COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 285 final

Brussels, 10 June 1981

Proposal for a

COUNCIL DECISION

on the level of the interest rate subsidy, provided for by Directive 72/159/EEC on the modernisation of farms, to be applied in Ireland

(submitted to the Council by the Commission)

EXPLANATORY MEMORANDUM

Farm development in Ireland has proceeded at a relatively rapid rate since the accession of the country to the European Communities. This development has necessitated a substantial increase in farm investment, the cost of which has had to be supported mainly through the use of borrowed capital.

The rapid rise in interest rates together with the progressive increase in normal farm operating costs have contributed to a significant increase in the cost structure of farming in recent years. As a result, farmers which have borrowed substantial amounts of money to finance farm development plans under Directive 72/159/EEC now find themselves in an extremely difficult situation insofar as the servicing of such loans is concerned. This situation is all the more acute because of the significant decline in farm incomes which has taken place in Ireland since 1978. The current interest rate level is approximately 17 to 18 %. It is estimated that interest payments alone absorb about a quarter of the farmers' total income, leaving them little or no capital for reinvestment.

Given this situation, an increase in the interest rate subsidy for farmers with existing commitments under Directive 72/159/EEC as well as for those who are about to borrow capital to finance farm development in the future would appear to be entirely justifiable. Furthermore, because of the acute financial problems of farmers who are already implementing development plans, and in addition owing to the limited financial resources available to the Irish exchequer to help remedy this situation, a 50 % contribution from the EAGGF towards the cost of this special measure is proposed.

Proposal for a Council Decision on the level of the interest rate subsidy, provided for by Directive 72/159/EEC on the modernisation of farms, to be applied in Ireland.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community and particularly its article 43;

Having regard to Council Directive 72/159/EEC of 17 April 1971 on the modernisation of farms (1) as last amended by Directive 81/ EEC **(2)** **and in** particular the second sub-paragraph of Article 8(2) and the second sub-paragraph of Article 19(1) thereof;

Having regard to the proposal from the Commission;

Having regard to the opinion of the **European Parliament** (3);

Having regard to the opinion of the Economic and Social Committee (4);

Whereas the second sub-paragraph of Article 8(2) of Directive 72/159/EEC provides that Member States may be authorized to grant interest rate subsidies exceeding 5 %, if such action is warranted by the situation of the capital market in the Member States, and to reduce to 2 % the minimum rate payable by beneficiaries in certain regions;

Whereas the Irish governement has requested authorization to raise the level of the interest rate subsidy to 10 % and in the less favoured regions of the West of Ireland to 12 %;

Whereas the increased level of interest rate subsidy shall equally apply to existing farm loans incurred towards the financing of expenditure on development plans eligible for reimbursement by the European Agricultural Guidance and Guarantee Fund, hereinafter called the "Fund" which have not as yet been fully amortized;

Whereas because of the limited funds available to the Irish government to finance this latter particular measure a 50 % contribution from the Fund towards its cost is recommended;

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(1) OJ No L 96, 23.4.1972, p. 1
(2)
(3)
(4)

Whereas the Irish government has furthermore requested that the expenditure resulting from the increase in the subsidy be declared eligible for financial participation by the Community;

Whereas the current interest rate of 17,25 % in Ireland for long term agricultural loans and the interest rate subsidies of 10 and 12 % will mean that the rate remaining to be paid by the beneficiary shall exceed the minima laid down by Council Directive 72/159/EEC or by Council Directive 75/268/EEC of 28 April 1975 on mountain and hill farming and farming in certain less favoured areas (1) as last amended by Directive 80/666/EEC (2);

Whereas the economic and agricultural development of the less favoured areas of the West of Ireland within the meaning of Directive 75/268/EEC is clearly less advanced than that of the other regions;

Whereas participation by the Fund in the expenditure resulting from the increase in the subsidy is recommended;

HAS ADOPTED THIS DECISION

Article 1

Ireland is hereby authorized to increase the interest rate subsidy provided for in the first sub-paragraph of Article 8(2) of Directive 72/159/EEC to 12 % in the less favoured areas and to 10 % in other regions.

