European Communities
Commission
Background Note

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AGRICULTURAL TRADE AND REFERENCE RATES

The agricultural unit of account

There are several different definitions of the unit of account. For fixing EEC farm prices and so determining the basic framework of price support for the common agricultural policy, a unit of account is used which relates to gold and which is converted into national currencies at a parity rate where such exists or at an agreed reference rate. The current reference rates (the green £ for instance) are as follows:

*Belgium/Luxembourg	: B/Lux Fr 1	=	0.020264	ua
Denmark	: Dkr 1	=	0.131956	ua
*Germany	: DM 1	=	0.287287	ua
France	: F Fr 1	=	0.17752	ua
*Ireland	: £1 Irish	=	1.69653	ua
*Italy	: Lit 100	=	0.110497	ua
*Netherlands	: Fl 1	=	0.293884	ua
United Kingdom	: £1 Sterling	=	1.75560	ua

*These new rates will apply from August 1, 1976 for eggs and poultry, December 16 for wine, January 1, 1977 for fish and the beginning of the marketing year for other products.

How reference rates work

Reference rates are fixed but artificial exchange rates, a necessary device for providing a stable framework of prices in each member state at a time when many currencies are floating and may change in value from day to day. Over time, the reference rates for the Community currencies will reflect trends in actual currency value, but there are no fixed times when reference rates are automatically adjusted. This is a matter for negotiation in the Council of Ministers.

It is the reference rate which determines the level of agricultural support and thus the general level of wholesale food prices in member states. For instance, the normal effect of the fall in the value of the £ on commercial exchanges would be to increase food prices in Britain, because imports would become more expensive and prices to farmers would increase.

Thanks to the reference rate, foodstuffs can be put on the market more cheaply; not only are farmers' support prices calculated at a rate which

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is less advantageous to them than the commercial rate would be, but importers receive a subsidy in the form of a monetary compensatory amount (m.c.a.). This enables them to market their produce in Britain as if they had bought it when the currency was stronger. For a currency which has risen in value, the monetary compensation system would work in the farmer's interest, protecting him - at least temporarily - from falling prices.

Last year the m.c.a. import subsidies, which are paid by the Community budget, were worth £190m to the United Kingdom. They are currently running at the rate of about £15m monthly as subsidies on imports. They are applied to imports from outside as well as inside the Community.

Effects of recent changes

The Council had hoped that it could bring reference rates closer to commercial exchange rates at this year's price fixing, but this ambition was thwarted by the currency crisis of early March. Certain changes were agreed, however: the reference rate for Germany was raised 2.5 points and for Benelux by 0.6 points, cutting the m.c.a. subsidies on their farm exports; the Italian rate was lowered by six points, making Italy's farm exports more competitive, and the Irish £ rate was cut by two points, widening the gap once more between support prices in Ireland and in the UK.

The £ sterling reference rate was unchanged, so the recent drop in the value of the £ has increased the m.c.a. import subsidies for Britain to 12.4 per cent. Wheat, which is still subject to an old reference rate, attracts a 19.4 per cent import m.c.a.

The Council has annulled the changes which it had agreed for the French reference rate, and a 2.6 per cent m.c.a. export tax will apply to French producers. German exporters, on the other hand, get a 10 per cent export subsidy on cereals, eggs, poultry, sugar and wine and 7½ per cent on milk products, beef, pigmeat and processed products.

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