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AMOUNTS

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COMPENSATORY MONETARY AMOUNTS

The Monetary Crisis
and Common Agricultural Policy

I. THE AGRICULTURAL UNIT OF ACCOUNT

The implementation of the Common Agricultural Policy entails the fixing of common prices and the joint financing of expenditure on market support and structural improvement. It therefore requires a common denominator for the currencies concerned from the beginning (the German mark, the Belgian and the Luxembourg franc, the Dutch florin or guilder, the Italian lira and the French franc). As a result of the enlargement of the Community, there is now also the pound sterling (Ireland and the United Kingdom) and the Danish kroner. Had there been no agricultural unit of account, it would have been necessary to express the obligations of Member States in terms of each of the currencies concerned, and as the fixing of exchange rates still falls within the competence of the national authorities, it would only have needed a single government to change the value of its currency for the common agricultural market to be unable to function.

In 1962 the "unit of account" (u.a.) was selected as the common denominator. It is defined as 0.88867088 grams of fine gold, which corresponded to the gold parity of the dollar declared to the International Monetary Fund in 1934 and still unchanged at that time¹. There was little alternative to the adoption of this yardstick as each of the European currencies concerned had a declared parity in relation to gold and to the dollar, while the great majority of contracts concluded in international trade were denominated in dollars.

¹ 1 troy ounce = \$ US 35, a troy ounce weighing 31.10348 g.

It was therefore possible to switch from the expression of a right, an obligation or a price in units of account to the corresponding amount to be paid by each Member State by applying a simple rule of three; for example, the target price for wheat was calculated as follows:

- value of unit of account 0.88867088 g of fine gold,
- value of French franc 0.180 g of gold,
- value of German mark 0.22217 g of gold,
- common target price for common wheat: 106.25 u.a./tonne (1967/68 marketing year),
- target price in French francs:

$$\frac{0.88867088 \times 106.25}{0.180} = 525 \text{ F/tonne}$$

- target price in German marks:

$$\frac{0.88867088 \times 106.25}{0.22217} = 425 \text{ DM/tonne}$$

and so on.

Initially, that is until 1969, as there was no threat of sharp changes in the parities of European currencies, the first Community Regulation (No 129 of 1962) was applicable. It simply provided that in the case of devaluation or revaluation an automatic adjustment would be made to the rights, obligations or prices of the Member State concerned. For example, if a currency were devalued by 10%, the amounts expressed in national currency to be paid to the joint institution would be increased by 10%.

II. The agricultural unit of account in the Bretton Woods monetary system

Under the Bretton Woods monetary system¹ the currency of each state was declared in gold and in \$/US (parity) to the International Monetary Fund, and the Central Banks undertook to act in such a way that the spread at any given moment for spot-rate transactions remained within 1% of parity. That percentage was known as the margin of fluctuation.

To that end States guaranteed their currencies by depositing a stock of gold; if the need arose, the International Monetary Fund automatically granted credits, also known as "drawing rights" up to a maximum of the value of gold deposited (this was known as the "gold tranche" of the "drawing rights"). Then, as States had recourse to IMF credits (or "credit tranches") the latter made increasingly pressing use of its right to examine the economic policy of the States concerned.

If, despite the credit possibilities offered by the IMF, a State was no longer in a position to keep within the 1% margin of fluctuation around its monetary parity, it devalued (that is, it declared to the IMF a lower exchange rate for its currency with respect to gold) or it revalued (that is, increased the weight in gold defining the parity to the IMF). France and Germany did this in 1969. However, faced with imminent parity changes, the Council of the European Communities supplemented on 30 May 1968 the provisions adopted in October 1962 relating to the unit of account.

¹ Bretton Woods Agreements: International Monetary and Financial Conference held at Bretton Woods (United States) from 1 to 22 July 1944, which resulted in the agreement marking the general acceptance of the monetary system known as the "Gold Exchange Standard".

The Bretton Woods Agreements established the monetary system by means of the following measures:

- introduction of rules relating to a system of fixed parities and the convertibility of currencies,
- making available to States of resources in the form of foreign currencies and credits, and
- creation of the International Monetary Fund, the authority for the coordination, control and management of the system.

(a) The principle of adjustment of the unit of account

In fact, the 1962 provisions (Regulation No 129) did not provide for any change in the gold value of the unit of account, so that the fixing of common agricultural prices in units of account might have appeared like granting a gold guarantee to the agricultural sector. In order to remove any ambiguity in this respect, the Council of the European Communities laid down in Regulation 653/68 of 30 May 1968 the conditions for the adjustment of the unit of account in the case of changes in the monetary parities of the Member States.

Three hypotheses are envisaged:

- When all Member States change the parities of their currencies simultaneously in the same direction and proportion, the unit of account is automatically changed by a percentage equal to and in the same direction as the parity change introduced by the Member States.

In such a case the relative levels of agricultural prices, industrial prices and costs remain unchanged in monetary terms. For example, a devaluation by 10% of all the currencies of the European Economic Community would automatically entail a 10% devaluation of the unit of account. The same would apply in the case of a revaluation (or increase in the price) of gold.

- The second hypothesis relates to a change in the same direction, but by different percentages, of the parities of the currencies of Member States.

In this case the value of the unit of account automatically changes in the same direction as the monetary parities, but to an extent equal to the smallest parity change.

- In any other circumstances, that is to say a change in the parity of the currency of a single Member State or parity changes in different directions and by different percentages, etc., the Council of Ministers is to decide unanimously, acting on a proposal from the Commission and after consulting the Monetary Committee, whether or not the value of the unit of account should be altered and, if so, by what amount. It is in fact only this third case which has arisen so far.

It should be mentioned that decisions of this nature should be taken within three days of the announcement by Member States of parity changes of which they have given notice. In the intervening period the notation for the unit of account is suspended.

Member States affected by parity changes may take transitional measures in order to mitigate temporarily the consequences of automatic readjustments, provided that the measures taken do not impair the free movement of agricultural products, the functioning of the system of common prices, obligations arising from the Treaty of Rome or measures implementing the latter. Obviously this is a reference to action to cushion the rise of farm prices expressed in national currency in the case of a devaluation of that currency, or the fall in agricultural prices in the case of a revaluation.

Hence the unit of account, which has strengthened its rôle as a common denominator for the currencies of the EEC, also plays a prominent part in strengthening the solidarity of the European currencies and exercises a braking effect on individual parity changes.

It is against this background that the devaluation of the French franc and the revaluation of the German mark were carried out in 1969.

(b) Devaluation of the French franc on 8 August 1969 and appearance of the first fixed "monetary compensatory amounts"¹

(see Fig. 1)

The gold parity of the franc was reduced from 0.180 to 0.160 g of fine gold on 8 August 1969. The value of the unit of account in terms of gold remained unchanged; its value in terms of francs therefore changed from F 4.93706 to F 5.55419.

