

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION
ON THE
IMPACT ON EAGGF GUARANTEE SECTION EXPENDITURE
OF MOVEMENTS OF THE DOLLAR/ECU EXCHANGE RATE (1)

1993 FINANCIAL YEAR

R E P O R T

on the impact on EAGGF Guarantee Section expenditure of movements of the dollar/ecu exchange rate in 1993⁽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.

This report, relating to the impact of the dollar on expenditure in the 1993 financial year, is the result of the sixth application of the Council Decision.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1993

To gauge the impact of the dollar/ecu rate on the 1993 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 1992 and 31 July 1993 and the rate used in the 1993 budget. The rate used to assess appropriations for the 1993 financial year is \$ 1 = ECU 0,79. 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 1992).

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	0.9135	0.7900	- 0.0765	- 9.7
September	0.7220	0.7900	- 0.0680	- 8.6
October	0.7552	0.7900	- 0.0348	- 4.4
November	0.8073	0.7900	+ 0.0173	+ 2.2
December	0.8073	0.7900	+ 0.0173	+ 2.2
January	0.8250	0.7900	+ 0.0350	+ 4.4
February	0.8459	0.7900	+ 0.0559	+ 7.1
March	0.8484	0.7900	+ 0.0584	+ 7.4
April	0.8190	0.7900	+ 0.0290	+ 3.7
May	0.8217	0.7900	+ 0.0317	+ 4.0
June	0.8444	0.7900	+ 0.0544	+ 6.9
July	0.8785	0.7900	+ 0.0885	+ 11.2
Average 1/8/92-31/7/93	0.8072	0.7900	+ 0.0172	+ 2.2

Over the period under consideration the average dollar rate rounded off was \$ 1 = ECU 0.81, 2.5% above the budget rate.

Annex 1 shows the estimated size of the savings made as a result of the 2.5% fall in world prices in dollars, converted into ECU using an average switchover coefficient of 1.187295 for the financial year. These savings total ECU 182 million and break down by sector as follows:

	<u>m ECU</u>
Cereals and rice	87
Sugar	14
Milk products	44
Pig meat	5
Eggs and poultry	7
Oilseeds	2
Protein plants	16
Cotton	7
<hr/>	
TOTAL	<u>182</u>

It should be noted that, like last year, in the case of certain products (skimmed milk powder, beef and veal) the refund rates applied during the period under review remained steady despite the fluctuation 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 depreciation of the ECU against the dollar which gave rise to these savings is only one aspect of the monetary developments that led to disturbances of the currency markets during the 1993 financial year. The impact, through the switchover mechanism, of the depreciation of certain Community currencies resulted in additional EAGGF Guarantee Section expenditure estimated at ECU 265 million (see Annex II).

The savings achieved as a result of the rise in the average exchange rate of the dollar were thus more than offset by the effects of currency realignments in September and November 1992 and in January and May 1993, so that the net impact of monetary movements on expenditure was an increase of around ECU 83 million (ECU 265 million - ECU 182 million).

It should be noted that the additional costs arising from the change in the switchover have already been included in the overall cost of currency realignments for 1993, provided for in Supplementary and Amending Budget No 1/1993.

Since the financial impact of movements of the dollar/ecu exchange rate on EAGGF Guarantee Section expenditure was within the ECU 400 million margin, there is no need to have recourse to the monetary reserve.

CALCULATION OF THE IMPACT OF THE DOLLAR ON THE COMMUNITY BUDGET : 1993 FINANCIAL YEAR

I. CALCULATION OF THE GAP IN RATES

1. RATE USED IN THE 1993 BUDGET	:	1 \$	=	0.790 ECU
2. RATE RECORDED	:	1 \$	=	0.810 ECU
3. GAP IN RATES (IN ECU)	:	1 \$	=	0.020 ECU
4. GAP IN RATES (%)	:		=	2.532%

