KOMMISSIONEN FOR DE EUROPÆISKE FÆLLESSKABERS – KOMMISSION DER EUROPÄISCHEN GEMEINSCHAFTEN –
COMMISSION OF THE EUROPEAN COMMUNITIES – COMMISSION DES COMMUNAUTES EUROPEENNES –
COMMISSIONE DELLE COMUNITÀ EUROPEE – COMMISSIE VAN DE EUROPESE GEMEENSCHAPPEN

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NOTA D'INFORMAZIONE
TER DOCUMENTIE

Brussels, October 1976

THE COMMISSION PROPOSES CHANGES TO THE SYSTEM OF MONETARY COMPENSATORY AMOUNTS[1]

In a bid to reduce to a minimum the numerous drawbacks of the system of monetary compensatory amounts (MCAs), the Commission has proposed to the Council of Ministers changes to the system as currently operated. The Commission's proposals feature arrangements for regular readjustment of, and a ceiling for, the MCAs but also take account of the need to avoid unduly abrupt changes.

Background

Since 1969, agriculture in the Community has had to bear the consequences of the absence of a monetary union between Member States. The common agricultural market - a system of common prices combined with common external protection - had only just been established, in time for the 1967/68 farm year, when it was severely disrupted by the devaluation of the French franc in August 1969, followed by the revaluation of the mark two months later and the 1971 dollar crisis. The latter led almost at once to a general floating of the currencies of the Community, and as a result compensatory amounts had to be introduced to prevent disturbances in farm trade (for details, see Annex).

Drawbacks

The MCAs have proved to be a useful instrument in cushioning the short-term effects of exchange rate adjustments. However, given their structural impact, they are incompatible with the basic principles of the common agricultural market.

As a result of the introduction of the MCAs, price levels within the Community again came to differ markedly. This distortion between farm prices and other prices is a boon for farmers and imposes a burden on consumers in the countries with appreciating currencies, while the converse applies in the countries whose currencies are floating downwards. This drawback, which generates distortions in competition within the agricultural sector in the Community, is sharply accentuated by the fact that, since 1969, a number of currencies such as the lira and sterling have depreciated against the mark far more than is justified by the differences in inflation rates; by contrast, the exchange rates of the currencies of the Community countries participating in the snake (Benelux and Denmark) have remained more closely linked to the mark.

In the Federal Republic of Germany, the MCA system has tended to boost the trade surplus and inhibit the optimum allocation of resources within agriculture and as between agriculture and the other sectors of the economy. In the countries with downward floating currencies, the MCAs have tended to weaken the trade account while still hampering resource allocation. In both cases, the nature of farming as a business proposition in the different regions has been distorted.

[1] COM(76)600.

In addition to these economic effects, the MCA system also has a number of important budgetary implications, notably in respect of EAGGF spending to cover the amounts. Although still relatively limited in 1973 (140 million u.a.), this item of spending has grown rapidly since, amounting to about 150 million u.a. in 1974, more than 400 million u.a. in 1975 and around 600 million u.a. in 1976. Given the current monetary situation and the present arrangements for paying the MCA, net expenditure of around 1 000 million u.a. would need to be earmarked for this item in 1977. These figures do not include any other expenditure stemming from currency fluctuations. For instance, the application for the purpose of agricultural calculations (green rates) of rates different from those used for the budget is expected to cost some 500 million u.a. in 1977. As a result, expenditure in 1977 necessitated by the absence of a monetary union will account for around 25% of the EAGGF's total budget (i.e. 1 500 million u.a. out of around 6 000 million u.a.).

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Having regard both to the general interest of the Community and the efforts to achieve stabilization being made in the various Member States, the Commission proposes the introduction of a ceiling for the MCAs and a cut-off point to avoid unduly abrupt adjustments. In the Commission's view, the ceiling, the level of which has still to be fixed, is justified on the grounds that the MCAs create more distortions in competition the higher they are and the longer they are applied. Whenever the difference between the market rate and the green rate of a currency oversteps this ceiling, the green rate will be immediately adjusted. For the new Member States, a higher ceiling will be applied until 1 July 1978 in view of the repercussions of price alignment measures still to be implemented.

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A HISTORY OF MONETARY COMPENSATORY AMOUNTS

The agricultural unit of account

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In other words, when the common agricultural market was finally established and common guaranteed prices introduced in 1967, the Dutch farmer received a minimum price of Fl 362 for agricultural produce worth 100 u.a., the French farmer FF 493.70, the German farmer DM 400, etc. Quite clearly, revaluations and devaluations distort these relationships and any such distortion creates problems as regards the uniformity of agricultural prices and free intra-Community trade. Unfortunately this has been borne out all too often in practice.