¹Confusion should be avoided between "monetary" compensatory amounts, which are designed to eliminate the effect of exchange-rate fluctuations, and "accession" compensatory amounts, which during the transition period following the enlargement of the EEC bridge the gap between the agricultural prices of the new Member States and the Community prices (see Issue No 4).

This devaluation of 11.11% of the French franc in relation to its former gold parity meant that the prices of agricultural products under the European rules, expressed in French francs, should have been increased by 11.11%; for example, the target price for common wheat, which was 10.625 u.a./quintal at that time, should have been increased from $10.625 \times 4.93706 = 52.45$ F/quintal to $10.625 \times 5.55419 = 59.01$ F/quintal.

As Mr P. Baudin¹ pointed out, "such a sharp rise would not have been desirable either internally, where it would have aggravated the inflationary trends which had given rise to the devaluations and would have put the farmers concerned in a more privileged position than other social and professional categories, or in the European context, where it would have provoked over-production of certain agricultural products.

Nevertheless, to keep French prices at their old level would have give French producers an exchange-rate advantage and distorted competition in trade inside and outside the Community."

The Council of the European Communities therefore granted France authorization not to align its agricultural prices immediately with the common prices; France undertook to align them not later than at the beginning of the 1971-1972 marketing year. Monetary compensatory amounts bridged the gap between French prices and the common prices in intra-Community and extra-Community trade in agricultural products. They had the effect of a tax making French exports more expensive, or, conversely, of a payment by the French State to importers to lower the purchase price of goods imported into France. They were fixed, because the gap between the French intervention prices and the Community price was also fixed.

On the other hand, as regards France's financial obligations with respect to the various European funds (European Agricultural Guidance and Guarantee Fund (EAGGF), European Social Fund, etc.), the adjustment of the parity of the franc in relation to the unit of account took immediate effect, which increased France's obligations to her partners by 11.11%.

¹ Revue du Marché Commun, November 1969.

France did then align its prices in a certain number of sectors with the common prices before the start of the 1971/1972 marketing year. For example, there was an immediate adjustment to the new exchange-rate for fruit and vegetables, powdered milk and the denaturing premium for powdered milk and, lastly, for wine and vine products. From 11 August 1969 onwards there was a partial adjustment in the price for beef and veal (4.25% increase in the intervention price) bringing it nearer to the common price; the French-franc prices remained unchanged only in the following sectors: cereals, oil seeds, poultry and eggs, pigmeat, sugar and butter. For milk products other than butter and powdered milk the compensatory amounts (subsidies on imports into France or taxes on exports at the French border) were calculated on the basis of the fat content of the individual products.

Of course, agricultural products not subject to regulations on the fixing of common prices all followed the devaluation (drinking milk, for example), and were not therefore subject to monetary compensatory amounts.

France took the first step towards alignment with the common prices on 1 August 1970, completing the adjustment to the Community level on 1 August 1971.

(c) Second application: revaluation of the German mark on 24 October 1969
(see Fig. 1)

After three weeks of floating, during which the Federal German Bank discontinued its intervention on the exchange market while maintaining the official parity of the mark, the Federal Government revalued the mark by 9.29% on 24 October 1969. The value of the unit of account fell from DM 4 to DM 3.66. As the parity of the franc remained unchanged, the mark, which had been worth F 1.3885475, assumed a value of F 1.51753825.

Under the Community market arrangements the German mark prices of German agricultural products should have been reduced by 9.29%. Such a step would have been regarded as unacceptable by German farmers, who refused to accept a new reduction in their national guaranteed prices, even if financial compensation were granted, as had been done at the time of the alignment of German prices to the common prices on 1 July 1967.

The Federal Republic was authorized to keep the German mark prices of its agricultural products unchanged for a time, and a temporary system of compensatory amounts was introduced, which was similar, but opposite in effect, to that which had been introduced at the time of the devaluation of the franc. Then, in December 1969, the Council of the European Communities decided that this transitional system should be gradually abolished as from 1 January 1970 and that German farmers should receive as from that date assistance amounting to 1.7 thousand million DM annually for 4 years as compensation for their loss of income. The European Agricultural Guidance and Guarantee Fund participated in the financing of this assistance on a phased reduction basis, viz. 90 million u.a. (1 u.a. = DM 3.66) the first year, 60 million u.a. under the 1972 Budget and 30 million u.a. under the 1973 Budget. The Federal Republic compensated the annual reductions in Community aid by means of structural or social measures and by enabling farmers to retain part of the VAT included in the selling prices of agricultural products.

III. DISTURBANCES IN THE INTERNATIONAL MONETARY SYSTEM,
APPEARANCE OF VARIABLE COMPENSATORY AMOUNTS
(see Fig. 1)

Until recently all Member States of the IMF followed the rules laid down in the Bretton Woods Agreements and observed the maximum margin of fluctuation of 1% above and below the parity of their currencies.

As we have seen above, however, the first breach was made by the Federal Republic of Germany during the four weeks from 28 September to 24 October 1969. After suspending Bundesbank intervention on the exchange market and allowing the exchange-rates of the German mark to float on the market, the German Government had first of all introduced compensatory taxes on imports and subsidies on exports. At the Commission's request, it had to abolish that system and to be satisfied with suspending, if necessary, the importation of a certain number of products. Then, after the Council of Ministers had decided unanimously at its meeting in Brussels against the floating exchange-rate system, which was held to be incompatible with the Common Market, the German Government had again been authorized to levy taxes on imports up to a maximum of 5% of the purchase price or intervention price of agricultural products; it was forbidden, however, to grant export subsidies. It was not until 24 October that the Federal Government fixed the new DM parity, which brought the German currency unit back into the Bretton Woods system.

Despite the concern to which this monetary situation had given rise, it was generally recognized that it had been of a very temporary nature.

A more serious situation was the 1971 crisis; the dollar was in difficulties, and its ups and downs affected countries with strong currencies (Federal Republic of Germany, Netherlands) and countries with weak currencies (United Kingdom, Italy, etc.) alike. The main events are worth recalling.

The inflow of dollars in the Federal Republic forced the Federal Bank on 28 April 1971 to suspend its dollar support buying on the forward exchange market. On 5 May the Federal Republic, Belgium and the Netherlands closed their exchange markets. On 9 May the Federal Republic and the Netherlands introduced floating exchange rates; the Ministers of Finance of the Six, while declaring this system to be incompatible with the proper functioning of the Common Market, noted that certain Member States could not avoid widening the margins of fluctuation for the exchange-rates of their currencies in relation to their declared parities.

