COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 06.03.1998
COM(1998) 109 final

Proposal for a

COUNCIL REGULATION (EC)

amending Regulation (EC) No 724/97 determining measures and compensation relating to appreciable revaluations that affect farm incomes

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. Council Regulation (EC) No 724/97 of 22 April 1997 determines measures and compensation relating to appreciable revaluations of the agricultural conversion rate that affect farm incomes.

   It is based on Article 9 of Council Regulation (EEC) No 3813/92 of 28 December 1992, which provides, among other things, that in the event of an appreciable revaluation, the Council, acting by a qualified majority on a proposal from the Commission, shall decide on all necessary measures, which may involve derogations from the provisions concerning aid.

2. Regulation (EC) No 724/97 applies only to appreciable revaluations occurring between 1 January 1997 and the end of the twelfth month following its publication, i.e. 30 April 1998.

   Consequently, the Commission finds it necessary to send the Council a proposal for a Regulation to cover the period up to 31 December 1998, the last date before the introduction of the euro.

   This proposal does not merely reproduce the provisions of Regulation No 724/97 by extending its period of validity; it also introduces improvements required in the light of experience in the course of 1997.

   The main purpose of these changes, which do not change the basic features of the present system, is as far as possible to avoid overcompensation by taking closer account of the impact of agri-monetary movements on income loss.

3. The following changes are proposed.

   3.1. The observation period, after which the maximum amount of compensatory aid may be reduced or cancelled, should be adapted.

   For Member States participating in the single currency, there will be no further currency movements after 31 December 1998. It is therefore proposed that observation periods should end on that date.

For the Member States that do not take part in the single currency from 1 January 1999, the observation period may extend beyond that date.

Since this proposal also introduces arrangements for taking account of the market situation as well as the development of green rates (see the next point), the observation period ought to be longer than the present six months. The most appropriate period is one year, as this covers a complete production cycle. However, to avoid too long a delay in granting aid to producers who have incurred a loss of income, it is proposed to compromise by adopting a nine-month observation period.

Where appreciable revaluation occurs in the course of the observation period for an earlier appreciable revaluation, the entire observation period should not expire until the end of the third month following that of the last revaluation.

3.2. The system governed by Regulation (EC) No 724/97 involves calculating the maximum compensation as a function of the percentage of the appreciable revaluation. In order to ensure continuity between present rules and the proposed new system, it is not suggested that this method of calculation should be changed. Improvements do, however, need to be made to the way reductions or cancellations of the maximum amount of aid are calculated, both for the initial amount and for the two subsequent tranches.

At present, a decision to reduce or cancel tranches may be taken only in the light of the effect on incomes of the development of agricultural conversion rates observed over a certain period.

In practice, this means that an increase in the green rate following an appreciable revaluation may lead to a reduction in the amount of aid, or even cancellation of one or more tranches.

Under the proposed new rules, reductions or cancellations of the maximum aid or the second or third tranches could be decided not only in the light of agricultural conversion rates, but also in the light of the market situation.

This is a considerable improvement: it is difficult to assess the real repercussions of changes in green rates on farm incomes, for the green rate is only one factor, and not the most important, in the formation of prices. Only rarely is there a direct and measurable link between the green rate and the market price in a given Member State. This may be the case, for example, when the market price closely follows the intervention price, or when a revaluation occurs at a key point in the production or marketing cycle of a product. But in some agricultural sectors, currency movements may have no visible or demonstrable effect on market prices. In such cases, the rules must provide for the possibility of reducing aid selectively, depending on the sector concerned.

The idea is not to achieve an accurate and precise quantification of income loss, which would be impossible, but rather to ensure that the rules include sufficiently simple criteria to provide a legal basis for refraining from payment of compensation where it seems most probable that the agri-monetary movement has had no impact on incomes. These are cases where the income loss is not apparent in market statistics, or where there is no possible explanation of the way the revaluation, on the date when it occurred, could have affected farm incomes.

In accordance with this approach, there are two ways of taking account of the market situation.

3.2.1. First, when a green rate declines in a Member State following an appreciable revaluation, market prices in that Member State should decline in relation to market prices observed in the Member States whose currency was not revalued. If, in a particular sector, a comparison of market prices in the Member State concerned and the other Member States shows no relative decline, it is very difficult to argue that income has been lost owing to agri-monetary movements. In that case, compensation based solely on the development of green rates would most probably lead to overcompensation, which would not only result in budget expenditure, but might also distort competition.

To avoid this, the amount of aid could be reduced, in a given sector, when, over the observation period or over the period between the beginning of the preceding tranche and the beginning of the month preceding the first month of the tranche concerned, the market price for the Member State concerned was on average equal to or higher than the average market prices in the Member States whose currencies had not been appreciably revalued during the same period.