Devaluation of the French franc

The year 1969 brought with it the first visible signs of the end of a period of monetary stability which had lasted since World War II. On 11 August of that year the French franc was devalued by approximately 11%. The equation 1 u.a. = FF 4.93706 was therefore no longer valid and became 1 u.a. = FF 5.55. As far as French farmers were concerned, this should have led to an 11% overninght increase in minimum guaranteed prices. For every 100 u.a. of agricultural produce they should therefore have received FF 555 instead of FF 493.70. A price increase of such magnitude would have resulted in an expansion in production, even where there was no rise in demand. In addition, some increase in consumer prices would have been inevitable and it would also have been extremely difficult to texplain to producers in the other Member States why they too should not enjoy the advantages which had been thrust upon their French competitors out of the blue. Accordingly, it was decided that the French minimum prices should be increased to the new level only gradually, i.e., over a two-year period. As a result, the above-mentioned difficulties were resolved or at least alleviated, but at the same time new problems were created. Clearly producers and traders were going to do all they could to take immediate advantage of the 11% price increase. All they had to do was to sell their agricultural products, e.g. grain, not in France but in another Community country, Germany say, since there was, after all, such a thing as free trade. To do so, they did not even need to look for customers, since the authorities were obliged to accept the products at a minimum price, chargeable to the EAGGF. According to the fixed rate, the West German authorities would pay DM 400 for grain worth 100 u.a. and this amount in German marks could immediately be exchanged at any bank for French francs calculated at the new rate, i.e. FF 555. They would thus have immediately benefited from the 11% rise despite measures to stagger the increase. Quite clearly, the European agricultural market would have been thrown into utter chaos if the Community had not taken immediate measures to deal

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with the situation. The intervention agencies in the other Member States would have been inundated with French agricultural products, while the French producers by and large, would have been able to undercut their Community competitors by virtue of the competitive advantage which any devaluation brings in its wake. In order to deal with this totally unacceptable situation, a levy was imposed on French agricultural exports and a subsidy granted in respect of French imports. In this way French producers lost the competitive advantage created by the devaluation of the franc, while at the same time producers in the other Member States were protected from what for them would have been the disadvantages of the French devaluation. Nevertheless, the reintroduction by the Member States of the levies and susidies (monetary compensatory amounts), obstacles which had just been removed in 1967, constituted a breach in the single market.

Revaluation of the German mark

Two months later the single market ideal was further undermined by the revaluation of the German mark (8.5%). This created a situation similar to that which occurred after the devaluation of the French franc. The equation 1 u.a. = DM 4.00 was no longer valid and became instead 1 u.a. = DM 3.66. In theory this would have had the immediate effect of reducing German minimum prices, for agricultural products to the value of 100 u.a. which were no longer worth DM 400, but a mere DM 366. On political grounds, such a reduction in income was clearly out of the question. It was therefore decided to maintain prices at the old level, but this created new problems. Just as the devaluation of the French franc had threatened to flood the other Member States with French agricultural products, there was now a risk that Germany would become the export target for the harvests of all the other countries. The reasons were twofold: in the first place, all the Community producers could undercut the German farmers who were obliged to charge for their products in revalued (and therefore more expensive) marks: in the second place, the German authorities were still offering DM 400 for every 100 u.a. of agricultural products, chargeable to the EAGGF. Reckoned in terms of the actual, higher rate for the German mark, this meant that the farmer made 8.5% more in the other currencies than would have been the case if he had sold his agricultural products to the authorities in his own country for the minimum price. Thus the problem was the opposite of that created as a result of the French devaluation. Export subsidies were therefore paid to German producers to offset the adverse effects of the revaluation of the mark while the advantages accruing to the other producers were creamed off by the imposition of import levies.

Monetary developments since 1971

Although these developments represented a setback as far as the common agricultural market was concerned, there was still no reason for giving up the ghost. By 1 January 1970 the rate of the German mark in terms of the unit of account had been aligned with the genuine rate, thus enabling the compensatory amounts between Germany and the other Community countries to be abolished. The loss of income suffered by German farmers was made good by direct payments from the German Treasury and the EAGGF. In the case of France, the compensatory amounts were due to be abolished in 1971, after completion of the phased alignment of prices in conformity with the new rate for the French franc.

