article 43 of the Treaty and specifying the use of a particular conversion rate.

In practice, the agri-monetary arrangements are based on the mechanisms for converting the ecu and on those governing compensation in the event of a currency revaluation.

The principles governing the agri-monetary arrangements are as follows:

- the ecu is the unit of account used to fix prices and amounts while payments are made in national currencies;

- ecus and national currencies are converted at an agricultural conversion rate differing little from the average market rate;

- except in certain special cases, the agricultural conversion rates are adjusted on the 1st, 11th and/or 21st day of each month;

- the agricultural conversion rate applicable to a given price or amount under the CAP 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, possibilities of advance fixing do exist under fairly restrictive conditions;

- where the agricultural conversion rate is revalued "appreciably", there is provision for special measures. The Council must, however, meet to decide on the measures necessary in line with the particular circumstances.

2. The ecu and conversion rates within the EMS

2.1 *The EMS*

(a) The ecu as defined under the European Monetary System (EMS) is made up of a fixed quantity of each of the national currencies of the Member States.

The value of the ecu in the currencies of the Member States and non-member countries is determined each quotation day[1]. It is based on the dollar parity at the 2.15 p.m. fixing for the currencies of the Member States. The example set out below is based on the situation at 4 January 1993[2].

(b) Within the framework of the EMS *exchange rate mechanism*, the exchange rate for converting a currency into another participating currency must be maintained within a maximum fluctuation range around a bilateral central rate defined for those two currencies.

Until 2 August 1993, the currencies in the EMS broke down into those which fluctuated by up to 2.25% above or below the central rate, those which were allowed to fluctuate by up to 6% above or below that rate and those which fluctuated freely[3]. Since 2 August 1993 there is only one band of ± 15% in the EMS[4].

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[1] Quotation days are defined as those for which the Commission determines and publishes a rate for the ecu, with the exception of 31 December.

[2] 4 January 1993 was selected as the first quotation day after the completion of the Single Market on 1 January 1993. The make-up of the ecu has not altered since 21 September 1989. The currencies of the three new Member States do not form part of the ecu (Article 109 G of the EC Treaty).

[3] From 1 January to 2 August 1993: the Belgian/Luxembourg franc, Danish krone, German mark, French franc, Irish pound and Dutch guilder fluctuated within the 2.25% band and the Spanish peseta and the Portuguese escudo within the 6% band while the Greek drachma, Italian lira and pound sterling were not part of the exchange rate mechanism.

[4] Under a bilateral agreement, the German mark and the Dutch guilder stay within a band of 2.25% of each other. The Greek drachma, Italian lira, Swedish krona, Finnish markka and pound sterling are not in the exchange rate mechanism. The Austrian schilling fluctuates within a band of 15% above or below the rate.

Determination of the daily value of the ecu in national currencies
(at 4 January 1993)

Make-up of ecu	Rates against dollar at 2.15 p.m. fixing	Proportion of currencies making up the ecu
1	2	3 = 1 : 2
BLF 3.431	USD 1 = BLF 33.6525	0.101954
DKR 0.1976	USD 1 = DKR 6.35150	0.031111
DM 0.6242	USD 1 = DM 1.63650	0.381424
DR 1.44	USD 1 = DR 217.980	0.006606
PTA 6.885	USD 1 = PTA 116.380	0.059160
FF 1.332	USD 1 = FF 5.59200	0.238197
IRL 0.008552	1/USD 1 = IRL 1.60630	0.013737
LIT 151.8	USD 1 = LIT 1 512.33	0.100375
HFL 0.2198	USD 1 = HFL 1.83990	0.119463
ESC 1.393	USD 1 = ESC 147.210	0.009463
UKL 0.08784	1/USD 1 = UKL 1.49950	0.131716
		Total: 1.193205
		ECU 1 = USD 1.193205

The total in column 3 represents the dollar parity of the ecu. Multiplied by the rates for the dollar at the 2.15 p.m. fixing (column 5 = column 2), this gives the value for the ecu in terms of the various national currencies (column 6).

4 = total of 3	5 = 2	6 = 4 x 5
	33.6525	BLF 40.1543
	6.35150	DKR 7.57864
	1.63650	DM 1.95268
	217.980	DR 260.095
	116.380	PTA 138.865
ECU 1 = USD 1.193205	5.59200	FF 6.67240
	1/1.60630	IRL 0.742828
	1512.33	LIT 1 804.52
	1.83990	HFL 2.19538
	147.210	ESC 175.652
	1/1.49950	UKL 0.795735

(2)

A monetary realignment amounts to a change in the bilateral central rate for two currencies participating in the exchange rate mechanism. At the time of a realignment, on the basis of the bilateral central rates for the other currencies of the Member States, a central rate may be calculated for each currency in the EMS against the ecu. That central rate for the ecu is termed "notional" in the case of currencies not participating in the exchange rate mechanism and is determined on the basis of the rates recorded on the markets before the realignment.

2.2 *Conversion rates used in agriculture*

The conversion rates for the ecu used in agriculture are set out below. Only the representative market rate and the agricultural conversion rate fall directly under the agri-monetary arrangements. A definition of these rates is given below and a detailed analysis is set out in points 3 and 4. The "switchover" mechanism, which introduced a "green ecu" in 1984, was abolished on 31 January 1995 (see Annex 2).

(a) The *accounting rate* is a monthly rate equal to the daily rate for the ecu[5]:

- on the 10th day of the month following the month concerned or the first working day prior to it, for the purposes of the EAGGF Guarantee Section;
- on the second-to-last working day of the month preceding the month concerned for the purposes of the EAGGF Guidance Section.

The daily rates for the ecu are calculated by the Commission (DG II) on the basis of the dollar parities at the 2.15 p.m. fixing as recorded by the central banks of the Member States. They are published in respect of each quotation day in the "C" series of the *Official Journal of the European Communities*.

(b) The *Common Customs Tariff* (CCT) *rate* is the rate for the ecu used when the CCT is applied. In principle, throughout the year it remains equal to the daily rate for the ecu valid on 1 October of the preceding year[6]. Since 1 July 1995, however, it has been replaced by a monthly rate equal to the daily rate for the second-to-last day of the month in question for almost all agricultural products. This monthly rate may be adjusted in the course of a month if in the meantime a currency fluctuates by more than 5%[7].

(c) Under the arrangements covering trade with non-member countries, amounts expressed in the currency of a non-member country are converted directly by the Member State concerned into its national currency using the conversion rate applicable for determining the *value for customs purposes*[8].

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5 Cf. Articles 1 and 3 of Regulation (EC, Euratom, ECSC) No 3418/93 (OJ No L 315, 16.12.1993).

6 Article 18 of Regulation (EEC) No 2913/92 (OJ No L 302, 19.10.1992, p. 1).

7 Regulation (EC) No 1482/95 (OJ No L 145, 29.6.1995, p. 43).

8 The value for customs purposes with a view to the application of the Common Customs Tariff is determined in accordance with Articles 28 to 36 of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code.

Such rates are laid down from time to time by the Member States in accordance with Commission Regulation (EEC) No 1766/85 (OJ No L 168, 26.6.1985, p. 21). For example, the offer price for imports of dried grapes, expressed in the currency of the non-member country, is converted into the currency of the Member State of import using the "value for customs purposes" rate. It is then compared with the minimum import price fixed in ecus and converted into the currency of the Member State of import using the agricultural conversion rate.

(d) The *representative market rate* (RMR) is equal to the average of the daily rates for the ecu over a reference period.

There are representative market rates for all national currencies, be they Member States or non-member countries. They are expressed in terms of the ecu (e.g. ECU 1 = DM 1.85898).

The RMRs are used for:

- conversions involving the ecu and currencies of non–member countries, in particular the dollar,

- converting world market data expressed in the national currency of a Member State into ecus,

- determining the agricultural conversion rate.

(e) The *agricultural conversion rate* (ACR), as it is officially known, or "green rate", is determined for the currencies of the Member States only. It is used for conversions involving the ecu and the national currencies of the Member States for all prices and amounts fixed or determined under the agri-monetary arrangements (cf. point 1). The agricultural conversion rate is fixed by the Commission by means of precise mathematical rules which link it to the daily rates for the ecu recorded on the markets. It is expressed as the value of one ecu in national currency (e.g. ECU 1 = DM 1.94962).

