COMMISSION OF THE EUROPEAN COMMUNITIES

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Special report from the Commission to the Council

on the consequences of the present situation for the common agricultural policy

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I. INTRODUCTION

1. At its meeting of 13 September 1971, the Council requested the Commission to submit to it a special report on the consequences of the present monetary situation on the working of the agricultural common market.

The Commission recalls that it regularly informs the Council of the short-term economic measures adopted in the agricultural sector and of the repercussions of the present economic and monetary situation. In accordance with Article 8 (3) of Council Regulation (EEC) 974/71 of 12 May 1971[1] relating to certain short-term economic measures to be taken in the agricultural sector following the temporary widening of the margins of fluctuation of certain Member States' currencies, the Commission submits a monthly report to the Council on how this regulation is being applied. On 16 September 1971 the Commission also submitted a report to the Council on the consequences for the Community of the present situation in the monetary and commercial fields.

The aim of this special report is to set forth the consequences resulting from the present situation in the agricultural sphere from the point of view of the working of the common market in agricultural products, the financing of the common agricultural policy and the implications for the latter, especially as regards the Community's farmers.

Despite the fact that too short a time has elapsed since these measures were taken for an assessment to be made of their consequences in terms of statistics, it is nonetheless justifiable to consider that such consequences exist and have already been felt in different ways.

The Commission will provide additional quantified information as and when this becomes available.

2. The present situation in agriculture following the monetary decisions taken since May 1971, may be briefly set out as follows :

Following the decisions taken in August, the Member States may be classed in three categories as far as these regulations are concerned :

(i) Germany is applying compensatory amounts at present calculated on the basis of the rate by which the DM is up-valued as against the dollar, i.e. 7%;

(ii) The Benelux countries are applying uniform compensatory amounts calculated on the basis of the average between the rate of revaluation

[1] *Journal officiel* L 106, 12 May 1971, p. 1.

of the Belgian franc and that of the florin. At present this figure is + 3.6% in relation to the dollar;[1]

(iii) France and Italy are not applying compensatory amounts. France uses the non-floating "commercial franc" for its transactions in agriculture and Italy is not making use of the provisions of Council Regulation (EEC) 974/71.

The Commission drew up the list of products to which Germany and the Benelux countries apply compensatory amounts in accordance with the Management Committee procedure for cases where monetary measures involve disruption of trade in the agricultural products concerned. This list currently covers almost all products in the cereals, pigmeat, beef and veal and milk and milk products sectors, and a large number in the eggs, poultrymeat, sugar and sea fisheries sectors, a few in the oils and fats and wine sectors and some goods processed from agricultural products and not included in Annex II. These last are of only small importance in trade.

In this context it should be stressed that requests for additional products to be included in this list have been made several times, especially by market operators. Some of these requests were met as the gap between floating currencies and the dollar increased, thus causing considerable difficulties on the market in the products concerned.

[1] From 27 September 1971 the rate will be increased to 8.2% in Germany and to 5.1% in the Benelux countries.

II. THE OPERATION OF THE COMMON ORGANIZATION OF THE MARKETS

3. The first point to be noted is that by introducing compensatory amounts the Community has avoided most of the deleterious effects which the decisions to float currencies would have had on the mechanisms of the organization of the markets. Without recourse to these measures a situation of disorderly competition would have arisen between Member States.

Moreover, as had happened in the weeks leading up to the devaluation of the French franc in 1969, the danger appeared of Community intervention on agricultural markets being distorted by the artificial transfer of large quantities of products to Member States where, as a result of currency floating, a *de facto* revaluation had taken place in relation to the currencies of other Member States. The measures taken meant that this danger also was avoided.

The conservatory effects sought have therefore been achieved to a large extent, but this at the price nonetheless of certain difficulties both as regards intra-Community trade and trade with non-member countries.

4. Although it is true that the system of compensatory amounts had already been applied following the devaluation of the French franc and revaluation of the DM, the circumstances differed appreciably, both as regards the limitation of the period covered and the way the amounts were fixed.

A. *Intra-Community aspect*

5. One of the first difficulties arising out of the use of the system of compensatory amounts is that, although intended to reduce the financial risk borne by transactors as a result of uncertainty as to how exchange rates will shape, it nevertheless introduces an additional element of risk. The inevitable time-lag between exchange rates, fixed on a day-to-day basis, and the level of the compensatory amounts, fixed periodically and *post facto,* means that operators are obliged to take account of both these variables at the same time, although it is difficult to forecast the gap between them.

