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REPORT FROM THE COMMISSION TO THE COUNCIL

on the implementation of the transitional measures for the introduction of the euro in the common agricultural policy

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INTRODUCTION

This report is submitted in accordance with Article 4 of Council Regulation (EC) No 2800/98 of 15 December 1998 on transitional measures to be applied under the common agricultural policy with a view to the introduction of the euro[1]. Under that article a report on the execution of the transitional measures is to be submitted by the Commission to the Council before 31 March 2001. In line with the Commission statement in the minutes of the Council meeting of 15 December 1998[2], the report examines in particular the effect of the transitional measures on farmers' incomes.

The transitional measures for the introduction of the euro in the common agricultural policy are governed by Regulation (EC) No 2800/98, but also by Council Regulation No 2799/98 of 15 December 1998 establishing agrimonetary arrangements for the euro[3], Commission Regulation (EC) No 2808/98 of 22 December 1998 laying down detailed rules for the application of the agrimonetary system for the euro in agriculture[4] and Commission Regulation (EC) No 2813/98, also of 22 December 1998, laying down detailed rules for applying the transitional measures for the introduction of the euro to the common agricultural policy[5].

The report focuses first of all on the implementation of the transitional provisions, its structure mirroring that of the agrimonetary rules. A clear distinction is made between the possible effects of the introduction of the euro on the one hand on prices and, on the other, on direct aid. The report then deals with the measures adopted by Member States with a view to granting various forms of agrimonetary compensation pursuant to the transitional measures. Next to be covered are the effects of the measures on farmers' incomes and on the budget. The following aspects are dealt with at the end of the report:

- market situation criteria,
- the definition of some operative events,
- cases brought by Italy, and
- Greece's participation in the euro from 1 January 2001.

The penultimate Commission report on the agrimonetary system for the single market[6] included a detailed look at the possible economic effects of the agrimonetary arrangements, in particular on trade and prices. It showed that, even at a time of fairly wide and long-lasting monetary gaps[7], the agrimonetary arrangements had not adversely affected markets.

A feature of the agrimonetary system for the euro is the total absence of agrimonetary arrangements for participating currencies. For the remaining currencies the monetary gaps referred to above are limited to the difference between two exchange rate fixings by the European Central Bank (ECB). The difference is small: it exceeded one point in absolute terms on only nine occasions in 1999.

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1 OJ L 349, 24.12.1998, p. 8.
2 14.127/98 of the General Secretariat of the Council.
3 OJ L 349, 24.12.1998, p. 1.
4 OJ L 349, 24.12.1998, p. 36.
5 OJ L 349, 24.12.1998, p. 48.
6 COM(96) 636 final of 6.12.1996.
7 "Monetary gap" is defined in Regulation (EEC) No 3813/92 as: the percentage of the agricultural conversion rate representing the difference between that rate and the representative market rate.

Since there is no evidence of any economic effect brought about by agrimonetary arrangements when there were wide and long-lasting monetary gaps it may be concluded that agrimonetary arrangements featuring no monetary gap whatsoever will produce no detectable economic effect. Scrutiny of the number of animals and the areas under arable crops does not suggest that the introduction of the euro has led to any abnormal changes.

Any change in trade patterns after the introduction of the euro would have been attributable to non-agrimonetary factors, e.g. competitiveness, which is why this report does not cover "trade".

The annexes to which this report refers are set out in a document available only at the following website:

http://europa.eu.int/comm/agriculture/markets/euro/index_en.htm

1. COMPENSATION IN THE EVENT OF AN APPRECIABLE REVALUATION

There is entitlement to compensatory aid *where the conversion rate for the euro into national currency units of any Member State or the exchange rate for the euro into the national currency of any Member State at 1 January 1999 undergoes an appreciable revaluation against the agricultural conversion rate in force on 31 December 1998* (first subparagraph of Article 2 of Regulation (EC) No 2800/98).

Appreciable revaluation is defined as follows in (a) of Article 1 of Regulation (EC) No 2800/98:

"a reduction in the conversion rate applicable on 1 January 1999 which is greater in absolute value than the differences between that rate and the lowest levels of the conversion rates applicable:

– *over the last 12 months, and*

– *at any time more than 12 months but not more than 24 months previously, and*

– *at any time more than 24 months but not more than 36 months previously.*

Only two thirds and one third respectively of the differences covered by the second and third indents shall be taken into account".

The Regulation also defines appreciable part: *"the difference between, on the one hand, the threshold between appreciable and non-appreciable revaluations and, on the other hand, the conversion rate for the euro into national currency units or the exchange rate for the euro into national currency on 1 January 1999.*[8] *This difference is expressed as a percentage of the said threshold".*

The threshold rates and the "appreciable part" are shown, by currency, in **Annex I** and **Annex II** respectively.

The rates applicable on 1 January 1999 can give rise to three different scenarios:

– an increase in prices,

– a non-appreciable reduction in prices,

– an appreciable reduction in prices.