The Council has provided, where this is specified, for the agricultural conversion rate to be equal to the accounting rate in the case of the budget guidelines which are set in ecus.

2.3 *Monetary gaps*

The monetary gap (MG) is the difference between the agricultural conversion rate and the representative market rate, expressed as a percentage of the agricultural conversion rate. It is an algebraic value[9] calculated using the following formula:

$$MG = 100 \times (1 - RMR/ACR)$$

[9] The algebraic value of a number has a positive (+) or negative (-) sign, whereas the absolute value of the number is always positive (+). For example, the algebraic values +2, -2 and -5 have the absolute values +2, +2 and +5 respectively.

Examples of monetary gaps calculated for the German mark and the Italian lira:

- for the German mark:
  $\dfrac{1.94962\ (ACR) - 1.85898\ (RMR)}{1{,}94962\ (ACR)} = + 4.649\%$
- for the Italian lira:
  $\dfrac{2\ 122.73\ (ACR) - 2\ 206.14\ (RMR)}{2\ 122.73\ (ACR)} = - 3.929\%$

The bilateral gap between two currencies is also determined. This is the difference in absolute value between the monetary gaps and thus equals the combined monetary gaps for the two currencies concerned. For example, between the German mark and the Italian lira, the monetary gap is: (4.649) - (-3.929) = 8.578 points.

The rules for rounding off the conversion rates and the monetary gaps are set out in Annex 3.

3. Representative market rates

The representative market rate (RMR) is the average over a reference period of the daily rates for the ecu published in the "C" Series of the *Official Journal of the European Communities*. The RMR comes into force on the day following the reference period on the basis of which it is calculated. The Commission fixes or adjusts the reference period, in accordance with the management committee procedure, between one day (at least) and one month (at most).

Since representative market rates are for internal use within the Commission, they are not published in the *Official Journal of the European Communities*. Information on the representative market rates in force is available, however, from an automatic answering device at the following numbers:

- Fax: (32 2) 296 10 97 or 296 60 11.

In addition, the daily rates for the ecu are available from an automatic telex answering device at number 23789.

3.1 *Basic reference periods*

In principle, the RMR is worked out in terms of basic reference periods running from the 1st to the 10th, the 11th to the 20th and the 21st to the last day of each month. It comes into force on the day following the period on the basis of which it is determined.

There is provision for shorter reference periods or periods overlapping those quoted in certain specific cases or when exceptional monetary events occur. Rules on precedence exist (see Annex 4) for cases where the various reference periods start on the same date.

RMRs specific to particular amounts, established over reference periods shorter than the basic reference periods, may be used to prevent market distortion of monetary origin. The use of specific RMRs and the reference period concerned are pointed out in a recital in the Regulation fixing the amount determined thanks to this derogation from the general rule. This is the case in particular for the standard values under the entry price arrangements for fruit and vegetables.

3.2 *Exceptional reference periods*

An exceptional reference period is triggered when very significant bilateral gaps are recorded. Such exceptional periods may end on any ecu quotation day and thus comprise the last three quotation days. They are triggered where the bilateral gap between two currencies in the last three days exceeds 6 points.

Example:

	DM	LIT	Bilateral gap
ACR on 1st of month	1.94962	2 122.73	
RMR on 1st of month	1.88500	2 150.00	
Gap on 1st of month	+ 3.314	- 1.285	4.599
Exchange rate on 4th	1.88000	2 160.00	
Gap on 4th	+ 3.571	- 1.756	5.327
Exchange rate on 5th	1.87500	2 180.00	
Gap on 5th	+ 3.827	- 2.698	6.525
Exchange rate on 6th	1.87000	2 200.00	
Gap on 6th	+ 4.084	- 3.640	7.724
Average RMR on 4th, 5th and 6th	1.87500	2 180.00	6.528
Gap/average RMR	+ 3.827	- 2.698	
New RMR on 7th	1.87500	2 180.00	

Where an exceptional reference period is used, new RMRs are fixed for all currencies of the Member States and non-member countries. The new RMRs represent average daily rates for the three quotation days concerned. They come into force on the following day. The ACRs are adjusted depending on their gaps with the new RMRs in accordance with the rules set out in point 4.

After an exceptional reference period, there is a residual period commencing on the day of entry into force of the new RMR and ending, as the case may be, on the 10th, 20th or last day of the month concerned.

3.3 *Confirmation reference periods*

Where a positive monetary gap exceeds 5 points, one or more confirmation reference periods elapse before the agricultural conversion rate is adjusted (see point 4). New RMRs are fixed on the expiry of each confirmation reference period.

Where the first confirmation reference period starts on the 1st, 11th or 21st day of the month, the successive confirmation reference periods are identical to the basic reference periods set.

Where the first confirmation reference period starts after the triggering of an exceptional three-day reference period, all subsequent confirmation reference periods last 10 days each. After the last of these confirmation reference periods, there is a residual period that ends just prior to the subsequent basic reference period.

Exceptional reference periods may not be triggered during a confirmation reference period.

4. Agricultural conversion rates

The agricultural conversion rate (ACR) is initially fixed at a level close to the representative market rate for the ecu[10].

ACRs may be adjusted where:

- protective measures covering the application of legislation on the common agricultural policy are adopted;

- specific measures are adopted to prevent the risk of market distortion of monetary origin;

- monetary gaps exceed certain thresholds at the end of a reference period.

The adjusted ACRs are published in the *Official Journal of the European Communities* at the latest on the day they take effect and generally on the day following that on which they are calculated.

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[10] For the purposes of converting world market data, the agricultural conversion rate is specifically defined as being identical to the representative market rate.

The first two possibilities are quite exceptional while the third is normal practice.

All changes in the ACRs entail reductions and never increases in monetary gaps. The first two cases mentioned above are one-off measures while the third case involves the automatic application of certain rules.

The new ACR is calculated on the basis of the new RMR and the desired monetary gap[11] using the following formula:

$$ACR = RMR/(1 - MG/100)$$

4.1 *Effects of currency variations on agricultural conversion rates*

(a) *When currencies are revalued*, the agricultural conversion rate is higher in terms of value than the representative market rate as long as the ACR applying prior to the revaluation is maintained for the purposes of CAP legislation.

Thus in the example set out in point 2.3, the ACR (DM 1.94962) is higher than the RMR (DM 1.85898).

As a consequence:

* when they are converted into national currencies, prices and amounts are higher than the Community level, calculated on the basis of the representative market rate;

* the monetary gaps are positive and indicate the difference in national prices and amounts as compared with common prices and amounts; for example, with a monetary gap of + 4.649, the resulting reduction in prices in German marks would be 4.649% if the common price were to apply.

When currencies appreciate in value (i.e. are revalued), the representative market rate falls and the positive monetary gap increases.

For example, following a 2.00% revaluation in the German mark:

- DM 1.85898 becomes DM 1.82253, corresponding to a 1.96% fall in the RMR[12];

- the monetary gap + 4.649 gives + 6.519 or 1.87% more.

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11 Where rules apply automatically, the desired gap is equal to half the gap recorded.

12 In accordance with the EMS rules, revaluations are measured inversely in terms of the RMR, e.g. 2% of 1/1.85898; this does not therefore correspond exactly to a 2% reduction in the value of the RMR itself.

(b) *When currencies are devalued*, the inverse occurs, so the agricultural conversion rates are lower than the representative market rates:

LIT 2 122.73 (ACR) $\prec$ LIT 2 206.14 (RMR)

The representative market rate rises when the currency depreciates and the prices and amounts increase in terms of national currency when the agricultural conversion rate follows the representative market rate.

4.2 *Adjusting agricultural conversion rates*

The difference between the agricultural conversion rates and the representative market rates narrows when the monetary gaps exceed certain margins termed "thresholds". Thus, as long as the monetary gaps are below the thresholds, the agricultural conversion rates remain unaltered. The thresholds used for the positive gaps are different from those used for negative gaps.

The monetary gaps are compared with the thresholds at around 4 p.m. on the last quotation day of each (basic or exceptional) reference period.

The new ACR is arrived at by a reduction amounting to half the monetary gap in question. Where appropriate, further reductions amounting to half the gap are made for as often as necessary to arrive at a new gap which does not exceed the thresholds.

