COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE BUDGET AUTHORITY

on the impact on EAGGF Guarantee Section expenditure in 2002
of movements in the euro/dollar exchange rate

2002 FINANCIAL YEAR

I. INTRODUCTION

The value of the dollar affects an important proportion of EAGGF Guarantee Section expenditure.

The budget appropriations for a significant number of export refunds for agricultural products, notably cereals, rice and sugar and for some Community aids such as aid for the production of starch, aid for the use of sugar by the chemical industry and aid for cotton, are fixed on the basis of the gap existing between Community prices, expressed in euro, and world prices, generally expressed in dollars.

Other things being equal, a change in the value of the dollar in relation to the euro automatically implies a change in the gap in euro between Community prices and world prices and consequently a change in the production aids and export refunds concerned. If the dollar rises, the gap diminishes, leading to a reduction in expenditure; if the dollar falls, the gap widens, raising expenditure.

The European Council of 11 and 12 February 1988, in its conclusions, expressed the will to take explicit account of the impact of the change in the dollar on agricultural expenditure.

On that basis, by its Decision of 24 June 1988 concerning budgetary discipline[1] the Council provided for the inclusion of ECU 1 000 million in a reserve of the general budget of the European Communities *"as a provision for covering developments caused by significant and unforeseen movements in the dollar/ecu market rate compared to the dollar/ecu rate used in the budget"*[2].

The Edinburgh European Council of 11 and 12 December 1992 confirmed that the monetary reserve would remain in place for the period 1993-99 but decided that the amount should be cut to ECU 500 million from 1995 onwards. Under the Interinstitutional Agreement between the Parliament, the Council and the Commission of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure[3] the monetary reserve is intended to cover the financial impact on budgetary expenditure of substantial and unforeseen divergences in the dollar exchange rate as compared with that used in the budget. On 31 October 1994 the Council adopted a new Decision on budgetary discipline[4] which took account of the conclusions of the Edinburgh European Council and the Interinstitutional agreement of 1993. As was already the case under the Decision of 1988, this new Decision laid down that the dollar/ECU rate used to draw up the budget is equal to the average market rate over the first three months of the year preceding the budget year.

For the period after 1999, the Berlin European Council of 24 and 25 March 1999 concluded that the monetary reserve would be phased out by the end of 2002. It would remain at EUR 500 million for 2000 and 2001 and be reduced to 250 million for 2002.

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1 OJ L 185, 15.7.1988, p. 29

2 Following the introduction of the single currency on 1 January 1999, the legislative references to the term "ECU" are replaced by the term "EUR"

3 OJ C 331, 7.12.1993, p.1

4 OJ L 293, 12.11.1994, p. 14

These conclusions were confirmed in the Interinstitutional Agreement of 6 May 1999[5]. Subsequently Council Regulation (EC) N° 2040/2000 of 26 September 2000 on budgetary discipline[6] replaced the Decision of 1994, applicable as from 1 October 2000. Articles 8 to 13 of that Regulation contain the provisions relating to consideration of the euro/dollar exchange rate, in accordance with the conclusions of the Berlin European Council. This Regulation provides that the monetary reserve remains at EUR 500 million for 2000 and 2001, is reduced to EUR 250 million for 2002 and then abolished with effect from 2003. If the dollar strengthens against the euro compared with the rate used in the budget, savings in the Guarantee Section of up to EUR 500 million (EUR 250 million for 2002) shall be transferred to the monetary reserve. Where a fall in the dollar compared to the rate used in the budget leads to additional costs and these costs cannot be met from within the budgetary appropriations for Titles 1 to 3 of the EAGGF Guarantee section, the monetary reserve is drawn on and transfers made to the headings of the Guarantee Section affected by the fall in the dollar. Recourse is to be had to the monetary reserve when the said savings (or, as the case may be, the additional costs) exceed a neutral margin of EUR 200 million (EUR 100 million for 2002).

In accordance with Article 10 of Regulation (EC) N° 2040/2000, the Commission is presenting the budgetary authority with this report for the 2002 financial year on the impact on expenditure under Titles 1 to 3 of the EAGGF Guarantee Section of movements in the average euro/dollar exchange rate in the period 1 August 2001 to 31 July 2002 in relation to the rate used in the budget. The report contains information used to assess whether, on account of the impact of these changes, a transfer should be proposed to or from the monetary reserve and, if so, the relevant amount.

II. IMPACT OF THE DOLLAR ON EAGGF GUARANTEE SECTION EXPENDITURE IN 2002

To gauge the impact of movements in the euro/dollar rate on the 2002 financial year, consideration must be given, under Article 8 of Regulation (EC) N° 2040/2000, to the gap between the average euro/dollar rate recorded between 1 August 2001 and 31 July 2002 and the rate used in the 2002 budget.