II. CALCULATION OF IMPACT OF GAP IN RATES ON THE 1993 BUDGET

	AVERAGE WORLD PRICE RECORDED (\$ / T)	TECHNICAL ADJUSTMENT COEFFICIENT	AVERAGE WORLD PRICE USED (\$ / T)	AVERAGE WORLD PRICE CONVERTED INTO ECU		UNIT IMPACT OF GAP IN RATES (ECU/T)	QUANTITIES CONCERNED (1000 T)	TOTAL BUDGET IMPACT		
								m ECU (A)	DOUBLE RATE	m ECU (B)
				AT BUDGET RATE 1\$ = ECU 0.79 (CORR. FACTOR = 1.187295)	AT REC. RATE 1\$ = ECU 0.81 (CORR. FACTOR = 1.187295)					
a	b	c	d = b x c	e	f	g = e - f	h	i = g x h	j	k = i x j
A. REFUNDS										
-157										
CEREALS AND RICE										
- COMMON WHEAT	122	1.00	122	81.2	83.2	-2.0	19150	-38.3	1.187	-45
- DURUM WHEAT	124	1.00	124	82.5	84.6	-2.1	3100	-6.5	1.167	-8
- BARLEY	96	1.00	96	63.9	65.5	-1.6	9400	-15.0	1.192	-18
- OTHER CEREALS	91	1.00	91	60.5	62.1	-1.6	3500	-5.6	1.190	-7
- STARCH	100	1.60	160	106.5	109.2	-2.7	2500	-6.8	1.19	-8
- RICE (SMILLED EQ.)	280	1.00	280	186.3	191.0	-4.7	150	-0.7	1.163	-1
SUGAR	250	1.00	250	166.3	170.6	-4.3	2750	-11.8	1.195	-14
MILK PRODUCTS										
- BUTTER	1470	1.00	1470	978.1	1002.9	-24.8	105	-2.6	1.196	-3
- BUTTEROIL	1770	1.00	1770	1177.7	1207.5	-29.8	99	-3.0	1.196	-4
- SKIMMED-MILK POWDER		1.00	0	0.0	0.0	0.0		0.0		0
- OTHER IN MILK EQUIVAL.	169	1.00	169	112.4	115.3	-2.9	10675	-31.0	1.194	-37
BEEF AND VEAL										
- FRESH MEAT		0.50	0	0.0	0.0	0.0		0.0		0
- FROZEN MEAT		0.50	0	0.0	0.0	0.0		0.0		0
PIGMEAT										
- CUTS AND SAUSAGES	800	0.50	400	266.2	272.9	-6.7	580	-3.9	1.190	-5
EGGS AND POULTRY										
- EGGS	650	0.50	325	216.2	221.7	-5.5	110	-0.6	1.202	-1
- POULTRY	750	0.75	563	374.6	384.1	-9.5	555	-5.3	1.202	-6
B. AID										
-25										
OILSEEDS										
- RAPESEED		1.00	(2)					0.0	1.191	0
- SUNFLOWER		1.00	(2)					0.0	1.191	0
- SOYA BEANS		1.00	(2)					0.0	1.191	0
- LINSEED	228	1.00	228	151.7	155.5	-3.8	375	-1.4	1.173	-2
PROTEIN PLANTS										
- PEAS (HUMAN CONSUMP.)	250	1.00	250	166.3	170.6	-4.3	170	-0.7	1.191	-1
- PEAS (ANIMAL CONSUMP.)	195	0.45	88	58.6	60.0	-1.4	3462	-4.8	1.191	-6
- LUPINS	195	0.60	117	77.8	79.8	-2.0	26	-0.1	1.195	0
- DRIED FODDER	113	0.75	85	56.6	58.0	-1.4	5376	-7.5	1.182	-9
FIBRE PLANTS										
- COTTON	1191	0.32	381	253.5	259.9	-6.4	989	-6.3	1.167	-7
TOTAL A+B								-151.9		-182

M.B. : ON THE BASIS OF THE FIGURES IN THE TABLE A CHANGE IN THE RATE OF THE DOLLAR OF 10% WOULD LEAD TO A CHANGE IN EXPENDITURE OF ECU 718.8 MILLION.

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

(2) CHANGES IN THE WORLD MARKET PRICE REMAINED WITHIN THE 8% MARGIN AND THE IMPACT OF THE DOLLAR CHANGES IS THEREFORE ZERO.