A system of compensatory amounts was instituted for agricultural products subject to the common organization of the market¹ (Regulation of 12 May 1971). Its application was extended as from 27 August to include the Benelux countries and Italy when, as a result of the suspension of the dollar's convertibility on 15 August 1971 and the introduction of a 10% import surcharge in the USA, they in their turn announced that they were forced to abandon their margins of fluctuation with respect to the declared gold and dollar parities of their currencies.

The compensatory amounts varied with the exchange-rate fluctuations on the financial market. This system, which is still in force, will be analyzed in more detail below (see Appendix I).

(a) The Smithsonian Agreement

The monetary agreements reached in Washington on 19 December 1971 and known as the Smithsonian Agreement embody certain basic principles which will remain valid until such time as the international monetary system is restructured, cancelling and replacing the Bretton Woods Agreements. Let us recall the main lines.

The United States cancelled the 10% import surcharge, but did not reintroduce the convertibility of the dollar against gold, which had been suspended on 15 August 1971.

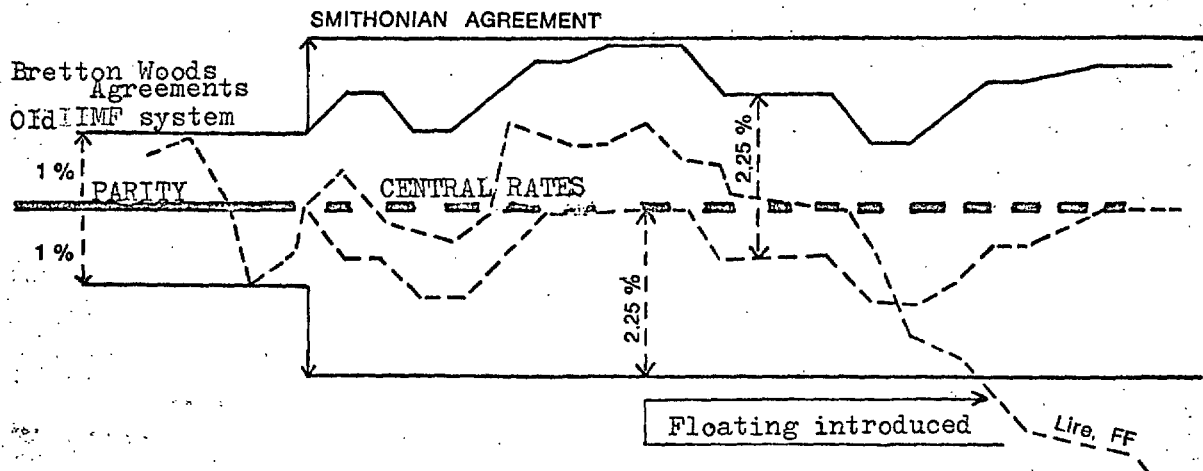
¹ Sectors subject to compensatory amounts: cereals and rice, sugar, beef and veal, pigmeat, poultry, eggs, milk products, wine, tobacco and olive oil.

There was a general restructuring of exchange-rates, including notably a 7.89% devaluation of the dollar in relation to gold, a 1% devaluation of the Italian lira, a 1.03% devaluation of the Danish krone, a 4.61% revaluation of the DM and a 2.6% revaluation of the Belgian franc and the guilder. The pound sterling and the French franc remained unchanged. But the European countries did not declare new "parities" to the International Monetary Fund. The exchange-rate changes just mentioned do not in fact relate to amounts of gold, but to "central" or "pivot" rates in relation to the dollar, with respect to which countries must endeavour to keep the maximum margin of fluctuation within 2.25%. The maximum spread at any given moment for spot-rate transactions between the currencies with the highest appreciation and the greatest depreciation with respect to the dollar can therefore amount to 4.50%.

On 7 March 1972 the Council of Ministers decided that Member States must limit to 2.25% the maximum margin of fluctuation between the exchange-rates for the Common Market currencies showing the greatest appreciation and the greatest depreciation. Any intervention required on the part of the central banks of Member States was to be made solely in the currencies of Community countries. This system was known as the "snake in the tunnel", a concept which is illustrated in Fig. II below.

Fig. II

THE "SNAKE IN THE TUNNEL"
(simplified)



— Maximum margin of fluctuation of "fixed" currencies inside the Community "snake" (DM, guilder, krone, Belgian Franc)

— Floating introduced Lire, FF

Since that time there have been various further upheavals on the money market: the US dollar was again devalued by 10% on 12 February 1973; the pound sterling and the lira have been unable since 23 June 1972 and February 1973 respectively to remain within the "snake"; the German mark has been revalued twice (on 11 March and 29 June 1973) and the Dutch guilder once (17 September 1973), not in relation to the dollar or to the central rates of the other currencies, but in relation to the special drawing rights (credit tranches) of the International Monetary Fund. Finally, the French franc has been floating for six months since 19 January 1974.

It should be mentioned that by having recourse to the legal point that no "parity" has been declared to the International Monetary Fund, the Community has not had to examine the change in the value of the unit of account. Member States maintain the fiction that parities are the same as they were prior to the Smithsonian Agreement; for example, the German mark is held still to be worth 0.273224 u.a. (or 1 u.a. = DM 3.66). Only Italy has declared a new value for her currency in terms of units of account (see page 14 below).

(b) Adjustment of compensatory amounts

Created in August 1969, adopted by all Member States on 11 May 1971¹, given general application on 3 January 1972 and modified at the beginning of June 1973 to take into account the fact that the currencies of Member States had ceased to be measured in relation to the US dollar, the system of compensatory amounts is designed to permit trade in agricultural products to take place freely, without allowing monetary fluctuations to endanger the principles of the singleness of Community prices and the free movement of products.

¹We would recall that when in May 1971 the International Monetary Fund recorded the new exchange-rates for the dollar and European currencies, levies on imports of agricultural products from non-member countries were increased so that the prices of imported products remained in line with the threshold prices (see Issue No 2, "L'organisation des marchés").

It should be added that on 19 September 1973 the Council of Ministers of the EEC simplified the procedure described above in order to allow any necessary measures to be taken rapidly. Henceforth, if monetary practices of an exceptional nature (for example, the floating of a currency) are such as to jeopardize the implementation of the Common Agricultural Policy, then not only the Council, acting by a qualified majority on a proposal from the Commission, but also the Commission itself, within the framework of its own activities (see Issue No 3, "La gestion des marchés"), may, after consulting the Monetary Committee, take measures in derogation of the regulation defining the value of the unit of account (for example, it may change the compensatory amounts).

Finally, it should be noted that, like other measures of the Common Agricultural Policy, compensatory amounts are chargeable to the EAGGF.