No sooner had this operation been completed than real monetary pandemonium broke out. During the years that followed the 1971 dollar crisis, the German and Benelux currencies were all revalued: the mark by a total of 12.03 %, the guilder by 7.7 % and the Belgian/Luxembourg franc by 2.76 %. The national currencies of Italy, France, the United Kingdom and Ireland were floated, which amounted in practice to the devaluation of each of the currencies but by different percentages. Denmark alone succeeded in maintaining the rate of its currency. Just as had happened in France and Germany in 1969, no immediate attempt was made to adjust the relationships between the national currencies and the unit of account, so as a result each Member State was now cut off from its partners by a system of monetary compensatory amounts. Furthermore unlike 1969 no agreement was reached this time to abolish the system progressively or to replace it by direct payments to the farmers. Since then exports to countries with a revalued currency have been supported by subsidies, and imports have been held back by the imposition of levies, as in Germany in 1969. The Benelux countries are an exception in that they have no system of compensatory amounts in trade between themselves, notwithstanding the differences in the revaluation percentages of the guilder (7.76%) and the franc (2.76 %). In countries with devalued currencies the same system is applied in reverse (as in France in 1969), i.e., a levy is charged on exports and imports are subsidised. As these currencies are floating the compensatory amounts must be regularly adjusted in line with the changing rates of depreciation. Denmark, which has neither revalued nor devalued, does not fit into either category.

Is there a way back?

It goes without saying that the Commission, in its capacity as guardian of the spirit and letter of the Treaty of Rome, could not allow the common agricultural market to remain dislocated for long by the system of compensatory amounts. While these amounts may have performed a necessary corrective function in preventing intra-Community trade turmoil, or avoiding a situation where some farmers received too much and others too little, nevertheless the single-market ideal with its freedom from frontier restrictions was seriously compromised, not to mention the administrative fuss and bother created by the system. But this was not all. It became apparent in practice that, with the passage of time, the compensatory amounts no longer performed an exclusively corrective function: they were, in fact, becoming out-and-out subsidies and charges, incompatible with the principle of a common market. The Commission found, for instance, that the loss in income which farmers in the countries with revalued currencies would have sustained if revaluations had been immediately reflected in minimum guaranteed prices, were in reality recouped, at least in part, even without the compensatory amounts. After all, farmers in Germany and the Benelux countries could now use their revalued currencies to purchase raw materials abroad (energy, machinery, fertilizers) at a cheaper rate than in the past. Farmers in the other countries, by contrast, were obliged to pay out ever increasing amounts in their devalued currencies for the same imports. Furthermore, inflation did not appear to have taken as firm a grip in the countries with revalued currencies as in those countries with devalued currencies. The effects of these two factors became clear when the Commission calculated the overall percentage increase in production costs for the years 1973 and 1974: approximately 22% in countries with revalued currencies and 40-60% in countries with devalued currencies. The monetary compensatory amounts made no allowance for this automatic cancelling-out of the advantages of devaluation and the disadvantages of revaluation. Since no attempt was made to reduce these amounts, they became, in fact, a form of over-compensation.

For the reasons mentioned above the Commission was prompted, on various occasions, to propose an adjustment (albeit partial) of the relationships between the national currencies and the unit of account. A degree of success was achieved in the case of the devalued currencies, especially as Ireland and Italy, of their own accord, requested that such measures be taken in order to boost the incomes of their farmers and reduce the levies charged on their agricultural exports. The countries with revalued currencies were more reluctant. Although in 1973 the Netherlands passed on directly in guaranteed prices a 5 % revaluation, the other Benelux countries and Germany in particular were strongly opposed to any adjustment of the

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relationships between national currencies and the unit of account and the reduction in monetary compensatory amounts this would entail. From a political point of view, this is of course understandable, for the adjustment of the revalued currencies would result in a reduction in guaranteed agricultural incomes and a cut in import charges, i.e. in the protection against foreign competitors.