Example:

ACR	ECU 1 = LIT 2 122.73
RMR	ECU 1 = LIT 2 206.14
Gap of	- 3.929 exceeds the threshold of - 2
New gap	- 3.929/2 = - 1.964 $\prec$ - 2
New ACR	ECU 1 = 2 163.65

(a) *Case of negative gaps*

Where the monetary gap is negative (as a result of a devaluation), the ACR is adjusted if, at the end of a reference period, the gap is less than -2 in algebraic terms or if the gap, combined with the monetary gap of any other currency, gives a bilateral gap of over 5 points.

It should be noted that exceptional reference periods are triggered for a bilateral gap of 6 points but subsequently, depending on the new RMRs determined, the ACRs are adjusted on the basis of the thresholds of -2 and 5 points referred to above.

(b) *Case of positive gaps*

Where a positive gap (as a result of a revaluation) is higher than the threshold of + 5 at the end of a reference period and this was not the case in the preceding period, the ACR concerned is not adjusted immediately. The ACRs frozen are those with a gap of over + 5 or with a bilateral gap of over 5 points only with respect to them. A confirmation reference period of 10 days (9 to 11 days at the end of some months) is introduced. Depending on the exchange rates recorded at the end of that confirmation period, where the positive gap does not exceed + 5, the ACR is not reduced and the normal rules on negative gaps apply.

In the opposite case, further developments will depend on the type of revaluation, i.e. whether or not it is "appreciable".

Revaluations are deemed "appreciable" where the reduction in the ACR is greater than the impact of any increases in the ACR occurring over the last 36 months. The assessment of the impact of increases in the ACR takes account of the time which they have been in force, one third of the increase being deducted for each year passing. In the case of currencies like the German mark, the Dutch guilder and the Austrian schilling which have not devalued in the last three years, any revaluation is appreciable.

To be more precise, the reduction in the ACR will be appreciable if the difference between the existing ACR and the reduced ACR proposed, expressed in absolute values, is greater than the largest of the three absolute values below:

- the difference between the existing ACR and the smallest ACR applicable during the preceding 12 months;

- two thirds of the difference between the existing ACR and the smallest ACR applicable between the preceding 12 and 24 months;

- one third of the difference between the existing ACR and the smallest ACR applicable between the preceding 24 and 36 months.

Where the halving of the positive gap does not constitute an appreciable revaluation, the reduction in the ACR by half the gap is made with effect from the following day; the usual rules for negative gaps apply depending on the new ACR.

Where the reduction by half the positive gap is deemed an appreciable revaluation, all negative gaps are reduced to zero but the positive gap in question is maintained for a further confirmation period of 10 days. If at the end of the second confirmation period the threshold of + 5 is still exceeded, the confirmation period can be renewed another three times (for a total of five times 10 days since the first overrun recorded). Once a risk of appreciable revaluation has been observed, the Council must meet to decide on measures to be taken. Lastly, if the positive gap still exceeds + 5 after all the confirmation periods and unless the Council decides otherwise, the gap is reduced by half (the Council cannot decide to maintain a gap of more than + 5).

Examples of adjustments of ACRs

Gap DM	Gap LIT	Bilateral gap	Adjustment of ACR
+ 1.5	- 3.2	4.7	LIT as $-3.2 < -2$
+ 3.5	- 1.8	5.3	LIT as $5.3 > 5$
+ 4.0	- 2.5	6.5	LIT as $6.5 > 5$ and $-2.5 < -2$
+ 5.2	- 1.0	6.2	DM after confirmation that $5.2 > 5$
+ 5.8	- 2.5	8.3	DM after confirmation that $5.8 > 5$ then LIT as $-2.5 < -2$
+ 6.4	- 1.9	8.3	DM after confirmation that $6.4 > 5$ then LIT as $1.9 + 6.4/2 > 5$

5. Operative events

5.1. *General principles*

Since the event justifying the granting of a price or amount always lasts for a certain time and the agricultural conversion rate can be adjusted within that period, the operative event for the agricultural conversion rate determines the ACR to be applied among those in force over the duration of the operation.

Thus the operative event is that whose date is taken into account to determine the agricultural conversion rate to be applied for a particular price or amount.

The operative event must correspond to the event whereby the economic aim of the operation is attained. It is fixed by the Commission in accordance with the management committee procedure for each type of price or amount under the CAP.

Principally, these are:

- one date per year for most types of aid per hectare (1 July) or animal (1 January) and for structural aid (1 January);

- the customs declaration for amounts relating to trade, such as refunds;

- the takeover of products by the purchaser in the case of sales, purchases and aid by quantity marketed.

Council regulations specify an exhaustive yet general list of the operative events for the ACRs[13].

[13] For structural aid, see Annex 5.

The Commission defines these main operative events and, where appropriate, derogates from them in the light of the four criteria laid down by the Council:

(a) the speed of application of adjustments to ACRs,

(b) the similarity of cases occurring within different market organizations,

(c) the internal consistency of prices and amounts within the same market organization,

(d) the ease with which appropriate checks on the application of ACRs can be made.

As stipulated in the Council regulations, these criteria in principle exclude the various possibilities for the advance fixing of ACRs over a lengthy period, except where this is specifically provided for by the Council itself (see point 5.3).

In order to ensure that similar operations are treated in the same way under the various market organizations, the Commission has adopted so-called "horizontal" operative events for the prices and amounts concerned. These horizontal operative events apply in the absence of provisions to the contrary laid down in specific Commission regulations adopted pursuant to Regulation (EEC) No 3813/92.

The operative event applicable to a particular price or amount is therefore that defined or laid down in a Commission regulation after 1992 relating to the market organization or operation concerned. By default, the horizontal operative event laid down in Commission Regulation (EEC) No 1068/93 applies. Lastly and in the absence of any other rule, the case in point must be interpreted in the light of the general operative events defined by the Council.

In accordance with Council Regulation (EC) No 1527/95, the agricultural conversion rates for the Belgian and Luxembourg franc, the German mark, the Danish krone, the Dutch guilder and the Austrian schilling applicable on 23 June 1995 to aid per hectare, aid per livestock unit and aid under structural and environmental schemes are to remain unchanged until 1 January 1999. A similar rule covers the Swedish krona pursuant to Council Regulation (EC) No 2990/95, the date of freezing of the ACRs in this case being 10 January 1996.

5.2 *Horizontal operative events*

(a) *Prices and amounts in trade with non-member countries*: "acceptance of the customs declaration". This declaration could, for example, be an export declaration or a declaration of release for free circulation.

(b) *Purchase or selling price* and *purchase or selling tenders accepted under an invitation to tender*: "taking over by the purchaser of the batch of products concerned or the transfer of the first payment, whichever is earlier". Where the purchaser is an intervention agency, takeover is the commencement of physical delivery of the products. Where there is no physical movement of the products, takeover is deemed to take place at the time the seller's tender is accepted provisionally.

Special amounts such as monthly increments, increases or reductions for qualities higher or lower than the reference quality, etc. have the same operative event as the price or tender to which they are linked.

(c) *Aid by quantity of product marketed or by quantity of product to be used in a specific way*: "the first operation which guarantees the appropriate use of the products in question and entails grant of aid, and occurs after the date of taking over of the products by the operator concerned and, where appropriate, before the date of specific use."

In many cases, the horizontal operative event for the aid referred to in the preceding subparagraph needs to be described in detail.

These amounts are expressed per unit of weight and concern:

- products where entitlement to the aid depends implicitly or explicitly on marketing by the producer (this therefore rules out aid per hectare and premiums per animal in particular),

- products where entitlement to the aid depends on a particular use, in the broad sense, involving in particular the processing, preservation or packaging method, consumption or recipient.

A compulsory action for entitlement to the aid is an operation specified in the regulations concerned which is automatically checked when entitlement to the aid is established. For example, such an operation may include the weighing of the quantities delivered or an entry in the stock records. Depending on the case in point, verification of compliance with such an obligation may involve a physical or documentary check, which may be systematic or random or, as required, *ex ante* or *ex post*.

(d) *Private storage aid*: "the first day in respect of which the aid relating to one and the same contract is granted". In principle this is the commencement of physical storage provided for in the contract.