An increase in institutional prices resulting from the rates applicable on 1 January 1999 was recorded in Sweden (+1.206%) and the United Kingdom (+3.226%), but it was not a lasting one since the pound sterling and the Swedish krona rose by ten or so percentage points in relation to the euro in 1999. The 1999 exchange rate movements for the four currencies outside the euro are shown in **Annex III**.

A non-appreciable reduction in institutional prices resulting from the rates applicable on 1 January 1999 occurred in nine Member States, namely Germany, Austria, Belgium, Spain, Greece, Ireland, Luxembourg, Netherlands and Portugal. Given that the rate applicable on

[8] The exchange rate applicable on 1 January 1999 is that determined by the European Central Bank on 4 January 1999 (see Article 9 of Regulation (EC) No 2813/98).

1 January 1999 was, for each of these currencies, higher than the threshold rate, no agrimonetary compensation was payable. The reductions in prices range from 1.172% (Spain) to 3.414% (Greece). Since eight of the nine Member States referred to above have a fixed rate, the reduction in the rate is a lasting one. The difference in the exchange rate for the Greek drachma in 1999 is so small in relation to the value recorded on 1 January 1999 that a similar conclusion may be drawn.

An appreciable reduction in institutional prices as a result of the rates applicable on 1 January 1999 was recorded in the case of Denmark, Finland, France and Italy. The reduction ranges from 1.386% (Finland) to 1.953% (France). Although the rate applicable on 1 January 1999 is below the threshold rate, the appreciable part for each of these currencies remained below the 2.6% neutral margin. By virtue of the margin no agrimonetary compensation was payable.

In a word, the provisions of Regulation (EC) No 2800/98 dealing with appreciable revaluations (Article 2) did not have to be put into effect. As a result, the new method of funding compensatory aid (with the Community contributing 50% of the amount actually paid) cannot be evaluated.

2. COMPENSATION FOR REDUCTIONS IN THE RATE FOR DIRECT AID

There is entitlement to compensatory aid *where the rate applicable on the day of the operative event is lower than the rate applied previously* (Article 3(1) of Regulation (EC) No 2800/98). *However, no agrimonetary compensation is granted if a rate lower than the new rate was applicable during the 24 months immediately before the new rate took effect* (Article 5(5) of Regulation (EC) No 2799/98).

The direct aids covered by the agrimonetary legislation are listed in **Annex IV**. The dates of the operative events concerned are as follows:

– 1 January 1999 in the case of premiums in the beef/veal sector and structural or environmental measures,

– 3 January 1999 for premiums in the sheepmeat sector,

– 1 July 1999 in the case of aid for arable crops, grain legumes and hops,

– 1 August 1999 for aid for flax and hemp and

– 1 September 1999 for aid for rice and dried grapes.

The Member States for which agrimonetary compensation was set for measures with an operative event on 1 or 3 January 1999 are: Belgium, Denmark, Finland, France, Ireland, Italy, Luxembourg and the United Kingdom. The reduction ranges from 1.224% (BLEU) to 9.091% (United Kingdom).

The Member States for which agrimonetary compensation was set for measures with an operative event on 1 July 1999 are those listed above, plus Sweden, which was added to the list in the light of the revaluation of the Swedish krona from 1 January 1999 onwards. The reduction ranges from 1.224% (BLEU) to 16.180% (United Kingdom).

The Member States for which agrimonetary compensation was set for measures with an operative event on 1 August or 1 September 1999 are those referred to in the preceding paragraph, plus Spain, which was added to the list because the threshold rate for the peseta is not the same as that for other operative events. The reduction ranges from 1.172% (Spain) to 14.930% (United Kingdom).

Detailed figures for the percentage reductions are shown in **Annex II**.

The compensatory aids paid to producers were set in accordance with point 4 of the Annex to Regulation (EC) No 2799/98. They are thus equal to the expenditure recorded during the calendar year preceding the operative event, multiplied by the above-mentioned percentage reduction.

While recording the expenditure did not pose any major problems, flat rates had to be used for measures under Council Regulation (EC) No 950/97 of 20 May 1997 on improving the efficiency of agricultural structures[9]. Member States' statements of expenditure on structural measures in areas under Objectives 1 and 6 feature aggregate figures for each Objective: there is no breakdown by measure. The share of expenditure in the said areas which comes under Regulation (EC) No 950/97 is an estimate. The detailed calculations of 1998 expenditure in respect of Regulation (EC) No 950/97 are shown in **Annex V**.

The maximum amounts of compensatory aid resulting from the rates applicable on 1 and 3 January, 1 July, 1 August and 1 September 1999 were set by Commission Regulations (EC) No 755/1999[10], No 1639/1999[11], No 2200/1999[12] and No 2206/1999[13]. For an overview of the maximum amounts please see **Annex VI**.