- Present conditions of application

The system of compensatory amounts is not applicable to intra-Benelux trade nor to certain agricultural products (fruit and vegetables, notably oleaginous ones).

- Member States with stable currencies

As six Member States decided to provide mutual support in order to keep their exchange-rates within a spread of 2.25% (Germany, Benelux, France until 19 January 1974 and Denmark), the stability of exchange-rates has allowed the introduction of fixed compensatory amounts between the countries concerned. For this purpose, account is taken of the gap between the central (or pivot) rates of the currencies of each State and the parity (equivalent weight in gold) declared to the International Monetary Fund. These gaps are 2.7% for the Benelux countries, 7.2% for the Federal Republic of Germany and 0 for France, which neither revalued nor devalued its currency at the time of the Smithsonian Agreement.

To determine the value of the compensatory amount applicable to each product, this percentage is multiplied by the intervention price of the

product concerned; the sum arrived at is then expressed in units of account at the IMF parity (one unit of account is equivalent to 50 Belgian francs, 7.57831 Danish kroner, DM 3.66, 5.55419 French francs, 0.462023 British or Irish pounds sterling, 3.44353 Dutch guilders or, since 1 January 1974, 678 Italian lire).

As Denmark has not declared any change in the parity of its currency to the IMF since the Smithsonian Agreement, it neither levies nor pays monetary compensatory amounts.

Those countries which have revalued their currencies in relation to the IMF parity (Germany, Benelux) levy compensatory amounts on imports and pay compensatory amounts on exports.

Any countries whose currencies were devalued in relation to the IMF parity would grant compensatory amounts on imports and charge compensatory amounts on exports.

- Member States with floating currencies

For the United Kingdom, Ireland, Italy and, since 21 January 1974, France, the currencies of which are floating in relation to the other European currencies, the rate (a percentage of monetary depreciation) permitting the determination of compensatory amounts is calculated not for the whole marketing year, but for each week, as a function of the exchange-rate fluctuations occurring on the market, ignoring differences of less than 1%. In other words, each week a calculation is made on the basis of the exchange-rate movements, and the compensatory amounts are readjusted whenever the percentage change from one week to another exceeds 1%.

The rate is the arithmetical mean of the disparities between the currency concerned and the four stable currencies inside the "snake". For example, during the week of 14 to 18 May 1973 the exchange-rate disparity for the lira was as follows:

- 16.78% in relation to the Belgian franc,
- 15.81% in relation to the Danish krone, and
- 15.01% in relation to the Dutch guilder.

As the arithmetical mean was established at 15.95%, a mean rate rounded off to 16% was adopted. It was therefore this amount of 16% of the intervention price for cereals, for example, which was granted to Italian importers or levied in order to increase the price of exports from Italy by way of variable compensatory amounts for trade carried out or commercial contracts concluded during the week concerned.

A similar procedure is applied in the case of the United Kingdom and Ireland. However, as these two countries have not yet aligned their prices with those obtaining in the original Common Market (the Six), the monetary compensatory amounts are added to or subtracted from "accession" compensatory amounts (see Issue No 4, "L'agriculture et l'élargissement").

The complexity of the system and the frequency of the adjustments necessary led to administrative difficulties in Italy, as a result of which that country requested to be freed temporarily from paying compensatory amounts to its importers. Until 15 January 1974 therefore it was the exporting country (France, for example) which had the task of paying the compensation in question, which can be viewed in this case as a measure to assist exports, allowing the exported products to be sold at a competitive price on the market of the country which had devalued its currency.

- Trade with third countries

Levies on imported agricultural products from countries not members of the Community and export refunds are also affected by two types of compensatory amounts.

For countries whose currencies are floating jointly inside the "snake" and whose currencies have exchange-rates differing from their IMF parities (Germany, Belgium, the Netherlands and Luxembourg) a single fixed

coefficient is applied; it is 0.928 (1-7.20%) in the case of the Federal Republic of Germany and 0.937 (1-2.7%) in that of Benelux.

For example, a Community refund of 100 u.a. gives for the Federal Republic: 100×3.66 (IMF parity of DM) = DM 366, corrected by the monetary coefficient, i.e., $366 \times 0.928 =$ DM 399 refund granted to the German exporter.

As we have already seen, Denmark, whose currency keeps to the parity declared to the IMF, neither grants nor levies monetary compensatory amounts.

In the case of the United Kingdom, Ireland, Italy and France, whose currencies are floating, the compensatory amount is calculated each week, applying to the levies and refunds monetary coefficients fixed with reference to the exchange-rate differences, the procedure for which has already been described above.

- The principle of equalization through offsetting

In countries whose currencies are floating below their parities (United Kingdom, Ireland, Italy and France), the compensatory amount payable on imports acts in the same way as a reduction in the prices of imports expressed in national currency or as a tax increasing the prices of exports. In order to prevent monetary compensatory amounts from being transformed into import or export subsidies, it was decided that they may in no case exceed either the levies or the refunds; this is achieved by a process of equalization through offsetting.

Further, in order to comply with Community preference, the total fiscal charges on an agricultural product imported by one Member State from another may in no case exceed the total fiscal charges on goods imported from third countries.

- The floating French franc

The French Government decided on 19 January 1974 to suspend provisionally for six months the operation of the Exchange Stabilization Fund designed to limit the maximum spread for spot-rate transactions between the franc and other currencies to a specific amount (2.25% or 4.50%) - in other words, to allow the franc to float.

Community Regulations 974/71 and 1463/73 (cf. above) are applicable without derogation. For the six months from 1 January 1974, therefore, the French franc takes its place with the Italian lira and the pound sterling among the currencies floating below their official parity. Variable compensatory monetary amounts are calculated each week on the basis of the exchange-rates obtaining on the market. During the first week of floating the drop in the rate for the franc, for example, was 5.5% (21-25 January 1974).

In the case of French agricultural trade with third countries the rate expressed in francs for refunds and levies was therefore initially increased by 5.5% (which in practice meant multiplying the value of the levy or refund by a coefficient of 1.055).

The monetary compensatory amount (calculated at the rate of 5.5% on the basis of the French intervention prices) was deducted from the refunds granted on exports where applicable.

In the case of intra-Community trade, the customs levied monetary compensatory amounts at the rate of 5.5% on French exports to the Federal Republic of Germany, Italy and Benelux.