(e) *Aid per hectare*: "the commencement of the marketing year". As a rule this is the beginning of the marketing year following sowing.

In addition there are horizontal operative events for payments under structural or environmental schemes, costs determined by invitation to tender, recording of market prices, advances and securities.

5.3. *Advance fixing of agricultural conversion rates*

The agricultural conversion rate may be fixed in advance where the relevant amount in ecus is:

- determined by invitation to tender, or

- itself fixed in advance in ecus.

Applications for advance fixing of the ACR must be submitted at the same time as applications for advance fixing of the relevant amount in ecus or, where applicable, the submission of the tender. Applications must specify the Member State where the advance-fixing certificate is to be used. Such certificates are thus valid solely in the Member State designated.

The agricultural conversion rate fixed in advance is that applying on the day of advance fixing or, where appropriate, the closing date for the submission of tenders. The term of validity of advance fixing of the ACR is equal to that of advance fixing of the relevant amount in ecus or, as applicable, the award of the contract. Thus, where the operative event for the ACR as defined in accordance with point 5.1 occurs after the expiry of the term of validity of advance fixing of the ACR, the amount concerned is converted using the ACR applicable on the date of that operative event.

Circumstances exist (see Annex 6) under which the agricultural conversion rate fixed in advance may be adjusted. This is the case in particular where the difference between the rate fixed in advance and the rate which would have applied without fixing in advance exceeds 4%.

The Commission may suspend the possibility of fixing ACRs in advance where the currency or market situation makes this advisable. Applications for advance fixing of ACRs are not admissible during such suspension but those submitted beforehand are processed normally. As regards the prices or amounts fixed in advance in ecus during such suspension, advance fixing of the new ACR may be applied for during the seven days following suspension.

6. Compensation mechanisms

There is provision for compensation mechanisms in the event of appreciable revaluations with a view to forestalling losses of agricultural income they could cause. "Non-appreciable" revaluations do not entail such compensation.

Where there is a risk of an appreciable revaluation, as from the second confirmation reference period covering an overrun in the threshold of + 5, the Council meets to adopt the emergency measures required. The measures in question, which are taken by a qualified majority (without an opinion from Parliament), may derogate from the agri-monetary rules, except as regards compliance with the threshold of + 5. As a consequence, the ACR concerned must be reduced to a gap of no more than + 5.

At the end of the confirmation periods covering an appreciable revaluation and unless measures are adopted by the Council, the ACR is reduced by half the existing monetary gap and mechanisms provided for in advance may be triggered at the request of the Member States concerned.

The mechanisms provided for in advance have never been applied to date since they have always been replaced by one-off mechanisms.

6.1 *Mechanisms provided for in advance*

(a) *"Mini-switchover" mechanism*

Most direct aid paid to producers is increased in terms of ecus and thus for all the Member States so as to prevent any fall in the aid in currencies affected by appreciable revaluations.

The mechanism is often termed the "mini-switchover" system by virtue of the similarity between its effects and those of the former "switchover" or "green ecu" system abolished on 1 February 1995.

By way of an example, a reduction in the ACR from ECU 1 = 1.94982 to ECU 1 = 1.89850, resulting in an appreciable fall of 2.622%, would be offset by a rise in ecus of the aid concerned. The rise would be 1/1.02622 = 2.693% so as to neutralize the effects in the revalued national currency:

$$\text{ECU } 100 \times 1.94962 = \text{ECU } 100 \times 1.02693 \times 1.89850$$

The "mini-switchover" mechanism relates to aid expressed in ecus per hectare or in ecus per animal and aid under structural and environmental schemes. This covers almost all aid granted under the reform of the CAP and nearly 60% of the EAGGF Guarantee Section in 1996. The "mini-switchover" mechanism is triggered at the request of the Member State whose ACR has been reduced, provided that such a reduction is greater than the total increase which may have been recorded in the 24 months preceding the revaluation in question.

The conditions for triggering are thus even stricter than those defining an appreciable revaluation (cf. point 4.2 (b)).

With regard to any given aid scheme, the increase in ecus takes place when the first operative event concerned occurs, after the reduction in the ACR in question. Operative events for the ACRs applicable to aid subject to the "mini-switchover" mechanism always take place once a year on fixed dates. Thus the increase in a particular type of aid in ecus corresponds to a significant reduction in the ACR in force on the date of the operative event as compared with that in force 12 months beforehand; intermediate adjustments to the ACR are never applicable to the aid in question and are therefore ignored by the mechanism.

Where several currencies undergo appreciable falls, the "mini-switchover" mechanism raises the aid in line with the biggest impact of such falls.

(b) *Compensatory aid paid after the effects are felt*

If the revaluation remains appreciable on average for 12 months and this results in a loss of income for farmers despite the measures taken, compensatory aid may be granted. Such aid is reduced progressively, falling by a third each year for three years. It is part-financed by the Community at a rate of 75% in regions covered by Objective 1 of the Structural Funds (regions lagging behind in development) and 50% elsewhere.

To determine whether a revaluation is appreciable on average over a year, the four average ACRs applicable *pro rata temporis* over the four consecutive twelve-month periods preceding the date used for the examination must be compared. The average for the last period, termed "period n", will be substantially lower if it is smaller that the average for period n-1 and if that reduction in absolute value exceeds:

- two thirds of the increase recorded between the average for period n-2 and the average for period n-1,

and

- one third of the increase recorded between the average for period n-3 and the average for period n-2.

In short, this means that the reduction in the annual average ACR exceeds one third and then two thirds of the average increases recorded in the recent past.

The loss of income incurred as a result of an appreciable average reduction must be fixed by the Council acting by a qualified majority. Experience shows that assessing this type of loss objectively is not an easy task.

In connection with the overall amount to be fixed by the Council, the Member States lay down the detailed rules on granting the aid. The latter must not constitute a production incentive or be likely to distort conditions of competition between Member States. The amount granted can thus be linked to production solely where the latter is a reference production relating to the past. Furthermore, the conditions governing granting must entail no requirement regarding production or any particular mode of production.

6.2 *Ad hoc mechanisms*

In 1995, the first risks of appreciable revaluations arose under the arrangements. The Council took ad hoc measures, in particular to avoid costs that the triggering of the "mini-switchover" mechanism would have incurred. These measures are determined by circumstances and of temporary duration, so they are not binding for the future. However, they set a precedent for further appreciable revaluations of a similar type and therefore imply a risk of triggering the "mini-switchover" mechanism.

After four months of agri-monetary difficulties during which several positive monetary gaps exceeded 5 points, the Council adopted Regulation (EC) No 1527/95 in June 1995. At the end of that year, similar measures were taken under Regulation (EC) No 2990/95.

The Council decided to let the adjustments to the agricultural conversion rates apply as provided for in the agri-monetary arrangements in force, i.e. with reductions by half the monetary gaps recorded.

As a consequence, several appreciable reductions took place in the agricultural conversion rates, namely:

- 3.2% in respect of the Belgian and Luxembourg franc on 24 June 1995,
- 2.2% in respect of the German mark on 1 July 1995,
- 2.6% in respect of the Dutch guilder on 1 July 1995,
- 2.3% in respect of the Austrian schilling on 1 July 1995,
- 3.1% in respect of the Danish krone on 24 July 1995,
- 3.3% in respect of the Swedish krona on 11 January 1996.

However, the Council also decided that the compensation measures provided for in the basic agri-monetary Regulation would not apply to appreciable revaluations between 23 June 1995 and 1 July 1996 and that they would be replaced by the other two types of measures outlined below.

(a) *Freezing of the ACR with respect to most types of direct aid to producers*

The ACR applicable prior to an appreciable revaluation continues to apply to aid per hectare and per animal and to aid under structural and environmental schemes until 1 January 1999. The date 1 January 1999 was selected since it coincides with the introduction of the single currency.

The freezing of the ACR applies to both increases and reductions and therefore in the event of a future devaluation of the currency in question also.

Depending on the relevant operative events, the ACRs applicable to the various types of aid in question were not necessarily the same at the time of the appreciable revaluation. As a consequence, several ACRs may be frozen until 1999 (see Annex 7).

