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IN BRIEF

## Monetary adaptations and their implications for the common agricultural policy

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### Currency adjustments made on 4 October 1981

On 4 October 1981, the Ministers of Financial Affairs and the Governors of the central banks of the EEC Member States agreed to realign the central rates of the national currencies within the European Monetary System (EMS). This decision was taken following a joint procedure involving the Commission, and after consultation of the Monetary Committee.

The realignment comprises the following changes :

- revaluation of the German mark and of the Dutch guilder by 5,5 %,
  - devaluation of the French franc and the Italian lira by 3 %,
- against the other currencies.

### ... in the European Monetary System

The EMS entails solidarity across the exchanges between its members, since the ECU - the corner-stone of the System - is a weighted combination of specific amounts of the currencies of the Member States (1). Accordingly, a revaluation or devaluation of the currency of one of the Member States must bring with it a change in the value of the ECU and of the relative position of each of the national currencies in relation to the ECU. If an EMS currency is revalued, the ECU is also revalued, but by less than the revaluation of the currency, since the currency promoted is only one of the currencies in the Community "basket" making up the ECU. For example, if the Dutch guilder were revalued by 1 %, the ECU would be revalued by  $1 \% \times 0.10 = 0.10 \%$  of its old rate, because the weighting of the guilder in the basket of currencies which is the ECU is about 10 % (2). Against the ECU, the guilder would in fact be

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(1) Sterling does not participate in the EMS exchange rate mechanism but is included in the calculation of the ECU, reference being made to a notional central rate for this purpose.

(2) The weighting of the currencies in the basket used to calculate the ECU is approximately as follows :

- German mark	: 32.5 %	- Italian lira	: 8.5 %
- French franc	: 19.0 %	- Belgian and Luxembourg francs	: 9.5 %
- Sterling	: 16.5 %	- Danish krone	: 3.0 %
- Dutch guilder	: 10.0 %	- Irish pound	: 1.0 %

revalued by only  $1 - 0.10 = 0.90$  %, and against the ECU the other currencies would be devalued by 0.10 %. A converse reasoning applies when a currency is devalued. Thus whenever a currency is devalued or revalued, the central rates (1) of all the currencies must be changed.

The currency decisions of 4 October 1981 can be summarized as follows :

5.5 % revaluation of the mark and the guilder against all the other currencies. As the mark and the guilder to make up about 42 % of the basket of currencies determining the value of the ECU, the ECU would therefore have been revalued as a result of this decision alone by  $5.5 \% \times 0.42 = 2.3$  %. The central rates of the mark and of the guilder would have been lowered by  $5.5 \% - 2.3$  %, i.e. 3.2 % (that is to say that 1 ECU would have bought fewer marks and guilders) if the value relationship between the other currencies had not also been changed.

But at the same time :

- the French franc and the Lira were devalued by 3 %. Given the respective weightings of the French franc (19 %) and the Lira (8.5 %) in the basket of currencies used to calculate the ECU, the value of the latter declined by  $0.8 \% \left[ 3 \% \times (0.19 + 0.085) \right]$ ;
- a third measure was also taken : for the purposes of calculating the central rates in the ECU and for other reasons connected with the operation of the system, sterling must be assigned a new notional central rate derived from its actual market rate at the time, whenever currencies are realigned. Sterling's notional central rate was therefore altered on the basis of the currency situation on the exchanges on 2 October 1981 (last day of quotations before the agreement).

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(1) The central rate of a currency against the ECU is the value around which this currency may fluctuate within the margin of 2.25 % (1.125 % either side).

As sterling quotations had declined sharply since the last time it had been adjusted according to the rules mentioned above (devaluation of the lira on 23 March 1981), this operation now led to a devaluation of the notional central rate by 9.8 %. The effect of this was to reduce the value of the ECU by 1.6 % ( $9.8 \times 0.165$ ).

The net effect of these operations - the revaluation of the ECU resulting from changes to the central rates of the mark and the guilder (that is + 2.3 %) minus the devaluation of the ECU resulting from changes in the central rates of the French franc, the lira and sterling (that is - 2.4 %) - was a slight reduction in the ECU of about 0.1 %.

In comparison with their position against the ECU before 4 October 1981, the new central rates of the national currencies have been adjusted as follows :

- revaluation by + 5.61 % for the mark and the guilder,
- revaluation by + 0.1 % for the krone, the Belgian/Luxembourg francs and the Irish pound,
- devaluation by - 2.9 % for the French franc and the lira,
- devaluation by - 9.8 % for sterling.

The Greek drachma is not in the basket of currencies used to make up the ECU, and is therefore changed.

All these changes against the ECU and their implications are shown in Annex 1.

#### Implications of these decisions for the common agricultural policy

Prices of agricultural products fixed in units of account at EEC level are not converted into prices in national currencies at ordinary market rates. Special agreed rates - the "green" rates - are used. In an official or legislative context the term used is "representative" rates.

In trade in the main agricultural products between the Member States, the differences or gaps (known as "monetary gaps") between the rates recorded on the open market and the green rates are bridged by monetary compensatory amounts (MCAs) (1).