3. MEASURES ADOPTED BY THE MEMBER STATES

Member States must submit the request for authorisation to grant transitional aid before the end of the third month following the appreciable revaluation or the reduction in direct aid. The Commission evaluates the requests in accordance with the procedure laid down in Article 88(3) of the Treaty and the agrimonetary provisions. The Commission has two months to deliver an opinion on the requests submitted by Member States (the time limit may be extended if the request is incomplete or incorrect).

The Commission has to examine the requests against four major criteria, namely:

– the amount proposed by the Member State may not exceed the maximum allowed,

– the compensatory aid must be in the form of supplementary payments to those receiving direct aid,

– Member States may not impose restrictions on the use of the aid,

– the granting of the aid in a given sector may not affect competition to an extent contrary to the common interest.

The Commission received and approved 22 proposals to grant transitional agrimonetary aid in 1999 (and the beginning of 2000). Although the quality and degree of detail varied appreciably, all the Member States concerned (Belgium, Denmark, Spain, Finland, France,

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9 OJ L 142, 2.6.1997, p. 1.

10 OJ L 98, 13.4.1999, p. 8.

11 OJ L 194, 27.7.1999, p. 33.

12 OJ L 268, 16.10.1999, p. 8.

13 OJ L 269, 19.10.1999, p. 3 + Corrigendum (OJ L 275, 26.10.1999, p. 34).

Ireland, Italy, Luxembourg, Sweden and the United Kingdom) submitted their proposals within the time limits applicable.

Some Member States submitted a separate request for each type of measure (e.g. seven proposals submitted by the United Kingdom), whereas others (e.g. France and Italy) submitted a single plan covering every type of aid.

In most cases the plans submitted to the Commission raised no specific problems as regards Community scrutiny. The fact that Member States must award the aid in the form of supplementary payments to recipients of direct aid under the CAP leaves them little room for manoeuvre in deciding how the aid should be allocated. Nevertheless, two problems of a general nature arose in the context of the scrutiny of the plans: aggregation and the treatment of structural and environmental aid.

On aggregation, some Member States asked the Commission to verify at sector level and not in respect of each individual scheme whether the ceiling on allocations had been complied with. This would have meant the Commission verifying, for instance, whether the total amount of aid to the beef/veal sector exceeded the ceiling, instead of carrying out separate checks for the premium for suckler cows, the premium for suckler cows under Objective 1, the premium for male bovine animals, the extensification premium and the deseasonalisation premium. Given that these premiums are intended for different types of producers located in different regions, and in order to safeguard the principle that agrimonetary aid must be neutral in terms of competition, the Commission generally rejected aggregation. Exceptionally, however, it agreed to aggregate the 12 aids payable under the arable crops scheme, in order in particular to cancel out the effects of the increase - from 5% in 1998 to 10% in 1999 - in the rate of compulsory set-aside.

In the case of structural aid [compensatory aid and start-up aid for young farmers (Regulation (EC) No 950/97)], early retirement [(Regulation (EEC) No 2079/92)[14]] and agri-environmental aid [(Regulation (EEC) No 2078/92)[15]], the difficulties (at Commission and Member State level) consisted in identifying the measures for which transitional agrimonetary aid was payable. Structural and environmental measures are approved by the Commission on the basis of programmes (in some cases at local or regional level) containing a significant set of schemes providing for the granting of aid on a wide range of terms. Moreover, only schemes under which aid is set at the level of the Community ceiling are eligible (Article 10(2) of Regulation No 2808/98). Since, in most of the Member States concerned, structural and environmental aids are set at levels below the Community ceiling, a sizeable proportion of the funds earmarked (EUR 96.29 million - calculated on the basis of the total expenditure on the measure) could not be used.

The table in **Annex VI** shows that the maximum amount (first, second and third *tranches* combined) available to the Member States concerned by transitional agrimonetary aid was EUR 1 620.3 million, including a maximum Community contribution of EUR 1 215.2 million and a maximum national contribution of EUR 405.1 million.

The Table in **Annex VII** shows that the total amount of transitional agrimonetary aid under the 22 plans approved by the Commission was EUR 1 202.1 million, most of it (EUR 1 125.9 million) corresponding to the EAGGF contribution. The balance

[14] OJ L 215, 30.7.1992, p. 91.
[15] OJ L 215, 30.7.1992, p. 85.

(EUR 76.2 million) corresponded to the national contribution in respect of the second and third *tranches*. In this connection, it should be pointed out that when plans were submitted, only Italy and Luxembourg stated that they intended to pay the optional national contribution in respect of the second and third *tranches*. Ireland decided to pay the national contribution by amending the plans after they had been approved.

The difference between the maximum amounts allowed by the Commission and the amounts actually granted is attributable mainly to the fact that most of the Member States decided not to allocate national funds. Underutilisation of the funds available under structural and agri-environmental measures also contributed - albeit to a lesser extent - to the difference since, under Regulation (EC) No 2808/98 (second subparagraph of Article 10(2)), no compensation may be granted if the amounts of a structural character actually awarded are lower than the ceilings applicable under the legislation concerned.