(b) *Compensatory aid granted before the effects are felt*

The Member States affected by an appreciable revaluation may grant aid falling in stages over three years; half the sums authorized are financed by the European Union, irrespective of any additional contribution which the Member State may pay.

The maximum aid authorized is determined before the effects are felt, on the basis of a relatively standard estimate of possible losses of income over 12 months. It mainly reflects the impact of the 1% fall in the ACR on the income and costs of agricultural holdings. This impact has been estimated to be significant only on products where the market organization is heavily dependent on an intervention price, i.e. cereals, sugarbeet, beef/veal and milk products.

Given the appreciable reductions that have taken place in the ACRs, the ceilings on aid authorized are as follows:

- ECU 39.5 million for Belgium,
- ECU 7.6 million for Denmark
- ECU 212.6 million for Germany,
- ECU 3.1 million for Luxembourg,
- ECU 99.0 million for the Netherlands,
- ECU 38.0 million for Austria,
- ECU 18.7 million for Sweden.

The aid granted by the Member States must not encourage production or create distortion of competition. It must therefore be proportional to the losses incurred by each type of production and must be linked to the size of the holding as it existed in the past.

Nevertheless, where the average amount to be granted per holding is below ECU 400, the aid may take the form of agricultural measures of general interest or measures authorized under Community provisions on national aid.

(c) *Compensating for impact of devaluations*

Under the compromise covering the Council decisions referred to above, the principle laid down in Regulation (EC) No 2611/95 establishing the possibility of national aid being granted in compensation for losses of agricultural income caused by monetary movements in other Member States was also agreed. Those provisions apply only to the consequences of currency movements occurring prior to 31 December 1995.

The national aid must be based on real income losses supported by factual evidence and cannot be granted for more than three years. It is allocated following agreement by the Commission.

Under that Regulation, France was authorized to grant a maximum of ECU 17 million in a single annual tranche to the beef industry.

7. Outline of economic and financial effects

7.1 *Economic effects*

(a) *Products subject to low-impact Community intervention*

The market impact of the agri-monetary arrangements is not felt directly in the case of products where the prices are not closely linked to Community prices or aid. These make up about 50% of agricultural production and in particular include potatoes, quality wine, most horticultural products, sheepmeat, goatmeat, etc.

Some indirect effects may occasionally be felt by virtue of the links between the prices for the various agricultural products. For example, prices for beef/veal and the cost of cereals in feed for pigs and poultry may play a part in trade in pork and poultrymeat. Nonetheless, these are mainly one-off effects and they are very difficult to distinguish from other factors exerting an influence.

What is more, these agricultural products suffer the effects of typical currency movements, so Member States whose currencies are devalued feel the resulting incentive to export and the curbs on imports. Such processes are totally independent of the agri-monetary arrangements.

In view of the negligible impact of the agri-monetary arrangements on 50% of agricultural production and the scale of the latter in household expenditure on foodstuffs, it has been calculated that inflation is hardly affected by the trend in the ACRs. A 1% rise in the ACR corresponds to an increase of about 0.03% in the consumer price index.

(b) *Products subject to high-impact Community intervention*

Where market prices are driven by the trend in common prices and amounts in ecus, trade in the products concerned may be influenced by the agri-monetary arrangements.

This is the case of products where intervention prices exist, and in particular cereals, sugar, beef and butter, as well as products where there is a minimum price or certain types of aid expressed in ecus by quantity produced.

In view of the reform of the CAP, market prices are not directly and constantly linked to the trend in the ACRs and a margin for independence always exists. When market prices are high, they are practically independent of the ACRs. However, Community aid, whether it is linked or not to the markets, totally reflects variations in the ACRs once the operative event has occurred.

As to trade, when market prices are closely linked to the common prices, the agri-monetary arrangements circumvent the main difficulties that monetary movements usually entail, in particular with regard to competitiveness.

However, monetary gaps may cause some cases of distortion. The system of thresholds, which limits the scale of monetary gaps, is based on an average assessment, covering all products and all Member States, of the gaps acceptable without leading to deflection of trade flows. In detail, such acceptable gaps vary with the value of the product, the situation on the markets and the distance between Member States likely to be involved in such trade: they are much smaller between the Belgian/Luxembourg franc and the Dutch guilder than between the Greek drachma and the Finnish markka. When the thresholds are exceeded, in particular during revaluation confirmation periods, distortion may appear quite easily if the market situation and opportunities are favourable.

With the help of examples Annex 8 sets out the principle governing the effects of movements of ACRs on prices, aid and trade.

Farmers' incomes are barely affected by appreciable revaluations since falls in the ACRs are frozen as far as most types of direct aid to producers are concerned and there is provision for compensation to offset effects on market prices to be paid on a flat-rate basis before the effects are felt.

Other fluctuations in ACRs may, however, have a significant impact on income. The trend in prices for products subject to high-impact intervention follows much more closely and more faithfully that of the ACRs than the general price index. Furthermore, when the annual operative event occurs, direct aid and in particular almost all aid granted under the reform of the CAP undergoes a ruthless adjustment.

In the event of a devaluation, these mechanisms may lead to major increases in income. In the event of a non-appreciable revaluation, there is a curb on agri-monetary rises in income recorded beforehand.

7.2 *Financial effects*

(a) *Effects of devaluations/revaluations*

In principle, when the ACR is equal to the RMR, there is no cost to the EU budget.

The time-lag in the upward adjustment of ACRs and thus the existence of negative gaps produce savings on expenditure anticipated. In other words, an increase in the ACRs means savings are not realized.

By way of an example, let us assume there is provision for expenditure of ECU 100 in the budget at 15 October 1994:

Case 1: the ACR follows closely on the RMR:

(a) Expenditure on 15 January 1995 in national currency:
ECU 100 × LIT 2 100 (ACR) = LIT 210 000
Reimbursement in national currency by EU: LIT 210 000
Entry in EU accounts on 15 January 1995
LIT 210 000/2 100 (ACR)[14] = ECU 100

(b) Expenditure on 15 February 1995 in national currency:
ECU 100 × LIT 2 500 (ACR) = LIT 250 000
Reimbursement in national currency by EU: LIT 250 000
Entry in EU accounts on 15 February 1995
LIT 250 000/2 500 (new ACR) = ECU 100

[14] In practice, an accounting rate very close to the ACR is used.

Case 2: the ACR follows the RMR with a time-lag:	
(a)	Expenditure on 15 January 1995 in national currency: ECU 100 × LIT 2 000 (ACR) = LIT 200 000 Reimbursement in national currency by EU: LIT 200 000 Entry in EU accounts on 15 January 1995 LIT 200 000/2 100 (ACR) = ECU 95 Savings to budget: ECU 100 - ECU 95 = ECU 5
(b)	Expenditure on 15 February 1995 in national currency: ECU 100 × LIT 2 000 (ACR) = LIT 200 000 Reimbursement in national currency by EU: LIT 200 000 Entry in EU accounts on 15 February 1995 LIT 200 000/2 500 (ACR) = ECU 80 Savings to budget: ECU 100 - ECU 80 = ECU 20

The mechanism works the opposite way in the case of revaluations. A time-lag in the downward adjustment of ACRs, resulting in positive gaps, implies unbudgeted expenditure.

By way of an example, let us assume there is provision for expenditure of ECU 100 in the budget at 15 October 1994:
Expenditure on 15 January 1995 in national currency:
DM 100 × 1.94 (ACR) = DM 194
Sum reimbursed in national currency by EU: DM 194
Entry in accounts on 15 January 1995:
DM 194/1.85 (ACR) = ECU 105
Unbudgeted expenditure: ECU 100 - ECU 105 = ECU 5

(b) *Impact of asymmetrical thresholds*

Lack of symmetry in thresholds protects positive gaps to a greater extent (up to + 5) than negative gaps (up to - 2 at most). The consequences of this rule and the existence of confirmation periods before the reduction of the positive gaps lead to a predominance of positive gaps. Such positive gaps imply a non-reduction in the agricultural conversion rates and thus in costs.

It is impossible to anticipate the budgetary effects of such costs, which depend on the trend in each monetary gap. However, as a rough estimate:

- a 1% move towards + 5 in all monetary gaps for a year results in a 1% increase in EAGGF Guarantee Section expenditure and thus in a cost of around ECU 400 million;

- with an average monetary gap of + 3 for a year, which should be close to the maximum in practice, the cost would be around ECU 1 200 million;

- the lack of a reduction in the positive gap of 1% for a year brings about a 1% increase in expenditure for the country concerned.