The currency decisions described above therefore necessitated adjustments in the area of the common agricultural policy.

As noted above, the value of the ECU being based on a basket of currencies of the Member States, any change in the central rate for one of these currencies entails changes in all the relationships between the ECU and the national currencies so that normally all the "monetary gaps" referred to for the calculation of the MCAs will also have to be altered.

This concerns more especially those Member States in the EMS complying with the 2.25 % margin of fluctuations : the MCAs are calculated on the basis of the difference between the central rate and the green rate.

Accordingly :

- for Germany, the currency of which was revalued, there has been an increase in the positive MCA,
- for the Netherlands, the currency of which was also revalued, a positive MCA has been introduced,
- for France, the currency of which was devalued, a negative MCA should have been introduced. This was avoided by adapting the green rate,
- for Denmark, Belgium, Luxembourg and Ireland, the difference was minimal and as there is a system of "neutral margins" or "franchises" (2) for the monetary compensatory amounts, the situation is unchanged and no MCA is chargeable or payable,

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(1) The MCAs are calculated as follows : price in ECU x green rate x applied monetary gap.

(2) The effect of the "neutral margin" is that no MCA is applied if it would be less than 1.5 (negative MCAs) or 1 (positive MCAs).

- with regard to the United Kingdom and Greece, which do not comply with the EMS requirements, the MCAs are calculated differently, mainly by referring to market rates. This is also the case for Italy, which operates a wider margin of fluctuation than 2.25 %.

The result has been an increase in the British and Italian MCAs but no change for Greece, i.e. no MCA.

The effects of the currency decisions and of the adaptation of the French green rate on the common agricultural prices expressed in national currencies and on the MCAs can be summarized as follows :

Country	Impact of agricultural prices in national currencies (%)	Influence on the "monetary gaps" referred to for the calculation of the MCAs (percentage points)
Germany	0	Rises from + 3.2 to + 8.3
Netherlands	0	Rises from 0 to + 4.3
Belgium	0	0
Luxembourg		
Denmark		
Ireland		
France	+ 1.523	0
Italy	0	Falls from - 1.7 to - 3.9
United Kingdom	0	Rises from + 1.9 to + 3.5
Grèce	0	0

The implications for each of the Member States, in more detail, are as follows (see also Annex 2) :

- for Germany, the mark is revalued in relation with the ECU by 5.61 %, the green rate being maintained; there is therefore no change in the common agricultural prices expressed in marks payable in the Federal Republic of Germany.

The "monetary gap" used for the calculation of the MCA is increased and the positive MCA rises from + 3.2 points to 8.3 points, i.e. agricultural products exported from Germany having become relatively dearer in relation with the other currencies, they attract higher compensation. For imports, the same MCA is charged on imports so as to align the prices of imported products on the prices expressed in marks;

- for the Netherlands, the guilder is revalued by 5.61 % in relation with the ECU; the green rate being maintained, there is no change here either in the common agricultural prices expressed in Dutch guilders payable on the home market. Dutch agricultural products having become relatively dearer in relation with the other currencies, a "monetary gap" emerges and positive MCAs are introduced at a rate of + 4.3 %. MCAs will therefore be charged on imports of agricultural products and paid out on exports.

This breaks the previous cohesion between the Benelux countries in the agri-monetary field. MCAs will apply between the Belgo-Luxembourg Economic Union (BLEU) and the Netherlands. Previously, the three countries had kept the fluctuations of their respective currencies within the margins obtaining before 9 May 1971. But this arrangement ended on 5 October 1981.

It should be noted that, technically, it would have been possible to avoid the increase in the positive German MCA and the introduction of the positive Dutch MCA by an appropriate revaluation of their respective green rates. Politically, this was, however, not a practical proposition, for a revaluation of the green rate entails a reduction, in national currency, of the common prices payable to farmers;

- for France, the franc is devalued against the ECU by 2.9 %. To avoid the introduction of negative MCAs resulting from the difference between the new central rate and the green rate, the green rate was also devalued by 1.50 % (1). Thus the common agricultural prices expressed in French francs have been increased by + 1.523 % and MCAs are not applied.

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(1) Given the "neutral margin" of 1.5 % for negative MCAs, there was no need for a devaluation of the green rate of 2.90 %.



- the currencies of Denmark, Belgium, Luxembourg and Ireland are revalued by + 0.10 % as against the ECU, and the green rates are maintained. There is therefore no change in common agricultural prices expressed in national currencies. For the calculation of the MCAs, a "monetary gap" of 0.1 has emerged, but as there is a "neutral margin" of one point, no MCA will apply;
- for Italy, the lira is devalued by 2.90 % as against the ECU and the green rate remains unchanged, so that agricultural prices expressed in lire have not changed. Because of the method used to calculate the MCAs for countries becomes - 3.9 instead of - 1.7. The MCAs paid on imports of agricultural products into Italy and charged on exports are increased accordingly;
- for the United Kingdom, there is a technical adjustment against the ECU of - 9.8 %. This technical adjustment has an influence for the calculation of the value of the ECU but not directly for the instruments of the common agricultural policy. The sterling green rate has not been changed, and there is no change in agricultural prices expressed in sterling.

