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THE AGRIMONETARY SYSTEM OF THE EUROPEAN ECONOMIC COMMUNITY AND ITS PROSPECTS AFTER 1992

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Introduction

The agrimonetary system is, without doubt, one of the most complicated aspects of the common agricultural policy

Over the years, this subject has been a matter of concern both to experts and to those in the field, having become inseparable from the Council's annual decision on prices and related measures

This study reviews the entire system of agrimonetary measures of the Community at present in force. It seeks to combine theory and practice. The various concepts considered are illustrated by worked examples, real or hypothetical.

The purpose of this study is to give the reader a better awareness of the Community agrimonetary system and to facilitate a deeper understanding of the arguments put forward by some and rejected by others concerning the need for the reform of the system and the elimination of monetary compensatory amounts in the run-up to the single European market envisaged for 1993.

Note

This study reflects the agrimonetary situation following the Council Decisions of 24 May 1991 on farm prices and related measures for 1991/92. Most recent developments, namely the new agrimonetary system proposed by the Commission (COM(92) 275 final, 8.7.1992), will be published separately as an 'addendum' at a later stage

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I — Origin of the agrimonetary system

A — Principles

1. Prices and other amounts determined under the common agricultural policy (CAP) were always expressed in agricultural units of account (AUA). Therefore, it was necessary to define that unit and lay down rules for its conversion into the national currencies of the Member States. This was done in 1962 by Regulation No 129.[1] In 1968, additional rules were adopted in Regulation (EEC) No 653/68[2] and Regulation (EEC) No 1134/68.[3] The idea underlying those three regulations was that any readjustment of monetary parities should . lead to an immediate adjustment, in national currencies, of prices and other amounts determined in units of account in order to restore the balance between price levels in the various Member States.

2. During the currency fluctuations that occurred in 1969 and 1971, it became clear that, because of its inflexibility, the system did not meet the economic needs of the Member States. Both falls and rises in prices in national currency resulting from monetary developments could lead to problems affecting areas of great political significance, namely the safeguarding of agricultural income and the fight against inflation. In those circumstances, it was necessary to make exceptions to the provisions then in force. Those exceptions, initially regarded as temporary, became permanent measures.

3. The monetary compensation system, which was originally intended to apply for a limited period (see Article 8 of Regulation (EEC) No 974/71),[4] subsequently became an integral part of the CAP. That system has existed for 20 years. Its general principles remain intact, although numerous modifications have been made, particularly with respect to calculation methods.

4. The basic ideas remain the same:

(a) Prices and other amounts determined under the CAP at Community level are expressed in agricultural units of account; to ensure that the Member States apply the amounts laid down, those amounts must, in principle, be converted into national currency using conversion rates which reflect the true monetary position.

(b) However, the common market organizations (CMOs), particularly where they involve the application of an intervention system having a direct impact on the market, are incapable of coping immediately with the consequences — a rise or fall in prices in national currency — of a change in the monetary situation, particularly where the change is far-reaching (devaluation or revaluation) or frequent (flotation); on the contrary, price stability is required.

(c) The principle of price stability can be implemented only by applying stable and specific agricultural conversion rates which, by reason of their stability, can be dissociated from economic reality (the creation of 'green rates').

(d) However, recourse to such specific green rates means that price levels differ in the Member States; when those price differences exceed certain limits, compensation is called for in commercial transactions: monetary compensatory amounts (MCAs). In the case of oilseeds and field beans, peas and sweet lupins, the system of 'differential amounts' is applied, in fact comprising MCAs which are adapted to certain CMOs using an aid system based on 'deficiency payments'.

B — Background

1. Under the agrimonetary scheme developed after the introduction of the common market organizations, the agricultural unit of account and agricultural conversion rates already existed in rudimentary form. However, the Community legislature had still not clearly defined them as part of an independent system. The legislation then in force (Regulation No 129 and Regulation (EEC) No 653/68) merely defined the agricultural unit of account — like the other units of account then in use — by reference to a fine gold weight equivalent to the United States dollar (for which reason the AUA was known as the 'green dollar'). No mention whatsoever was made of agricultural conversion rates to translate units of account into national currency. The Community legislature considered that such rates clearly derived from the system of parities for the various Community currencies which were all — like the AUA — based on gold weight. That approach, which was fully in line with the Bretton Woods international monetary agreement then in force, was based on the philosophy according to which changes in monetary relationships gave rise to immediate repercussions both for agriculture and for other economic sectors.

2. That view overlooked the special character of the agricultural sector. The Treaty had provided in respect

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[1] OJ, English Special Edition 1959–62, p 274
[2] OJ, English Special Edition 1968 (I), p. 121
[3] OJ, English Special Edition 1968 (II), p 396.
[4] OJ, English Special Edition 1971 (I), p. 257

of that sector — which was characterized by a wide range of differing factors of production and, consequently, national protectionist measures — that the free movement of products should operate within the common market organizations, which would provide price guarantee mechanisms. Although the Community market organization system is not the same for all the agricultural products involved, the main sectors subject to a regulated system have certain fundamental elements in common such as, for example, support prices for domestic production and prices which discourage imports. However, a distinction must be drawn between the price system within the Community and the system of prices applicable to trade with non-member countries, since, in principle, intra-Community trade is unrestricted by virtue of the basic CAP principle of unity of the market.

3. In general terms, the price system is based on a target price to be obtained by the producer (the term used for that price may vary according to the sector: target price, guide price, norm price or basic price). That price is not binding — it merely indicates the level which must be reached in order to attain the Treaty of Rome objective of fair income. However, in order to attain that objective, that institutional price determined by the Council must influence the market price. In trade with non-member countries, that result is achieved by the levying of a compensatory charge on imports (generally known as a 'regulatory levy') which covers the difference between the world market price and the Community price. An 'export refund' is also granted for the same purpose. Both the import levy and the export refund are variable, reflecting the often very considerable fluctuations in world market prices. As far as trade within the Community is concerned, compensatory mechanisms are unnecessary since the price level is the same in all the Member States (except where there is a transitional regime provided for in an act of accession and in the case of regionalization, although the price differences in the latter case merely reflect the transport costs recognized by the Community). Nevertheless, the common market organization provides for an intervention system to ensure that the market price within the Community is stable as far as possible, thus guaranteeing a fair income for the active agricultural population (in accordance with Article 39 of the EEC Treaty). The intervention system operates above all by means of the temporary or permanent withdrawal of surpluses from the market. Surpluses may be offered to an intervention agency, which is obliged to purchase them at an 'intervention price' or else they may be the subject of 'private storage aid' for storage by private undertakings.

4. Both measures ensure that the Community market price does not fall below a specified level. In general, the intervention price has a greater impact than private storage aid, since it provides a guideline for the market. However, the intervention system is not available for all agricultural products. In the first place, certain products are subject to a much more flexible system or are even not covered by intervention arrangements. In addition, even in the case of products covered by intervention arrangements, only the basic products qualify. Other products — basically processed products obtained from the basic products, and also products economically dependent on basic products, known as 'derived products' — benefit from the effect on the market of the intervention measures taken in respect of basic products. The import levy and export refund applied to trade with non-member countries are usually based on those applied to a basic product.

5. Thus, the common market organization seeks to establish, by means of the various instruments mentioned above, a relatively stable level of prices for products in the same sector. The system involves determination of the amounts in question: institutional prices, regulatory levies, refunds and other grants. The amounts are set (in accordance with the Community rules) in units of account and must be converted into national currencies to enable the Member States to apply them within their territories. The unit of account was chosen for a number of reasons: it avoids the need to choose a national currency as a denominator; it emphasizes the fact that the price or amount in question is the same throughout the Community; and, finally, it implies, within the original concept, that adjustment is necessary in line with monetary developments, in order to maintain the unity of the market.

6. Where a system, as originally conceived, involves agricultural conversion rates which reflect the real value of the currencies in question, both revaluation and devaluation of currencies have immediate consequences for the domestic price level. An amount fixed in units of account does not undergo any change, even if the value of the unit of account is altered. Nevertheless, at national level, the prices determined in the currencies of the Member States concerned rise when their currencies are devalued against the unit of account and fall where the value of a currency appreciates against the unit of account.

7. Those consequences were clearly foreseen and accepted when the first agrimonetary provisions were adopted. However, after the monetary developments of 1969 and 1971, the Member States concerned (France and Germany) and, to a degree, the Community itself,

considered that, at national level, the consequences for the agri-foodstuffs sector were unacceptable. The reasons are fairly simple. If the devaluation of the French franc in 1969 had had its full impact on French agriculture, it would have produced an immediate rise of the same percentage in the prices of agricultural products, jeopardizing the success of the measures taken by France to defeat inflation, and it would therefore have negated the very aim of the devaluation. And if the revaluation of the German mark in the same year had had its full impact on German agriculture, it would have produced such a fall in the prices of products that agricultural income would have been seriously affected.

8. In that year, 1969, the original approach was abandoned for the two reasons mentioned above and the Member States concerned were allowed, for limited periods, to maintain their former price levels in national currency. That decision had the following consequences:

(a) unity of prices, which had just been achieved by an approximation of national prices secured after great efforts and a long intra-Community transitional period (1962/67), was abandoned;

(b) specific 'agricultural conversion rates' (green rates) were created, which departed from the 'real rates' which reflected the market values of the currencies in question;

(c) monetary compensatory amounts were introduced in trade in order to compensate for price differences arising between the Member States.

9. In 1971, the point of departure was different, although the result was the same. In 1971, pressures which made themselves felt in the currency markets prompted several Member States to allow their currencies to float, but without changing official parities. The official parities remained legally in force even though in practice they were not observed since the Member States concerned failed to intervene in the exchange markets to support their respective currencies. Since the parities were not changed from the legal point of view, agricultural prices and other amounts determined in units of account continued to be converted into national currency using rates based on those parities. The official parity was exceeded in the market-place so that a monetary gap emerged, reflecting the difference between the rate derived from the real economic situation and the rate used in the framework of the common market organization. Thus, the problem was fundamentally the same as in 1969. The difference lay in the fact that in 1971 the real value of the currencies was variable, whilst in 1969 it was stable, since France and Germany had respectively

devalued and revalued their currencies in accordance with the rules laid down by the Bretton Woods international monetary agreement then in force.

C — The need for compensation

1. The situations described above involved a difference between the conversion rate applied under the CAP and the rate reflecting the true monetary position, leading to a price difference, first between the level in the Member State concerned and the Community as a whole and, secondly, as between the Member State in question and the other Member States. The second consequence is of greater importance from the practical point of view. The national price level rises excessively in a Member State whose currency has appreciated (as a result of revaluation or floating upwards), since the fall in terms of national currency which should result from an increase in value does not take place. By contrast, the national price level falls excessively in a Member State whose currency has depreciated (as a result of devaluation or floating downwards), since the rise which ought to follow from the depreciation does not come about.

2. In the absence of compensation, such a situation would cause private individuals to react in a manner which would endanger the proper functioning of the common market organization, unless proper counter-measures were adopted. In view of the higher intervention price in a Member State whose currency had appreciated to an extent exceeding the Community level and particularly the level prevailing in a Member State with depreciated currency, Community production, to the extent to which it was placed on the market, would — again, in the absence of compensation — gravitate towards the Member State whose currency had appreciated to the greatest extent. Without any doubt whatsoever, the persons concerned would be certain to secure profits since the intervention agency would be under an obligation to purchase the quantities offered to it in accordance with the Community rules. Even if intervention were limited to national production, there would be a considerable risk that a large proportion of national products would go to intervention and be replaced in the market by products from the other Member States. That is precisely what happened in 1969, when there were massive exports of cereals from France to Germany during the period prior to the introduction of MCAs, as a result of the devaluation of French currency.