A step in the right direction

After some initial hesitation, the Member States whose currencies had appreciated also agreed in the end to adjust the relationships between national currencies and the unit of account. In March 1975 and 1976 more realistic rates were adopted during negotiations on guaranteed agricultural prices for converting the currencies of the Benelux countries and Germany into agricultural units of account. These decisions marked an important step towards the removal of compensatory amounts and hence towards the re-establishment of a single agricultural market. The decisive argument in favour of these moves was that failure to make such adjustments would not only intensify the abovementioned difficulties caused by the system of compensatory amounts but that, in addition producers in the countries with revalued currencies would receive higher price increases than their competitors in countries with devalued currencies. This can be illustrated by the following example. For one hunderd u.a. of agricultural products the German producer received DM 366,on the basis of the equation 1 u.a. = DM 3.66. On the basis of the equation 1 u.a. = FF 5.55 the French producer receives FF. 555. If we now carry out a further calculation, to determine how many German marks the French farmer can obtain for his FF 555, in terms of the actual rate of exchange between the two currencies, we arrive at a figure of DM 305 (at the time of this example the rate of exchange was approximately FF 1 = DM 0.55). The French farmer is trailing behind his German competitor to the tune of DM 61 (DM 366 - DM 305). In the event of an average price increase (expressed in u.a.) of 10 %, the value of the agricultural products in our example would rise from 100 to 110 u.a. Assuming the relationships between the unit of account, the German mark, and the French franc remain the same, the German farmer would now receive DM 403 (110 x 3.66) and the French farmer FF 611 (110 x 5.55). If we now recalculate this last amount on the basis of the actual rate of exchange between the French franc and the German mark, we arrive at a figure of DM 336. This demonstrates how German farmers would have increased their lead over the French: before the price increase the difference was still DM 61, afterwards it rose to DM 67 (403 - 336).

The decisions taken by the Ministers of Agriculture to adjust the conversion rates for national currencies and the unit of account to monetary realities have moderated the divergent tendencies which separate the Member States and have thus brought them closer together again. The practical effect of this has been a reduction in compensatory amounts.

Worsening of the problem: fall of the lira and sterling

Clearly these decisions taken by the Ministers of Agriculture could have lasting positive effects only if the foreign exchange markets settled down. In practice things turned out differently: monetary instability persisted, particularly with regard to the lira and sterling which have depreciated sharply since 1974. Despite various adjustments to the rates for converting these currencies into units of account (see Annex), the gap has widened continuously so that increasingly higher compensatory amounts have had to be fixed. This has meant a further drawback: compensatory amounts have put a growing strain on the budget of the EAGGF. Italy and the United Kingdom are both net importers of agricultural products. Compensatory amounts in these two countries act as import subsidies so that any further depreciation of the lira and sterling means an increase in the burden on the EAGGF budget. In the 1975 budget (some 5,000 million u.a.), about 10 % (500 million u.a.) was earmarked for compensatory amounts even though this expenditure was not the result of agricultural problems but of monetary instability. The persistent weakening of sterling in particular may well push this percentage much higher. In the present monetary situation, net expenditure of the order of 1 000 million u.a. will have to be earmarked for the MCAs in 1977.

EVOLUTION DES TAUX DE CONVERSION UNITES DE COMPTE AGRICOLES/MONNAIES NATIONALES DEPUIS 1962

1. FB/FL	01.11.1962	100 UC = 5000 FB	100 FB = 2 UC
	03.03.1975	100 UC = 4964 FB	100 FB = 2,0145 UC
	15.03.1976	100 UC = 4934,86 FB	100 FB = 2,0264 UC
2. HFl	01.11.1962	100 UC = 362 HFl	100 HFl = 27,6243 UC
	17.09.1973	100 UC = 344,353 HFl	100 HFl = 29,04 UC
	03.03.1975	100 UC = 341,874 HFl	100 HFl = 29,2505 UC
	15.03.1976	100 UC = 340,27 HFl	100 HFl = 29,3884 UC
3. DM	01.11.1962	100 UC = 400 DM	100 DM = 25 UC
	26.10.1969	100 UC = 366 DM	100 DM = 27,3224 UC
	03.03.1975	100 UC = 357,873 DM	100 DM = 27,9429 UC
	15.03.1976	100 UC = 348,034 DM	100 DM = 28,7287 UC
4. FF	01.11.1962	100 UC = 493,706 FF	100 FF = 20,255 UC
	10.08.1969	100 UC = 555,419 FF	100 FF = 18,0044 UC
	03.03.1975	100 UC = 563,317 FF	100 FF = 17,7520 UC
	15.03.1976	100 UC = 555,419 FF	100 FF = 18,0044 UC
	25.03.1976	100 UC = 563,317 FF	100 FF = 17,7520 UC

