



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.1.2007
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2007/0005 (CNS)

Proposal for a

COUNCIL REGULATION

amending Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section

(presented by the Commission)

EXPLANATORY MEMORANDUM

Common Agricultural Policy legislation obliges Member States to buy from producers agricultural products which are subject to an intervention mechanism. When these producers present their products in an approved intervention centre, this purchase obligation results in an economic burden for the Member States which have to put forward the funds necessary for these intervention purchases. Member States also have to bear the economic burden for the full period in which these products remain in intervention stores until their removal from public storage.

Council Regulation (EEC) No 1883/78 provides the general rules on the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee section. Community legislation further stipulates that the incurred financial charges are reimbursed to the Member States on the basis of a uniform rate of interest for the community as a whole. This is, then, the interest rate used in order to cover the Member States' cost of mobilisation of funds aimed to finance public storage operations. This cost is reimbursed to the Member States concerned within a 2-month delay following the month of their being declared to the Commission.

In 2005, the Council adopted, for the budget years 2005 and 2006, a disposition (Council Regulation (EC) No 695/2005) concerning Member States which were mobilising the necessary funds at interest rates which were higher than the uniform rate of interest by amending Regulation (EEC) No 1883/78. On the basis of this disposition, the EAGGF-Guarantee reimbursed to any Member State, which incurred an interest rate which was higher than the double of the uniform rate, the interest rate difference for the part borne by it beyond this level. The part of the charge defined as the difference between the uniform rate and the double of this rate remained at the charge of the Member State concerned. This disposition was applied for two years.

Following the recent increases in interest rates, certain Member States, which still have to bear significant financial charges due the large quantities of cereals offered and stored into intervention, requested that the Commission examines the possibility to propose specific measures in order to alleviate the Member States' financial burden for a limited period of time. Therefore, the Commission, after examination of this request and because of the large quantities of cereals in public storage, is hereby proposing to the Council a specific treatment in such cases for a limited period of time, i.e. for the financial years 2007 and 2008. Specifically, the Commission proposes that in the cases where the average interest rate, in the course of the third month following the reference period utilised for the establishment of the uniform interest rate, is more than twice the uniform interest rate for a given Member State, provision should be made for the application of a correcting mechanism. In such cases, the Commission will cover the amount which corresponds to the interest rate borne by this Member State minus the uniform rate of interest fixed by the Commission. The difference should nevertheless be borne by the Member State concerned in order to encourage it to seek the least costly financing method.

This proposal involves additional expenditure for the Community budget which is currently estimated at approximately EUR 9.3 million for the 2007 budget and at EUR 10.4 million for the 2008 budget. It will apply retroactively as of 1 October 2006.

The Commission considers that this proposal is interlinked with the proposal for abolition of the maize intervention and requests the Council to examine and adopt these proposals at the same time.

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amending Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 37(2) thereof,

Having regard to the proposal from the Commission¹,

Having regard to the opinion of the European Parliament²,

Whereas:

- (1) For intervention operations for which a unit amount has not been set by market organisation rules, basic Community financing rules have been set by Council Regulation (EEC) No 1883/78³, in particular as to the method of establishing the amounts to be financed, the financing of expenditure resulting from tying up the funds needed for intervention purchasing, the valuation of stocks to be carried over from one year to another and the financing of expenditure resulting from the physical operations of storage.
- (2) Article 5 of Regulation (EEC) No 1883/78 provides that the interest charges incurred by Member States in mobilising the funds used to purchase public intervention products are to be financed by the Community at a uniform interest rate.
- (3) It may appear that in certain Member States the buying into public intervention of agricultural products can be financed only at interest rates which are substantially higher than the uniform interest rate.
- (4) Where, in such cases, the average interest rates, in the course of the third month following the reference period used for the establishment of the uniform interest rate by the Commission, is more than twice the uniform interest rate for a given Member State, provision should be made for a correcting mechanism to be applied. This average interest rate should nevertheless be partially borne by the Member State concerned in order to encourage it to seek the least costly financing method.

¹ OJ C ..., ..., p.

² OJ C ..., ..., p.

³ OJ L 216, 5.8.1978, p. 1. Regulation as last amended by Regulation (EC) No 1259/96 (OJ L 163, 2.7.1996, p. 10).

- (5) Regulation (EEC) No 1883/78 should therefore be amended accordingly.
- (6) This amendment to the rules should be carried out for the financial years 2007 and 2008 and should apply from the beginning of the current accounting year,

HAS ADOPTED THIS REGULATION:

Article 1

The third subparagraph of Article 5 of Regulation (EEC) No 1883/78 is replaced by the following:

"By way of derogation from the first subparagraph, if the average interest rate borne by a Member State, in the course of the third month following the reference period utilised for the establishment of the uniform interest rate by the Commission is more than twice the uniform interest rate, the Commission may, for the financial years 2007 and 2008, in financing the interest costs incurred by that Member State, cover the amount which corresponds to the interest rate borne by this Member State minus the uniform rate of interest."