Belgium

The Commission approved two Belgian plans: one for aids whose operative event fell on 1 or 3 January 1999 (premiums in the beef/veal and sheepmeat sectors) and one for aids whose operative event fell on 1 July or 1 August 1999 (arable crops, hops, flax and hemp). The total Community budget allocation to the Belgian programmes was EUR 5.06 million. Belgium did not submit any plans in respect of structural/environmental measures since the aids concerned are not awarded at the level of the Community ceiling.

Denmark

Denmark submitted two plans, for a total Community contribution of EUR 41.15 million: one concerning aids whose operative event fell on 1 or 3 January 1999 (premiums in the beef/veal and sheepmeat sectors, early retirement, afforestation and agri-environmental measures) and one concerning aids whose operative event fell on 1 July 1999 (arable crops).

Spain

In the case of Spain, only aids with an operative event falling on 1 August 1999 (flax and hemp) or 1 September 1999 (dried grapes and hectare aid for rice) are eligible. Spain's plan provides for compensation for the four measures, for a total of EUR 1.04 million.

Finland

The Commission received three plans from the Finnish authorities: one concerning aids with an operative event falling on 1 or 3 January 1999 (only premiums in the beef/veal and sheepmeat sectors are eligible), a plan dealing with aids with an operative event falling on 1 July 1999 (arable crops) and a plan concerning aids with an operative event falling on 1 August 1999 (flax). The total amount allocated by the Community is EUR 5.55 million. Finland did not submit a plan for structural/environmental measures since such aids are not awarded at the level of the Community ceiling.

France

France submitted a single plan covering every sector, the total amount chargeable to the Community budget being EUR 182.65 million. The plan covers all aid under the CAP whose operative event fell on 1 or 3 January 1999 (livestock premiums, agri-environment, early retirement, young farmers, grubbing-up of vines, and nuts), 1 July 1999 (arable crops and hops), 1 August 1999 (flax and hemp) or 1 September 1999 (rice).

Ireland

Ireland submitted a plan for aids with an operative event falling on 1 or 3 January 1999. The plan was, for administrative reasons, divided into two parts: one dealing with the approval of aid in relation to premiums in the beef/veal and sheepmeat sectors and one covering the approval of aid in respect of early retirement and agri-environmental measures (afforestation is not eligible in Ireland). Ireland subsequently submitted a plan for aids with an operative event falling on 1 July 1999 (arable crops). The total Community contribution to Ireland is EUR 75.92 million. Ireland later decided to grant the national contribution in respect of the second and third *tranches*, bringing the total amount of aid to EUR 101.2 million.

Italy

The plan submitted by Italy is similar to France's except that it does not provide for aid for structural or environmental measures (except start-up aid for young farmers), which are not eligible in Italy. The total amount provided for in Italy's plan is EUR 203.18 million: EUR 152.39 million chargeable to the Community budget and EUR 50.8 million in the form of a central government contribution.

Luxembourg

Luxembourg submitted a single plan covering every scheme. It provides for compensation in the beef/veal and sheepmeat sectors and for arable crops. In the case of structural/environmental measures, only the grubbing-up of vines is eligible. The total amount provided for in the plan is EUR 368 800 (EUR 276 600 contributed by the Community and EUR 92 200 contributed by central government).

Sweden

Sweden submitted a single proposal, for aids with an operative event falling on 1 July 1999 (arable crops), the only type of measure qualifying for transitional agrimonetary aid. The amount chargeable to the Community budget is EUR 63.72 million.

United Kingdom

Unlike most of the Member States the United Kingdom submitted a separate proposal for each type of measure. The Commission thus received from the United Kingdom seven requests to grant agrimonetary aid. The total EAGGF contribution is EUR 598.11 million and no national contribution is planned.

In the case of aid with an operative event falling on 1 or 3 January 1999 the United Kingdom submitted two plans: one for the sheepmeat sector and one for all the measures in the beef/veal sector. The only structural/environmental measures eligible for compensation are afforestation and agri-environmental measures. The United Kingdom has submitted a plan covering the bulk of the measures, plus a supplement dealing with part of the afforestation measures.

The United Kingdom also transmitted separately a total of three dossiers: two concerning agrimonetary compensation for aid with an operative event falling on 1 July 1999 (arable crops and hops) and one concerning aid with an operative event falling on 1 August 1999 (flax and hemp).

4. INCOMES

4.1. Background

The most recent statistics for farm incomes are for 1999. The effects of the agrimonetary aid on 1999 incomes are very difficult to determine since they depend in particular on the actual incidence of the conversion rates on market prices, the operative events, the time allowed for the settlement of purchases and sales and the payment of aid to farmers. Some of the effects felt in 1999 were due to changes in the agricultural conversion rates in 1998, while the consequences of some changes in the 1999 conversion rates will not be felt until 2000 or even later.