Expenditure due to significant positive gaps falls once the gaps are reduced and therefore is not permanent.

(c) *Impact of the mini-switchover mechanism*

Where there is a risk of an appreciable revaluation, the regulations provide for a decision on compensation to be taken by the Council. However, of the two mechanisms covering cases where there is no decision, mini-switchover may incur a cost of around ECU 250 million for a 1% rise in ecus. Since an appreciable revaluation entails a reduction of at least 2.5% in the agricultural conversion rate, the cost of the measure is at least ECU 625 million. This cost drags on from one year to the next since the aid in ecus does not fall once it has increased.

(d) *Budget constraints on agri-monetary expenditure*

In accordance with the Edinburgh compromise and its implementation by the Council decision on budget discipline, until the 1997 budget year only the direct effects of the switchover mechanism since September 1992 can be financed outside the agricultural guideline. In view of the abolition of the switchover mechanism, this therefore entails a ceiling, estimated at around ECU 1 800 million, which is fixed for all intents and purposes, and which may be financed using the balance of the ECU 500 million monetary reserve (after expenditure incurred by the fall in the dollar has been paid) or, where necessary, by triggering a complex procedure for identifying new resources and calling for a unanimous decision by the Member States.

Legally speaking, the costs of the present agri-monetary arrangements cannot be financed as such under the Edinburgh compromise. However, if agricultural expenditure as a whole, be it agri-monetary or not, were to exceed the guideline, it could be claimed that the overrun, up to ECU 1 800 million, was the effect of switchover from 1992/93 and could thus be financed under the Edinburgh compromise. In excess of the monetary reserve, resources must nonetheless be identified.

The agricultural conversion rates applicable in 1993, 1994 and 1995 are set out in Annex 9.

ANNEX 1

Main agri-monetary regulations in force

1. Basic Regulation

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).

Amended by:

(a) Regulation (EC) No 3528/93 (OJ No L 320, 22.12.1993, p. 32)
(b) Regulation (EC) No 150/95 (OJ No L 22, 31.1.1995, p. 1).

2. Detailed rules of application

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).

Amended by:

(a) Regulation (EC) No 567/94 (OJ No L 69, 12.3.1994, p. 1)
(b) Regulation (EC) No 157/95 (OJ No L 24, 1.2.1995, p. 1)
(c) Regulation (EC) No 1053/95 (OJ No L 107, 12.5.1995, p. 4)
(d) Regulation (EC) No 2853/95 (OJ No L 299, 12.12.1995, p. 1)

3. Compensatory aid

Council Regulation (EC) No 1527/95 of 29 June 1995 regulating compensation for reductions in the agricultural conversion rates of certain national currencies (OJ No L 148, 30.6.1995, p. 1)

Council Regulation (EC) No 2611/95 of 25 October 1995 establishing the possibility of national aid being granted in compensation for losses of agricultural income caused by monetary movements in other Member States (OJ No L 268, 10.11.1995, p. 3)

Council Regulation (EC) No 2990/95 of 18 December 1995 regulating compensation for appreciable reductions in the agricultural conversion rates before 1 July 1996 (OJ No L 312, 23.12.1995, p. 7)

Council Regulation (EC) No 2921/95 of 18 December 1995 laying down detailed rules for compensation for reductions in certain agricultural conversion rates (OJ No L 305, 19.12.1995, p. 60), *amended by* Regulation (EC) No 459/96 (OJ No L 64, 14.3.1996, p. 12).

4. Other Regulations

Commission Regulation (EC) No 1482/95 of 28 June 1995 determining as a transitional measure the conversion rates to be applied under the Common Customs Tariff to agricultural products and certain products obtained from the processing thereof (OJ No L 145, 29.6.1995, p. 43).

ANNEX 2

Former switchover or green ecu mechanism

As a result of this mechanism, which was introduced in 1984 and abolished at the end of January 1995, the reduction in the agricultural conversion rates for *fixed* currencies was replaced by an increase in all the conversion rates for all other currencies. A green ecu was thus created for use in agriculture, which was indexed to the strongest fixed currency and could therefore not be devalued.

For fixed currencies, i.e. those staying within a fluctuation band of ± 2.25% within the EMS, monetary gaps could only be created when the central rates (representative market rate) were aligned within the EMS.

In such cases, a correcting factor, calculated so as to leave unaltered the central rate for the currency being revalued most, is applied to all the representative market rates for agriculture.

The negative gaps, which thus increased for weak currencies, were dismantled progressively by increasing the corresponding agricultural conversion rates.

The switchover correcting factor could only rise. It gradually rose to 1.207509, entailing the transfer of positive to negative gaps of nearly 20%.

When the switchover mechanism was abolished, the prices and amounts in ecus were multiplied by 1.207509 to ensure the operation was neutral in terms of national currencies.

Example of switchover

		DM	HFL	LIT	USD
Before realignment					
(a 1)	ACR	1.94962	2.19672	2 122.73	-
(b 1)	RMR	1.85898	2.08567	2 206.14	1.32879
(c 1)	gap	+ 4.649	+ 5.055	- 3.929	-
Immediately after realignment					
(a 2)	ACR	1.94962	2.19672	2 122.73	-
(b 2)	RMR	1.82253	2.04813	2 272.32	1.34208
(c 2)	gap	+ 6.519	+ 6.764	- 7.047	-
change in gap (c 2 - c 1)		+ 1.870	+ 1.709	- 3.118	-

correcting factor: (d) = (b 1)/(b 2) 1.85898/1.82253 = 1.0199997

		DM	HFL	LIT	USD
After adjustment of RMRs					
(a 1)	ACR	1.94962	2.19672	2 122.73	-
(b 3)	green RMR (b 2) × (d)	1.85998	2.08909	2 317.77	1.36892
(c 3)	gap	+ 4.649	+ 4.906	- 9.188	-
change in gap (c 3 - c 1)		0	- 0.149	- 6.070	-
Adjustment in weak ACRs					
(a 2)	ACR	1.94962	2.19672	2 230.15	-
(b 3)	green RMR	1.85998	2/08909	2 317.77	1.36892
(c 4)	gap	+ 4.649	+ 4.906	- 3.929	-
price adjustment		0	- 0	+ 5.06	-

ANNEX 3

Significant figures and rounding off

The agricultural conversion rates and the representative market rates are calculated to six significant figures, the sixth being rounded off.

Monetary gaps are calculated to three decimal places, the third decimal being rounded off.

"Significant figure" means:

- all figures in the case of an amount whose absolute value is greater than or equal to one,

- all decimals from the first which is different from zero, in other cases.

Examples of rates to six significant figures:

25.4512	0.256342
- 2.51000	-0.00120736
10450.0	0.0540030

Rounding-off is carried out by increasing the figure concerned by 1 unit where the following figure is greater than or equal to 5 and leaving it unaltered in other cases.

Examples of rounding-off to three decimal places:

12.2051	→	12.205
0.0028	→	0.003
-5.2065	→	-5.207

ANNEX 4

Priority between reference periods

For the purpose of calculating adjustments to the ACRs, basic reference periods take priority over exceptional reference periods of three days. However, in practice the order of adjustments varies depending on whether the last day of the basic reference period is a quotation day or not.

(a) If "D", the last day of the basic reference period, is a quotation day, the calculations are made on day "D" and the results are applicable as from day "D + 1":

- firstly, adjustments to ACRs are calculated on the basis of the ACRs applicable on day "D" and the RMRs resulting from the basic reference period finishing on day "D";

- then, with the ACRs resulting at this stage, the need for an exceptional reference period of three quotation days ending on day "D" is tested;

- lastly, if an exceptional reference period is triggered, adjustments to the ACRs for the currencies concerned are calculated again, in accordance with the general rule, on the basis of the ACRs determined previously in accordance with the first indent and the RMRs resulting from the exceptional reference period ending on day "D".