3. Furthermore, in trade with non-member countries, the export refunds rise to the highest level in the

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Member State with the strongest currency. On the other hand, the regulatory levies charged on imports fall to the lowest level in the Member State whose currency is weakest. Consequently — in the absence of compensation — Community exports would be made from the Member States with the strongest currencies and imports would be made into the Member States with the weakest currencies. Obviously, such a situation could lead to distortions in trade which might rapidly degenerate to a point where irreparable damage was done. The intervention system would fail and the entire common market organization system would cease to function. These dangers still exist today. The only difference between the present and previous situations consists in the introduction of specific and clearly defined green rates. Nevertheless, agricultural conversion rates already existed in that earlier period, although their legal definition was less clear.

4. At the present time, some Member States have 'stable currencies' for which there are, in addition to the green rates of earlier times, stable central rates which reflect economic reality. There are other Member States which have 'floating currencies' for various reasons, such as, for example, because the central rate is not supported in the exchange markets (as in the case of Greece and Portugal) or because the central rate is supported, but with a margin of fluctuation which is too wide to ensure the proper functioning of the common market organization (as in the case of the United Kingdom and Spain: 6%). Thus, the problems are basically the same: there are stable or variable monetary gaps between the green rates and the rates which reflect economic reality. It is those monetary gaps that give rise to price differences between the Member States.

5. The difficulties arising from automatic price adjustment have been described above. For the same reasons as before, it has not been possible, within the Community agrimonetary system, to undertake rapid adjustment of agricultural prices to bring them into line with economic reality. On the contrary, by departing from the guidelines initially laid down, the agrimonetary system at present in force is based on the view that monetary developments should not have immediate repercussions for the domestic level of agricultural prices. The green rate is maintained intact and price differences are offset by the application of monetary compensatory amounts in trade both between the Member States and between them and non-member countries.

II — The traditional system

1. The current provisions for calculating monetary compensatory amounts and differential amounts make up the 'traditional' system — which is not applied for the time being — and the 'green ecu' system ('switch-over'), which was introduced in March 1984. However, it is appropriate to begin with a brief description of the traditional system (provided for in Article 5 of Regulation (EEC) No 1677/85,[1] which — under the current provisions — continues to be the basic system (see Figure 1).

2. In principle, both systems envisage the same price differences between the Member States, resulting from the green rates. In fact, depending on the products concerned, the price differences between two Member States:

(i) are not compensated for at all (as usually occurs in most agricultural sectors covered by a common market organization); or

(ii) are compensated for only for the most important products by means of monetary compensatory amounts (these are applied at present in the following sectors: cereals, beef and veal, pigmeat, poultrymeat, milk, sugar, table wine, olive oil, certain processed vegetables and fruit, and certain other products not included in Annex II to the Treaty); or else

(iii) they are compensated for by means of differential amounts in the case of oilseeds, field beans, peas and sweet lupins.

3. It should be noted that monetary compensatory amounts differ from differential amounts in that MCAs are applied in trade and differential amounts are applied either upon award of the premium granted during the crushing of certain oilseeds or upon award of the aid given for the production of field beans, peas and sweet lupins or at the time of export. Essentially, the two systems are fairly similar in so far as they comprise a portion calculated on the basis of the price and a coefficient which modifies the levy — the premium equivalent to the levy under the deficiency payment system — and the export refund. In view of these similarities, the two systems are regarded as equivalent and are treated in the same way.

4. The bases for calculating MCAs and differential amounts have always been the same, i.e.

(a) the monetary gap,

(b) the institutional price.

The agrimonetary factor is the monetary gap (écart monétaire) which, in principle, expresses the difference between the green rate and the real value of a currency in relation to the agricultural unit of account.

5. The unit of account used for the purposes of the CAP before 9 April 1969 was the agricultural unit of account (AUA), provided for in Regulation No 129, whose value was the same as the United States dollar which, in turn, was defined by reference to the gold standard under the Bretton Woods international monetary agreement. The Council proceeded to determine the rates applied under the CAP for conversion into national currency of prices and amounts fixed in AUA. It will be remembered that, after definitive abandonment of the system of fixed parities introduced by the Bretton Woods international monetary agreement and the flotation of currencies which became widespread in the 1970s, the AUA was still applied in agriculture, although its value was no longer based on the dollar but on the central rates of the Community currencies making up the 'currency snake'.

6. The introduction of the ecu as the sole unit of account for the whole Community resulted from the adoption of the European Monetary System (EMS) on 13 March 1979. However, in the agricultural sector, the ecu was initially used only on a provisional basis under Regulation (EEC) No 652/79.[2] The transition from prices expressed in AUA to prices in ecus was effected by multiplying all the amounts fixed in AUA — and all the green rates — by a coefficient of 1.208953, since the value of the ecu was lower than that of the earlier AUA. The decision definitively to introduce the ecu in the CAP was taken on 9 June 1987.[3]

7. The agrimonetary provisions were codified on the basis of the EMS, and of the significant change in the calculation of MCAs made in March 1984 (establishment of the green ecu or switch-over system) which came into operation on 1 January 1986. These provisions — which are summarized in Annex I — define the monetary gap as the percentage difference between the green rate and the real value of a currency in relation to the agricultural unit of account which, in this case, is the ecu (Article 1 of Regulation (EEC) No 1676/85[4]). In order to determine the real value, Article 5 of Regulation (EEC) No 1677/85 does not provide for use of the rate fixed daily according to the rates quoted on the exchange markets for each of the Community currencies against the ecu, but relates to:

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[1] OJ L 164, 24.6.1985, p. 6.

[2] OJ L 84, 4.4.1979, p. 1.
[3] Regulation (EEC) No 1636/87 (OJ L 153, 13.6.1987, p. 1), see also Article 15(2) of Regulation (EEC) No 1676/85 (OJ L 164, 24.6.1985, p. 1)
[4] OJ L 164, 24.6 1985, p. 1.

(i) the central rates for the currencies which observe the narrow margin of fluctuation under the EMS;

(ii) the average of the spot exchange rates against the currencies with a narrow margin of fluctuation for each of the other Community currencies.

NB: In February 1990, the Commission submitted a proposal (COM(90) 73 final of 20 February 1990) for adaptation of the current agrimonetary rules (Article 5(2) of Regulation (EEC) No 1677/85), to authorize recourse to the ecu directly as a reference basis (instead of the EMS currencies) in order to determine the market rates of exchange of the floating currencies and to fix the MCAs for the calculation of which they are used. That proposal was finally adopted by the Council in July 1990 (Regulation (EEC) No 2205/90, OJ L 201, 31. 7. 1990, p. 9), the amendments proposed by the European Parliament being rejected (PE 141.422).

8. One of the reasons which prompted that choice was, without doubt, not only the evolution of the calculation rules over a period but also the desire for a relatively stable reference basis. The central rates of the currencies of the Member States which are in the EMS and observe a maximum difference at any time of +/– 2.25%, constitute that reference basis. Since the logic of the system required a single reference basis, the possibility of using it in all instances was considered appropriate.

9. This brief summary of the traditional system shows that, in reality, the calculation of MCAs is not based on the ecu but on an approximate value (which, to simplify matters, we shall call the 'real ecu'). It is important to note that this value represents the agricultural unit of account. Since the green rates are fixed in accordance with the agricultural unit of account (regardless of the term used to describe it), the real value used to compare them must only be that of the agricultural unit of account. It is therefore the system of calculating the MCAs which in fact determines the value of the agricultural unit of account. It has undergone changes on various occasions since 1971. Originally, MCAs were calculated in relation to the United States dollar. In 1973, the dollar was replaced by the average of the central rates of the currencies of the Member States making up the 'currency snake'. In turn, that average was replaced in 1979 by the average of the central rates of the ecu currencies which observe the narrow fluctuation margin (+/– 2.25%) embodied in the EMS.

10. Since, by definition, the agricultural unit of account (whatever the term used to describe it) applies exclusively to agriculture, the method of calculating MCAs has an impact on the CAP as a whole, including the products not subject to MCAs and the sectors which are not yet covered by a common market organization.

III — The 'green ecu' system

1. Council Regulation (EEC) No 855/84 of 31 March 1984[1] on the calculation and dismantlement of the monetary compensatory amounts applying to certain agricultural products introduced into the agrimonetary system the method of calculating MCAs known as the 'green ecu' or 'switch-over' system (see Figures 2 and 3). The corresponding provisions are at present set out in Article 6 of Council Regulation (EEC) No 1677/85 on monetary compensatory amounts in agriculture which — being a codified version of Regulation (EEC) No 974/71 — replaced the latter with effect from 1 January 1986. It should be noted that, following the Council Decisions of 30 June 1987, that system continues to apply. The future agrimonetary system would have had to be re-examined before 1 July 1988 in the light of a joint report from the Ministers for Finance and the Ministers for Agriculture (see Chapter XIV, Section A - 5). There was a postponement *sine die* when the Council concluded on 9 June 1988 that it was impossible to review the agrimonetary system before 1 July 1988 (see Chapter XVI, paragraph 6).

2. At the inception of this system, the Member States found it politically difficult to accept the principle that, in all circumstances, a change in the value of a currency must have immediate consequences for the price levels of agricultural products, as occurs, for example, in the case of the prices of industrial products. That difficulty was experienced above all by the Member States with positive MCAs; in fact, the elimination of MCAs implied an immediate fall in production prices as a result of revaluation of the green rate. Under pressure from those Member States, the Council adopted (by a majority) the so-called 'gentlemen's agreement' of March 1979, under which a reduction of the positive MCAs must not in any circumstances lead to a reduction of the common prices in national currency (see Chapter XIII).

3. For that reason, since 1984 the method of calculating MCAs has been based on the strongest currency (i.e. the German mark (DM)) and implies that the consequences of every monetary realignment are to affect only negative MCAs. It was considered that the dismantlement of the latter was easier to undertake since it led to an increase in the price in national currency, a politically desirable consequence for Member States with weak currency, above all in cases where the common prices fixed in ecus were frozen or reduced.

4. The technical consequence of the March 1984 decision, brought about by the concern to introduce a method for calculating MCAs which avoided the creation of new positive MCAs, is the linking of the ecu used in the agrimonetary system with the strongest currency (German mark). Thus, in the event of a monetary realignment, revaluation of the strongest currency (German mark) must have an impact on the ecu, so that the ecu is revalued by the same percentage. Thus, the correcting factor is the expression, in the form of a coefficient, of the percentage revaluation of the strongest currency as against the real ecu. Since the ecu is a 'basket'-type currency and is defined by the central rates of the participating currencies, any revaluation of the green ecu (as a result of revaluation of the German mark) is expressed by a corresponding devaluation of those central rates (except the German mark), to which the correcting factor is applied. Since this operation is limited to the application of the ecu to agriculture, it has been described as the creation of a 'green ecu' and of 'green central rates'.

5. Against that background, since the agricultural unit of account is determined by the method of calculating MCAs, the green ecu system is no more than a fresh definition of that unit of account. Instead of the ecu — or the central rates which it replaces — the green ecu is used, being equivalent to the real ecu to which there has been applied a correcting factor, or the central green rates, which derive from the central rates to which the same correcting factor has been applied. The latter may also be seen as representing the gap separating the real ecu from the green ecu.