Since it was introduced, towards the end of the 1960s, the agrimonetary system has been closely linked to farm incomes. With time, the Council itself has introduced criteria for evaluating the sensitivity of farm incomes to agrimonetary fluctuations.

In 1992 the Council introduced the concept of appreciable reduction in the agricultural conversion rate for market measures[16], by virtue of which a revaluation must exceed a certain threshold before the compensation mechanism can be activated. This was supplemented, in Council Regulation (EC) No 724/97[17] determining measures and compensation relating to appreciable revaluations that affect farm incomes, by the concept of a six-month observation period, i.e. that the agrimonetary aid, if any, is to be reduced or cancelled altogether depending on changes in the agricultural conversion rate in the six months following an appreciable revaluation.

Council Regulation (EC) No 942/98,[18] which amends the above-mentioned Regulation, introduced the "2.6% neutral margin" criterion, i.e. that compensation resulting from an appreciable revaluation is limited to the percentage revaluation exceeding a 2.6% appreciable revaluation. The Council Regulation also introduced a market situation criterion whereby a *tranche* of agrimonetary compensatory aid may be reduced or cancelled altogether in the light of changes in market prices.

In 1995, in the case of agrimonetary compensation for reductions in direct aid brought about by changes in the agricultural conversion rate, the Council introduced the "24-month concept"[19], i.e. that no agrimonetary compensation is payable if a lower agricultural conversion rate than the new rate was applied to the aids in question in the 24 months before the new rate took effect.

These evaluation criteria are preserved in the agrimonetary arrangements for the euro and the transitional measures for the introduction of the euro in the common agricultural policy. They must therefore be duly taken into account by the Commission when evaluating the impact of the introduction of the euro on farm incomes.

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16 Regulation (EEC) No 3813/92 (OJ L 387, 31.12.1992, p. 1).
17 OJ L 108, 25.4.1997, p. 9.
18 OJ L 132, 6.5.1998, p. 1.
19 Regulation (EC) No 150/95 (OJ L 22, 31.1.1995, p. 1).

4.2. Working hypotheses

As in the case of the Commission report to the Council and the European Parliament on the agrimonetary system for the single market[20], a number of approximations and hypotheses were needed in order to assess the scale of the effects the introduction of the euro on 1 January 1999 had on incomes over a 12-month period:

- 1999 incomes from, or linked to, the marketing of products are deemed to reflect incomes from the 1999 value of products at producer price level (supplied by Eurostat),
- the incomes taken into consideration in the case of fruit and vegetables, starch potatoes, wine, olive oil, tobacco, products processed from citrus fruit, and seeds are those derived from the quantities to which a minimum price or aid per tonne of products marketed is applicable,
- the direct aids to producers match those granted in 1999. The agrimonetary compensation matches the maximum amount of the first *tranche*, as published in the various regulations, except in the case of the agrimonetary compensation in the field of structural measures, the compensation for which is that specified in the national plans. In addition, account is taken of the agrimonetary compensation resulting from the appreciable revaluation of the pound sterling which occurred in 1999,
- the intermediate inputs which are deemed affected are equal to half the value of the feed in the Member States where the rate applicable in 1999 is regarded as having had an impact on the price of cereals (B, L, D, EL, P, FIN, NL, IRL, A, E, S, and UK),
- the conversion rates which are deemed to apply to the various income components taken into account are, for Member States participating in the euro, the fixed rates and, for the non-participating Member States, the weighted average of the 1999 exchange rates (market measures) and the rate applicable on the date of the operative event (direct aid).

On the basis of this notional model which gathers together over a 12-month period all the effects of the rates in 1999, the annual effect of the agrimonetary system in 1999 was measured by multiplying the said components by the gap between the rates applied in 1999 and the threshold rates recorded at the end of 1998. The approach chosen thus consisted in making a comparison with the threshold rate in order to preserve the consistency with the agrimonetary system as set out in the agrimonetary system for the euro.

This is why the calculation of the impact of the introduction of the euro does not take account, either, of the sectors for which the criteria set out in Article 4(6) of Regulation (EC) No 2799/98 are found to have been fulfilled, namely the market situation (change in market prices in a Member State where there has been an appreciable revaluation which is equal to or more favourable than the average change in market prices in Member States where there has not been an appreciable revaluation). Nor is account taken of the sectors for which it is found that there is no link between the changes in market prices and the changes in intervention prices and, by the same token, the changes in the conversion rate. In the milk sector, account

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[20] COM(1998) 20 def. of 22.1.1998.

was taken of the most representative prices: either the price of milk or the prices of intervention products.

Although partly theoretical in nature, this model can measure the impact of the euro on incomes and provides separate figures for each Member State. The detailed calculations are set out in **Annex VIII**.

4.3. General

The agrimonetary effect results in an increase in gross added value (GAV) of EUR 311.7 million, i.e. 0.207%. This positive impact in essence applies to every Member State bar three (Italy, Finland and France), in which a reduction - negligible in relation to the GAV - was recorded. Given the limitations of the model chosen and the margin of error for the data used, the introduction of the euro in 1999 can be regarded as having had no significant adverse effects on EU farm incomes. This view is backed up by the latest Eurostat figures, which suggest that farm incomes in the Community rose by 0.7% in 1999.