3.2.2. The approach described in the preceding paragraph is based on statistical observation of market prices. It would be helpful to take account not only of a statistical approach to prices, but also of mechanisms through which the impact of a revaluation occurring at a specific time is passed on to agricultural markets, or not as the case may be. This means taking account of the point in the production or marketing cycle at which the appreciable revaluation occurs. More specifically, if all the operative events in an aid scheme had already occurred by the time the agri-monetary movement took place, this would imply that the revaluation had not had a negative impact on market prices or on incomes. In that case, aid should be cancelled for that particular sector, although possibly only for production in certain months of the period concerned.

Obviously, if the first tranche of aid is cancelled or reduced, the automatic reduction of one third for the second tranche and two thirds for the third tranche will be calculated without taking account of the cancellation or reduction of the first tranche, since an appreciable revaluation whose impact on the current farming year was nil because of the date on which it occurred may still affect subsequent years. Therefore, reducing or cancelling the first tranche in accordance with the "operative event" criterion should not automatically affect subsequent tranches.

3.3. Under present rules, no aid is paid for appreciable revaluations where the appreciable part of the revaluation is less than 0.5%.

It is proposed to increase that percentage, to prevent excessively small currency movements from setting off the compensation mechanism.

Following an appreciable revaluation, the monetary gap will be reduced by at least 2.5%, because of the permitted margin of 5%, which leads to the monetary gap being divided by two after the confirmation period. The appreciable part of the revaluation will be at most 2.56%, corresponding to halving of the monetary gap (reduction by 2.5 points). The slight disparity is due to the fact that the appreciable part of the revaluation is expressed as a percentage of the green rate, rather than as a percentage point reduction in the gap.

Since the rules allow guaranteed prices to be overvalued by up to 5% without any consequences, it is reasonable to argue that, correspondingly, a readjustment of the green rate where the permitted margin is exceeded should not give rise to compensation for the analogous part of the appreciable revaluation.

The Commission therefore proposes to the Council that appreciable revaluations should be ignored if the appreciable part of the revaluation is not more than 2.6% (round figure).

Under present rules, the 0.5% is not treated as a neutral margin, but carried over to the next revaluation. The wording of the provision must be changed, so that the part of the revaluation that does not exceed 2.6% is ignored rather than carried over. The idea of carrying over appreciable revaluations is much less significant in the context of a system that is not to remain in force beyond 31 December 1998. However, if several successive revaluations occurred between the entry into force of this Regulation and 31 December 1998, the 2.6% margin would apply to the aggregate revaluation rather than to each revaluation separately.

4. As Regulation (EC) No 724/97 applies only to revaluations occurring up to 30 April 1998, this proposal should come into force by 1 May 1998 at the latest.

Proposal for

COUNCIL REGULATION (EC) No ....

of

amending Regulation (EC) No 724/97 determining measures and compensation relating to appreciable revaluations that affect farm incomes

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to 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[1], and in particular Article 9 thereof,

Having regard to the proposal from the Commission,

Whereas Council Regulation (EC) No 724/97 of 22 April 1997[2] determines measures and compensation relating to appreciable revaluations of the agricultural conversion rate that affect farm incomes; whereas that Regulation does not apply to appreciable revaluations that may occur after 30 April 1998; whereas it should therefore be amended to cover any revaluations that may occur in the period up to the introduction of the single currency;

Whereas Article 4(3) of Regulation (EC) No 724/97 provides that the maximum amount of aid may be reduced or cancelled as a function of the effect on income of the development of agricultural conversion rates recorded during a certain observation period; whereas in order to avoid compensation that is excessive in relation to the loss of income actually incurred, it is also necessary to take account of the market situation;

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1 OJ L 387, 31.12.1992, p. 1. Regulation last amended by Regulation (EC) No 150/95.

2 OJ L 108, 25.4.1997, p.9.

Whereas the introduction of the single currency on 1 January 1999 will put an end to fluctuations in agricultural conversion rates for the Member States participating; whereas it is therefore appropriate to end the observation period for those Member States on 31 December 1998;

Whereas the observation period for the other Member States may extend beyond 31 December 1998; whereas, since the market situation is to be taken into account, it is helpful to extend the observation period to nine months instead of six, and to provide for a further extension if a subsequent appreciable revaluation occurs during the observation period for the preceding appreciable revaluation;

Whereas application of Article 4 of Regulation (EEC) No 3813/92 means that the agricultural conversion rate may not decline by less than 2.56%; whereas, to limit the risk of excessive compensation in cases of small appreciable revaluations, aid should not be granted for the amount corresponding to an appreciable part of less than 2.6%;

Whereas decisions to reduce or cancel the second and third tranches should also be taken in the light of the market situation;

Whereas the method of taking the market situation into account should be defined; whereas this method may involve comparing the development of market prices in the Member State whose currency has been appreciably revalued with those in the Member States whose currencies have not been appreciably revalued during the observation period, and by considering how far operative events in the various sectors have already occurred on the date of the appreciable revaluation,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 724/97 is amended as follows:

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

"1. This Regulation shall apply in the event of appreciable revaluations occurring from 1 January 1997 and before 1 January 1999."