6. Once the ecu, on the one hand, has been revalued by application of the correcting factor, and, on the other hand, prices have been defined in ecus, the introduction of that factor in 1984 and the successive modifications of it following the various monetary realignments occurring subsequently in fact increased the common level of agricultural prices. Added to this, there was also the dismantlement of the existing positive MCAs (switch-over without monetary realignment) undertaken on two occasions, in 1984 and 1987, which also contributed — through adjustment of the correcting coefficient — to the increase in common prices expressed in ecus.

7. In addition, that is the reason why the green ecu is applicable not only to the agricultural products subject to MCAs but in fact to all agricultural products. This increase does not affect the prices in national currency, whose level continues to be determined by the unchanged green rates. Nevertheless, since the difference between the price levels in two Member States (one with a strong currency and another with a weak currency — remains divided into positive and

[1] OJ L 90, 1.4 1984, p. 1

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negative MCAs by the common price — which represents a sort of demarcation line between the two — the change in this common price following a revaluation of the green ecu is reflected by a decrease in the positive MCAs and a corresponding increase in the negative MCAs.

8. There is also an adjustment of the regulatory levies on imports and export refunds proportional to the revaluation of the green ecu. In calculating the levies and refunds, the rate which must be used for conversion into ecus of the relevant world market data is subjected (on the basis of the reciprocal value) to the correcting factor, thus increasing the difference between the common price and the world market price.

9. Since the green ecu system does not affect the green rates, the national price levels are maintained unchanged, as indicated earlier. Nevertheless, the differences between price levels in two Member States take a different form, since new positive MCAs are not now created, with the result that every monetary development involves only negative MCAs. In other words, the sum of the MCAs applied to trade between two Member States is the same under the traditional system as under the green ecu system; nevertheless, the latter is intended to avoid any increase in positive MCAs and indeed to eliminate them.

10. The essential aspect in which the two systems diverge is, therefore, the level of common prices which they arrive at. Total dismantlement of the MCAs through adjustment of the green rates would lead:

(a) under the traditional system, to a price level determined by the exchange value of the real ecu in the currencies of the Member States;

(b) under the green ecu system, to a price level determined by the exchange value of the green ecu in the currency of the Member States. The green ecu represents a higher price level than that of the real ecu. At present, the correction coefficient is 1.145109, representing a green ecu value higher by more than 14.5% than that of the real ecu.[1]

In both cases, since the MCAs would have been totally dismantled, the price level attained would be the same throughout the Community — thus, a return to the 'common price' — but the level would clearly be higher in the event of an alignment based on the green ecu.

11. Since the aim of the green ecu system is to convert positive monetary gaps into negative MCAs in anticipation of easier dismantlement of negative MCAs, the inevitable consequence of the switch-over is a permanent increase in negative MCAs, the dismantlement of which becomes ever more uncertain in the context of the restrictive price policy followed since 1983/84, uninterruptedly, by the 'reformed' CAP.

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[1] The correction coefficient rose from 1.137282 to 1.145109 (in other words, it was increased by 0 69%) as a result of the monetary realignment of 5 January 1990, carried out as a result of the devaluation of the Italian lira by 3.01% against the ecu, accompanied by a reduction in the fluctuation margin of its spot rate of exchange from +/– 6% to +/– 2.25% in relation to its central rate.

IV — Financial mechanisms

A — Legal basis

1. The present agricultural system is based on Article 43 of the EEC Treaty; it thus originates from secondary agricultural law and is governed by Council Regulation (EEC) No 1676/85 of 11 June 1985 on the value of the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy, and by Council Regulation (EEC) No 1677/85 of 11 June 1985 on monetary compensatory amounts in agriculture. There are other agrimonetary regulations which are concerned solely with the procedures for applying the two basic regulations mentioned. One of the matters dealt with is the fixing of agricultural conversion rates (green rates), this being the subject of Council Regulation (EEC) No 1678/85 of 11 June 1985,[1] which has been amended on several occasions, in particular by Council Regulation (EEC) No 1179/90 of 7 May 1990 (following the agreement on 1990/91 agricultural prices).[2]

2. Those provisions codify the system as now applied (see Annex I). This is distinguished from other codifications of agricultural regulations by the fact that not only have provisions dispersed among various regulations been brought together in a comprehensive text but also by the fact that significant changes have been made on various points. With respect to the dismantlement of MCAs, for example, two principles were laid down in Regulation (EEC) No 1676/85 (Articles 1 and 2):

(i) the existence of a specific agricultural unit of account and specific agricultural conversion rates;

(ii) the use of the ecu as a unit of account and of green central rates as agricultural conversion rates, reflecting the view that both the agricultural unit of account and the green rates must be defined in the context of the European Monetary System (EMS) and that they must reflect economic reality.

B — Definitions

1. Underlying the agrimonetary system are the green rates. They are special rates for the conversion of agricultural prices fixed in ecus into national currency. They are used to ensure that monetary realignment

does not have an immediate impact on the prices of agricultural products in national currency.

2. If it were not possible to use a conversion rate other than the central rate for agricultural purposes, the revaluation of a national currency against the ecu would lead to an immediate fall in agricultural prices in national currency in the country concerned and, conversely, the devaluation of a national currency against the ecu would result in an increase in agricultural prices in terms of that currency.

3. The result would be a gap between the actual agricultural prices and those which should have been applied. In commercial transactions, this would lead to abnormal competitive situations. Therefore, it was necessary to offset those price differences by charging or granting monetary compensatory amounts on commercial transactions. The following provision is made:

(a) for Member States whose currency has risen above the exchange value of the ecu laid down for their agricultural conversion rate (green rate), the charging of monetary compensatory amounts on imports and the grant of monetary compensatory amounts on exports (positive MCAs);[3]

(b) for Member States whose currency has fallen below the exchange value of the ecu laid down for their agricultural conversion rate (green rate), the grant of compensatory amounts on imports and the charging of compensatory amounts on exports (negative MCAs).[4]

4. Since the compensation to offset the difference between national price levels is based in all cases on the common price level, MCAs are applied on both sides of this demarcation line, as explained in the previous chapter. In trade between two Member States, if both receive positive MCAs or negative MCAs, double application thereof partially or even — in somewhat exceptional cases — totally neutralizes their effects.

5. The total compensatory amount, charged or granted, is calculated by reference to:

(a) the price of the product (generally the intervention price);

(b) the monetary gaps expressed as percentage appreciation or depreciation of the currency in question;

(c) the neutral margins;

(d) the volumes of exports or imports.

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[1] OJ L 164, 24 6.1985, p 11.
[2] OJ L 119, 11.5.1990, p. 1.

[3] 'Positive' because they compensate for a national price level higher than the common level.
[4] 'Negative' because they compensate for a national price level which is lower than the common level

6. In the case of currencies within the European Monetary System, which observe the maximum difference at any time of +/– 2.25%, this percentage represents the difference between the green rate and the central rate; consequently, it remains fixed (fixed MCAs) until such time as there is a decision

(i) to modify the green rates, or

(ii) to devalue or revalue the central rates.

7. In the case of sterling, the drachma, the peseta and the escudo, the percentage appreciation or depreciation is determined by reference to changes in the ecu rates published in the *Official Journal of the European Communities* (C Series). It is calculated weekly (average) and readjusted if there is a change of at least 1 point from the percentage used for the previous determination (variable MCAs).

8. To the percentage differences thus obtained, which are known as real monetary gaps (*écarts monétaires réels*), a neutral margin (*franchise*) is applied, which at present amounts to:

1.5 points for all the Member States and all sectors, with the exception of:

(a) 1 point for Dutch positive MCAs,[1]

(b) 5 points for wine, and for eggs and poultrymeat,

(c) 10 points for olive oil.[2]

9. The result obtained is known as the 'applied monetary gap' (*écart monétaire appliqué*), which is the monetary compensatory amount. If this result exceeds 0 and is less than or equal to 0.5091, the applied monetary gap (or MCA) is 0. If it exceeds 0.50 and is less than or equal to 1, the applied monetary gap (or MCA) is 1 (non-cumulation rule).

10. The applied monetary gap or MCA is only changed when the difference between the new gap and the existing gap is equal to or exceeds 1 point (*de minimis* rule). The non-cumulation rule takes precedence over the *de minimis* rule.

11. As from the 1984/85 marketing year, the central rates used in calculating MCAs have a correcting factor applied to them, as indicated in Chapter III (green central rates).

12. MCAs are applied to intra-Community trade in products covered by intervention measures, which are known as basic products. For other products, known as derived products, the MCAs are equal to the incidence

on such products of the application of the MCA to the price of the basic product from which they are obtained. MCAs are applied to all the Member States involved in trade in the products subject to this system.

13. MCAs are also applied in trade with non-member countries. Starting from the premise that MCAs reflect a monetary impact on a price, it would appear logical that a specific MCA should be calculated, in each instance, according to the price of the product in question in the non-member countries, by reference to the world market price.

That approach, which was considered when the system was introduced, was replaced long ago by a different solution whereby the MCA for a given product is the same regardless of the origin, provenance or destination of the product in question. This approach is administratively more straightforward. It implies that MCAs in trade with non-member countries should cover the difference between the national price and the common price; the latter may be calculated by converting into national currency the price fixed in ecus using the central rate or the real value of the currency in question. From this it follows that, to compare that price with the world market price and to calculate the levy (or refund) the same conversion rate should be used in order to ensure that the system is consistently applied.

14. For that reason, in practice:

(i) the world market price is converted into ecus using the real conversion rate which is a specific rate that fairly accurately reflects the real value of the currency in which the price is expressed (Community currency or non-member country currency);

(ii) regulatory levies and refunds, fixed in ecus, are converted into the national currency of a Member State using the green rate for the currency concerned, but at the same time they are multiplied by a 'monetary coefficient'.

The monetary coefficient is derived from the applied monetary gap for the currency in question and adjusts the green rate to the level of the real value of that currency. However, this procedure is applied on an overall basis since it does not disregard the neutral margins and other factors which in some cases affect MCAs.

15. On completion of the calculation, therefore, the desired result is achieved: on imports, for example, the levy in principle brings the price of the imported product to the common level. Thereafter, it is raised or lowered by the MCA which compensates for the difference between the (national) price and the

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[1] Dutch positive MCAs (applied monetary gaps) were discontinued with effect from the 1988/89 marketing year.
[2] MCAs in the olive-oil sector were introduced as from 7 September 1987.

common price, as in the case of trade between Member States.

C — Financial provisions

1. The financial consequences of the agrimonetary system take the following forms:

(i) the monetary compensatory amounts charged to Chapter 28 of the Community budget;

(ii) the monetary coefficients (MCs) applied to export refunds and import levies and also to accession compensatory amounts;

(iii) the MCs used to adjust MCAs where they are fixed in advance;

(iv) the MCs used to convert the MC of the importing country into the currency of the exporting country in the event of the latter paying the MCA in question;

(v) the 'dual-rate coefficients' (DRCs), the effects of which are recorded within each budgetary line of the European Agricultural Guidance and Guarantee Fund-Guarantee Section.,

2. Pursuant to Article 13 of Regulation (EEC) No 1677/85 and Article 2 of the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources, monetary compensatory amounts are subject to the following financial provisions:

(a) in trade between Member States, monetary compensatory amounts are deemed to form part of the intervention measures intended to regularize the agricultural markets and, as a result, they are always accounted for as 'expenditure';

(b) in trade with non-member countries, Chapter 28, covering EAGGF Guarantee Section expenditure, does not contain all the MCAs resulting from extra-Community trade. In fact, under the regulations at present in force:

(i) for positive MCAs, the MCAs granted on exports to non-member countries are placed in Chapter 28 of the EAGGF Guarantee Section budget. On the other hand, MCAs charged on imports are regarded as own resources and are entered in the chapter for agricultural regulatory levies on an undifferentiated basis;

(ii) for negative MCAs, MCAs charged on exports are deducted from the refunds and the portion in excess of

the refunds is entered under own resources. MCAs granted on imports are deducted from the agricultural regulatory levies and the portion in excess of those regulatory levies is entered as an expenditure in Chapter 28 of the EAGGF Guarantee Section budget.