When the preliminary draft budget was established in April 2001, the rate initially used to draw up the budget estimates for 2002 was fixed at 1 EUR = $ 0.92 (average rate for January, February and March 2001, in accordance with Article 8 (1) of Regulation (EC) No 2040/2000). Subsequently, when the Commission adopted an amending letter to the preliminary draft budget at the end of October 2001 which concerned agricultural expenditure, the rate was revised to 1 EUR = $ 0.89 (average for July, August and September 2001). The rate of 1 EUR = $ 0.89 became the definitive budget rate used in drawing up the budget estimates for 2002.

The following table gives the monthly exchange rate gaps recorded in the reference period compared to the budget rate of 1 EUR = $ 0.89 :

5 OJ C 172, 18.6.1999, p.1
6 OJ L 244, 29.9.2000, p. 27

	Recorded rate EUR 1 = $…	Budget rate EUR 1 = $…	Gap in $	Gap in %
a	b	c	d = b – c	e = b/c
August	0.9005	0.8900	+ 0.0105	+ 1.2
September	0.9111	0.8900	+ 0.0211	+ 2.4
October	0.9059	0.8900	+ 0.0159	+ 1.8
November	0.8883	0.8900	- 0.0017	- 0.2
December	0.8924	0.8900	+ 0.0024	+ 0.3
January	0.8833	0.8900	- 0.0067	- 0.8
February	0.8700	0.8900	- 0.0200	- 2.2
March	0.8758	0.8900	- 0.0142	- 1.6
April	0.8858	0.8900	- 0.0042	- 0.5
May	0.9170	0.8900	+ 0.0270	+ 3.0
June	0.9554	0.8900	+ 0.0654	+ 7.3
July	0.9922	0.8900	+ 0.1022	+ 11.5
Average 1.8.2001-31.7.2002	0.9072	0.8900	+ 0.0172	+ 1.9

Over the period under consideration the average recorded rate, rounded off, was EUR 1 = $ 0.91, i.e. 2.2 % above the budget rate and also corresponding to a depreciation of the dollar of 2.2 %. That depreciation in the value of the dollar involved additional expenditure for the EAGGF Guarantee Section.

The recorded average rate of EUR 1 = $ 0.91 is the arithmetical mean of the daily rates for the twelve-month period in question. For the first nine months of the period (ie. August 2001 – April 2002), the average monthly rates remained within ± 2.5% of the budget rate and the average rate for the whole of this nine-month period was almost identical to the budget rate. However, after April the dollar depreciated significantly and as a consequence, the rate for July 2002 reached an average of 1 € = $ 0.99 or about 11% higher than the budget parity.

To make an accurate assessment of the additional expenditures due to the depreciation of the dollar during a period when the gaps compared to the budget rate were variable, it is necessary to establish, over the period concerned, a weighted average exchange rate for every agricultural product for which expenditure in euros is affected by the dollar, taking account of the seasonal variation in the quantities exported with a refund or in quantities eligible for Community aid. For 2002, this weighted average for all the products and measures concerned was EUR 1 = $ 0.906.

On that basis, the additional expenditures for the EAGGF Guarantee Section as a result of the depreciation of the dollar in relation to the budget rate are estimated at EUR 33 million for the 2002 financial year. The relatively small impact of this depreciation on expenditures for 2002 reflects not only the narrowness of the variation between the recorded rate and the budget rate but also the fact that the quantities of cereals subject to export refunds were much lower than in previous years, a consequence of the closeness of EU prices and world market prices for most of 2001/2002.

The Annex gives a detailed calculation of the additional expenditures, which break down by chapter as follows:

B1-10 : Arable crops (cereals)	EUR 8 million
B1-11 : Sugar	EUR 15 million
B1-13 : Cotton	EUR 3 million
B1-18 : Other plant sectors (rice)	-
B1-30 : Non-Annex I products (cereals, sugar, rice)	EUR 6 million
B1-32 : Islands and most remote regions	EUR 1 million
TOTAL	EUR 33 million [7]

For other sectors, livestock products in particular, it should be noted that, like last year, the world prices expressed in dollars were not used to establish the budget. There was therefore no need to evaluate the impact of changes in the value of the dollar on refunds or aid to those sectors.

As the additional expenditures in 2002 of EUR 33 million are below the neutral margin of EUR 100 million referred to in Article 11 (2) of Regulation (EC) N° 2040/2000, no transfer may be made from the monetary reserve. In any case, the additional expenditures can be met from the budget appropriations for Titles 1 to 3 of the EAGGF Guarantee for 2002.

