

COMMISSION OF THE EUROPEAN COMMUNITIES

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

1989 FINANCIAL YEAR

(presented by the Commission)

See 1626P

R E P O R T

on the Impact on EAGGF Guarantee Section expenditure of movements
of the dollar/Ecu exchange rate⁽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 ECUs, 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.

In its conclusions, the European Council of 11 and 12 February 1988 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 100 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 1 August of the preceding year to 31 July of the current year falls compared with the rate used in the budget, the additional budgetary costs are financed by a transfer from the monetary reserve. Similarly, savings of up to ECU 1 000 million in the Guarantee Section where the dollar strengthens are to be transferred to the monetary reserves.

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

(1) Pursuant to the Council Decision of 24 June 1983 concerning budgetary discipline and in particular Articles 9 to 13 thereof (OJ No L 185 of 15.07.1988, p. 29).

(2) O.J. No L 185 of 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 budgetary authorities.

This report, relating to the impact of the dollar on expenditure in the 1989 financial year, is the result of the second application of the Council Decision.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 1989

To gauge the impact of the dollar/ECU rate on the 1989 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 1988 and 31 July 1989 and the rate used in the 1989 budget. The rate used to assess appropriations for the 1989 financial year is 1\$ = 0,91 ECU. In accordance with the Council Decision, it corresponds to the average rate in the first three months of the year preceding that of the financial year in question (January, February and March 1988).

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

	Recorded rate 1\$=...ECU	Budgetary rate. 1\$=...ECU	Gap in ECU	Gap as %
a	b	c	d = b-c	e
August	0,91	0,81	0,10	12,3
September	0,90	0,81	0,09	11,1
October	0,88	0,81	0,07	8,6
November	0,84	0,81	0,03	3,7
December	0,84	0,81	0,03	3,7
January	0,88	0,81	0,07	8,6
February	0,89	0,81	0,08	9,9
March	0,90	0,81	0,09	11,1
April	0,90	0,81	0,09	11,1
May	0,94	0,81	0,13	16,0
June	0,96	0,81	0,15	18,5
July	0,91	0,81	0,10	12,3
Average 1/8/88-31/7/89	0,90	0,81	0,09	11,1

Throughout the period under consideration, the dollar was above the rate used in the budget. In particular, after falling between August and December 1988, it then rose to an average throughout the period of 1\$ = 0,90 ECU, i.e. 11,1% more than the rate used in the budget. This appreciation in the dollar resulted in major savings for the EAGGF Guarantee Section.

Savings estimated - the detailed calculations for which are given in Annex I - amount to ECU 1.219 million and are broken down by sector as follows :

	<u>m ECU</u>
Cereals	471
Milk & milk products	262
Beef & veal	57
Pigmeat	24
Eggs and poultry	38
Oilseeds	257
Protein plants	73
Cotton	37
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TOTAL	<u>1.219</u>

Savings made were higher than the franchise of ECU 400 million. A transfer should be made to the monetary reserve (chapter 102). The amount of that transfer is determined as follows :

	<u>m ECU</u>
Estimated total savings	1.219
Franchise (remaining to EAGGF Guarantee Section)	- 400
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Amount to transfer to the monetary reserve	<u>819</u>

III. PROPOSED TRANSFER FROM TITLES 1 and 2 IN PART B OF THE BUDGET TO THE MONETARY RESERVE

It should be stressed that the estimated savings for the various products do not necessarily mean identical availabilities at the end of the year. Parameters other than the dollar/ecu rates, such as export volumes, world dollar exchange rates, fluctuations in the rhythm of payments etc. have a major effect on the final need for appropriations in the various Chapters. All of these factors combine to determine whether or not there will be any availabilities at the end of the year.

In the light of these factors, the Commission is proposing transfers from the following chapters :

	<u>m ECU</u>
From chapter 10 : Cereals and rice	- 494)
From chapter 12 : Oils and fats	- 245) - 819
From chapter 21 : Beef and veal	- 80)
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To chapter 102 : Monetary reserve	+ 819

The articles and posts concerned by the transfer are given in Annexe II.