3. As regards budgetary nomenclature, the monetary compensatory amounts set out in Chapter 28 are classified according to the following nomenclature:

Article 280: MCAs in trade between Member States (intra-Community trade);

Item 2800: includes MCAs on imports granted by importing Member States (with a depreciated currency);

Item 2801: includes MCAs on imports granted by exporting Member States on behalf of importing Member States (with a depreciated currency);

Item 2802: includes MCAs on imports levied by importing Member States (with an appreciated currency);

Item 2803: includes MCAs on exports granted by exporting Member States (with an appreciated currency);

Item 2804: includes MCAs on exports levied by exporting Member States (with a depreciated currency);

Article 281: MCAs in trade with non-member countries

Item 2810: comprises the portion of MCAs granted on imports (into Member States with a depreciated currency) which exceeds the import levy;

Item 2811: includes MCAs granted on exports by exporting Member States (with an appreciated currency); the MCAs levied on exports by exporting Member States (with a depreciated currency) are deducted from the refunds and, if they exceed the refunds, the balance is accounted for under own resources.

4. Having regard to the situation of each currency, the financial mechanisms are summarized in Table 1, where the plus sign (+) indicates an expenditure for the EAGGF and the minus sign (–) represents a reduction of expenditure or a receipt which amounts to a deduction from expenditure.

Table 1 — Financial mechanisms for the implementation of MCAs

Budgetary item		Appreciated currencies	Depreciated currencies
Article 280	MCAs in intra-Community trade		
2800	MCAs on imports granted by importing Member States (with a depreciated currency)		(+)
2801	MCAs on imports granted by exporting Member States on behalf of importing Member States (with a depreciated currency)		(+)
2802	MCAs on imports levied by importing Member States (with an appreciated currency)	(−)	
2803	MCAs on exports granted by exporting Member States (with an appreciated currency)	(+)	
2804 °	MCAs on exports levied by exporting Member States (with a depreciated currency)		(−)
Article 281	MCAs in trade with non-member countries		
2810	Portion of MCAs granted on imports (into Member States with a depreciated currency) which exceeds the import levy		(+)
2811	MCAs granted on exports by exporting Member States (with an appreciated currency)	(+)	

V — European Monetary System (EMS) — The ecu

1. The EMS came into operation on 13 March 1979 (Regulations (EEC) Nos 3180/78[1] and 3181/78[2]). That system introduced the ecu as the sole Community unit of account.

2. The ecu is a 'basket'-type monetary unit made up of the currencies of the Member States in specific proportions determined according to the basic economic importance of each of the States.

3. As from 8 October 1990,[3] the ecu is made up of:

Amount of each currency in the ecu		% of each currency in the ecu
BFR	3.301	7.83
DKR	0.1976	2.53
DM	0.6242	30.53
DR	1.440	0.77
PTA	6.885	5.18
FF	1.332	19.43
IRL	0.008552	1.12
LIT	151.8	9.92
LFR	0.130	0.31
HFL	0.2198	9.54
ESC	1.393	0.78
UKL	0.08784	12.06

The value of the drachma and the escudo are only theoretically taken into account in calculating the value of the ecu.

4. The central rates used in this system are the rates fixed by the central banks, around which the market exchange rates of the EMS currencies may fluctuate, within a maximum range of +/– 2.25% (+/– 6% for the lira until 4 January 1990, for the peseta as from 21

September 1989 and for sterling as from 8 October 1990). Fluctuation of the drachma and the escudo is not confined to any margin.

5. As from 8 October 1990, the central rates are as follows:[4]

ECU 1 = BFR/LFR   42.4032
        DKR   7.84195
        DM   2.05586
        DR   205.311   (notional rate)
        PTA   133.631   (fluctuation margin of +/– 6%)
        FF   6.89509
        IRL   0.767417
        LIT   1 538.24
        HFL   2.31643
        ESC   178.735   (notional rate)
        UKL   0.696904 (fluctuation margin of +/– 6%)

6. The notional central rates are adjusted only where there is a change in the real rates. Consequently, a change in the market exchange rates for the drachma and the escudo does not lead to a change in the central rates.

7. The value of the ecu against the currencies of the Member States is published in the *Official Journal of the European Communities* (C Series) for each currency market business day. The Commission has a telex with an answering machine which provides conversion rates for the main Community and foreign currencies on request.

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[1] OJ L 379, 30.12 1978, p. 1
[2] OJ L 379, 30.12.1978, p 2.
[3] Sterling entered the EMS on 8 October 1990 with a central real rate of 0.696904, which differed slightly from the previous (notional) central rate However, this change should not be regarded as a monetary realignment since sterling did not previously form part of the mechanism for regulation of fluctuations in EMS parities.

[4] On 5 January 1990 — the date on which the Lira entered the EMS subject to a maximum spread of +/– 2.25% — the central rates were as follows:
ECU 1 = BFR   42 1679
        DKR   7.79845
        DM   2 04446
        DR   187.934   (notional rate)
        PTA   132 889   (fluctuation margin of +/– 6%)
        FF   6.85684
        IRL   0.763159
        LIT   1 529.70
        LFR   42.1679
        HFL   2.30358
        ESC   177.743   (notional rate)
        UKL   0 728615 (notional rate)

VI — Central rates — Green central rates — Correcting factor — Switch-over

A — Definitions

1. Central rates (CRs)

These are conversion rates determined within the European Monetary System. They are stable rates. Changes to them are decided under a consultation procedure involving the Governors of the Central Banks of the Member States concerned.

2. Green central rates (GCRs)

These are central rates multiplied by the correcting factor, which serve as a basis for calculating the MCAs for the stable currencies (which keep within the maximum spread of +/– 2.25% within the EMS).

3. Correcting factor (CF)

This factor links the value of the ecu to the value of the strongest currency in the EMS (German mark) which keeps within the maximum spread of +/– 2.25%. It is determined mathematically by the Commission in accordance with the management committee procedure.

It is applied to the central rates of all the currencies in the EMS and to all the market exchange rates of the floating currencies.

4. Switch-over

This mechanism comprises the arrangements whereby, since 1984, existing positive MCAs have been dismantled and the creation of new ones has been avoided. This is done by multiplying each central rate by the correcting factor, thus creating the green central rates. The real monetary gaps (RMGs) between the green central rates and the green rates are used for calculation of the applied monetary gaps (AMGs) which become lower for Member States with strong currencies and higher for Member States with weak currencies, since the switch-over mechanism converts positive MCAs into negative MCAs.

B — Dismantlement of the positive MCAs

1. First switch-over (end of March 1984)

On 31 March 1984, the Council decided, with effect from the 1984/85 marketing year, to dismantle the existing positive MCAs by three points, converting them into negative MCAs.[1]

The purpose of that decision was to undertake dismantlement of the positive MCAs without changing the level of the prices expressed in national currency of the country with positive MCAs and the strongest currency (Germany) and, therefore, without revaluing its green rate (problem of lower income for German producers).

In those circumstances, the reduction of the difference between the Community price and the German/Dutch price — at that time the only currencies with positive MCAs — could only be achieved by increasing the Community price. That solution was put into practice by multiplying the central rates by a coefficient known as the correcting factor (1.033651), which reflected the desired dismantlement of the positive MCAs.

Multiplication of the central rates by a coefficient exceeding 1 is equivalent to devaluation of those rates or, from the standpoint of the ecu, revaluation of the ecu. Since the operation was limited to agriculture, it was described as creating the green ecu.

As a result of the fact that Community agricultural prices are expressed in ecus and the value of the ecu has increased, the level of Community agricultural prices has risen (see Figures 2 and 3). In the future, the agricultural conversion rates (green rates) will not be adjusted to the real central rates for the currencies concerned but to the green central rates, that is to say the central rates after application of the correcting factor, which now represent the Community price level.

The new green central rate for the German mark — for which the dismantlement of three points of positive MCAs had been decided upon — was calculated according to the following formula:

$$GCR = \frac{(100 - NRMG)\ GR^2}{100}$$

where GCR: green central rate

NRMG: new desired positive real monetary gap (after dismantlement of positive MCAs)

GR: green rate

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[1] This conversion resulted in the creation of negative MCAs varying from 3 3 points (Denmark) to 3.8 points (Greece), based on the existing monetary gaps. Those negative MCAs were immediately dismantled by an adjustment of the green rates of the Member States affected by that conversion.

[2] In fact, this formula constitutes the following derivation from the basic formula

$$RMG = \left(1 - \frac{CR}{GR}\right) \times 100$$

The devaluation of the green rate, calculated in accordance with that procedure, may be expressed by means of a coefficient representing the relationship between the real central rate and the green central rate. That coefficient is the correcting factor (CF), which is calculated according to the formula:

$$CF = \frac{GCR}{CR}$$

Example:

Data:

CR = ECU 1 = DM 2.24284

GR = ECU 1 = DM 2.51457

RMG = + 10.846, RMG being the real monetary gap for the CMO as at 31 March 1984.

Desired dismantlement = 3.000, which gives an NRMG of + 7.846.

Calculation:

$$GCR = \frac{(100-7.846)\ 2.51457}{100} = \frac{92.154 \times 2.51457}{100}$$
$$= DM\ 2.31728$$

Against the real central rate for the German mark, the green central rate for that same currency was devalued by 3.3651%. Consequently, it was necessary to devalue the central rates for the other currencies by the same percentage, by applying the correcting factor to them:

$$CF = \frac{2.31728}{2.24284} = \frac{1.033651}{}$$

Since the aim pursued is to avoid creating positive MCAs, the green central rate for the German mark will continue to be the basis of the system (the same until the next switch-over) for such time as that currency continues to be the strongest in the EMS.

2. Second switch-over (beginning of July 1987)

The dismantlement of one point from positive MCAs by their conversion into negative MCAs (second switch-over operation), decided upon at the beginning of July 1987, was calculated in accordance with the formula applied when the system was introduced, namely:

$$NGCR = \frac{(100 - NRMG)\ GR}{100}$$

where NGCR: new green central rate

Data:

CR = ECU 1 = DM 2.05853

GR = ECU 1 = DM 2.38516

RMG = + 2.846

Desired dismantlement = 1.000, which results in an NRMG of + 1.846

Calculation:

$$NGCR = \frac{(100-1.846)\ 2.38516}{100} = \frac{DM\ 2.341113}{}$$

$$CF = \frac{2.34113}{2.05853} = \frac{1.137282}{}$$

C — Revaluation of the central rates

3. The switch-over mechanism was also introduced to ensure that a revaluation did not create positive MCAs for the currencies kept within the maximum spread of +/– 2.25%. That objective can only be achieved if the relationship between the green central rate, on the one hand, and the agricultural conversion rate, on the other, for the strongest currency remains unchangeable.