4.4. Specific observations

In the light of the hypotheses described above, the following conclusions may be drawn in respect of the various Member States:

Belgium

Together with compensation for direct aid, the non-appreciable reduction in the conversion rate did not result in a reduction in GAV. The latter in fact went up slightly, by EUR 1.8 million (0.064%).

Denmark

The appreciable reduction in the exchange rate, combined with compensation for direct aid, did not result in a reduction in GAV. On the contrary, GAV increased slightly, by EUR 0.7 million, i.e. by a mere 0.021%. In the light of the market situation recorded in 1999 the cereals, beef/veal and milk products sectors were not taken into account.

Germany

While the non-appreciable reduction in the conversion rate, coupled with a slight increase in the rate applicable to direct aid, resulted in a slight increase (EUR 22.5 million) in GAV, this amounts to only 0.127%.

Greece

In spite of a non-appreciable reduction in the exchange rate and a reduction in the conversion rate applicable to direct aid, a considerable increase in GAV has been recorded: EUR 169.8 million, i.e. 1.981%.

France

An uncompensated appreciable reduction in the conversion rate has, together with compensation for direct aid, resulted in a reduction of EUR 7.8 million (0.025%) in GAV. The beef/veal, cereals and milk products sectors were not taken into account.

Spain

In spite of a non-appreciable reduction in the conversion rate, a slight reduction in most of the direct aids and compensation for certain direct aids, GAV increased slightly, by EUR 19.3 million (0.085%).

Ireland

Coupled with compensation for direct aid, a non-appreciable reduction in the conversion rate has resulted in a sizeable increase in GAV: EUR 105.8 million (close to 3.506%).

Italy

The uncompensated appreciable reduction which occurred on 1 January 1999, plus compensation for direct aid, resulted in only a very slight reduction in GAV: -EUR 14.4 million (0.048%). The market situation made it possible to exclude the beef/veal, milk products, cereals and olive oil sectors.

Luxembourg

The non-appreciable reduction in the conversion rate, combined with compensation for direct aid, resulted in an increase of EUR 0.2 million (0.11%) in GAV.

Netherlands

A non-appreciable revaluation, combined with an increase in direct aid expressed in national currency, resulted in a slight increase of EUR 12.8 million (0.15%) in GAV.

Austria

As a result of a non-appreciable revaluation, combined with an increase in direct aid expressed in national currency, GAV increased slightly, by EUR 2.3 million (0.071%).

Portugal

In spite of a non-appreciable reduction in the conversion rate and a slight reduction in direct aid, GAV increased slightly, by EUR 5.4 million (0.152%).

Finland

The uncompensated appreciable reduction in the Finnish markka, combined with compensation for direct aid, resulted in a slight reduction in GAV: EUR 2.9 million (0.129%). The incomes were evaluated without taking the butter sector into account.

Sweden

The rise in the Swedish krona recorded in 1999 and the compensation for direct aid for arable crops resulted in an increase of EUR 8.3 million (0.452%) in GAV. The market situation, in particular for milk products and beef/veal, was taken into account.

United Kingdom

The pound sterling's compensated appreciable revaluation in 1999 and the compensations for direct aid meant a slight reduction (EUR 10.9 million) in GAV, account being taken of the market situation for beef/veal and skimmed milk powder. After factoring in the first *tranche* of the agrimonetary compensation linked to this appreciable revaluation in 1999 (EUR 55.21 million), the result is an increase of EUR 43.3 million (0.382%) in GAV.

5. BUDGET ASPECTS

The introduction of the euro is expected to lead to major changes as regards the EU budget. They centre on two aspects: agrimonetary compensatory aid and the effect of the dual rate.

5.1. Agrimonetary compensatory aid

As shown in **Annex VI** the total cost of agrimonetary compensation in connection with the introduction of the euro in 1999 is EUR 810.158 million for the first *tranche*. Leaving aside any future changes in the maximum amounts for the second and third *tranches* for Denmark, Sweden and the United Kingdom, this would leave a total of EUR 405.09 million chargeable to the EU budget: EUR 270.06 million in respect of the second *tranche* and EUR 135.03 million in respect of the third.

Without prejudice to any new agrimonetary compensation resulting from changes in the exchange rates of Member States not participating in the single currency, the amounts shown above are no longer expected to feature in the EU budget.

5.2. Dual rate

Since, for measures whose operative event occurs after 31 November 1998, the dual rate no longer applies to currencies participating in the euro, the costs resulting from the dual rate are automatically reduced. As shown in **Annex IX** the estimated cost to the budget is down from ECU 780 million in 1998 to EUR 630 million in 1999 and EUR 225 million in 2000. The cost of the dual rate in the 2001 budget year is put at EUR 77 million.

