

European Communities

EUROPEAN PARLIAMENT

41416.642
+ 442.314

Working Documents

1976 - 1977

3 February 1977

DOCUMENT 538/76

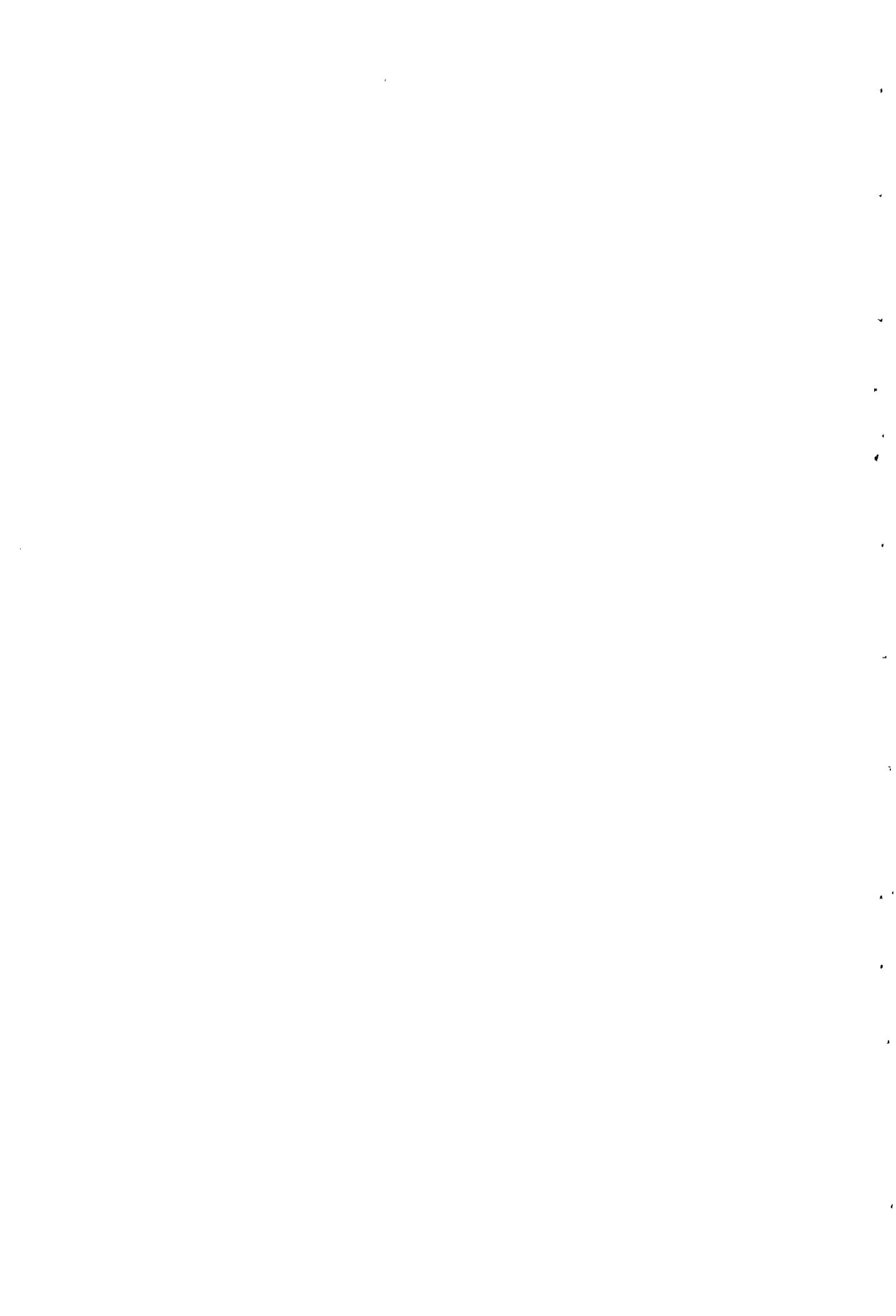
Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 434/76) for a regulation on the entries in the Budget of the Communities relating to the financial effect of the different conversion rates applied for measures financed by the Guarantee Section of the EAGGF

Rapporteur: Mr I. FRÜH

PE 47.344/fin.



By letter of 23 November 1976 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation on the entries in the Budget of the Communities relating to the financial effect of the different conversion rates applied for measures financed by the Guarantee Section of the EAGGF.

The President of the European Parliament referred this proposal to the Committee on Budgets.

On 13 December 1976 the Committee on Budgets appointed Mr Früh rapporteur.

It considered this proposal at its meeting of 19 January 1977.

At the same meeting the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Lange, chairman; Mr Früh, rapporteur; Lord Bruce of Donington, Mr Clerfayt, Mr Cointat, Mr de Keersmaecker (deputizing for Mr Colombo), Mr Fletcher, Mr Gerlach and Mr Yeats.