In principle, the achievement of that result requires the (artificial) cancellation of the effect of the revaluation of the central rate of the strongest currency on the central rates of the other Community currencies. For that purpose, it is necessary to change the correcting factor whenever the central rate for the strongest currency is revalued. The new correcting factor (NCF) is calculated according to the formula:

$$NCF = \frac{GCR}{NCR}$$

where NCR: new central rate after the revaluation

Example: (basis: twelfth readjustment of 12 January 1987)

Data:

GCR (ECU 1) = DM 2.31728
OCR (ECU 1) = DM 2.11083
OCF (ECU 1) = DM 1.097805
NCR (ECU 1) = DM 2.05853

where OCR: old central rate
OCF: old correcting factor.

Calculation:

$$NCF = \frac{2.31728}{2.05853} = \frac{1.125696}{}$$

NB: In this case it is clear that the green central rates of the other currencies are devalued, whereas the green central rate for the German mark remains unchanged (since its central rate is revalued).

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D — Aid to compensate for reduced agricultural income resulting from the dismantlement of positive MCAs

Mention should also be made of the measures which came into operation on 1 January 1985, as part of the agrimonetary decisions of 31 March 1984, even though the latter were not directly linked with the switch-over mechanism. On that date, as an additional measure, 5 points were dismantled from the German positive MCAs by adjustment of the green rate for the German mark. The drop in agricultural income in Germany was compensated for by national aid through VAT,[1] with a financial contribution from the Community.[2] At the same time, the Dutch MCAs were reduced — by adjustment of the green rate for the Dutch guilder — by 0.6 points for the dairy products sector, 0.7 points for the cereals sector and 0.8 points for the other sectors. The fall in agricultural income was compensated for by national structural aid. These compensatory operations, using national aid, offsetting the fall in agricultural income deriving from the reduction of the positive MCAs brought about by changes to green rates, have been repeated and even become institutionalized (see Chapter XIV, Section A, regarding the future system and Section B, regarding dismantlement of the existing MCAs and also Chapter XVIII, Section D - 10).

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[1] See the Commission report, SEC(89) 1574 final of 30 October 1989 According to that report, the aggregate amount of the compensation given to German farmers through VAT to mitigate the losses suffered by them as a result of the increase in the green rate for the German mark on 1 January 1985 was German mark 2 563 million in 1986 and DM 2 391 million in 1987. In 1987, the total sum represented 4 5% of final farm production and 13.8% of net added value.

[2] ECU 120 million for 1985 and ECU 100 million for 1986 (see Newsflash — Green Europe, No 27, April 1984, 'Agricultural prices 1984/85 and rationalization of the CAP — Council decisions', paragraph 4.2 b, p 19)

VII — Agricultural conversion rates (representative or green rates)

A — Definitions

1. The green rate (GR) is applied for conversion of prices and other amounts fixed in ecus under the common agricultural policy (CAP).

2. The Council determines the agricultural conversion rates, by a qualified majority and on a proposal from the Commission (Article 2(3) of Regulation (EEC) No 1676/85). This procedure is the one generally followed for the adoption, under the CAP, of provisions which are of manifest political importance.

3. No provision is made for consultation of the European Parliament since no question of principle is involved; Parliament was consulted on Regulation (EEC) No 1676/85, which contains the legal basis for determination of the green rates.

However, since the determination of green rates is a component of the annual decision concerning agricultural prices (the prices package and related measures) and that package is regularly submitted, in its entirety, to Parliament for an opinion, the European Parliament has an opportunity to express its views on the determination of green rates as well. Nevertheless, where rates are fixed in the course of the marketing year, Parliament is not consulted.

4. On the other hand, when rates are fixed the Monetary Committee must be consulted (Article 11 of Regulation (EEC) No 1676/85). In principle, the committee must be consulted before a decision is adopted. In practice, decisions are very often a matter of urgency for political reasons. In such cases, the Monetary Committee is consulted *ex post facto*. The validity of the decision is not thereby undermined; the measures taken are provisional and are — automatically — made definitive following a favourable report from the Committee. If the Committee were to issue a negative opinion, it would be necessary to review the decision taken, without prejudice to its being kept in place. In such circumstances, a new legislative measure would be required.

5. It must be emphasized that agricultural conversion rates may exist which differ from those fixed by the Council in Regulation (EEC) No 1678/85 (Articles 2(4) and 3(2) of Regulation (EEC) No 1676/85).

The importance of this legal power to derogate lies in the procedure referred to by Article 10(2) of the same Regulation. That procedure is twofold in character:

(i) either the Council procedure, referred to earlier;

(ii) or a procedure under which the Commission adopts a decision by virtue of the powers available to it for special cases.

6. The Commission has powers to fix a green rate by way of derogation to the extent to which — and according to the procedure by which — it has to fix the amounts which are to be converted. More precisely, it follows that, with respect to an amount to be fixed under the management committee procedure (for example, export refunds), the Commission may, under the same procedure, lay down another agricultural conversion rate. If the Commission alone has powers, without the management committee, it may also, acting alone, fix a special green rate (for example, with respect to regulatory levies). That basis was recently used, for example, in the adoption of Regulation (EEC) No 3294/86,[1] in which it is provided that the levies and refunds for rice applicable to trade with non-member countries must not be converted in accordance with the normal green rates but on the basis of green rates which closely reflect the real situation. The purpose of that provision is to render the levies and refunds fixed for this sector more comparable — if not identical — in all the Member States, thus avoiding the distortions in trade which result from levies of very different levels, such as would have been arrived at using the normal green rates.' In this way, a common level of protection is established *vis-à-vis* third countries. The determination of this special agricultural conversion rate — which is applicable only to trade with non-member countries, even though the normal green rates continue to be applied for conversions within the Community (intervention prices, aids, etc.) — has made it possible to mitigate monetary difficulties in the rice sector, which are liable to arise essentially in trade with non-member countries, without introducing MCAs in intra-Community trade, these being unnecessary in the Commission's view, owing to the market characteristics of this sector (see Chapter XII, Section F - 3).

NB: In February 1990, the Commission submitted a proposal (COM(90) 73 final of 20 February 1990) for the possibility of wider use of rates more in line with economic reality where there is a risk of distortion of the agricultural market by reason of monetary factors. In addition, to avoid unequal treatment as between Member States, the possibility is also envisaged of the fixing of a specific conversion rate closely reflecting economic reality in order to convert amounts expressed in the national currency of a non-member

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[1] OJ L 304, 20 10.1986, p. 25.

country into the national currency of a Member State. The procedure used is that mentioned in Section A - 2 to 4 of this chapter in the first case and the 'management committee' procedure in the second case. The proposal was finally adopted by the Council in July 1990 (Regulation (EEC) No 2205/90, OJ L 201, 31. 7. 1990, p. 9), which rejected the amendments proposed by the European Parliament (PE 141.422).

The Commission is also empowered to fix new green rates deriving from the application of agreements for the automatic dismantlement of negative MCAs, known as 'artificial' or 'transferred' MCAs (see Chapter XIV) and compliance with the maximum limit of 8 points between MCAs applied in the pigmeat sector and the cereals sector (see Chapter XV).

B — Calculation of the new green rate, devalued or revalued by a specified percentage

1. Under the common agricultural policy, the green rate (GR) is defined as:

ECU 1 = GR

In the event of a devaluation (revaluation) of Y% of the green rate of the Member State concerned against the ecu, the new green rate (NGR) is fixed as follows:

ECU 1 = NGR

where the NGR will be greater (or less) than the old green rate (OGR).

Formula:

$$NGR = \left(\frac{100}{(100 +/- Y)}\right) x \ OGR$$

where Y is the percentage devaluation (Y is negative) or revaluation (Y is positive) of the green rate.

NB: This formula is applicable to all the Member States.

Example: French franc

OGR = ECU 1 = FF 5.99526

Devaluation of 3% (Y = -3)

$$NGR = ECU \ 1 = \left(\frac{100}{100 - 3}\right) x \ 5.99526 = FF \ 6.18068$$

NB: Green rates are rounded to six significant figures.

C — Calculation of the new green rate, devalued or revalued according to the desired result in terms of prices

1. If it is wished to increase or decrease the green rate according to the desired result in terms of prices, the OGR value must be amended in order to obtain the NGR value. The green rate is redefined as follows:

Formula:

$$NGR = \left(\frac{100 \ x \ Y}{100}\right) x \ OGR$$

where Y is the desired percentage change in prices (Y is positive: price increase) or (Y is negative: price reduction), expressed in national currency.

NB: This formula is applicable to all the Member States.

Example: French franc

OGR = ECU 1 = FF 7.00089

Desired price increase in FF: + 1.5% (Y = 1.5)

$$NGR = ECU \ 1 = \left(\frac{100 + 1.5}{100}\right) x \ 7.00089 = 7.10590$$

NB: The new value of the green rate is rounded to six significant figures.

D — Calculation of the new green rate, devalued or revalued according to the desired result in terms of applied monetary gaps

1. In this case, the calculation method must distinguish between the Member States which keep within the maximum spread of +/- 2.25% imposed by the EMS (EMS currencies) and those outside the system (floating currencies).

2. Calculation for EMS currencies

(a) Calculation of the applied monetary gap

As far as Member States in the EMS are concerned, the correcting factor must be applied to the central rate.

Thus, GCR = ECU 1 = CR x CF.

Since the green rate is defined as ECU 1 = GR for the purposes of the CAP, the real monetary gap (RMG) is, consequently, the existing gap between the green rate and the green central rate.

Formula:

$$RMG = \left(\frac{1 - GCR}{GR}\right) \times 100$$

Example: French franc

CR = ECU 1 = FF 6.90403

GCR = ECU 1 = FF 6.90403 × 1.137282 = FF 7.85183

GR (milk) = ECU 1 = FF 7.47587

$$RMG = \left(1 - \frac{7.85183}{7.45787}\right) \times 100 = -5.029$$

Neutral margin: 1 500

Corrected monetary gap: -3.529

Applied monetary gap: -3.5

NB: The real monetary gap is rounded to three decimal places and the applied monetary gap is rounded to one decimal place.

(b) Calculation of the new green rate

In order to obtain the new devalued or revalued green rate giving the desired result in terms of applied monetary gaps, it is necessary to determine the real monetary gap (including, where appropriate, the neutral margin) and then calculate the value of the green rate in accordance with the following formula:

$$NGR = \left(\frac{100}{100 +/- NRMG}\right) \times GCR$$

where NRMG is the desired new real monetary gap.

Example: If it is sought to obtain a real monetary gap for France of -2.0 points:

$$NGR = ECU\ 1 = \left(\frac{100}{100 + 2.0}\right) \times 7.85183 = FF\ 7.69787$$

NB: The new value for the green rate is rounded to six figures.

3. Calculation applied to floating currencies

Since there is no real central rate for Greece and Portugal, and since the United Kingdom and Spain do not observe the maximum spread of +/- 2.25%, the method of calculation set out above — based on the green central rate — is not applicable to those Member States.

With respect to the latter, the new green rate, devalued or revalued according to the desired result in terms of applied monetary gaps, is determined as follows:

(i) on the basis of the existing green rate, there is a real monetary gap (RMG) and a corresponding applied monetary gap (AMG);

(ii) if it is sought to obtain a new applied monetary gap (NAMG), it is necessary to calculate the new real monetary gap (NRMG) and the corresponding new green rate (NGR); the RMG is rounded to three decimal places.