5. Lire Ital.	: 01.11.1962 : 100 UC = 62.500 Lit	; 100 Lit = 0,16 UC	
	01.11.1973 : 100 UC = 65.000 Lit	; 100 Lit = 0,153846 UC	
	01.01.1974 : 100 UC = 67.800 Lit	; 100 Lit = 0,147493 UC	
	28.01.1974 : 100 UC = 71.200 Lit	; 100 Lit = 0,140449 UC	
	22.07.1974 : 100 UC = 80.100 Lit	; 100 Lit = 0,124844 UC	
	28.10.1974 : 100 UC = 83.300 Lit	; 100 Lit = 0,120048 UC	
	03.03.1975 : 100 UC = 85.700 Lit	; 100 Lit = 0,116686 UC	
	15.03.1976 : 100 UC = 90.500 Lit	; 100 Lit = 0,110497 UC	
	02.05.1976 : 100 UC = 96.300 Lit	; 100 Lit = 0,103842 UC	

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6. DKr : Depuis l'entrée du Danemark dans la Communauté: situation inchangée
: 100 UC = 757,828 DKr ; 100 DKr = 13,1956 UC

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7. £ Irl.	: Entrée de l'Irlande dans la Communauté : 1.2.1973	
	01.02.1973 : 100 UC = 46,2023 £	; 100 £ = 216,44 UC
	07.10.1974 : 100 UC = 51,3215 £	; 100 £ = 194,85 UC
	03.03.1975 : 100 UC = 53,7198 £	; 100 £ = 186,151 UC
	04.08.1975 : 100 UC = 56,5473 £	; 100 £ = 176,843 UC
	27.10.1975 : 100 UC = 57,8322 £	; 100 £ = 172,914 UC
	15.03.1976 : 100 UC = 58,9438 £	; 100 £ = 169,653 UC

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8. £ Angl.	: Entrée du Royaume-Uni dans la Communauté : 1.2.1973	
	01.02.1973 : 100 UC = 46,2023 £	; 100 £ = 216,44 UC
	07.10.1974 : 100 UC = 49,8679 £	; 100 £ = 200,53 UC
	03.03.1975 : 100 UC = 50,9741 £	; 100 £ = 196,170 UC
	04.08.1975 : 100 UC = 53,6570 £	; 100 £ = 186,369 UC
	27.10.1975 : 100 UC = 56,9606 £	; 100 £ = 175,56 UC

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In other words, when the common agricultural market was finally established and common guaranteed prices introduced in 1967, the Dutch farmer received a minimum price of Fl 362 for agricultural produce worth 100 u.a., the French farmer FF 493.70, the German farmer DM 400, etc. Quite clearly, revaluations and devaluations distort these relationships and any such distortion creates problems as regards the uniformity of agricultural prices and free intra-Community trade. Unfortunately this has been borne out all too often in practice.

Devaluation of the French franc

The year 1969 brought with it the first visible signs of the end of a period of monetary stability which had lasted since World War II. On 11 August of that year the French franc was devalued by approximately 11%. The equation 1 u.a. = FF 4.93706 was therefore no longer valid and became 1 u.a. = FF 5.55. As far as French farmers were concerned, this should have led to an 11% overninght increase in minimum guaranteed prices. For every 100 u.a. of agricultural produce they should therefore have received FF 555 instead of FF 493.70. A price increase of such magnitude would have resulted in an expansion in production, even where there was no rise in demand. In addition, some increase in consumer prices would have been inevitable and it would also have been extremely difficult to texplain to producers in the other Member States why they too should not enjoy the advantages which had been thrust upon their French competitors out of the blue. Accordingly, it was decided that the French minimum prices should be increased to the new level only gradually, i.e., over a two-year period. As a result, the above-mentioned difficulties were resolved or at least alleviated, but at the same time new problems were created. Clearly producers and traders were going to do all they could to take immediate advantage of the 11% price increase. All they had to do was to sell their agricultural products, e.g. grain, not in France but in another Community country, Germany say, since there was, after all, such a thing as free trade. To do so, they did not even need to look for customers, since the authorities were obliged to accept the products at a minimum price, chargeable to the EAGGF. According to the fixed rate, the West German authorities would pay DM 400 for grain worth 100 u.a. and this amount in German marks could immediately be exchanged at any bank for French francs calculated at the new rate, i.e. FF 555. They would thus have immediately benefited from the 11% rise despite measures to stagger the increase. Quite clearly, the European agricultural market would have been thrown into utter chaos if the Community had not taken immediate measures to deal with the situation. The intervention agencies in the other Member States would have been inundated with French agricultural products, while the French producers by and large, would have been able to undercut their Community competitors by virtue of the competitive advantage which any devaluation brings in its wake. In order to deal with this totally unacceptable situation, a levy was imposed on French agricultural exports and a subsidy granted in respect of French imports. In this way French producers lost the competitive advantage created by the devaluation of the franc, while at the same time producers in the other Member States were protected from what for them would have been the disadvantages of the French devaluation. Nevertheless, the reintroduction by the Member States of the levies and susidies (monetary compensatory amounts), obstacles which had just been removed in 1967, constituted a breach in the single market.