6. In the past it has happened that the currency of one Member State has reached its ceiling whilst at the same time that of another was at its floor. This was normally only a tempory state of affairs. But it is to be feared that if the present situation persists competition within the Community will be distorted in the long run.

It may be noticed that the currencies of the two Member States not using compensatory amounts, France and Italy, have gained in value against the dollar. At present, the French franc has increased its value by nearly 0.50% and the lire by around 1.9%, following the decision to float the latter. This has been the position for some time and there is no knowing when it will end. Owing to the system of compensatory amounts described earlier, goods from these two Member States bear extra duty when exported to Member States with floating currencies; on the other hand, exports to France and Italy of goods from the latter earn a payment higher than that which would correspond to the actual difference in exchange rates.

In the same way, the decision to consider the three Benelux countries as a single entity for the purpose of applying the system of compensatory amounts and calculating the rates thereof, has meant that, since the Belgo-Luxembourg franc is at a lower level than the florin, goods imported into the Belgo-Luxembourg Economic Union also attract over-compensation, whereas those imported into the Netherlands are under-compensated by an equivalent amount.

B. *Relations with non-member countries*

7. The system of compensatory amounts is applied both to intra-Community trade and trade with non-member countries. The difficulties referred to under II. A are also met in trade with the latter.

8. Since the mechanisms operated at the Community's frontiers are largely based on prices noted—particularly on world markets—the uncertainty—born of the present monetary situation with its floating currencies—as regards the fixing of these prices and their conversion into different currencies, may well lead to a lack of precision in the determination both of certain prices and of refunds. These difficulties would be all the more serious if the situation continued or became worse, and might well have harmful effects on the Community's relations with non-member countries.

9. The Commission has received complaints concerning the procedure used for calculating the compensatory amounts. This procedure consists of taking into account the percentage representing the difference between the parity of the currency of the Member State in question, as notified to the International Monetary Fund, and the arithmetical average of spot exchange rates in relation to the US dollar. However, over the last few months a certain number of non-member countries have seen their currencies appreciate as against the dollar, either as a result of revaluation and/or floating. These countries believe that the Community machinery used involves distortions which should be compensated for. They argue that they already have to put up with the commercial handicap of a *de facto* or *de jure* revaluation and that, under these circumstances, the application to imports of their products of a compensatory amount calculated on the basis of the situation of the dollar

is likely to lead to their products being overtaxed, which in turn would threaten certain trade flows important for their economy.

Non-member countries, especially those whose competitive position is already unfavourable as a result of their own monetary policy, see these compensatory amounts as an increase in import charges in the Member States in question.

If the Community were to take account of these complaints, it would be involved in further complications in its relations with non-member countries as a whole, as least as far as the compensatory amounts are concerned. Although it may be felt that, when seen in isolation, none of the effects of the monetary problems has very serious consequences for supplier countries, the situation as a whole is already creating difficulties, at least for some of them.

10. But the Community's export interests will also suffer the same effects as those of its suppliers. It will be confronted with the consequences of uncertainty in trade and speculative trends both in the operation of its export machinery and in developing its trade.

The influence of those measures which, although not monetary in the strict sense, are nonetheless closely linked with the development of these problems, should also not be forgotten.

It suffices at this point to recall the main consequences: the direct consequence is that 70% of the Community's agricultural exports to the United States are affected by the latter's import surcharge. The indirect consequence of this is that these restrictions will mean tougher competition in general on world markets, more particularly since new support measures for certain sectors are likely to be added.

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11. The introduction of advance fixing of compensatory amounts both in intra-Community trade and in trade with non-member countries might perhaps provide market operators with a certain measure of security. However, apart from the fact that this would involve considerable amendments to the regulation setting up compensatory amounts, such a system would certainly also introduce risks of speculation, thus accentuating even further the disruption of Community machinery. This is a difficulty inherent in a system of compensation for floating currencies.

12. Althouth it has to be noted, moreover, that the compensatory amounts follow the actual changes in rates of floating currencies with a certain time-lag and only if the floating is on a fairly large scale, it is likely that, as a result of all the points referred to above, the increased risks run by traders when dealing in agricultural products and the administrative obstacles inherent in the system of compensatory amounts, will encourage them to seek their supplies in domestic agricultural markets as first preference.