Formulas:

(a) Devaluation of the green rate:

$$Y(\%) = \left(\frac{RMG-NRMG}{100 +/- RMG}\right) \times 100$$

(b) New green rate:

$$NGR = \left(\frac{100}{100 +/- Y}\right) \times OGR$$

where RMG = real monetary gap (existing)
NRMG = new real monetary gap
OGR = old green rate

Example: Greek drachma

OGR (cereals) = ECU 1 = DR 134.174
RMG = -39.136
Neutral margin = 1.5
AMG = -37.636

If the intention is to reduce the applied monetary gap by 20 points:

NAMG = -17.636
NRMG = -17.636 - 1.5 = -19.136

Devaluation of the green rate:

$$Y(\%) = \left(\frac{39.136 - 19.136}{100 + 39.136}\right) \times 100 = 14.374$$

New green rate:

$$NGR = ECU\ 1 = \left(\frac{100}{100 - 14.374}\right) \times 134.174 = DR\ 156.699$$

NB: The devaluation or revaluation percentages are rounded to three decimal places in all cases; the green rate is always rounded to six figures; the RMG is rounded to three decimal places.

E — Calculation of the effect of a change in the green rate on agricultural prices expressed in national currency

1. Only the agricultural conversion rate is changed

Since prices fixed in ecus are converted into national currency using the green rate, a change to the green rate means that agricultural prices expressed in national currency are also changed.

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The impact, in percentage terms, of a change in the agricultural conversion rate on the level of common prices in national currency (CPNC) is calculated in accordance with the following formula:

$$CPNC = \left(\frac{NGR}{OGR} - 1\right) \times 100$$

Example:

OGR = DR 134.174
NGR = DR 151.501

$$CPNC = \left(\frac{151.501}{134.174} - 1\right) \times 100 = 12.914\%$$

2. The agricultural conversion rate and the agricultural prices fixed in ecus are changed

Where the change in the green rate is accompanied by a change in the common prices fixed in ecus, the formula applied to calculate the total effect on the level of agricultural prices in national currency is as follows:

$$\text{Impact (amount)} = \left(\frac{NCP}{OCP} \times \frac{NGR}{OGR}\right) \times 100$$

where OCP: old common price
NCP: new common price

Where the increase in prices fixed in ecus and the

effect of the change of prices in national currency resulting from adjustment of the agricultural conversion rate are expressed as a percentage (P), the total impact on the national level of agricultural prices is calculated in accordance with the following formula:

$$\text{Impact (\%)} = \left(\frac{(100 + P) \times (100 + P\ GR)}{100}\right) - 100$$

Example: Spanish peseta

OCP (intervention price for durum wheat) = ECU 211.06/tonne

NCP (intervention price for durum wheat) = ECU 219.78/tonne (increase: + 4.13%)

OGR = ECU 1 = PTA 145.796

NGR = ECU 1 = PTA 154.213
(devaluation: − 5.77%)

$$\text{Impact (amount)} = \left(\frac{219.78}{211.06}\right) \times \left(\frac{154.213}{145.796}\right) \times 100 = 110.14$$

or

$$\text{Impact (\%)} = \left(\frac{(100 + 4.13) \times (100 + 5.77)}{100}\right)$$
$$- 100 = 10.14\%$$

VIII — Real conversion rates or world market rates used for the purposes of the common agricultural policy

A — Definitions

1. The term 'world market rate' (WMR) is employed because those rates are used essentially for the conversion of world market prices for the purposes of the CAP.

2. The value of the ecu, which is published daily in the Official Journal, is not used as such in the agricultural sector.

3. The regulations laying down the calculation methods for monetary gaps are based essentially on the EMS currencies which remain within the maximum spread of +/− 2.25%. Accordingly, the real conversion rates are calculated in accordance with the methods set out in the following paragraphs.

B — Calculation of the real conversion rate for EMS currencies

The values for the central rates expressed in ecus, to which the correcting factor has been applied, are treated as real conversion rates and are used for the purposes of world market data.

Example: DM 1 = ECU 0.485784, to which rate the correcting factor of 0.879289

$$\left(\frac{1}{1.137282}\right)$$

must be applied, which gives a resultant real conversion rate (RCR) for the German mark equivalent to DM 1 = ECU 0.42714.

C — Calculation of the real conversion rate for floating currencies

(See Annex II — calculation procedure for the drachma.)

(a) Basic data

The daily values of the ecu, in the various currencies, as published daily in the *Official Journal of the European Communities*, are used as basic data.

(b) Calculation method

Using the published data, it is possible to calculate the bilateral cross-rates used for calculation of the real conversion rates.

Example:

ECU 1 = BFR/LFR 43.0965

ECU 1 = DR 158.775

from which it follows that:

$$\text{BFR/LFR } 1 = \frac{158.775}{43.0965} = \text{DR } 3.684174$$

which is the cross-rate for the fifth line in the first column of Annex II.

These calculations are made as between each floating currency and the EMS currencies which remain within the maximum spread of +/− 2.25% — namely the Belgian/Luxembourg franc, the Danish krone, the German mark, the French franc, the Dutch guilder and the Irish pound[1] — for the five business days (from Wednesday to Tuesday) making up the reference period (lines 5 to 10 of columns 1 to 5 of Annex II).

Formula:

$$\text{RCR} = \frac{1}{6} \sum_{i=1}^{6} \frac{\text{DR}}{\text{NC}} \text{ MR} \times \frac{\text{NC}}{\text{ECU}} \text{ GCR}^2$$

where RCR: real conversion rate,
NC: EMS currencies observing the maximum spread of +/− 2.25%,
DR: floating currency for which the calculation is made,
MR: market rate of exchange,
GCR: green central rate
NB: The cross-rates for the floating currencies (lines 1 to 4 of Annex II) are determined merely for information; they are not used in calculating the market exchange rate for the drachma.

The daily values enable a weekly average to be calculated for each EMS currency (column 6 of Annex II). This weekly average gives a market value for the drachma in relation to the Belgian/Luxembourg franc, the Danish krone, the German mark, the French franc, the Dutch guilder and the Irish pound.[2]

Example: Average for 23 to 29 September 1987 (line 5, column 6 of Annex II)

BFR/LFR 1 = DR 3.686105

NB: All the cross-rates, and also the weekly averages, are rounded to six decimal places.

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[1] The Italian lira is included from 5 January 1990.
[2] From 5 January 1990, the formula is.

$$\text{RCR} = \frac{1}{7} \sum_{i=1}^{7} \frac{\text{DR}}{\text{NC}} \text{ MR} \times \frac{\text{NC}}{\text{ECU}} \text{ GCR}$$

(See Annex III.)

However, the intention is still to obtain a value for the drachma in ecus. Since the value for the drachma in Belgian francs is already available, it is necessary to convert the Belgian franc into ecus. This relationship is defined by the central rate for the Belgian franc expressed in ecus. Accordingly, column 7 of Annex II contains the central rates (in ecus) for the currencies participating in the EMS.

A value for the drachma in ecus is obtained on the basis of the Belgian franc by dividing the central rate for the Belgian franc (in ecus) by the weekly average of the market rate of exchange for the Belgian franc against the drachma.

BFR 1 = DR 3.686105

BFR 1 = ECU 0.0235526

from which it follows that:

$$\text{DR } 100 = \left(\frac{0.02355256}{3.686105}\right) \times 100 = \text{ECU } 0.638956$$

or ECU 1 = DR 156.505

which is the real conversion rate (or world market rate) for the drachma on the basis of the Belgian franc.

The result of the calculations is shown, currency by currency, in column 8 of Annex II to six significant figures in terms of DR 100 = ECU x. Then an arithmetic mean of the six values thus obtained is given. The result is the average weekly market value of the drachma, expressed in ecus.

For example, for the period from 23 September 1987 to 29 September 1987, the average market value of the drachma was DR 100 = ECU 0.635639, to which rate must be applied the correcting factor (1.137282), which gives an RCR for the drachma of DR 100 = ECU 0.558911.

In the event of a change in the MCAs for the currency in question, the ruling conversion rate is replaced by the new average.

The average value thus obtained is applied:

(a) for calculation of the MCAs (see Chapter X, Section B);

(b) calculation of the cross-rates in the Annex to the Regulation fixing the conversion rates used for calculation of the MCAs applicable to specified amounts (see Chapter XI, Section C).

NB: In February 1990, the Commission submitted a proposal (COM(90) 73 final of 20 February 1990) for amendment of the current agrimonetary rules (Article 5(2) of Regulation (EEC) No 1677/85) to allow recourse to the ecu, directly, as a reference basis (instead of the EMS currencies) in order to determine the market exchange rates of floating currencies and to fix the MCAs calculated by reference to them. The proposal was finally adopted by the Council in July 1990 (Regulation (EEC) No 2205/90, OJ L 201, 31. 7. 1990, p. 9) which rejected the amendments proposed by the European Parliament (PE 141.422).

D — Calculation of the real conversion rate for non-Community currencies

(a) Every week, the real conversion rate is calculated for the following non-Community currencies:

Norwegian krone

Swedish krona

Swiss franc

Austrian schilling

Finnish mark

United States dollar

Canadian dollar

Japanese yen

New Zealand dollar

Australian dollar

(b) Basic data

The basic data for these calculations are the ecu values published in the *Official Journal of the European Communities*, C Series.

(c) Calculation method

The calculation method is the same as that used for the drachma.

In Annexes IV (before 5 January 1990) and V (after 5 January 1990), an example is given of the calculation for the US dollar.

The current real conversion rate is adjusted and replaced by a new average calculated in the same way when the difference between the two rates is equal to or greater than 1%.

IX — Monetary compensatory amounts

A — Legal basis

(a) Basic regulation: Regulation (EEC) No 1677/88 of 11 June 1985 on monetary compensatory amounts in agriculture (OJ L 164, 24. 6. 1985, p. 6).

(b) Commission Regulation (EEC) No 3153/85 of 11 November 1985 fixing the methods for the calculation of monetary compensatory amounts (OJ L 310, 21. 11. 1985, p. 4).

B — Definition

1. MCAs are intended to compensate, in international trade, for differences between, on the one hand, the Community price (defined by the real ecu central rates) and, on the other, the prices in the Member States (defined by the agricultural conversion rates) in appreciated or depreciated currency.

C — Real, corrected and applied monetary gap

1. The monetary gap is defined as the percentage difference between the market rate of exchange for a currency, after application of the correcting factor, and the green rate for that currency.

2. The market exchange rate (MR) which must be used as a basis for calculating the gaps is:

(i) the central rate, in the case of currencies which observe the maximum spread of +/− 2.25% (EMS currencies), adjusted by application of the correcting factor (GCR);

(ii) an average of the daily exchange rates (market exchange rates) in the case of currencies which are not kept within that spread (floating currencies), adjusted by application of the correcting factor (green market rates (GMRs)).

3. The gap thus defined — stated to three decimal places — is the real monetary gap (RMG). The neutral margin is deducted, giving the corrected monetary gap (CMG) which, after being rounded to one decimal place (applied monetary gap (AMG)), is applied to calculation of the monetary compensatory amounts.

D — Neutral margin ('Franchise')

1. It has always been accepted that under the CAP a certain margin of monetary fluctuation will not be compensated for. The reason for this is that there is a monetary risk inherent in every agricultural import or export transaction, which must be borne by the economic agent concerned. The purpose of neutral margins is, therefore, to reduce the impact of the MCAs in order to promote free trade.

As is the case whenever limits are defined, those adopted for the various sectors subject to the MCA system are arbitrary in character.