Revaluation of the German mark

Two months later the single market ideal was further undermined by the revaluation of the German mark (8.5%). This created a situation similar to that which occurred after the devaluation of the French franc. The equation 1 u.a. = DM 4.00 was no longer valid and became instead 1 u.a. = DM 3.66. In theory this would have had the immediate effect of reducing German minimum prices, for agricultural products to the value of 100 u.a. which were no longer worth DM 400, but a mere DM 366. On political grounds, such a reduction in income was clearly out of the question. It was therefore decided to maintain prices at the old level, but this created new problems. Just as the devaluation of the French franc had threatened to flood the other Member States with French agricultural products, there was now a risk that Germany would become the export target for the harvests of all the other countries. The reasons were twofold: in the first place, all the Community producers could undercut the German farmers who were obliged to charge for their products in revalued (and therefore more expensive) marks: in the second place, the German authorities were still offering DM 400 for every 100 u.a. of agricultural products, chargeable to the EAGGF. Reckoned in terms of the actual, higher rate for the German mark, this meant that the farmer made 8.5% more in the other currencies than would have been the case if he had sold his agricultural products to the authorities in his own country for the minimum price. Thus the problem was the opposite of that created as a result of the French devaluation. Export subsidies were therefore paid to German producers to offset the adverse effects of the revaluation of the mark while the advantages accruing to the other producers were creamed off by the imposition of import levies.

Monetary developments since 1971

Although these developments represented a setback as far as the common agricultural market was concerned, there was still no reason for giving up the ghost. By 1 January 1970 the rate of the German mark in terms of the unit of account had been aligned with the genuine rate, thus enabling the compensatory amounts between Germany and the other Community countries to be abolished. The loss of income suffered by German farmers was made good by direct payments from the German Treasury and the EAGGF. In the case of France, the compensatory amounts were due to be abolished in 1971, after completion of the phased alignment of prices in conformity with the new rate for the French franc.

No sooner had this operation been completed than real monetary pandemonium broke out. During the years that followed the 1971 dollar crisis, the German and Benelux currencies were all revalued: the mark by a total of 12.03 %, the guilder by 7.7 % and the Belgian/Luxembourg franc by 2.76 %. The national currencies of Italy, France, the United Kingdom and Ireland were floated, which amounted in practice to the devaluation of each of the currencies but by different percentages. Denmark alone succeeded in maintaining the rate of its currency. Just as had happened in France and Germany in 1969, no immediate attempt was made to adjust the relationships between the national currencies and the unit of account, so as a result each Member State was now cut off from its partners by a system of monetary compensatory amounts. Furthermore unlike 1969 no agreement was reached this time to abolish the system progressively or to replace it by direct payments to the farmers. Since then exports to countries with a revalued currency have been supported by subsidies, and imports have been held back by the imposition of levies, as in Germany in 1969. The Benelux countries are an exception in that they have no system of compensatory amounts in trade between themselves, notwithstanding the differences in the revaluation percentages of the guilder (7.76%) and the franc (2.76 %). In countries with devalued currencies the same system is applied in reverse (as in France in 1969), i.e., a levy is charged on exports and imports are subsidised. As these currencies are floating the compensatory amounts must be regularly adjusted in line with the changing rates of depreciation. Denmark, which has neither revalued nor devalued, does not fit into either category.

Is there a way back?