III. EAGGF

13. So long as monetary parities are not changed, floating will in principle not have any direct consequences on the EAGGF. There might, however, be some indirect ones.

These repercussions could lead to an increase in expenditure if the intra-Community frontier measures lead to a slowdown in trade between Member States. In a situation where agricultural markets were less fluid, expenditure on storage and export refunds for trade with non-member countries could increase.

IV. RUNNING THE COMMON AGRICULTURAL POLICY

14. By avoiding serious disruption of its agricultural markets through the introduction of the system of compensatory amounts for a certain number of products, the Community has succeeded in protecting its agriculture from a sharp deterioration in its economic situation.

However, to the problems proper to the running of the common organization of the markets, as expounded under II above, there will be added the difficulties involved in the future conduct of the common agricultural policy itself.

15. It is obvious that the present situation impedes the completion and normal pursuit of the common agricultural policy. There is already, for example, a delay in fixing the common prices for agricultural products for the 1972/73 farm year. The Council's hesitation in replying to the Commission's proposal is due, at least to some extent, to the present monetary situation. The Commission regrets this fact, especially since it is a result of the delay in harmonizing economic and monetary policies in relation to the common agricultural policy, and because it thus inevitably creates disruption in the system which is the most advanced in terms of European integration.

16. It should also be pointed out that the prices of the means of production continue to feel the full effect of floating currencies. In a member State where the currency has to some extent appreciated, the generally observed trend for these prices to increase may be dampened if the means of production or the raw materials used in manufacturing them are imported from countries where the currency has not appreciated or has not done so to the same extent.

17. Another conclusion may be deduced from the present situation: work on the socio-structural side of the common agricultural policy, which in the Commission's view is more important than ever under present circumstances, should be speeded up, so as to solve the most urgent problems facing farmers and help them to achieve an economic position and social conditions enabling them to cope better with present and future economic hazards.

18. In addition to the difficulties referred to under II, the above considerations make it clear that the measures in Regulation (EEC) 974/71 have not proved adequate to protect farmers completely from the economic impact of floating currencies. It is quite possible that the consequences mentioned above might well be felt more severely if the current situation continued.

19. There can be no doubt that the present state of monetary affairs has unfavourable repercussions on the common agricultural policy. Voices have been raised here and there against this policy. These protests are not limited

to calls for the system of the unit of account (equal to one dollar—the "green dollar"—and used for making agricultural payments) to be dropped, but also include suggestions for a return to national farm price fixing.

This attitude is being encouraged by the continuing uncertainties of the present situation, the end of which no one can as yet forecast. They may not be ascribed only to the monetary situation itself, but are the result at least as much of both the fact that it is impossible to forecast how long this situation will last and of the fear that any monetary solutions adopted, since they are unlikely to be definitive, might have further implications for the common agricultural policy, especially where prices are concerned.

The Commission must attribute to the same kind of reaction the pressures exerted by agricultural organizations to obtain additional measures, particularly at national level, and the tendency observed for Member States to grant farmers further aid, both of a general and specific nature.

20. All these factors are worsening the psychological climate of the common agricultural policy. Under present circumstances, it is sometimes difficult to convince a farmer in a Member State with fixed parities of the desirability of a system which, despite the existence of a common agricultural policy based on free trade in agricultural products, requires export subsidies and import duties in trade with other Member States. And this is all the more the case when one considers, for example, that subsidies are granted when products are imported from the Netherlands, whereas when products of the same kind are exported to Germany, not only are they subject to duty, but this duty is heavier than the subsidy mentioned in connection with the Netherlands.

In Member States with floating currencies, it is understandable that farmers are worried about the repercussions the monetary situation might have on the future level of common prices for agricultural products, just as they believe that the compensatory amounts are inadequate.

21. The Commission does not try to hide its deep concern over the present situation. It can only repeat what it has already said on several occasions, i.e. the agricultural common market can only be effectively run if Community currencies have fixed parities. The Commission recognizes that the monetary problems are only an external sign of differing economic development in Member States. It therefore agrees with those who assert that it will not be possible to implement the common agricultural policy properly, and that the latter will suffer serious disruption, until economic and monetary union in the Community has removed the points of friction between Member States' economies.