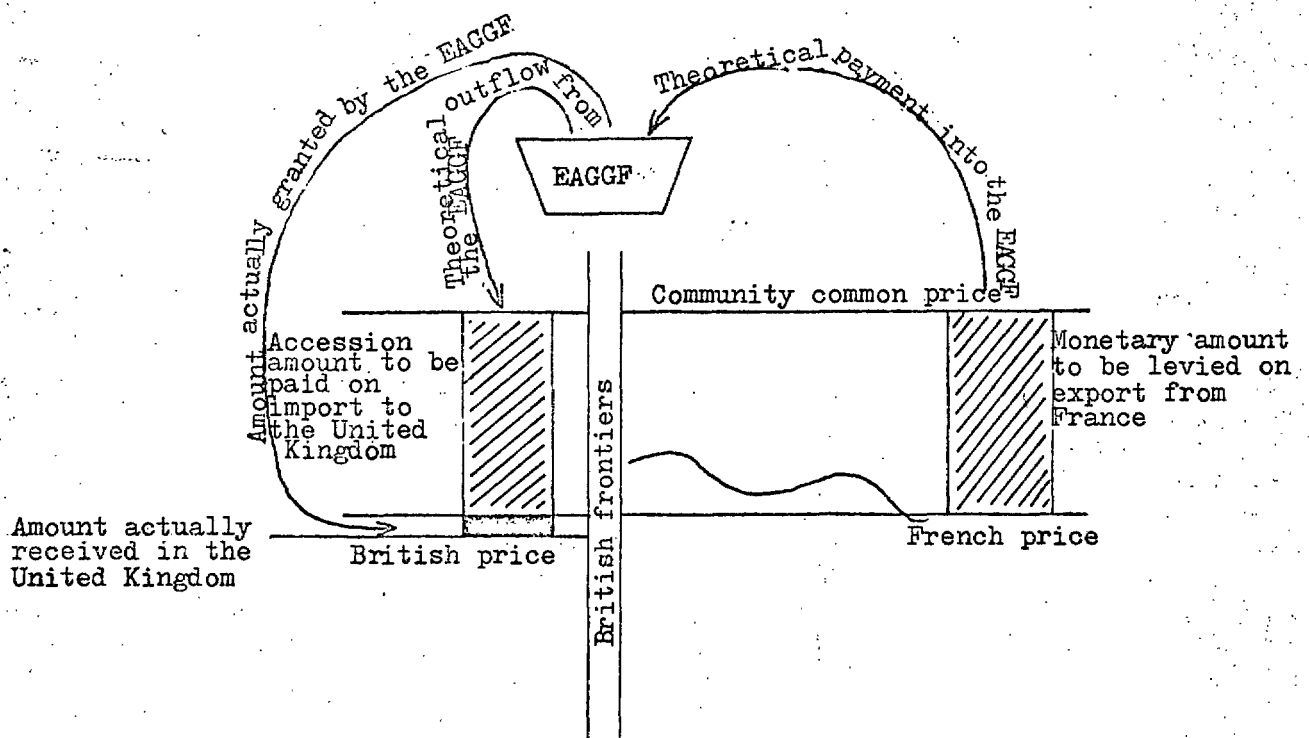
The compensatory amounts were introduced on 28 January 1974. But at the request of those concerned, they could be applied retroactively from 21 January if they related to imports of agricultural products into France.

In principle, contracts in the course of implementation which had been concluded before 19 January should be exempt from monetary compensatory amounts. In order to avoid any speculation, however, each case was examined separately as to its admissibility, and so far no exemptions have been granted.

In the case of French exports to the United Kingdom the "monetary" amount was offset (i.e., cancelled) by the accession amount granted to the United Kingdom, the monetary amount to be levied on exports from France (and transferred to the EAGGF) being in fact lower than the accession amount to be granted to the United Kingdom (and therefore to be withdrawn from the EAGGF); see Fig. III below.

Figure III

OFFSETTING OF THE MONETARY AMOUNT BY THE ACCESSION COMPENSATORY AMOUNT



Further, the principle of equalization has also played a part in trade in cereals. In fact, as the world price exceeded the Community threshold price, no import levy was imposed, which

precluded the granting of a compensatory amount on imports, and therefore also the imposition of a levy on exports. As no monetary compensatory amount was levied in trade with third countries, no levy on intra-Community trade was possible.

IV. THE CONSEQUENCES OF MONETARY FLUCTUATIONS
ON THE COMMON AGRICULTURAL POLICY

To the extent that each Member State has the sovereign right to fix the value of its currency, the monetary crisis could call into question the basic principles of the Common Market (free movement of products and services, Community preference and customs union) and of the Common Agricultural Policy (singleness of markets, Community preference and financial solidarity).

- Free movement of products

A devaluation, by increasing the prices of products imported into the country which has devalued and reducing the prices of products which it exports in relation to those of other exporting countries, alters the conditions of competition. Monetary compensatory amounts neutralize the effects of changes in exchange-rates as regards intra-Community and extra-Community trade in agricultural products subject to European regulation. They therefore make it possible to ensure the free movement of products while maintaining the common price system.

In fact the volume of trade has not been affected to date by the system of compensatory amounts; statistics bear this statement out. It must be recognized, however, that the administrative burden which the system involves is proving more and more troublesome for dealers, particularly since the compensatory amounts became variable because of currency floats.

- Community preference

We have discussed above the measures taken to ensure that the mechanisms used to correct monetary fluctuations do not become a threat to Community preference. Nevertheless, it must be conceded that it is not the province of Common Agricultural Policy to correct any errors which may have been made in other sectors of economic activity. There is a tendency for a certain de facto solidarity to emerge between countries, whether members of the EEC or not, whose exchange-rate fluctuations can be kept to a minimum, whereas unilateral floats leading to substantial changes can only be partially made good in the long run.

Singleness of prices

Figure 1 illustrates the first phase of price alignment, which lasted from the beginning of the transitional period (1962) until the first fixing of common prices in the six original Member States (Germany, France, Italy, Belgium, Luxembourg and the Netherlands) on 1 July 1967. Two Member States (France and Germany) then changed their parities, requesting a period of grace before realigning (1 August 1971) with the common prices. December 1971 (Smithsonian Agreement) saw the beginning of a phase of readjustments and monetary floats. National prices fell out of step with common prices. At the beginning of 1974 the real gap bridged by the compensatory amounts between prices in the country with the currency showing the greatest appreciation (Federal Republic of Germany) and prices in the country with the currency showing the greatest depreciation (Italy) had become wider than the gap observed before the creation of the Common Market between the highest national prices (which at that time were those in Germany) and the lowest national prices (as that time in France).

CONCLUSIONS

Trade relations between the EEC and third countries

The importance which the United States attaches to the agricultural aspect of the multilateral negotiations taking place within the framework of GATT is common knowledge, even if that country is no longer openly calling for the dismantling of the Common Agricultural Policy of the EEC (see Issue No 22-23).

However, the United States, which in December 1971 agreed to abolish the 10% import surcharge and restructure exchange-rates in return for the undertaking of European countries to open the negotiations, has still not reintroduced the convertibility of the dollar.