It goes without saying that the Commission, in its capacity as guardian of the spirit and letter of the Treaty of Rome, could not allow the common agricultural market to remain dislocated for long by the system of compensatory amounts. While these amounts may have performed a necessary corrective function in preventing intra-Community trade turmoil, or avoiding a situation where some farmers received too much and others too little, nevertheless the single-market ideal with its freedom from frontier restrictions was seriously compromised, not to mention the administrative fuss and bother created by the system. But this was not all. It became apparent in practice that, with the passage of time, the compensatory amounts no longer performed an exclusively corrective function: they were, in fact, becoming out-and-out subsidies and charges, incompatible with the principle of a common market. The Commission found, for instance, that the loss in income which farmers in the countries with revalued currencies would have sustained if revaluations had been immediately reflected in minimum guaranteed prices, were in reality recouped, at least in part, even without the compensatory amounts. After all, farmers in Germany and the Benelux countries could now use their revalued currencies to purchase raw materials abroad (energy, machinery, fertilizers) at a cheaper rate than in the past. Farmers in the other countries, by contrast, were obliged to pay out ever increasing amounts in their devalued currencies for the same imports. Furthermore, inflation did not appear to have taken as firm a grip in the countries with revalued currencies as in those countries with devalued currencies. The effects of these two factors became clear when the Commission calculated the overall percentage increase in production costs for the years 1973 and 1974: approximately 22% in countries with revalued currencies and 40-60% in countries with devalued currencies. The monetary compensatory amounts made no allowance for this automatic cancelling-out of the advantages of devaluation and the disadvantages of revaluation. Since no attempt was made to reduce these amounts, they became, in fact, a form of over-compensation.

For the reasons mentioned above the Commission was prompted, on various occasions, to propose an adjustment (albeit partial) of the relationships between the national currencies and the unit of account. A degree of success was achieved in the case of the devalued currencies, especially as Ireland and Italy, of their own accord, requested that such measures be taken in order to boost the incomes of their farmers and reduce the levies charged on their agricultural exports. The countries with revalued currencies were more reluctant. Although in 1973 the Netherlands passed on directly in guaranteed prices a 5 % revaluation, the other Benelux countries and Germany in particular were strongly opposed to any adjustment of the relationships between national currencies and the unit of account and the reduction in monetary compensatory amounts this would entail. From a political point of view, this is of course understandable, for the adjustment of the revalued currencies would result in a reduction in guaranteed agricultural incomes and a cut in import charges, i.e. in the protection against foreign competitors.

A step in the right direction

After some initial hesitation, the Member States whose currencies had appreciated also agreed in the end to adjust the relationships between national currencies and the unit of account. In March 1975 and 1976 more realistic rates were adopted during negotiations on guaranteed agricultural prices for converting the currencies of the Benelux countries and Germany into agricultural units of account. These decisions marked an important step towards the removal of compensatory amounts and hence towards the re-establishment of a single agricultural market. The decisive argument in favour of these moves was that failure to make such adjustments would not only intensify the abovementioned difficulties caused by the system of compensatory amounts but that, in addition producers in the countries with revalued currencies would receive higher price increases than their competitors in countries with devalued currencies. This can be illustrated by the following example. For one hunderd u.a. of agricultural products the German producer received DM 366,on the basis of the equation 1 u.a. = DM 3.66. On the basis of the equation 1 u.a. = FF 5.55 the French producer receives FF. 555. If we now carry out a further calculation, to determine how many German marks the French farmer can obtain for his FF 555, in terms of the actual rate of exchange between the two currencies, we arrive at a figure of DM 305 (at the time of this example the rate of exchange was approximately FF 1 = DM 0.55). The French farmer is trailing behind his German competitor to the tune of DM 61 (DM 366 - DM 305). In the event of an average price increase (expressed in u.a.) of 10 %, the value of the agricultural products in our example would rise from 100 to 110 u.a. Assuming the relationships between the unit of account, the German mark, and the French franc remain the same, the German farmer would now receive DM 403 (110 x 3.66) and the French farmer FF 611 (110 x 5.55). If we now recalculate this last amount on the basis of the actual rate of exchange between the French franc and the German mark, we arrive at a figure of DM 336. This demonstrates how German farmers would have increased their lead over the French: before the price increase the difference was still DM 61, afterwards it rose to DM 67 (403 - 336).

The decisions taken by the Ministers of Agriculture to adjust the conversion rates for national currencies and the unit of account to monetary realities have moderated the divergent tendencies which separate the Member States and have thus brought them closer together again. The practical effect of this has been a reduction in compensatory amounts.

Worsening of the problem: fall of the lira and sterling

Clearly these decisions taken by the Ministers of Agriculture could have lasting positive effects only if the foreign exchange markets settled down. In practice things turned out differently: monetary instability persisted, particularly with regard to the lira and sterling which have depreciated sharply since 1974. Despite various adjustments to the rates for converting these currencies into units of account (see Annex), the gap has widened continuously so that increasingly higher compensatory amounts have had to be fixed. This has meant a further drawback: compensatory amounts have put a growing strain on the budget of the EAGGF. Italy and the United Kingdom are both net importers of agricultural products. Compensatory amounts in these two countries act as import subsidies so that any further depreciation of the lira and sterling means an increase in the burden on the EAGGF budget. In the 1975 budget (some 5,000 million u.a.), about 10 % (500 million u.a.) was earmarked for compensatory amounts even though this expenditure was not the result of agricultural problems but of monetary instability. The persistent weakening of sterling in particular may well push this percentage much higher. In the present monetary situation, net expenditure of the order of 1 000 million u.a. will have to be earmarked for the MCAs in 1977.