Put briefly, the introduction of the euro means considerable budget savings. The residual cost depends on the exchange rates for the non-participating currencies.

6. OTHER ASPECTS

6.1. Operative events

6.1.1. General

The introduction of the euro on 1 January 1999 led on the one hand to major simplification and on the other to a major change - in particular in non-participating Member States - for farmers, traders and the various national and European administrations as regards the conversion rate applicable to a given transaction or measure.

A *major simplification* for the participating Member States: the question as to which conversion rate applies to a given measure simply no longer arises; except for measures with an operative event occurring before 1 January 1999, it is invariably the conversion rate irrevocably fixed between the euro and the currencies of those Member States.

A *major change* for the non-participating Member States, in that they can no longer rely on a stable agricultural conversion rate. They have to apply the exchange rate applicable on the date of the operative event; i.e. the exchange rate most recently fixed by the ECB *(Article 1 of Regulation (EC) No 2808/98).*

Nevertheless, operators and national administrations in non-participating Member States have rapidly adapted to the new system, in particular thanks to the electronic means of communication available.

Seen from an economic perspective this daily change in the exchange rate is an improvement on the earlier system, given that the artificial gap between the agricultural conversion rate and the exchange rate is no more.

In addition, using a single rate [see Article 18(1) - relating to the customs rate - of Regulation (EEC) No 2913/92[21], as amended by Regulation (EC) No 82/97] for amounts in connection with imports and import duties fixed in euros by a CAP-related instrument greatly simplifies matters and has completely eliminated the confusion and mistakes that tended to occur in the past regarding the rate to be used for those transactions.

In the period leading up to the introduction of the euro the representatives of some non-participating Member States were, however, concerned about the possible adverse effects on farm incomes of major fluctuations in their exchange rates.

That is why, when the Council Decision of 15 December 1998 was adopted, the Commission stated that it was "willing to re-examine, in the relevant management committees, certain operative events, in particular those which are linked to the measures provided for in Article 5 of the Regulation establishing the monetary system for the euro, a redefinition of which might prove necessary owing to the transition to the new agrimonetary system".

The Commission has delivered on its undertaking to re-examine the definition of certain operative events but, to prevent a new definition from leading to advance fixing of the exchange rate, it adopted a reticent attitude towards the various requests submitted. The Council ruled out advance fixing of the exchange rate (the agricultural conversion rate under the preceding arrangements) when it adopted the agrimonetary arrangements for the euro. In the light of that restriction the Commission could not introduce a redefinition of the operative event which served to fix the exchange rate in advance.

Nevertheless, there have been some amendments to the definitions of the operative event. The only one actually needed as a result of the introduction of the euro is the one relating to veterinary fees; these fees expressed in euros must, in the case of Member States participating in the euro, be converted into national currency at the rate fixed irrevocably[22]. The other amendments stem from:

– changes to the basic Regulation (bananas and peaches),

– closer cohesion between the various operative events (fruit and vegetables) or

– a change in the economic target achieved (butter for pastry-making).

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[21] OJ L 302, 19.10.1992, p. 1.

[22] Commission Regulation (EC) No 807/1999 of 16 April 1999 providing for transitional measures for the financing of inspections and controls in accordance with Directive 85/73/EEC following the introduction of the euro (OJ L 102, 17.4.1999, p. 68).

6.1.2. Change in the operative event for direct aid

On 29 June 1999, again as part of its undertaking, the Commission adopted Regulation (EC) No 1410/1999 amending Regulation (EC) No 2808/98 laying down detailed rules for the application of the agrimonetary system for the euro in agriculture and amending the definition of certain operative events provided for in Regulation (EEC) No 3889/87, (EEC) No 3886/92, (EEC) No 1793/93, (EEC) No 2700/93 and (EC) No 293/98.[23]

More specifically, the exchange rate for direct aid was amended. It had initially been decided that the rate used should be that applicable: on the first day of the marketing year in the case of sectoral aid; and on 1 January in the case of structural measures. By virtue of the above-mentioned Regulation the rate applicable is the average, calculated *pro rata temporis*, of the exchange rates applicable in the month preceding the operative event.

The grounds for the amendment are set out in the third recital of the Regulation:

"Whereas the exchange rate on the date of the operative event for the aids, premiums and amounts referred to in Article 5 of Regulation (EC) No 2799/98 is defined as the rate on a given date; whereas the rate applicable on the date of the operative event should be amended to ensure in principle that such aids, premiums and amounts do not undergo any sharp fluctuations on conversion into national currency due to the exchange rate on a single date; whereas, to that end, the best solution appears to be an average of the exchange rates applicable during the month preceding the operative event, calculated *pro rata temporis*;".

The Regulation has been applied to direct aid with an operative event from 1 July 1999. There are, however, legitimate doubts as to the value of the Regulation, in the light of the fears expressed during the period leading up to the introduction of the euro and the general call for simplification.