The monetary crisis affords the United States an opportunity to put pressure on the Common Market countries to open their doors wider to American products at the expense of Community preference.

Consolidation of the common agricultural market and pursuit of European integration

Even at the time of the negotiation of the common prices for the 1973/74 marketing year, and again for the 1974-75 marketing year, the Commission in its proposals linked up the fixing of common prices expressed in u.a. with steps towards the abolition of intra-Community compensatory amounts, i.e., purely agricultural negotiations with considerations founded on the monetary situation.

In its memorandum to the Council on the amendment of Common Agricultural Policy, the Commission stressed that: "Since 1969, agriculture in the Community has been suffering the consequences of the lack of a monetary union between the Member States. The single market, achieved by means of common prices denominated in units of account, has been gradually disintegrated because of the parity changes which have since been made....

The splitting up of the single market has damaging implications for agriculture and the economy in general. Commercial operations on a fragmented market are necessarily subject to very complicated administrative procedures, and this is liable to affect prices and trade. Moreover, agriculture is gradually being isolated from the general economic environment emerging in the countries concerned after the monetary changes, and the result is distortions of competition between the agricultural systems of the various countries, and between agricultural products and between means of production in agriculture. These distortions are unacceptable in the long run. Specialization of production on the basis of optimum allocation of resources within the Community is being considerably slowed down as a result. ...

Given the prospects for the implementation of the economic and monetary union provided for in the Council's Resolution of 22 March 1971 and confirmed at the October 1972 Summit Conference, the Commission takes the

view that, whatever else is decided, the 'monetary' compensatory amounts must be phased out by 31 December 1977."

The revaluation of the guilder by the Netherlands in 1973 (see Appendix II) and the increase in the unit of account exchange-rate for the lira by Italy on 1 November 1973 and again on 1 January 1974 are evidence of the effort made to ensure Community solidarity. The latter is nonetheless subjected to the vagaries of the international exchange market, and the recent unpegging of the rate for the French franc underlines the difficulties still to be overcome before normal conditions can be restored in the common agricultural market.

It is true to say, however, that whatever the difficulties experienced by operators, the system of monetary compensatory amounts has made it possible to safeguard the principal Community gain in the agricultural sector, i.e., respect for the principles of the singleness of prices, the free movement of products and the financial solidarity of Member States.

APPENDIX I

SUMMARY OF ARRANGEMENTS RELATING TO THE NEW SYSTEM OF COMPENSATORY AMOUNTS

Exports from/to	Fed. Rep. of Germany	Benelux	France
Fed. Rep. of Germany		Fed. Rep. of Germany grants a fixed compensatory amount of 12.03% Benelux levies a fixed compensatory amount of 2.7%	Fed. Rep. of Germany grants a fixed compensatory amount of 12.03% France levies a variable compensatory amount, reduced where applicable by the offset amount ²
Benelux	Benelux grants a fixed compensatory amount of 2.7% Fed. Rep. of Germany levies a fixed compensatory amount of 12.03%		Benelux grants a fixed compensatory amount of 2.7% France grants a variable compensatory amount, reduced where applicable by the offset amount ²
France	France levies a variable compensatory amount Fed. Rep. of Germany levies a fixed compensatory amount of 12.03%	France levies a variable compensatory amount Benelux levies a fixed compensatory amount of 2.7%	

Exports from/to	Fed. Rep. of Germany	Benelux	France
Denmark	<p>Denmark 0</p> <p>.....</p> <p>Fed. Rep. of Germany levies a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to the accession compensatory amount</p>	<p>Denmark 0</p> <p>.....</p> <p>Benelux levies a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to the accession compensatory amount</p>	<p>Denmark 0</p> <p>.....</p> <p>France levies a variable compensatory amount, reduced where applicable by the offset amount²</p>
Italy	<p>Italy levies a variable compensatory amount</p> <p>.....</p> <p>Fed. Rep. of Germany levies a fixed compensatory amount of 12.03%</p>	<p>Italy levies a variable compensatory amount</p> <p>.....</p> <p>Benelux levies a fixed compensatory amount of 2.7%</p>	<p>Italy levies a variable compensatory amount</p> <p>.....</p> <p>France levies a variable compensatory amount, reduced where applicable by the offset amount²</p>
UK/Ireland	<p>The UK and Ireland levy variable compensatory amounts</p> <p>.....</p> <p>Fed. Rep. of Germany levies a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to the accession compensatory amount</p>	<p>The UK and Ireland levy variable compensatory amounts</p> <p>.....</p> <p>Benelux levies a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to the accession compensatory amount</p>	<p>The UK and Ireland levy variable compensatory amounts</p> <p>.....</p> <p>France grants a variable compensatory amount, reduced where applicable by the offset amount²</p>

Exports from/to	Fed. Rep. of Germany	Benelux	France
Third Countries	Fed. Rep. of Germany levies a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to the levies ¹	Benelux levies a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to the levies ¹	France grants a variable compensatory amount and applies a variable coefficient to the levies. Where applicable, France levies an offset amount
DENMARK	ITALY	UK, IRELAND	THIRD COUNTRIES
<p>Fed. Rep. of Germany grants a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to the accession compensatory amount</p> <p>.....</p> <p>Denmark 0</p>	<p>Fed. Rep. of Germany grants a fixed compensatory amount of 12.03%</p> <p>.....</p> <p>Italy grants a variable compensatory amount, reduced where applicable by the offset amount²</p>	<p>Fed. Rep. of Germany grants a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to the accession compensatory amount</p> <p>.....</p> <p>UK and Ireland grant variable compensatory amounts. Where applicable, UK and Ireland apply the offset amount²</p>	<p>Fed. Rep. of Germany grants a fixed compensatory amount of 12.03% and applies a fixed coefficient of 0.8797 to refunds</p>

DENMARK	ITALY	UK, IRELAND	THIRD COUNTRIES
<p>Benelux grants a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to the accession compensatory amount</p> <p>.....</p> <p>Denmark 0</p>	<p>Benelux grants a fixed compensatory amount of 27%</p> <p>.....</p> <p>Italy grants a variable compensatory amount, reduced where applicable by the offset amount²</p>	<p>Benelux grants a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to the accession compensatory amount</p> <p>.....</p> <p>UK and Ireland grant variable compensatory amounts. Where applicable, UK and Ireland apply the offset amount²</p>	<p>Benelux grants a fixed compensatory amount of 2.7% and applies a fixed coefficient of 0.973 to refunds</p>
<p>France levies a variable compensatory amount³</p> <p>.....</p> <p>Denmark 0</p>	<p>France levies a variable compensatory amount</p> <p>.....</p> <p>Italy grants a variable compensatory amount, reduced where applicable by the offset amount²</p>	<p>France levies a variable compensatory amount³</p> <p>.....</p> <p>UK and Ireland grant variable compensatory amounts. Where applicable, UK and Ireland apply the offset amount²</p>	<p>France levies a variable compensatory amount, reduced where applicable by the offset amount² and applies the variable coefficient to refunds</p>