The method of calculation for the application of the MCAs is identical to that used for Italy. As sterling appreciated during the reference period (5 and 6 October 1981) used for determining the "monetary gaps" used from 8 October 1981 onwards, the "monetary gap" becomes + 3.5 instead of + 1.9. The MCAs charged on imports and paid on exports have been increased accordingly.

- As noted above, the drachma is not in the basket of currencies used for calculating the ECU. There is therefore no change for Greece. The green rate and the "monetary gap" have also remained unchanged. Accordingly, the prices are maintained unchanged in the national currency and there are no MCAs.

A last point is that the above situation with regard to the MCAs applies only to basic agricultural products covered by proper intervention arrangements and to products processed from these. Fruit and vegetables, for example, are not involved.

Effects of the new central rates agreed on 4 October 1981

Currency/Country	Central rate until 4.10.1981	Central rate from 5.10.1981 onwards	Difference %
	ECU --> national currency (a)	ECU --> national currency (b)	(a : b)
DM	2,54502	2,40989	+ 5,61
FL	2,81318	2,66382	+ 5,61
FF	5,99526	6,17443	- 2,90
BFR/LFR	40,7985	40,7572	+ 0,10
DKR	7,91917	7,91117	+ 0,10
IRL	0,685145	0,684452	+ 0,10
UKL (1)	0,542122	0,601048	- 9,80
LIT (2)	1.262,92	1.300,67	- 2,90
DRA	-	-	-

(1) Sterling does not comply with the margin of fluctuation.

(2) The margin of fluctuation at any one time of the lira as against other EMS currencies is not 2.25 % but 6 %.

Representative ("green") rates

Annex 2

Country	Representative ("green") rates				Impact on prices	Revaluation (+) or devaluation (-) of green rates (%)	Monetary gaps to be applied (2)
	Up to 11.10.1981 inclusive		From 12.10.1981 onwards (1)				
	100 ECU = ... national currency	100 national currency = ... ECU	100 ECU = ... national currency	100 national currency = ... ECU			
BR Deutschland (DM)	265,660	37,6421	265,660	37,6421	-	-	+ 8,3
Belgique/ Luxembourg (BFR/LFR)	4079,85	2,45107	4079,85	2,45107	-	-	+ 4,3
Nederland (HFL)	281,318	35,5470	281,318	35,5470	-	-	0
Danmark (DKR)	791,917	12,6276	791,917	12,6276	-	-	0
Ireland (IRL)	68,5145	145,955	68,5145	145,955	-	-	0
France (FF)	599,526	16,6798	608,656	16,4296	+ 1,523	- 1,5	0
Italia (LIT)	122.700	0,0814996	122.700	0,0814996	-	-	+ 3,5
United Kingdom (UKL)	61,8655	161,641	61,8655	161,641	-	-	+ 3,5
Ellas (DRA)	6144,54	1,62746	6144,54	1,62746	-	-	0

(1) From 1 January 1982 for fisheries.

(2) After deduction of the "neutral margin".

New agri-monetary regulations adopted following  
the currency decisions taken on 4 October 1981

- Commission Regulation (EEC) No 2866/81 of 4 October 1981 suspending advance fixing of the monetary compensatory amounts applicable in the Federal Republic of Germany, France, Italy, the Netherlands and the United Kingdom (OJ L 283, 5 October 1981, p. 1).
- Commission Regulation (EEC) No 2898/81 of 7 October 1981 amending Regulation (EEC) No 1371/81 laying down detailed rules for the administrative application of monetary compensatory amounts, Regulation (EEC) No 243/78 providing for the advance fixing of monetary compensatory amounts, and Regulation (EEC) No 52/81 laying down detailed rules for the application of accession compensatory amounts (OJ L 287, 8 October 1981, p. 1).
- Commission Regulation (EEC) No 2899/81 of 7 October 1981 amending Regulation (EEC) No 926/80 on exemption from the application of monetary compensatory amounts in certain cases (OJ L 287, 8 October 1981, p. 3).
- Commission Regulation (EEC) No 2900/81 of 7 October 1981 fixing the components used to calculate the differential amounts for colza and rape seed (OJ L 287, 8 October 1981, p. 5).
- Commission Regulation (EEC) No 2901/81 of 7 October 1981 fixing the monetary compensatory amounts and certain coefficients and rates necessary for their application (OJ L 288, 8 October 1981, p. 1).
- Council Regulation (EEC) No 2923/81 of 10 October 1981 amending, with respect to the French franc, Regulation (EEC) No 878/77 on the exchange rates to be applied in agriculture (OJ L 291, 12 October 1981, p. 1).

- Commission Regulation (EEC) No 2924/81 of 10 October 1981 amending Regulation (EEC) No 1054/78 following the fixing of new exchange rates to be applied in agriculture for France (OJ L 291, 12 October 1981, p. 3).
  
- Commission Regulation (EEC) No 2925/81 of 10 October 1981 altering the components used to calculate the differential amounts for colza and rape seed (OJ L 291, 12 October 1981, p. 5).