Article 2

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

It shall apply to expenditure incurred from 1 October 2006.

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: 05 02 01 02, 05 02 05 08, 05 02 09 04, 05 02 12 04		APPROPRIATIONS: EUR 399 Mio		
2. TITLE: Council Regulation amending Regulation (EEC) No 1883/78 laying down general rules for the financing of interventions by the European Agricultural Guidance and Guarantee Fund, Guarantee Section				
3. LEGAL BASIS: Article 37(2) of the Treaty				
4. AIMS: Financing the extra costs for public intervention operations				
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2007 (EUR million)	FOLLOWING FINANCIAL YEAR 2008 (EUR million)	
5.0 EXPENDITURE – CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) – NATIONAL AUTHORITIES – OTHER	–	9,3	10,4 (a)	
5.1 REVENUE – OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) – NATIONAL	–	–	–	
	2009	2010	2011	2012
5.0.1 ESTIMATED EXPENDITURE				
5.1.1 ESTIMATED REVENUE	–	–	–	–
5.2 METHOD OF CALCULATION: See Annex.				
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?		see (b)	YES NO	
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?		see (b)	YES NO	
6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?		See observation under (b)		YES NO
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?		YES NO		
OBSERVATIONS: see annexed calculation				
(a) Assuming no change in economic conditions.				
(b) This financing is not foreseen in the 2007 budget. The Commission, within the framework of the execution of the budget, will mobilise the necessary resources for financing this measure by the most appropriate procedure, preferably by budgetary transfer.				

ANNEX

Calculation of the financing costs for public storage operations							
Budget year 2007 (on the basis of the hypotheses retained in the AL 2007)							
	Average stock ⁽¹⁾	Average value ⁽²⁾	Uniform interest rate fixed	Total amount without derogation	Specific interest rate to be proposed	Total amount with derogation	Additional cost
	t	EUR/t	for 2007				
05 02 01 02				17,01		25,51	8,50
– Hungary - wheat *	335.750	95,20	3,2%	1,02	4,8%	1,53	0,51
– Hungary - barley **	50.820	91,60	3,2%	0,15	4,8%	0,22	0,07
– Hungary - maize ***	4.948.940	100,00	3,2%	15,84	4,8%	23,75	7,92
05 02 05 08				1,47		2,20	0,73
– Hungary - sugar ****	159.900	287,20	3,2%	1,47	4,8%	2,20	0,73
05 02 09 04				0,05		0,07	0,02
– Hungary - alcohol *****	30.560	49,03	3,2%	0,05	4,8%	0,07	0,02
Total				18,53		27,79	9,26

(1) Source : hypotheses retained in the AL 2007 – average stock.

(2) Source : hypotheses retained in the AL 2007 – calculation of financial costs.

* Wheat situation as of 3/12/2006: EU-25: 3 099 000 t, HU: 522 703 t or 17% applied to (2 975 000 t – 1 000 000 t for RO/BU) in AL 2007 for EU-25 cost.

** Barley situation as of 3/12/2006: EU-25: 1 166 113 t, HU: 33 862 t or 3% applied to 1 694 000t in LR 2007 for EU-25 cost.

*** Maize situation as of 3/12/2006: EU-25: 4 747 770 t, HU: 4 620 000 t or 97% applied to (7 102 000 t–2 000 000 t for RO/BU) in AL 2007 for EU-25 cost.

**** Sugar situation as of 1/12/2006: 139 000 t of sugar for HU out of 855 000 t for EU-25, i.e.:16,3% applied to 981 000 t of sugar in AL 2007.

***** Average stock of alcohol on 30/9/2006 of 33 919 hl applied to the average stock of 3 056 000 hl in AL 2007 for EU-25.

Budget year 2008							
	Average stock	Average value	Uniform interest rate fixed	Total amount without derogation	Specific interest rate to be proposed	Total amount with derogation	Additional cost
	t	EUR/t	for 2007				
05 02 01 02				20,80		31,20	10,40
– Hungary - wheat *	213.860	95,20	3,2%	0,65	4,8%	0,98	0,33
– Hungary - barley *	108.120	91,60	3,2%	0,32	4,8%	0,48	0,16
– Hungary - maize *	6.196.360	100,00	3,2%	19,83	4,8%	29,74	9,91
05 02 05 08				0,00		0,00	0,00
– Hungary - sugar **	0	287,20	3,2%	0,00	4,8%	0,00	0,00
05 02 09 04				0,05		0,07	0,02
– Hungary - alcohol ***	30.560	49,03	3,2%	0,05	4,8%	0,07	0,02
Total				20,84		31,27	10,42

* These quantities are estimated on the basis of the balance sheets for cereals intervention included in the maize reform document.

** Hypothesis of no sugar in intervention on 30/9/2007.

*** Hypothesis of same quantity in intervention as the 2007 one of 30 560 hl.