EVOLUTION DES TAUX DE CONVERSION UNITES DE COMPTE AGRICOLES/MONNAIES NATIONALES DEPUIS 1962

1. FB/FL	01.11.1962	100 UC = 5000 FB	; 100 FB = 2 UC
	03.03.1975	100 UC = 4964 FB	; 100 FB = 2,0145 UC
	15.03.1976	100 UC = 4934,86 FB	; 100 FB = 2,0264 UC
2. HFl	01.11.1962	100 UC = 362 HFl	; 100 HFl= 27,6243 UC
	17.09.1973	100 UC = 344,353 HFl	; 100 HFl= 29,04 UC
	03.03.1975	100 UC = 341,874 HFl	; 100 HFl= 29,2505 UC
	15.03.1976	100 UC = 340,27 HFl	; 100 HFl= 29,3884 UC
3. DM	01.11.1962	100 UC = 400 DM	; 100 DM = 25 UC
	26.10.1969	100 UC = 366 DM	; 100 DM = 27,3224 UC
	03.03.1975	100 UC = 357,873 DM	; 100 DM = 27,9429 UC
	15.03.1976	100 UC = 348,084 DM	; 100 DM = 28,7287 UC
4. FF	01.11.1962	100 UC = 493,706 FF	; 100 FF = 20,255 UC
	10.08.1969	100 UC = 555,419 FF	; 100 FF = 18,0044 UC
	03.03.1975	100 UC = 563,317 FF	; 100 FF = 17,7520 UC
	15.03.1976	100 UC = 555,419 FF	; 100 FF = 18,0044 UC
	25.03.1976	100 UC = 563,317 FF	; 100 FF = 17,7520 UC

5. Lire Ital. : 01.11.1962 : 100 UC = 62.500 Lit ; 100 Lit = 0,16 UC
01.11.1973 : 100 UC = 65.000 Lit ; 100 Lit = 0,153846 UC
01.01.1974 : 100 UC = 67.800 Lit ; 100 Lit = 0,147493 UC
20.01.1974 : 100 UC = 71.200 Lit ; 100 Lit = 0,140449 UC
22.07.1974 : 100 UC = 80.100 Lit ; 100 Lit = 0,124844 UC
28.10.1974 : 100 UC = 83.300 Lit ; 100 Lit = 0,120048 UC
03.03.1975 : 100 UC = 85.700 Lit ; 100 Lit = 0,116686 UC
15.03.1976 : 100 UC = 90.500 Lit ; 100 Lit = 0,110497 UC
02.05.1976 : 100 UC = 96.300 Lit ; 100 Lit = 0,103842 UC

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6. DKr : Depuis l'entrée du Danemark dans la Communauté: situation inchangée
: 100 UC = 757,828 DKr ; 100 DKr = 13,1956 UC

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7. £ Irl. : Entrée de l'Irlande dans la Communauté : 1.2.1973
01.02.1973 : 100 UC = 46,2023 £ ; 100 £ = 216,44 UC
07.10.1974 : 100 UC = 51,3215 £ ; 100 £ = 194,85 UC
03.03.1975 : 100 UC = 53,7198 £ ; 100 £ = 186,151 UC
04.08.1975 : 100 UC = 56,5473 £ ; 100 £ = 176,843 UC
27.10.1975 : 100 UC = 57,8322 £ ; 100 £ = 172,914 UC
15.03.1976 : 100 UC = 58,9438 £ ; 100 £ = 169,653 UC

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8. £ Angl. : Entrée du Royaume-Uni dans la Communauté : 1.2.1973
01.02.1973 : 100 UC = 46,2023 £ ; 100 £ = 216,44 UC
07.10.1974 : 100 UC = 49,8679 £ ; 100 £ = 200,53 UC
03.03.1975 : 100 UC = 50,9741 £ ; 100 £ = 196,178 UC
04.08.1975 : 100 UC = 53,6570 £ ; 100 £ = 186,369 UC
27.10.1975 : 100 UC = 56,9606 £ ; 100 £ = 175,56 UC