ANNEX II

CALCULATION OF THE IMPACT ON WORLD PRICES OF THE CHANGE IN THE CORRECTION FACTOR : 1993 FINANCIAL YEAR

	AVERAGE WORLD PRICE RECORDED (\$ / T)	TECHNICAL ADJUSTMENT COEFFICIENT	AVERAGE WORLD PRICE USED (\$ / T)	AVERAGE WORLD PRICE CONVERTED INTO ECU		UNIT IMPACT OF GAP IN RATES (2) (ECU/T)	QUANTITIES CONCERNED 1000 T	TOTAL BUDGET IMPACT		
				AT BUDGET RATE 1\$ = ECU 0.79 (CORR. FACTOR = 1.145109 (ECU/T) (1)	AT BUDGET RATE 1\$ = ECU 0.79 (CORR. FACTOR = 1.187295 (ECU/T) (1)			m ECU (A)	DOUBLE RATE	m ECU (B)
a	b	c	d = b x c	e	f	g = e - f	h	i = g x h	j	k = i x j
A. REFUNDS										229
CEREALS AND RICE										
- COMMON WHEAT	122	1.00	122	84.2	81.2	3.0	19150	57.5	1.187	68
- DURUM WHEAT	124	1.00	124	85.5	82.5	3.0	3100	9.3	1.167	11
- BARLEY	96	1.00	96	66.2	63.9	2.3	9400	21.6	1.192	26
- OTHER CEREALS	91	1.00	91	62.8	60.5	2.3	3500	8.1	1.190	10
- STARCH	100	1.60	160	110.4	106.5	3.9	2500	9.8	1.19	12
- RICE (MILLED EQ.)	280	1.00	280	193.2	186.3	6.9	150	1.0	1.163	1
SUGAR	250	1.00	250	172.5	166.3	6.2	2750	17.1	1.195	20
MILK PRODUCTS										
- BUTTER	1470	1.00	1470	1014.1	978.1	36.0	105	3.8	1.196	5
- BUTTEROIL	1770	1.00	1770	1221.1	1177.7	43.4	99	4.3	1.196	5
- SKIMMED-MILK POWDER		1.00	0	0.0	0.0	0.0		0.0		0
- OTHER IN MILK EQUIVAL.	169	1.00	169	116.6	112.4	4.2	10675	44.8	1.194	54
BEEF AND VEAL										
- FRESH MEAT		0.50	0	0.0	0.0	0.0		0.0		0
- FROZEN MEAT		0.50	0	0.0	0.0	0.0		0.0		0
PIGMEAT										
- CUTS AND SAUSAGES	800	0.50	400	276.0	266.2	9.8	580	5.7	1.190	7
EGGS AND POULTRY										
- EGGS	650	0.50	325	224.2	216.2	8.0	110	0.9	1.202	1
- POULTRY	750	0.75	563	388.4	374.6	13.8	555	7.7	1.202	9
B. AID										36
OILSEEDS										
- RAPESEED		1.00						0.0	1.191	0
- SUNFLOWER		1.00						0.0	1.191	0
- SOYA BEANS		1.00						0.0	1.191	0
- LINSEED	228	1.00	228	157.3	151.7	5.6	375	2.1	1.173	2
PROTEIN PLANTS										
- PEAS (HUMAN CONSUMP.)	250	1.00	250	172.5	166.3	6.2	170	1.1	1.191	1
- PEAS (ANIMAL CONSUMP.)	195	0.45	88	60.7	58.6	2.1	3462	7.3	1.191	9
- LUPINS	195	0.60	117	80.7	77.8	2.9	26	0.1	1.195	0
- DRIED FODDER	113	0.75	85	58.6	56.8	2.0	5376	10.8	1.182	13
FIBLE PLANTS										
- COTTON	1191	0.32	381	262.8	253.5	9.3	989	9.2	1.167	11
TOTAL A+B								221.8		265

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

EXPLANATORY REMARKS TO THE ANNEX

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 adjusting coefficient while columns (e) and (f) give the same prices converted into ECU using the exchange rate adopted in the budget [column (e)] and the recorded exchange rate allowing for the correction factor (switchover) [column (f)]. The unit impact of the higher value of the dollar is given in column (g) in ECU per tonne. This unit amount multiplied by the estimated quantities qualifying for aids and/or refunds during the period under review gives the impact in million agricultural ECU [column (i)] and in million budget ECU [column (k)].

Evolution of switchover coefficient

	Switchover coefficient
1.08.1992 - 12.09.1992	1.145109
13.09.1992 - 16.09.1992	1.154338
17.09.1992 - 22.11.1992	1.157346
23.11.1992 - 31.01.1993	1.195066
1.02.1993 - 13.05.1993	1.205454
14.05.1993 - 31.07.1993	1.207509
Average 1.8.1992 - 31.7.1993	1.187295

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DOCUMENTS

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