(b) If "D", the last day of the basic reference period, is not a quotation day, calculations are made on the last quotation day "Q":

- firstly, the need for an exceptional reference period of three quotation days, ending on day "Q", is tested;

- where the exceptional reference period is triggered, the ACRs are adjusted for the currencies concerned, in accordance with the general rule, on the basis of the ACRs applicable on day "Q" and the RMRs resulting from the exceptional reference period, ending on day "Q". The results are applicable on day "Q + 1" and remain applicable at least until day "D + 1" because the basic reference period ending on day "D" is reduced by all the quotation days;

- where the exceptional reference period is not triggered, the ACRs are adjusted, in accordance with the general rule, on the basis of the ACRs applicable on day "D" and the RMRs resulting from the basic reference period ending on day "D", all these rates being known from day "Q". The results are applicable from day "D + 1".

ANNEX 5

Conversion of structural amounts

Agricultural amounts of a structural nature are dealt with in a special way on account of the link some of them have with Community financing by non-agricultural Structural Funds.

The conversion rate applied to them and the relevant operative event depend on the EAGGF section financing them and the authority fixing the value of the amount in ecus.

1. Guidance Section financing and fixing by the Commission

Amounts *fixed by the Commission* for which EAGGF financing comes solely from Guidance Section appropriations are converted in accordance with Article 22 of Council Regulation (EEC) No 4253/88 (OJ No L 374, 31.12.1988, p. 1) and Commission Regulation (EEC) No 1866/90 (OJ No L 170, 3.7.1990, p. 36). This also applies to amounts fixed by the Commission and financed by the FIFG (Financial Instrument of Fisheries Guidance).

The amounts concerned appear in financing plans under the Community Support Frameworks, decisions on grants of assistance and payments of financial contributions. Such amounts are determined on the basis of plans, applications for assistance and declarations of expenditure presented by the Member States in ecus or national currency. Payments of Community assistance expressed in ecus are paid to the Member States in ecus.

Conversion between national currencies and ecus takes place at the accounting rate[15]. This is a monthly rate defined in Article 1 of Commission Regulation (Euratom, ECSC, EC) No 3418/93 (OJ No L 315, 16.12.1993, p. 1) as the daily rate for the ecu on the second-to-last working day of the month preceding that for which the accounting rate is established.

In the case of conversion into ecus by the Member State, the accounting rate applying for expenditure in national currency is that of the month of recording in the accounts of the national bodies concerned.

In the case of conversion into ecus by the Commission, the accounting rate is that of the month of receipt of the application for the aid or, as the case may be, of the declaration of expenditure.

2. Guidance Section financing and fixing by the Council

Amounts *fixed by the Council* for which EAGGF financing comes solely from Guidance Section appropriations are converted using the agricultural conversion rate since 1 January 1996. Previously the accounting rate had to be used.

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[15] The accounting rate is termed the "reference exchange rate" in Regulation (EEC) No 1866/90 and the "rate applying for the entry into the accounts of expenditure to the general budget of the European Communities" in Regulation (EEC) No 3813/92.

For the main part these involve the ceilings fixed in ecus within which the Member States can determine the aid provided for in Council Regulation (EEC) No 2328/91.

This mechanism for converting the ceilings provided for in Regulation (EEC) No 2329/91 functions solely for the purpose of verifying the eligibility of aid which the Member States decide to grant in national currency. The aid itself depends on decisions on assistance and payment established by the Commission and thus governed by the rules set out in point 1.

The ceilings are established in national currency using the agricultural conversion rate valid on 1 January of the year during which the decision is taken on the granting of the aid to the final recipient[16]. However, where the aid is paid in several annual tranches, the ceilings on the tranche for a particular year are converted using the highest agricultural conversion rate in force at the beginning of each year of the period commencing with the year of the decision to grant the aid and ending with that in respect of which the tranche is paid.

In accordance with Council Regulation (EC) No 1527/95, the rate for 1 January 1995 continues to apply until 1 January 1999 for the Belgian and Luxembourg franc, the Danish krone, the German mark, the Dutch guilder and the Austrian schilling. In the case of the Swedish krona, pursuant to Regulation (EC) No 2990/95 the agricultural conversion rate continues to apply from 1 January 1996 to 1 January 1999.

3. Guarantee Section financing and fixing by the Commission or the Council

Structural amounts whose EAGGF finance comes solely from Guarantee Section appropriations are converted in accordance with Articles 3(1) and 6(1) and (2) of Council Regulation (EEC) No 3813/92 and Article 11(2) of Commission Regulation (EEC) No 1068/93.

Though it remains open, the list of amounts under structural or environmental schemes includes in particular the ceilings set out in Regulations (EEC) No 2078/92 (environment), No 2079/92 (early retirement) and No 2080/92 (forestry measures). The amounts are converted into national currencies using the agricultural conversion rate determined in accordance with the general rules. In view of the detailed rules laid down by Regulation (EEC) No 1068/93 and subject to special derogations, that rate is that applicable on 1 January of the year of the decision granting the aid to the final recipient. However, where the aid is paid in several annual tranches, the tranche for a given year is converted using the agricultural conversion rate applicable on 1 January of the year in respect of which the tranche is paid.

In accordance with Regulations (EC) No 1527/95 and No 2990/95, until 1 January 1999 the agricultural conversion rate for 1 January 1995 continues to apply for the Belgian and Luxembourg franc, the Danish krone, the German mark, the Dutch guilder and the Austrian schilling and that for 1 January 1996 for the Swedish krona.

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16 Where the agricultural conversion rate applicable on 1 January of a year is lower that the rates actually applying in the preceding 24 months, the amount concerned may be increased in ecus in accordance with Article 7 of Regulation (EEC) No 3813/92.

ANNEX 6

Adjustment of rates fixed in advance

(a) *Where the ACR is adjusted at the end of the reference period* during which the ACR is fixed in advance, the ACR is replaced by the new ACR on the date on which the latter takes effect.

Example:

*	ACR in force when advance fixing occurs on the 28th day of month 1:	310.351
*	ACR fixed in advance and applicable from the 28th to the 31st day of month 1:	310.351
*	ACR in force, after adjustment, from the first day of month 2: (based on the reference period running from the 21st to the 31st day of month 1)	314.129
*	ACR fixed in advance and adjusted, applicable from the first day of month 2:	314.129

(b) *Where there is a gap greater than 4 points* between the ACR fixed in advance, where appropriate adjusted in accordance with point (a), and the ACR in force on the date of the operative event as defined in accordance with point 5, the ACR fixed in advance is adjusted.

The ACR fixed in advance is brought within 4 points of the ACR in force.

The ACR fixed in advance accordingly remains unchanged if, at the date of the operative event for the amount concerned, the following is true:

(ACR in force)/1.04 < or = (ACR fixed in advance) < or = (ACR in force)/0.96.

Where:

* (ACR fixed in advance) < (ACR in force)/1.04
then (ACR fixed in advance) is replaced by (ACR in force)/1.04

* (ACR fixed in advance) > (ACR in force)/0.96
then (ACR fixed in advance) is replaced by (ACR in force)/0.96

the advance fixing limits, (ACR in force)/1.04 and (ACR in force)/0.96, are published at the same time as each new agricultural conversion rate.