[7] Due to rounding, individual items may not add to the total

ANNEX - Calculation of the impact on EAGGF Guarantee Section expenditure of changes in the euro/dollar rate: 2002 financial year

	Average world price recorded ($ / t)	Technical adjustment coefficient	Average world price used ($ / t)	Weighted average rate (1 EUR = .. $)	World price converted into EUR		Unit impact of gap in rates (EUR / t)	Quantities concerned (1.000 t)	Total budget impact EUR million
					At rate the parity 1 EUR = $ 0.89 (EUR / t)	At average weighted rate recorded (EUR / t)			
a	b	c	d = b x c	e	f = d /0.89	g = d x e	h = f – g	i	j = h x I
A. EXPORT REFUNDS									
Cereals and rice									
- Common wheat	101	1.00	101	0.93	113.5	108.6	4.9	624 (1)	3.1
- Barley	90	1.00	90	0.93	101.1	97.1	4.0	166 (1)	0.7
- Durum wheat	167	1.00	167	0.89	187.6	187.6	0.0	0 (1)	0.0
- Other cereals	90	1.00	90	0.90	101.1	100.0	1.1	2.830 (1)	3.1
- Rice (milled equivalent)	254	1.00	254	0.89	285.4	285.4	0.0	133	0.0
Sugar	212	1.00	212	0.91	238.2	233.0	5.2	2.508	13.0
Non-Annex I products									
- Common wheat	101	1.00	101	0.93	113.5	108.6	4.9	200 (1)	1.0
- Barley	90	1.00	90	0.93	101.1	97.1	4.0	50 (1)	0.2
- Durum wheat	167	1.00	167	0.89	187.6	187.6	0.0	0 (1)	0.0
- Other cereals	93	1.00	93	0.90	104.5	103.3	1.2	1.617 (1)	1,9
- Rice	254	1.00	254	0.89	285.4	285.4	0.0	12	0.0
- Sugar	212	1.00	212	0.91	238.2	233.0	5.2	470	2.4
B. EXPORTS FROM PUBLIC STORAGE									
- Common wheat	113	1.00	113	0.88	127.0	128.4	-1.4	180	-0.3
- Barley	100	1.00	100	0.89	112.4	112.4	0.0	1 350	0.0
- Rye	69	1.00	69	0.88	77.5	78.4	-0.9	285	-0.3
C. AIDS									
Starch (production refunds)	93	1.60	149	0.90	167.4	165.6	1.8	760	1.4
Sugar for chemical industry	212	1.00	212	0.91	238.2	233.0	5.2	400	2.1
Fibre plants (cotton)	800	0.206	165	0.90	185.2	183.1	2.1	1.575	3.3
Islands and most-remote regions									
- Common wheat	101	1.00	101	0.93	113.5	108.6	4.9	126	0.6
- Barley	90	1.00	90	0.93	101,1	97.1	4.0	40	0.2
- Durum wheat	167	1.00	167	0.89	187.6	187.6	0.0	3	0.0
- Other cereals	90	1.00	90	0.90	101.1	100.0	1.1	265	0.3
- Rice (milled equivalent)	254	1.00	254	0.89	285.4	285.4	0.0	7	0.0
- Sugar	212	1.00	212	0.91	238.2	233.0	5.2	3	0.0
TOTAL A + B + C				(0.906)					32.7

N.B.: On the basis of the figures in the table, a change in the euro/dollar rate of 10% would lead to a change in expenditure of EUR 185 million.

(1) Excluding quantities exported subject to charge or with zero refund.

EXPLANATORY REMARKS TO THE ANNEX

Column (a) of the tables gives all the budget headings which are affected explicitly and directly by movements in the value of the dollar as against the exchange rate used in the budget.

Column (b) gives estimated average world prices in dollars for the period concerned.

They correspond either to the average selling prices of Community products when exported or to prices used for the calculation of the various aids.

These prices are multiplied by an adjusting coefficient [column (c)] indicating the weighting of the world price used to determine an aid or refund. For example, 1.6 times the world price for maize is used in determining the production refund for starch.

Column (d) gives average world prices in dollars corrected by the adjusting coefficient.

Column (e) gives the average euro/dollar exchange rates recorded, established per heading on the basis of a weighting taking account of the seasonal nature of the quantities eligible for export refunds or Community aids.

Columns (f) and (g) give the corrected average world prices converted into euro using the exchange rate adopted in the budget of EUR 1 = $ 0.89 and the recorded weighted average rates in column (e).

The unit impact of the variation in the rates is given is column (h) in EUR per tonne.

This unit amount multiplied by the estimated quantities [column (i)] qualifying for aids and/or refunds during the period under review provides the impact expressed in EUR [column (j)].