DENMARK	ITALY	UK, IRELAND	THIRD COUNTRIES
<p>Italy levies a variable compensatory amount and applies a variable coefficient to the accession compensatory amount.</p> <p>.....</p> <p>Denmark 0</p>		<p>Italy levies a variable compensatory amount and applies a variable coefficient to the accession compensatory amount</p> <p>.....</p> <p>UK and Ireland grant variable compensatory amounts. Where applicable, UK and Ireland apply the offset amount²</p>	<p>Italy levies a variable compensatory amount, reduced where applicable by the offset amount² and applies a variable coefficient to refunds</p>
<p>UK and Ireland levy variable compensatory amounts</p> <p>.....</p> <p>Denmark 0</p>	<p>UK and Ireland levy variable compensatory amounts</p> <p>.....</p> <p>Italy grants a variable compensatory amount, reduced where applicable by the offset amount².</p> <p>Italy applies a variable coefficient to accession compensatory amount</p>		<p>UK and Ireland levy variable compensatory amounts, reduced where applicable by the offset amount² and apply a variable coefficient to refunds</p>

DENMARK	ITALY	UK, IRELAND	THIRD COUNTRIES
Denmark 0	Italy grants a variable compensatory amount and applies a variable coefficient to the levies ¹ . Where applicable, Italy applies the offset amount.	UK and Ireland grant variable compensatory amounts and apply a variable coefficient to the levies ¹ . Where applicable, UK and Ireland apply the offset amount ²	

¹World market data serving as a basis for the calculation of levies on imports from third countries will be converted into u.a. on the basis of actual exchange-rates.

²In order to prevent compensatory amounts from exceeding the levies applied to imports from third countries.

³France applies a variable coefficient to accession compensatory amounts.

Source: Commission of the European Communities, Spokesman Group.

APPENDIX II

REVALUATION OF THE GUILDER: THE NETHERLANDS PROVIDES
AN EXAMPLE OF A REVALUATION WITHOUT ALTERATION OF THE
COMPENSATORY AMOUNTS

Being unable to keep the guilder within the famous monetary "snake", the Netherlands decided, after consulting its Benelux partners¹, to revalue its currency by 5% on 17 September 1973. As Belgium, for its part, had decided to keep the parity of its currency unchanged, the application of the new Community rules (cf. revaluation of the DM) would have entailed a 5% increase in compensatory amounts in trade with all Member States and, above all, the application of compensatory amounts in intra-Benelux trade, which had not up to that time been subject to it. In order to avoid these consequences the Netherlands preferred to revert to the old Community rules, which provided that any revaluation must be accompanied with a reduction in the internal agricultural prices by the same percentage. It was, of course, necessary to provide for fair compensation for Netherlands farmers adversely affected by what was certainly a courageous measure.

The system which will be introduced is as follows:

- the rate of VAT at which the Netherlands farmer shall be authorized to invoice his customers (in compensation for the VAT which farmers pay indirectly in their purchases of equipment, raw material, etc.) will be raised from 4.25% (present rate) to 6.25%;
- purchasers of agricultural products may reclaim the additional 2% from the State in order to obviate repercussions on consumer prices;

¹In an official communiqué the Commission expressed regret that the Netherlands authorities had not first sought an exchange of views with the authorities of Member States and with the Commission in the spirit of the standing procedures designed to achieve economic and monetary union.

- this measure will be authorized for a period of six months. The cost to the State will be 120 million guilders. The European Agricultural Guidance and Guarantee Fund will assume 15% for its account, i.e. 5 million u.a. (the European Parliament still has to present its views on this commitment by the Fund before a final decision is taken by the Council).

It should be added that the question is to be re-examined both within the Netherlands and by the Community (participation of the Fund) before 1 April, as far as the 1974/75 marketing year is concerned.

APPENDIX III

CHRONOLOGICAL LIST OF THE MAIN MONETARY EVENTS
AND EXAMPLES OF THEIR EFFECTS ON THE PRICE OF COMMON WHEAT

(from 8 August 1969 to 19 January 1974)

(see Table 1)

For the sake of simplification, we shall examine only the case of German, French and Italian prices, taking as an example the target price of common wheat.

8 August 1969: Devaluation of the franc (the gold parity of the franc falls from 180 to 160 mg of fine gold).

The value in francs of the unit of account increases from F 4.93706 to F 5.55419. The French target price (10.625 u.a./quintal) should in the circumstances be increased from F 52.45/quintal (10.625 x 4.93706) to F 59.01/quintal (10.625 x 5.55419). It remains at F 52.45/quintal, and a "compensatory amount" bridges the gap.

27 October 1969: "Schiller" revaluation of 8.5%.

The unit of account falls from DM 4 to 3.66; the DM, which was worth F 1.3885475, rises to F 1.51753825.

The German target price, which was DM 42.50/quintal (10.625 x 4) should, according to the rules, drop to (10.625 x 3.66) = DM 38.89/quintal. But the Federal Republic maintains an unchanged DM price, which at the new rate of exchange works out at $\frac{42.50}{3.66} = 11.612$ u.a./quintal.

1 August 1970

France goes some of the way towards catching up the common price (unchanged at 10.625 u.a./quintal) by fixing its target price at F 54.03/quintal, equivalent at the new exchange-rate for the franc to $\frac{54.03}{5.55419} = 9.727$ u.a./quintal.

The Federal Republic requests that it be allowed to keep its target price unchanged until December, and then until the new marketing year.

15 May 1971

The DM floats. As the Federal Republic does not change the price expressed in DM, the compensatory amounts are calculated every week (in other words they become variable) and are related to the difference between the exchange rate and the old DM/dollar parity.

1 August 1971

The Federal Republic "catches up" with the common price, which was raised to 10.944 u.a./quintal = $10.944 \text{ u.a.} \times 3.66 = \text{DM } 40.05/\text{quintal}$, the German target price. The loss in revenue to the German farmer from the lowering of the target price is more or less compensated by restitution of the VAT.

As the DM is still floating, a monetary compensatory amount continues to be calculated each week as a function of the exchange-rates.

15 August 1971

Ten per cent surcharge; suspension of the convertibility of the US dollar with respect to gold.