These savings made and transferred to the monetary reserve where they remain are cancelled and thus contribute towards forming a budget surplus, which is counted as revenue in the following budget.

This operation is carried out by a letter of amendment during the budget procedure in respect of the budget for the following year.

ANNEX I : CALCULATION OF THE IMPACT OF THE DOLLAR ON THE COMMUNITY BUDGET 1989 FINANCIAL YEAR

I. CALCULATION OF THE GAP IN RATES										
1. RATE USED IN THE 1989 BUDGET	:	1 \$	=	0.810	ECU					
2. RATE RECORDED BETWEEN 1/8/88 AND 31/7/89	:	1 \$	=	0.900	ECU					
3. GAP IN RATES (IN ECU)	:	1 \$	=	-0.090	ECU					
4. GAP IN RATES (%)	:			-11.11%						
II. CALCULATION OF IMPACT OF GAP IN RATES ON THE 1989 BUDGET										
	ESTIMATED AVERAGE WORLD PRICE (\$ / T)	TECHNICAL ADJUSTMENT COEFFICIENT	AVERAGE WORLD PRICE USED (\$ / T)	AVERAGE WORLD PRICE CONVERTED INTO ECU AT RATE 1 \$ = 0.810 ECU (CORR. COEFF. = 1.137 (ECU/T))	UNIT IMPACT OF GAP IN RATES -11.11% (ECU/T)	QUANTITIES CONCERNED 1000 T	TOTAL BUDGETARY IMPACT			
							MECU (A)	DOUBLE RATE	MECU (B)	
	a	b	c	d = b x c	e	f = e x desv.	g	h = f x g	i	j = h x i
A. REFUNDS										-852
*****										****
CEREALS AND RICE										
- COMMON WHEAT	140	1.00	140	100	-11.1	17840	-198.0	1.074	-210	
- DURUM WHEAT	170	1.00	170	121	-13.4	3450	-46.2	1.065	-49	
- BARLEY	125	1.00	125	89	-9.9	12460	-123.4	1.074	-132	
- OTHER CEREALS	125	1.00	125	89	-9.9	3400	-33.7	1.093	-37	
- STARCH	135	1.00	216	154	-17.1	1900	-32.5	1.110	-36	
- RICE	300	1.00	300	214	-23.8	150	-3.7	1.069	-4	
MILK PRODUCTS										
- BUTTER	1650	1.00	1650	1175	-130.6	275	-35.9	1.119	-40	
- BUTTEROIL	2000	1.00	2000	1425	-158.3	105	-16.6	1.119	-19	
- SKIMMED-MILK POWDER	1680	1.00	1680	1197	-133.0	420	-63.2	1.095	-69	
- OTHER IN MILK EQUIVALENT	152	1.00	152	108	-12.0	10070	-120.8	1.107	-134	
BEEF AND VEAL										
- FRESH MEAT	1700	0.50	850	606	-67.3	500	-33.7	1.110	-37	
- FROZEN MEAT	900	0.50	450	321	-35.7	600	-17.9	1.110	-20	
PIGMEAT										
- CUTS AND SAUSAGES	1300	0.60	650	463	-51.4	425	-21.8	1.109	-24	
EGGS AND POULTRY										
- EGGS	1000	0.50	500	356	-39.6	110	-4.4	1.121	-5	
- POULTRY	1275	0.75	956	681	-75.7	400	-30.3	1.083	-33	
B. AID										-367
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OILSEEDS										
- RAPESEED	290	1.00	290	207	-23.0	5125	-117.8	1.098	-129	
- SUNFLOWER	295	1.00	295	210	-23.3	3145	-73.3	1.095	-80	
- SOYA BEANS	310	1.00	310	221	-24.8	1702	-41.8	1.089	-45	
- LINSEED	376	1.00	376	260	-29.8	100	-3.2	1.076	-3	
PROTEIN PLANTS										
- PEAS (HUMAN CONSUMPTION)	280	1.00	280	199	-22.1	200	-4.4	1.100	-5	
- PEAS (ANIMAL CONSUMPTION)	240	0.45	108	77	-8.6	4050	-34.8	1.100	-38	
- LUPINS	240	0.80	144	103	-11.4	10	-0.1	1.083	0	
- DRIED FODDER	130	1.00	130	93	-10.3	2700	-27.8	1.089	-30	
FIBRE PLANTS										
- COTTON	1323	0.32	423	301	-33.4	1170	-39.1	0.968	-37	
TOTAL										-1219