2. At present, the following neutral margins apply:

1.5 points for all Member States and all sectors, with the exception of:

1 point for Dutch positive MCAs (NB: the Dutch positive MCAs were abolished at the start of the 1988/89 marketing year);

5 points for wine, eggs and poultrymeat;

10 points for olive oil.

In the last two cases the neutral margins are maximum margins which are all subject to an implementing decision of the Commission. That decision has been adopted (see Article 4 of Regulation (EEC) No 3156/85, as amended by Regulation (EEC) No 1995/87);[1] in the three sectors (wine, poultrymeat and olive oil) the maximum has been chosen.

E — Minimum threshold

1. Previously there was no minimum threshold for the application of MCAs except in the case of certain products obtained from agricultural products, which were not included in Annex II to the EEC Treaty. That minimum threshold was ECU 1 per 100 kg; where the exchange value of an MCA was less than ECU 1, that MCA was not applied (Article 5(3) of Regulation (EEC) No 3153/85).[2]

2. The specific regime applied to the goods in question also provided for periodical examination of the list of products subject to MCAs. If the highest MCA in the Community did not exceed 3% of the value of the product concerned, no MCA was applied. This system — described here only briefly — proved unsatisfactory, owing in particular to the fact that the

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[1] OJ L 186, 6.7.1987, p. 1.
[2] OJ L 310, 21 11.1985, p. 4.

situation in a Member State had repercussions throughout the Community. Accordingly, a higher minimum threshold was substituted (ECU 3 per 100 kg).

3. The same threshold has been applied to preserves and jams which will be subject to MCAs in the future. The minimum threshold for application of MCAs must not be confused with a neutral margin. The latter leads to a generalized reduction in MCAs of an identical amount. On the other hand, the threshold eliminates MCAs below the limit value, but the remaining MCAs which exceed the threshold are applicable without any deduction. Consequently, the minimum threshold is closer to the earlier system of products not included in Annex II to the Treaty, but avoids the exaggerations inherent in the latter and is easier to apply (see Chapter X, Section B - 5(h)).

F — The *de minimis* rule

1. This rule provides that the AMG will only be changed when the difference between the new gap and the pre-existing gap is equal to or greater than 1 point.

2. Where several green rates are applied and, consequently, several AMGs, all the AMGs will be changed when that minimum difference of 1 point is reached in one or more sectors or when the AMG has to be changed in one sector through application of the 'non-cumulation' rule.

3. It has been agreed that the 'world market rate' for the United Kingdom, Greece, Spain and Portugal will not be changed unless the real monetary gap is changed.

G — The non-cumulation rule

1. This rule provides that:

(i) 0% will apply until such time as, after deduction of the neutral margin, the result obtained is less than or equal to 0.5 and greater than 0;

(ii) 1% shall apply until such time as, after deduction of the neutral margin, the result obtained is less than or equal to 1 and greater than 0.5.

2. It has been decided that the non-cumulation rule will take precedence over the *de minimis* rule. Consequently, the *de minimis* rule will not come into play either on commencement or on completion of application of the non-cumulation rule.

3. In determining results between 0.50 exclusive and 1 inclusive, the amended gap must be rounded as follows:

(i) figures as from 0.501 are rounded to 0.51;

(ii) figures up to 1.049 are rounded to 1.

H — Monetary and agrimonetary information

1. The conversion rates for the ecu are published each day in the *Official Journal of the European Communities*, C Series. In addition, an answering machine gives this information and another answering machine reports on daily trends in the monetary gaps applied for the purposes of the common agricultural policy.

I — Calculation of the applied monetary gap

(a) EMS currencies

The real monetary gap is the percentage difference between the green rate and the green central rate for the currency in question.

Formula:

$$RMG = \left(1 - \frac{GCR}{GR}\right) \times 100$$

from which it follows that the green central rate:

GCR = ECU 1 = CR x CF

Example: French franc

CR = ECU 1 = FF 6.90403

GCR = ECU 1 = 6.90403 x 1.37282 = FF 7.85283

GR (milk) = ECU 1 = FF 7.47587

$$RMG = \left(1 - \frac{7.85183}{7.47587}\right) \times 100 = 5\ 029$$

Neutral margin = 1.500

CMG = – 3.529

AMG = – 3.5

(b) Floating currencies

In principle, the calculation method used is the same as for those currencies that are maintained within a maximum spread of +/- 2.25%. The difference lies in the fact that instead of the green central rate, the green market rate is used, being calculated in accordance

with the method shown in Chapter VIII, Section C, and adjusted by application of the correcting factor.

The real monetary gap is the percentage difference between the green market rate and the green rate for the currency in question.

Formula:

$$RMG = \left(1 - \frac{GMR}{GR}\right) \times 100$$

from which it follows that the market rate:

MR = ECU 1 = weekly average of the market exchange rates calculated as against the EMS currencies,

and the green market rate:

GMR = ECU 1 = MR x CF

Example: Greek drachma

MR = ECU 1 = DR 157.322

GMR = ECU 1 = 157.322 x 1.137282) = DR 178.919

GR = (cereals) = ECU 1 = DR 134.174

$$RMG = \left(1 - \frac{178.919}{134.174}\right) \times 100 = 33.348$$

Neutral margin = 1.5

CMG = 31.848

AMG = 31.8

In the case of floating currencies, the applied monetary gaps are calculated weekly on the basis of trends in the market rate of exchange (from Wednesday to the following Tuesday) of the floating currency in question, against the seven EMS currencies.[1]

Annex VI shows the calculation procedure for the drachma.

Line 1 indicates the average market exchange rate for the drachma against the ecu for the reference period between 23 and 29 September 1987, as calculated in accordance with the method given in Chapter VIII, Section C (see also Annex II).

All the rates expressed in ecus are in the EMS and the agrimonetary system and thus line 2 indicates the average market exchange rate in ecus for the currency in question (reverse of line 1). This real average market exchange rate is multiplied by the correcting factor (line 3) and is compared with the green rate (line 4). Using the formula:

$$RMG = \left(1 - \frac{GMR}{GR}\right) \times 100$$

the real monetary gap is calculated in line 5, with the neutral margin being deducted thereafter (line 6). It is then necessary to check (line 7) whether or not the non-cumulation rule applies to the result. If it does, the new monetary gap to be applied is fixed in line 7a.

If the non-cumulation rule is not applied, the corrected monetary gap used for the last determination of the AMG is inserted in line 8, to establish whether or not the *de minimis* rule is applicable, i.e. whether the difference is of such a degree that it entails a change to the AMG. If that is the case, the requisite amendment is shown in line 9a.

In line 10, the new monetary gap from line 5 is repeated and the new monetary gap to be applied is calculated (line 12), after deduction of the neutral margin.

If there is no change, line 10 repeats the applicable monetary gap appearing in line 8 and the AMG is not changed in line 12.

Line 14 contains the results of the applicable derogations. The example gives the new green rate for pigmeat, established in accordance with Article 6(a) of Regulation (EEC) No 1677/85 (see Chapter XV).

Annex VII gives the monetary gaps applicable to the drachma in early May 1988. Both the magnitude of the Greek MCAs (almost 50%) and the difference between them and those applied to the other Member States will be noted.

NB: In February 1990, the Commission submitted a proposal (COM(90) 73 final of 20 February 1990) for amendment of the current agrimonetary rules (Article 5(2) of Regulation (EEC) No 1677/85) to allow recourse to the ecu, directly, as a reference basis (instead of the EMS currencies) in order to determine the market exchange rates of floating currencies and to fix the MCAs calculated by reference to them. The proposal was finally adopted by the Council in July 1990 (Regulation (EEC) No 2205/90, OJ L 201, 31. 7. 1990, p. 9) which rejected the amendments proposed by the European Parliament (PE 141.422).

Article 2 of Regulation (EEC) No 2205/90 amends Regulation (EEC) No 1677/85 as follows with respect to this matter:

'(b) in respect of Member States other than those referred to in (a),[2] to the percentage difference for the currency of the Member State concerned between:

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[1] Eight, with inclusion of the Italian lira as from 5 January 1990 (see Annex III) The calculations are adjusted by the correcting factor.

[2] In other words, the Member States that observe a maximum spread as between their currencies at any time of +/– 2.25%.

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—— the agricultural conversion rate, and

—— the average of the ecu rates published in the *Official Journal of the European Communities*, C Series, over a period to be determined in accordance with the procedure laid down in Article 12.'

Annex VIII sets out a calculation of the applied monetary gap (or MCA) for the drachma in accordance with the new provisions introduced by Regulation (EEC) No 2205/90.

Annex IX sets out the MCAs applied to the other currencies for the same period as that covered by Annex VII.

X — Areas of application of MCAs — Calculation methods

A — Sectors covered

1. At the present time, monetary compensatory amounts apply in the Member States concerned as regards production and trade to the following products:

cereals (excluding rice) and derived products,
pigmeat, eggs and poultrymeat,
beef and veal,
milk and dairy products,
wine,
sugar and isoglucose,
products not included in Annex II to the Treaty,
preserves and jams,
olive oil.

NB: The numbering of the products subject to MCAs corresponds to the relevant part of Annex I to the regulation fixing the MCAs.[1]

To these products must be added oilseeds (colza, rapeseed and sunflower), and high protein plants (peas, beans, field beans and lupins), to which differential amounts are applied (see Chapter II, paragraph 3).

B — Calculation of monetary compensatory amounts in Annex I to the regulation fixing the MCAs

1. Monetary compensatory amounts are fixed in national currency and are published periodically in Annex 1 to the regulation fixing the MCAs. These amounts are calculated using the following formula:

MCA = CP x GR x AMG

where CP: common price (ecu/tonne)

GR: green rate (ECU 1 = x national currency (NC)

AMG: applied monetary gap (percentage difference between the GCR and the GR for EMS currencies and between the GMR and the GR for floating currencies)

2. In principle, the price in ecus used in calculating the MCAs is the intervention price. In those sectors where there are no intervention prices, MCAs are not as a rule applied except where the products in the sector are regarded as derived products. This occurs particularly

in the case of poultrymeat products (regarded as products derived from cereals) and in the case of products not covered by Annex II to the EEC Treaty which are obtained by the processing of basic agricultural products (cereals, sugar, milk).

3. For products without an intervention price, however, there may be an intervention system with comparable effects; that applies in particular to wine, for which the minimum guaranteed price serves as a basis for calculating MCAs.

4. For derived products for which there is no intervention price, MCAs are calculated by reference to the MCA for the basic product, to which a derivation coefficient is applied (Regulation (EEC) No 1677/85, last subparagraph of Article 5(1)). The coefficients are determined case by case. Although this does not occur as a rule, they may be the same as the derivation coefficients used in calculating levies or refunds (see Chapter XI). The specific objectives pursued by levies and refunds, on the one hand, and MCAs, on the other, mean that in most cases it would be inappropriate to use the same coefficients.

5. The prices and factors taken into account in calculating MCAs for the various products are as follows:[2]

(a) Milk and dairy products

MCAs are calculated on the basis of 95% of the intervention price for butter and skimmed-milk powder. For those two products, the MCAs are equal to the impact of the applied monetary gap on their respective prices. As regards the remaining products in the sector, the basis of calculation is the intervention price, after a flat-rate deduction for processing costs. The specific calculations are carried out by reference to the proportion of fat and nitrogenated matter contained in them and, where applicable, the sugar content.

(b) Cereals

MCAs are calculated on the basis of 92.5% of the intervention price for the product in question, disregarding monthly increases.