Article 2

Ireland is hereby authorized to grant an interest rate subsidy in 1981 and 1982 amounting to 5 % on the outstanding part of existing farm loans incurred in the financing of eligible expenditure on farm development plans already approved under Directive 72/159/EEC by the date of entry into application of this decision.

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(1) OJ No L 128, 19.5.75, p. 1

(2) OJ No L 180, 14.7.80, p. 30

Article 3

1. The expenditure incurred by Ireland pursuant to Article 1 of this Decision shall be eligible for assistance from the Guidance Section of the Fund within the limit fixed in the first sub-paragraph of Article 19 (3) of Directive 72/159/EEC or in Article 15 (1) of Directive 75/268/EEC.

2. The expenditure incurred by Ireland in application of Article 2 shall be eligible for reimbursement by the Fund. The rate of reimbursement by the Fund shall be 50 %.

Article 4

1. The measure provided for in Article 2 forms part of the common measure according to Article 15 of Directive 72/159/EEC, the financial and general provisions of which apply, taking account of the present decision.

2. The estimated additional cost to the Fund of the measure referred to in Article 2 amounts to 19.25 million ECUs.

Article 5

This Decision shall apply until 31 December 1983.

Article 6

This Decision is addressed to Ireland.

Done at Brussels,

For the Council,
The President

FINANCIAL STATEMENT

Date : 22.5.1981

1. BUDGET HEADING : 8100 APPROBIATIONS : 68 MECU

2. TITLE Proposal for a Council Decision on the level of the interest rate subsidy provided for by Directive 72/159/EEC on the modernisation of farms, to be applied in Ireland

3. LEGAL BASIS : Article 6 of Regulation 729/70/EEC.

4. AIMS OF PROJECT : To alleviate the effects of the cost of high interest rates on farm development under Directive 72/159/EEC in Ireland.

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS	CURRENT FINANCIAL YEAR (1981)	FOLLOWING FINANCIAL YEAR (1982)
5.0 EXPENDITURE			
– CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS)		pm	2.75
– NATIONAL ADMINISTRATION		7.4 MECU	21.64
– OTHER		–	–
5.1 RECEIPTS			
– OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)		–	–
– NATIONAL		–	–

	1983	1984	1985	
5.0.1 ESTIMATED EXPENDITURE MECU	8.25	8.25	pm	
5.1.1 ESTIMATED RECEIPTS	–	–	–	

5.2 METHOD OF CALCULATION

See Annex.

6.0 ~~[illegible]~~ ?	~~YES/NO~~
6.1 ~~[illegible]~~ ?	~~YES/NO~~
6.2 ~~[illegible]~~ ?	~~YES/NO~~
6.3 WILL FUTURE BUDGET APPROBIATIONS BE NECESSARY ?	YES/~~NO~~

OBSERVATIONS :

ANNEX

1. Cost of Article 1

The increase in interest rate subsidy will permit the capital subsidy on long term investments (20 years loan equivalent) to be approximately 50 %.

At present the equivalent capital subsidy is 30 %. Therefore the increase in costs will be approximately 2/3 rds of the present costs.

The forecast reimbursement by the EAGGF Guidance Section in 1982 at the current rates is 9,06 million ECU, therefore the additional cost is estimated at 6 million ECU per year.

2. Cost of Article 2

Up to 31 December 1980 the total reimbursement to Ireland in respect of Directive 72/159/EEC was 14.94 million ECU.

This represents a total national aid of 60 million ECU, and taking the national aid at an average of 25 % represents a total investment of 240 million ECU. Therefore the capital required by the beneficiary was :
240 - 60 = 180 MECU.
It is assumed that 50 % of this amount remains on loans that is 90 Million ECU. An aid towards interest costs of 5 % would be 4.5 MECU/year of which FEOGA would reimburse 50 %, that is 2.25 MECU/year.

3. Total cost of proposal

6 + 2.25 = 8.75 MECU per year

4. Timing of payments

It is assumed that this decision would be operational from the 1st September 1981 (1/3 of the year).

YEAR	FEOGA Reimbursement
1982	2.75 MECU
1983	8.25
1984	8.25
Total	19.25