ANNEX 7

Main conversion rates frozen until 1 January 1999 pursuant to Regulations (EC) No 1527/95 and No 2990/95

	Amounts provided for in Regulation (EEC) No 2328/91 and other amounts fixed by the Council and financed by the EAGGF Guidance Section	Premiums for bovine animals and sheep. Measures accompanying the reform (Regulations (EEC) No 2078/92, No 2079/92 and No 2080/92). Other amounts financed by the EAGGF Guarantee Section under structural aid schemes, the operative event for which occurs on 1 January	Aid per hectare the operative event for which occurs on 1 January
BLF	39.1530	40.8337	40.8337
DKR	7.48101	7.74166	7.74166
DM	1.90469	1.94962	1.94962
HFL	2.13306	2.19672	2.19672
ÖS	13.4020	13.7190	13.7190
SKR	9.24240	9.24240	9.91834

ANNEX 8

Examples of effects on prices and aid

A.	Effects on intervention price for butter		DM	LIT
(a)	*Initial situation*			
	Agricultural conversion rate (ACR)		1.94962	2 122.73
	Representative market rate (RMR)		1.88000	2 150.00
	Monetary gap		+ 3.571	- 1.285
	Intervention price for butter[1]	ECU 3 282	6 399	6 966 800
			(= LIT 7 318 005)	(= DM 6 092)
	Transborder profit[2] (5%)		+ 307	+ 351 205
(b)	*Devaluation of LIT*			
	New RMR		1.88000	2 250.00
	Monetary gap to be reduced		+ 3.571	- 5.996
	New monetary gap		+ 3.571	- 0.750
	New ACR		1.94962	2 233.25
	Intervention price for butter[1]	ECU 3 282	6 399	7 329 527
			(= LIT 7 658 378)	(= DM 6 124)
	Change in price		0	+ 5.2%
	Transborder profit[2] (4.5%)		+ 275	+ 328 851
(c)	*Revaluation of DM*			
	New RMR		1.85000	2 250.00
	Monetary gap to be reduced		+ 5.110	- 0.750
	New monetary gap		+ 2.555	- 0.750
	New ACR		1.89850	2 233.25
	Intervention price for butter[1]	ECU 3 282	6 231	7 329 527
			(= LIT 7 578 243)	(= DM 6 026)
	Change in price		- 2.6%	0
	Transborder profit[2] (3.4%)		+ 205	+ 248 716
(d)	*For the record: Revaluation of DM and switchover (based on (b))*			
	New RMR		1.85000	2 250.00
	RMR adjusted by switchover		1.88000	2 286.49
	Monetary gap to be reduced		+ 3.571	- 2.384
	New monetary gap		+ 3.571	- 1.192
			1.94962	2 259.56
	Intervention price for butter[1]	ECU 3 282	6 399	7 415 876
			(= LIT 7 782 568)	(= DM 6 097)
	Change in price		0	+ 1.2%
	Transborder profit[2] (5%)		+ 302	+ 366 692

1 Values in national currencies for takeover after increase in ACR.

2 Profit from a purchase at intervention price in Italy (LIT) for resale at intervention price in Germany (DM).

B.	Effects on flat-rate aid		DM	LIT
(a)	*Initial situation*			
	Agricultural conversion rate (ACR)		1.94962	2 122.73
	Representative market rate (RMR)		1.88000	2 150.00
	Monetary gap		+ 3.571	- 1.285
	Aid/hectare - cereals	ECU 2 700	5 264 (= LIT 602 000)	5 731 371 (= DM 5 012)
(b)	*Devaluation of LIT*			
	New RMR		1.88000	2 250.00
	New ACR after reduction of gap		1.94962	2 233.25
	Aid/hectare[3] - cereals	ECU 2 700	5 264	6 029 775
	Change in aid		0	+ 5.2%
(c)	*Revaluation of DM*			
	New RMR		1.85000	2 250.00
	New ACR after narrowing of gap		1.89850	2 233.25
	New aid/hectare[3,4] - cereals: ECU 2 700 × 1.94962/1.89850 = ECU 2 772.5		5 264	6 191 686
	Change in aid		0	+ 2.7%
(d)	*For the record: Revaluation of DM and switchover (based on (b))*			
	New RMR		1.85000	2 250.00
	RMR adjusted by switchover		1.88000	2 286.49
	New ACR		1.94962	2 259.56
	Aid/hectare[3] - cereals	ECU 2 700	5 264	6 100 812
	Change in price		0	+ 1.2%

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3 Values in national currencies from 1 July following devaluation or revaluation if new ACRs are maintained until that date.

4 Application of mini-switchover mechanism.

ANNEX 9

Trend in agricultural conversion rates in 1993

Dates	BLF	DKR	DM	DRA	ESC	FF	HFL	IRL	LIT	PTA	UKL
1/1/93 (a)	48.5563	8.97989	2.35418	310.351	209.523	7.89563	2.65256	0.878776	2087.00	166.075	0.939052
11/1/93									2133.00		
1/2/93											0.951031
3/2/93 (b)								0.957268	2156.72		0.968391
1/3/93					212.128				2207.67		0.980715
31/3/93									2262.06		
1/4/93				314.412	214.525				2287.88		
11/4/1993											0.978559
21/4/1993										166.261	0.970726
27/4/1993									2264.05	169.628	0.964017
1/5/93									2230.20		
11/5/93									2226.76		
18/5/93 (c)					222.758				2195.05	176.247	
21/5/93									2194.16	176.451	
28/5/93										179.488	0.959111
1/6/93										182.744	
21/6/93				315.843					2191.78		
1/7/93				319.060				0.976426	2166.58		0.948645
21/7/93					223.071						0.937041
24/7/93					228.151						0.930787
30/7/93					233.112					186.835	
1/8/93					236.933					190.382	0.920969
11/8/93		9.14292				7.95622					
17/8/93		9.34812									
21/8/93						7.98191					
1/9/93				322.728							
14/10/93	49.3070			328.567					2222.98		
30/12/93									2264.19		
31/12/93	49.3070	9.34812	2.35418	328.567	236.933	7.98191	2.65256	0.976426	2264.19	190.382	0.920969

(a) Switchover = 1.195066
(b) Switchover = 1.205454
(c) Switchover = 1.207509

Trend in agricultural conversion rates in 1994

Dates	BLF	DKR	DM	DRA	ESC	FF	HFL	IRL	LIT	PTA	UKL
1/1/94 (a)	49.3070	9.34812	2.35418	331.890	236.933	7.98191	2.65256	0.976426	2264.19	190.382	0.920969
11/1/94										192.319	
21/1/94				334.226					2274.93		
1/4/94				337.814							
21/5/94				342.048							
1/6/94					239.331						
21/6/94				346.789							
1/7/94											0.932453
14/7/94											0.946550
1/8/94									2294.57		
16/8/94									2324.07		
21/8/94									2339.97		0.953575
21/9/94				349.469							
1/11/94				352.829							
1/12/94									2361.74		
21/12/94									2383.42		
31/12/94	49.3070	9.34812	2.35418	352.829	239.331	7.98191	2.65256	0.976426	2383.42	192.319	0.953575

(a) Switchover = 1.207509

Trend in agricultural conversion rates in 1995

Dates	BLF	DKR	DM	DRA	ESC	FF	FMK	HFL	IRL	LIT	ÖS	PTA	SKR	UKL
1/1/95 (a)	49.3070	9.34812	2.35418	354.617	239.331	7.98191	7.02071	2.65256	0.976426	2383.42	16.5658	193.683	10.9857	0.953575
11/1/95										2395.55		195.195		
13/1/95												198.007	11.0985	
21/1/95							7.05174			2406.19			11.1475	
1/2/95 (b)	40.8337	7.74166	1.94962	293.676	198.202	6.61023	5.88000	2.19672	0.808628	1992.69	13.7190	163.980	9.29426	0.789704
11/2/95				295.055										
17/2/95				296.053						2011.57				0.799794
21/2/95				296.492						2041.84		164.452	9.32044	0.805837
24/2/95									0.809785	2054.24				
6/3/95				298.323						2122.73		164.774	9.40716	0.807419
16/3/95				300.872					0.824325	2202.72		169.712	9.52763	0.821220
26/3/95				302.187					0.829498	2269.92		170.165	9.58593	0.829882
5/4/95				302.387						2277.46			9.80081	
15/4/95										2291.15			9.80624	0.833125
25/4/95										2311.19			9.91834	0.836385
15/5/95														0.840997
24/6/95	39.5239													
1/7/95			1.90616					2.14021			13.4084			
4/7/95										2248.15				0.843954
14/7/95				302.927										
24/7/95		7.49997										165.198		
21/8/95										2164.34				
1/9/95													9.63352	
16/9/95				303.725										
26/9/95				304.136										
15/10/95				307.247										
30/10/95													9.24240	
11/11/95				308.434										
18/11/95				309.630										0.854276
21/11/95				310.096										0.856563
21/12/95				310.749										
31/12/95	39.5239	7.49997	1.90616	310.749	198.202	6.61023	5.88000	2.14021	0.829498	2164.34	13.4084	165.198	9.24240	0.856563

(a) Switchover = 1.207509

(b) Abolition of switchover (prices in ecus x 1.207509)

: Not applicable until 1 January 1999 in case of direct aid covered by Article 7 of Regulation (EEC) No 3813/92.

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