2. Article 4 is amended as follows:

(a) The following is added to the first subparagraph of paragraph 3: "and taking account, in the amount calculated in accordance with the first indent of paragraph 2, of the market situation during that period." The second and third subparagraphs are replaced by the following:

"For the currencies of the Member States that adopt the single currency pursuant to the Treaty, the observation period shall expire on 31 December 1998. For the other currencies, the observation period shall expire at the end of the ninth month following that of the appreciable revaluation. However, where an appreciable revaluation occurs in the course of the observation period for an earlier appreciable revaluation, the entire observation period shall not expire until the end of the third month following that of the last revaluation.

However, no aid shall be granted for that portion of the amount calculated in accordance with the first subparagraph of paragraph 2 and the first subparagraph of this paragraph equal to not more 2.6% of the appreciable revaluation occurring between the entry into force of this Regulation and 31 December 1998."

(b) The following sentence is added to the first subparagraph of paragraph 4: "However, in cases where the amount of the first tranche of aid is calculated by applying the second subparagraph of paragraph 4a(b), the reduction of at least one third shall be calculated on the basis of the amount of the first tranche that would have been granted if the second subparagraph of paragraph 4a(b) had not been applied."

(c) The following is added to the second subparagraph of Article 4(4) "and taking account, in the amount calculated in accordance with the first subparagraph of paragraph 2, of the market situation during that period."

(d) The following paragraph 4a is inserted:

"The market situation shall be taken into account pursuant to the first subparagraph of paragraph 3 and the second subparagraph of paragraph 4 in accordance with the following method:

The amount of one or more tranches in one or more sectors may be reduced when it has been observed that:

(a) over the observation period referred to in paragraph 3 or over the period between the beginning of the preceding tranche and the beginning of the month preceding the first month of the tranche concerned, the market price for the Member State concerned was on average equal to or higher than the average market prices in the Member States whose currencies had not been appreciably revalued during the same period

or

(b) the relation between the dates of operative events in the sector concerned and the date of the appreciable revaluation is such that there is no justification for concluding that the revaluation had an impact throughout the period considered.

For the purposes of point (a), market prices shall be compared using an index of base 100 for market prices in national currency on the date of the appreciable revaluation."

Article 2

This Regulation shall enter into force on the seventh day following its publication in the *Official Journal of the European Communities*.

This Regulation shall apply to appreciable revaluations occurring from 1 May 1998.

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

Done at Brussels,

For the Council

The President

FINANCIAL STATEMENT

1.	BUDGET HEADING: 390	APPROPRIATIONS: ECU 505 million
2.	TITLE: Proposal for a Council Regulation amending Regulation (EC) No 724/97 determining measures and compensation relating to appreciable revaluations that affect farm incomes	
3.	LEGAL BASIS: Article 9 of Council Regulation (EEC) No 3813/92	
4.	AIMS: 1. To extend Regulation (EC) No 724/97 to cover the period 1 May 1998 to 31 December 1998. 2. To introduce a number of amendments, while maintaining the essentials of the arrangements, in order to better evaluate the impact of agri-monetary movements on incomes and thus limit, as far as possible, overcompensation.	

5.	FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS (ECU million)		CURRENT FINANCIAL YEAR (98) (ECU million)	FOLLOWING FINANCIAL YEAR (99) (ECU million)
5.0	EXPENDITURE - CHARGED TO THE EC BUDGET (~~REFUNDS~~/INTERVENTION) - ~~NATIONAL AUTHORITIES~~ - ~~OTHER~~			(1)	(1)
5.1.	~~REVENUE~~ - ~~OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)~~ - ~~NATIONAL~~				
		2000	2001	2002	2003
5.0.1	ESTIMATED EXPENDITURE	(1)	(1)		
5.1.1	~~ESTIMATED REVENUE~~				
5.2	METHOD OF CALCULATION:				

6.0	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	~~YES/NO~~
6.1	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?	~~YES/NO~~
6.2	WILL A SUPPLEMENTARY BUDGET BE NECESSARY?	~~YES/NO~~
6.3	WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?	~~YES/NO~~

OBSERVATIONS:

(1) The possible budgetary impact of this proposal depends on future monetary movements and is therefore impossible to estimate at this stage. However, since it tightens the conditions for the granting of compensatory aid in the event of appreciable evaluations of one or more agricultural conversion rates, the proposal should reduce spending compared with a simple extension of Regulation (EC) No 724/97.

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