At the time of submitting this report to the Council the Commission has already adopted eight regulations fixing the conversion rate applicable to certain direct aids. In addition, it emerges from a detailed analysis shown in **Annex X** to this report that the net income of producers would not have been affected if the initial rate, namely the rate applicable on the first day of the marketing year (sectoral aid) or the first day of the year (structural aid), had been applied. The total difference in income from direct aid for the four Member States concerned is EUR 11.5 million, i.e. 0.24% of total incomes. If agrimonetary compensation is taken into account the gap narrows to EUR 2.84 million (0.06%). It should be noted that the consequences of an accidentally high or accidentally low rate are cancelled out by agrimonetary compensation and, where applicable, by a low rate or a high rate the following year.

6.2. Criteria applicable under Article 4(6) of Regulation (EC) No 2799/98

Article 4 of Regulation (EC) No 2799/98 deals with appreciable revaluations and, in particular, how the maximum amount of one of the three *tranches* of agrimonetary aid should be calculated and/or adjusted in the light of the market situation.

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[23] OJ L 164, 30.6.1999, p. 53.

The market situation is described in the second subparagraph of Article 4(6):

> *"The amount of one or more tranches in one or more sectors may be reduced when it has been observed that:*
>
> *(a) over the year during which an appreciable revaluation occurs 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. Market prices shall be compared using an index of base 100 for market prices in national currency or in euro,*
>
> *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.*
>
> *In cases where point (b) is applied, the reduction of at least one third referred to in Article 4(5) shall be calculated on the basis of the amount of the first tranche that would have been granted if point (b) had not been applied."*

The last subparagraph states that: *"These criteria may be amended, in the light of experience, in accordance with the procedure laid down in Article 9".*

The provisions on taking the market situation into account did not have to be applied when the euro was introduced since there was no appreciable revaluation requiring the setting of a maximum amount for the first *tranche* of compensatory aid.

The experience gained to date is limited to the appreciable revaluation of the pound sterling in 1999. In Regulation (EC) No 802/2000[24] fixing the maximum amount of compensatory aid for the revaluation of the pound sterling in 1999 the Commission took account of the market situation, namely point (a) above. This made it possible to cancel agrimonetary compensation in the sugar and beef/veal sectors, the average market price index for which was above the average market price index for the Member States whose currencies had not undergone an appreciable revaluation in 1999.

Point (b) above did not have to be applied since the sugar sector, the only one in which it can be taken into account, was ruled out on the basis of (a).

To date, the application of (a) has not given rise to any major problems. At this stage, therefore, the Commission has no reason to propose any amendments to the criteria concerned.

[24] OJ L 96, 18.4.2000, p. 36.

6.3. Cases before the Court of Justice

6.3.1. Case C – 100/99

On 19 March 1999 the Italian Government brought a case against the Council and the Commission, asking the Court of Justice to declare null and void the regulations impugned (agrimonetary regulations) and more specifically the provisions impugned and to order the Council and the Commission to pay the costs. Italy has challenged a number of aspects of the agrimonetary legislation: the 2.6% neutral margin, the scope of the agrimonetary compensation and the discrimination between participating and non-participating currencies.

6.3.2. Case C – 403/99

Shortly afterwards the Italian Government brought a second case, asking the Court of Justice to cancel Regulation (EC) No 1639/1999 fixing the maximum compensatory aid resulting from the rates for the conversion of the euro into national currency units and the exchange rates applicable on 1 July 1999[25]. Italy is challenging in particular the way in which Article 6 (application of the maximum amount of a coefficient for direct aid with a frozen agricultural conversion rate) of Regulation (EC) No 2813/1998[26] has been applied.

Case C – 100/99 was heard on 18 January 2001.

6.4. Greek drachma

Council Regulation (EC) No 1478/2000 of 19 June 2000 amending Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro[27] reduces the number of non-participating Member States within the meaning of (c) of Article 1 of Regulation (EC) No 2799/98 to three: Denmark, the United Kingdom and Sweden. On 1 January 2001 Greece became a participating country within the meaning of (b) of Article 1. The rate set is one euro to GRD 340.750.

This change does not call for any additional legislation: where necessary the provisions of Regulation (EC) No 2799/98 will apply and from 1 January 2001 no rate other than the fixed rate may be applied to measures and transactions with an operative event occurring after 31 December 2000.

7. CONCLUSION

Subject to the judgments of the Court of Justice in the two cases brought by Italy the analysis carried out shows that in the case of the common agricultural policy the changeover to the euro has been smooth, with no major problems requiring rapid action on the part of the authorities. On the contrary, the introduction of the euro in the common agricultural policy has simplified matters, thanks above all to the existence of the euro itself and the way in which it was introduced in the common agricultural policy. In addition, the incomes of European farmers have not been affected by this radical move towards a more integrated European Union.

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25 OJ L 194, 27.7.1999, p. 33.
26 OJ L 349, 24.12.1998, p. 48.
27 OJ L 167, 7.7.2000, p. 1.