C O N T E N T S

	<u>Page</u>
A. Motion for a resolution	5
B. Explanatory statement	6

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on the entries in the Budget of the Communities relating to the financial effect of the different conversion rates applied for measures financed by the Guarantee Section of the EAGGF

The European Parliament,

- Having regard to the proposal from the Commission of the European Communities to the Council¹,
 - Having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 434/76),
 - Having regard to the report of the Committee on Budgets (Doc. 538/76),
1. Notes that the proposal contains a global method for breaking down the appropriations to be entered in Chapter 79 and will probably have no financial effect;
 2. Stresses that the principle of the single entry must be strictly adhered to and can therefore only countenance a non-individualized entry by way of exception;
 3. Recommends, however, that once the administrative complications of the paying agencies mentioned in the report have been overcome, a global method be adopted using weightings which reflect the relative values of the budgetary and green units of account, this measure to be applied retroactively from 1.1.1977.

¹ OJ No. 284, 1.12.1976, p. 3.

EXPLANATORY STATEMENTI. Preliminary observation

1. The Commission's proposal was not submitted to Parliament until 23 November 1976. This late consultation prevented consideration by Parliament in December. The Council and Commission should nevertheless provide for retroactive application from 1 January 1977.

II. Content of the proposal

2. This proposal is intended to remove the administrative difficulties encountered by the paying agencies of the Member States when implementing the decision whereby the amounts arising from the difference between the representative rates used for the expenditure of the Guarantee Section of the EAGGF and those used in the budget have to be charged separately.

3. Floating exchange rates combined with the representative exchange rates (green units of account) of the Common Agricultural Policy and the fixed conversion rates of the Budget affect the Budget in two ways:

- (a) In the net charge through monetary compensation (550 m u.a. in Chapter 78).

This is the difference between the actual value of the currency and the representative conversion rate multiplied by the corresponding volume of trade for each Member State.

- (b) The expenditure resulting from the application of two conversion rates:

- difference between IMF parity (Budget) and the green unit of account (Agricultural Policy).

(This expenditure was also estimated at 550 million u.a. in the 1977 budget).

We are only concerned here with the entry of the expenditure mentioned under (b) in Chapter 79.

4. Since the representative rates tend to follow the actual market exchange rates while the budgetary conversion rates remain the same as the par-values declared to the IMF, the application of these different conversion rates leads to considerable accounting losses. However, this does not represent a real increase in expenditure.

5. As already stated, payments from the EAGGF are made in green units of account. The paying agencies of the Member States keep their accounts in the national currency. The Commission has to convert the expenditure into budgetary units of account. If the effects of these different conversion rates are to be shown separately in accounting terms - i.e. if each item of expenditure is to be kept separate, this can only be done in Chapter 79 if the 42 paying agencies alter their accounting system which, according to the Commission, is not possible in the immediate future.
6. In order to overcome the administrative complications, the Commission therefore proposes to separate the financial effects of the different conversion rates by a global method. This method consists of arriving at a separation by applying weightings per Member State to all the expenditure notified by them. These weightings would be fixed in the light of the effect of different exchange rates for each currency and the period of payment in each Member State. If the representative conversion rates were changed, these weightings would be adjusted accordingly.

III. Example

7. The coefficient in question is determined by the relationship between the IMF exchange rate and the green exchange rate. With the aid of the weightings thus defined, the budgetary separation into expenditure by sector and that to be entered in Chapter 79 can be achieved.
8. If the weightings are applied to agriculture expenditure expressed in budgetary units of account, the appropriations to be entered in the appropriate budget line are obtained. The difference between the expenditure expressed in budgetary units of account and the same expenditure expressed in green units of account yields the amount to be entered in Chapter 79.
9. The operation of the weighting system can be graphically illustrated with the example of an intervention in Italian lire:

Notified expenditure	Conversion budgetary u.a. (625 lire = 1 u.a.)	Weighting	Entry
963 lire (= 1 green u.a. representative exchange rate)	1.54 budgetary u.a.	$\frac{\text{B u.a. } 625}{\text{Gr. u.a. } 963} = 0.649$	(a) by Agricultural sector in appropriate budget line 1.54 x 0.649 = 1 Gr u.a. (b) In Chapter 79 1.54-1 = 0.54

IV. Change in the representative exchange rates

10. A change in the representative exchange rates must automatically lead to a change in the weightings having regard to the time during the budget year at which the exchange rates are modified. The Commission's proposal does not provide machinery for such possible adjustments.
11. Periods of payment must also be taken into account in such a case and this considerably complicates the practical application of the measures. Where payment is late, special weightings would again have to be envisaged. The rapporteur prefers to leave open the question of how far these technical complications can be satisfactorily overcome.

V. Conclusions

12. This procedure departs from the principle of single entry book-keeping and uses, to determine the entries to be made in Chapter 79, a weighting applicable to the annual amount of expenditure arising for each Member State.
13. As the procedure only concerns the handling of accounting losses which do not conceal any financial effects, it can be approved, although not without the hope being expressed that it will be possible in the future to make global entries in other parts of the budget.