NB: ON THE BASIS OF THE FIGURES IN THE TABLE, A FALL IN THE RATE OF THE DOLLAR OF 10% WOULD LEAD TO ADDITIONAL EXPENDITURE OF ECU 1 097,1 MILLION.

EXPLANATORY REMARKS RELATING TO ANNEX I

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

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

These prices are multiplied by an adjusting coefficient [col. (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 for the production aid for peas intended for human consumption.

In other cases, the coefficient expresses the estimated proportion of trade directly affected by world prices expressed in dollars (e.g. beef and veal, eggs and poultry).

Column (d), gives the average world prices corrected by the adjusting coefficient while column (e) gives the same prices converted into ECU using the exchange rate used in the budget. The unit impact of the 11,1% rise in the value of the dollar is given in column (f) in ECU per tonne. This unit amount multiplied by the estimated quantities qualifying for aids and refunds during the period under consideration gives the impact in agricultural m ECUs [col.(h)] and in million budgetary ECUs [col.(j)].

COMMISSION
OF THE
EUROPEAN COMMUNITIES

(PBUD/EN/0020-8)

Directorate-General for Agriculture
EAGGF-Guarantee Section

A N N E X I I

1989 GENERAL BUDGET
SECTION III - COMMISSION
PART B - OPERATING APPROPRIATIONS

<u>TRANSFERS FROM CHAPTER TO CHAPTER</u>	<u>IN ECU</u>
<u>1. FROM CHAPTER 10 - CEREALS AND RICE</u>	
ARTICLE 101 - INTERVENTION STORAGE OF CEREALS	
POST 1011 - TECHNICAL COSTS OF PUBLIC STORAGE	-100.000.000
POST 1013 - OTHER PUBLIC STORAGE COSTS	-24.000.000
POST 1014 - DEPRECIATION OF CEREAL STOCKS	-300.000.000
ARTICLE 102 - INTERVENTION, OTHER THAN STORAGE, OF CEREALS	
POST 1029 - OTHER INTERVENTION	-70.000.000
<u>2. FROM CHAPTER 12 - OILS AND FATS</u>	
ARTICLE 125 - REFUNDS	-15.000.000
ARTICLE 126 - PRODUCTION AIDS FOR OILSEEDS	
POST 1260 - PRODUCTION AIDS FOR RAPESEED	-125.000.000
POST 1261 - PRODUCTION AIDS FOR SUNFLOWER	-45.000.000
POST 1262 - PRODUCTION AIDS FOR SOYA BEANS	-40.000.000
POST 1263 - PRODUCTION AID FOR FLAX SEED	-15.000.000
ARTICLE 127 - INTERVENTION STORAGE OF OILSEEDS	
ARTICLE 1272 - OTHER PUBLIC STORAGE COSTS	-5.000.000
<u>3. FROM CHAPTER 21 - BEEF/VEAL</u>	
ARTICLE 211 - INTERVENTION STORAGE OF BEEF	
POST 2111 - TECHNICAL COSTS OF PUBLIC STORAGE (BEEF)	-10.000.000
POST 2113 - OTHER PUBLIC STORAGE COSTS (BEEF)	-10.000.000
POST 2114 - DEPRECIATION OF BEEF STOCKS	-60.000.000
<u>4. TO CHAPTER 102 - MONETARY RESERVE</u>	819.000.000