21 December 1971 (Smithsonian Agreement)

Various European countries and Japan negotiate in Washington an adjustment of the parities of their currencies in relation to the dollar, which itself has been devalued by 7.89%. The DM is revalued by 4.61%, but the Federal Republic does not declare any parity to the IMF. Officially, the German target price is therefore converted into DM at the official rate of 3.66 u.a. to the DM, and therefore remains at $10.944 \times 3.66 = \text{DM } 40.05/\text{quintal}$.

The franc retains its parity of F 5.55419 per unit of account.

If the new central rate for the DM in relation to the franc (DM 100 = F 158.749) is compared with the value of the unit of account expressed in francs, it is found that the German target price should be $10.944 \times \frac{5.55419}{1.58749}$, or DM 38.28/quintal.

The German target price of DM 40.050 corresponds on the basis of the above calculation method to a price in units of account of $40.05 \times \frac{1.58749}{5.55419} = 11.47 \text{ u.a./quintal}$.

A compensatory amount bridges the gap between this and the common price of 10.944 u.a./quintal.

The lira is devalued by 1%. A gap develops between the common price and the Italian price, which drops to 10.824 u.a./quintal.

1 August 1972

The common target price is raised to 115.80 u.a./tonne. France aligns its price with the common price. In the case of Germany, the target price calculated with reference to central rates should be DM 39.82/quintal. Still basing itself on the fiction that one unit

of account is equivalent to DM 3.66, Germany fixes its target price at DM 41.65/quintal and introduces new compensatory amounts. The Italian price is unpegged from the common price in a similar way.

11 March 1973

A new revaluation of the DM by 3% is carried out, not in relation to the dollar or to the central rates of other currencies (which in many cases are floating), but in relation to the special drawing rights with the International Monetary Fund.

The central rate for the German mark therefore works out at DM 100 = F 163.50971 (the French franc keeps the same parity).

The German target price, which should fall to DM 38.66/quintal, is maintained at DM 41.65/quintal, and the monetary compensatory amounts are raised yet again.

29 June 1973

The DM is again revalued, by 5.5%, in relation to special drawing rights. Payment equivalent to DM 100 now amounts to F 172.502 (calculated on the basis of the central rates).

The German target price, which should fall to DM 36.64 in order to institute alignment with the common price, is maintained at DM 41.65. Once more the compensatory amounts are increased.

1 August 1973

The new price for the marketing year is to be 114.94 u.a./tonne, or F 63.84/quintal. At the new rate of exchange for the DM (on the basis of the old central rates) the German target price should be fixed at DM 37.01/quintal. Germany, however, maintains the fiction of a

parity of 1 u.a. = DM 3.66, so that the German target price becomes DM 42.06/quintal, or the equivalent of 130.63 u.a. in real terms.

Obviously, it is difficult to make German farmers bear the successive reductions in guaranteed prices which should result from the DM revaluations, but the monetary manipulations cause distortion of the common price system to such an extent that the gap between national prices is greater than it was in 1962/63.

1 January 1974

The rate for the conversion of the lira into units of account is changed from 0.16 u.a. per 100 lire to 0.153846 u.a. on 1 November 1973 and subsequently, on 1 January 1974, to 0.147493 lire (or 678 lire per unit of account). The new Italian price for the year becomes $114.94 \text{ u.a.} \times 678 = 77.929 \text{ lire}$ as from that date.

At the going rate, 1 000 lire are quoted at F 7.8750 on the Paris market, i.e., at the unit of account parity of the French franc on 1 January $\frac{7.8750}{5.55419} = 1.4178 \text{ u.a.}$

The Italian target price at the real exchange-rate for the lira therefore amounts to $77.929 \times 1.4178 = 110.47 \text{ u.a./tonne}$.

19 January 1974

The French franc is allowed to float; the Exchange Stabilization Fund is instructed to discontinue intervention to maintain the parity of the franc. Its fall in value is calculated at 5.5%, the rate to be taken into account as from 21 January 1974. The target price for wheat expressed in French francs remains unchanged; it is therefore "unpegged" by 5.5% from the common price and falls to the equivalent of 108.62 u.a./tonne.

APPENDIX IV

MAIN REGULATIONS RELATING TO COMPENSATORY AMOUNTS

- EEC: Regulation No 129/62 of the Council on the value of the unit of account and the exchange-rates to be applied for the purposes of the Common Agricultural Policy (OJ 106 of 30 October 1962).
- Regulation (EEC) No 653/68 of the Council of 30 May 1968 on conditions for alterations to the value of the unit of account used for the Common Agricultural Policy (OJ L 123 of 31 May 1968).
- Regulation 1586/69 of 11 August 1969^{*} (OJ of 12 August) on measures to be taken as a result of the devaluation of the French franc (initial "compensatory amounts").
- Regulation (EEC) No 2464 of 9 December 1969 (OJ L 312 of 12 December 1969) on measures to be taken in agriculture as a result of the revaluation of the German mark.
- Regulation (EEC) No 974/71 of the Council of 12 May 1971 on certain measures of conjunctural policy to be taken in agriculture following the temporary widening of the margins of fluctuation for the currencies of certain Member States (DM and guilder, introduction of the principle of equalization) (OJ L 106 of 12 May 1971).
- Regulation (EEC) No 982/71 of the Commission of 12 May 1971 (OJ 13 May) on the rate of exchange to be applied as regards the currencies of certain Member States for the determination of value for customs purposes.
- Regulation (EEC) 1013/71^{*} (OJ L 110 of 18 May 1971) modified by Regulation 1871/71^{*} of 27 August 1971 (OJ of 30 August 1971) generalizing monetary compensatory amounts.

^{*} not available in English.

- Regulation 2887/71[Ⓜ], amending the rules for the calculation of compensatory amounts (OJ of 31 December 1971).
- Regulation (EEC) No 2543/73 of 19 September 1973 amending Regulation No 129 on the value of the unit of account and the exchange-rates to be applied for the purposes of the Common Agricultural Policy (OJ L 263 of 19 September 1973).
- Regulation (EEC) No 1463/73 of the Commission of 30 May 1973 laying down detailed rules for the application of "monetary" compensatory amounts (OJ L 146 of 4 June 1973).
- Regulation (EEC) No 2544/73 of the Council of 19 September 1973 on the exchange rate to be applied in agriculture for the Dutch guilder (revaluation of the guilder) (OJ L 263 of 19 September 1973).
- Regulation (EEC) No 3450/73 of the Council of 17 December 1973 (OJ L 353 of 22 December) amending Regulation (EEC) No 974/71 as regards the level of prices for agricultural products in Italy following developments in the monetary situation.
- Regulation (EEC) No 218/74 of the Commission of 25 January 1974 (OJ L 24 of 28 January) fixing the monetary compensatory amounts and certain rates for their application (floating of the French franc).

[Ⓜ] not available in English.

APPENDIX V

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