As regards starch products and maize grits intended for the brewing industry, the MCA is calculated on the basis of the price used for calculation of the MCA for the product in question, after deduction of the production refund.

(c) Pigmeat

Within the common organization of the markets, the pigmeat sector is regarded as a sector 'derived' from

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[1] See, for example, Commission Regulation (EEC) No 1207/90, 11 5.1990, which lays down the monetary compensatory amounts to be applied in agriculture and certain coefficients and conversion rates necessary for their application (OJ L 122, 14 5 1990, p. 1).

[2] See, for example, Article 4 of Regulation (EEC) No 3153/85 (OJ L 310, 21 11 1985, p. 4) and subsequent amendments.

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cereals; the conditions applicable to trade with non-member countries are based entirely on that approximation. As far as the price system is concerned, however, the pigmeat sector is closer to an industry covered by the normal regime, since there is a basic price and an intervention price, and there is no direct connection with the cereals industry. The intervention price must be fixed within a specified range defined by reference to the basic product. It is not fixed unless intervention purchases have actually taken place, in so far as they are not compulsory. In fact, there are no intervention measures other than those in the form of private storage aid.

When the agrimonetary system was introduced, the MCAs for the pigmeat sector were based on the upper limit of the range (92% of the basic price). That limit was subsequently replaced by the lower limit which had originally been fixed at 85% of the basic price. When that limit was reduced to 78% and, subsequently, to 70.2% (90% of 78%), the reduction was essentially attributable to the level of the MCAs which it was sought to reduce in that way.

In 1984 the system was completely overhauled by Regulation (EEC) No 855/84, with the MCA subsequently being based on the feed ration (the quantity of cereals necessary to produce 1 kg of pigmeat), which in fact once again reduced the MCA by 50% (of the basic price).

However, that solution (which was vigorously supported by France) proved somewhat unsuitable since it impeded the dismantlement of MCAs in the pigmeat sector without a parallel dismantlement of MCAs in the cereals sector. Moreover, there is a large variation between the Member States as regards the proportion of cereals used in the feed ration for pigs.[1] Consequently, without changing the level reached by the MCAs, there was a return to a system based on the basic price, the relevant percentage now being 35%.[2]

(d) Eggs and poultrymeat

Since no intervention price has been fixed for this sector, MCAs are based on the quantities of cereals (feeding ratio) deemed to be used in the production of

eggs and poultrymeat. In principle, the same derivation coefficients are used in calculating MCAs as in calculating levies.

(e) Beef and veal

In this sector, MCAs are calculated on the basis of the intervention price for full-grown cattle in the Member State in question, less 20% (Regulation (EEC) No 3153/85, Article 4(3)(b)). This rule was introduced to take account of the fact that the market price was in practice permanently 15 to 20% lower than the intervention price. The application of an MCA based on the intervention price would have had the effect of overcompensating for the real price differences. With certain exceptions, the MCAs for derived products are calculated on the basis of the coefficients used for the calculation of levies.

(f) Sugar

MCAs are calculated on the basis of an amount comprising the intervention price and the amount received under the storage costs compensation scheme. In the case of MCAs for white sugar, no account is taken of the regionalization of intervention prices. In the case of unrefined sugar, an output coefficient of 0.92 is applied to the amount of the storage premium. For the remaining products in the sector, the MCA is derived from the MCA for white sugar and is calculated by reference to their sugar or dry matter (isoglucose) content.

MCAs for sugar intended for the chemical industry are calculated on the basis of the price for white sugar, after deduction of the production refund.

Non-quota sugar (C sugar) exported to non-member countries is exempt from the MCA system.

(g) Wine

In the winegrowing sector, MCAs apply only to the main wine-producing countries of the Community, namely France, Italy, Germany, Greece and Spain. Among the products in the winegrowing sector, only wine is subject to MCAs. In intra-Community trade, MCAs apply only to table wines as defined by

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[1] It has been estimated that in 1983 the proportion of cereals in the cost of pigmeat production was 37 2% in Denmark, 28.3% in France, 11.7% in Germany and 8.4% in the Netherlands. Commission data for 1985 show that the proportion of cereals in compound feedingstuffs (for all animals) was 46 8% in France, 24.6% in Germany and 15 2% in the Netherlands.

[2] The origins of the problems in the pigmeat sector are, however, structural. In the Netherlands, Northern Germany and Flanders, pigmeat is produced on an intensive basis with low unit costs resulting from the use of cheap cereal substitutes (soya and tapioca) imported through Rotterdam and Hamburg, which are not subject to MCAs. French production, on the contrary, is concentrated in the North West (Brittany), further from the main

French markets than the principal production areas in the Netherlands and Belgium, and there the percentage of cereals in the feed ration is highest. It was considered that the agrimonetary system increased the comparative advantage enjoyed by Dutch, German and Belgian producers, since both the Netherlands and Germany had positive MCAs (granted for exports) and the negative MCAs in Belgium were lower than those in France. Although it could not be proved that the level of the MCAs brought about by treating pigmeat as a basic product was the sole cause of the French problems in the industry during the 1980s, it was agreed to reduce the level, basing the calculation on a standard cereal component, this being reflected in the figure of 35% of the basic price now used

Community regulations and semi-sparkling wines marketed in containers of a volume exceeding three litres; thus, quality wines produced in specified regions (quality wines psr), sparkling wines, dessert wines and semi-sparkling wines marketed in containers of a volume of less than three litres are excluded.

In Germany, MCAs apply only to A II, A III and R III type table wines (table wines produced in Germany), and therefore MCAs do not apply to semi-sparkling wines, wines generally produced from must or table wines of the 'non-German' type.

In trade with non-member countries, MCAs apply to still wines, namely wines for everyday consumption and wines of designated origin, and also to semi-sparkling wines in barrels. As regards imports into Germany, MCAs apply only to wines produced from the 'Portugieser', 'Riesling' and 'Sylvaner'. vine varieties.

MCAs are calculated on the basis of the minimum guaranteed prices fixed in accordance with Regulation (EEC) No 822/87, for example:

(i) for R I, R II and A I type wines: the arithmetic mean of the corresponding activating prices (*prix de déclenchement*);

(ii) for A II and A III type wines: the arithmetic mean of the activating prices;

(iii) for R III type wines, the activating price.

(h) Products not covered by Annex II to the EEC Treaty

MCAs are calculated on the basis of the MCAs applicable to the basic products incorporated in the final product, less 10%.

A reduced amount is applied to the flat rate quantity of sugar contained in the products covered by headings 29.04 C and 38.19 T of the Common Customs Tariff (CCT), that amount being the normal basic price, less the production refund provided for sugar intended for industrial purposes.

In principle, the fixed quantities of those basic products laid down in Regulation (EEC) No 3034/85 are used for the calculation of MCAs. The possible exceptions to that rule are indicated in a footnote to the regulation fixing the MCAs.

MCAs apply only to a limited number of processed agricultural products, in view of the fact that MCAs are to have an economic impact.

For that reason, MCAs of an exchange value of less than ECU 3 per 100 kg are not applied.

(i) Products processed from fruit and vegetables

As from 7 September 1987, MCAs apply to products processed from fruit and vegetables (products covered by Regulation (EEC) No 426/86, in particular preserves and jams classified under subheadings 20.05 B and 20.05 C of the CCT, whose sugar content exceeds 50% by weight.

For such products, the MCAs are equivalent to 50% of the MCAs applied to white sugar (subheading 17.01 A of heading 7 of Annex I to the regulation fixing the MCAs).

In any event, MCAs are not applied when their exchange value is less than ECU 3 per 100 kg of the product.

(j) Olive oil

The application of MCAs has been extended to the olive-oil sector as from 7 September 1987. The MCAs are calculated on the basis of the intervention price. It is a derived price arrived at by reference to the various customs subheadings.

The MCAs are also differentiated depending on whether or not the oil is marketed in containers of less than five litres, in view of the availability of consumption aid under the CMO in this sector.

(k) The rules concerning calculation of the MCAs by sector, commented on above, are summarized in Table 2.

Table 2 — Sectors where MCAs applied at the beginning of 1988	
Sector	Basis used for MCA calculation
Milk and milk products	95% of intervention price for butter and skimmed-milk; for other products, the basis of calculation is the two intervention prices less a flat rate amount for processing costs
Cereals	92.5% of intervention price, without reference to monthly increases (for starch and maize groats for brewing, MCA calculated on basis of price used for calculation of product concerned minus production refund)
Pigmeat	35% of the basic price (reflects pigmeat as derived product of cereals)
Eggs and poultrymeat	Derived from MCAs for cereals according to content of various cereals in the feed ration
	Coefficients of derivation as for import levies
Beef	80% of intervention price
Sugar and isoglucose	Intervention price plus storage levy; for raw sugar the storage levy is multiplied by yield factor of 0.92
Wine (France, Italy, Germany, Greece and Spain)	MCAs limited to certain wines only. Basis is guaranteed minimum price
Olive oil (from 7. 9. 1987)	Intervention price; where packed in packs of less than 5 litres, consumption aid deducted
Processed fruits and vegetables (jaims and marmalades with more than 50% sugar)	50% of MCA for white sugar (do not apply if less than ECU 3/100 kg)
Non-Annex II products	Derived from MCAs of basic ingredients (cereals, milk, sugar) less 10% (do not apply if less than ECU 3/100 kg

NB: In addition, monetary differential amounts are applied to the aids for colza, rape, sunflower seeds, peas, field beans and lupins.

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24. 5. 1989, p. 1.

XI — Monetary coefficients

A — Calculation of the coefficients in Annex II to the regulation fixing the monetary coefficients

Legal basis:

(a) Basic regulation: Council Regulation (EEC) No 1677/85 of 11 June 1985 on monetary compensatory amounts in agriculture (OJ L 64, 24. 6. 1985, p. 6);

(b) Commission Regulation (EEC) No 3153/85 of 11 November 1985 fixing the methods for the calculation of monetary compensatory amounts (OJ L 310, 21. 11. 1985, p. 4), Article 6(3).

These coefficients, which are also fixed periodically, apply to levies, refunds and accession compensatory amounts, fixed in ecus, before conversion into national currency (see, for example, Commission Regulation (EEC) No 1207/90 of 11 May 1990 which fixes the monetary compensatory amounts applicable in agriculture together with certain coefficients and conversion rates necessary for their application (OJ L 122, 14. 5. 1990, p. 1).

The coefficients mentioned in Annex II to the regulation fixing the monetary coefficients (MCs) are calculated as follows:

$$MC = \left(\frac{100 - AMG}{100} \right)$$

The coefficients in force at the beginning of 1991 are shown in Annex X.

B — Calculation of the coefficients in Annex III to the regulation fixing the monetary coefficients

Legal basis:

(a) Basic regulation: Regulation (EEC) No 1677/85 of 11 June 1985 on monetary compensatory amounts in agriculture (OJ L 64, 24. 6. 1985, p. 6).

(b) Commission Regulation (EEC) No 3155/85 of 11 November 1985 providing for the advance fixing of monetary compensatory amounts (OJ L 310, 21. 11. 1985, p. 22), Article 6.

Annex III to the Regulation contains the adjustment coefficients to be used for the advance fixing of MCAs. The adjustments are only made to the extent to which it is known at the time of fixing that, for a given sector, a new green rate will be applied and, consequently, there will be a new monetary gap on the date on which the operation is carried out (see, for example, Commission Regulation (EEC) No 1207/90 of 11 May 1990 . fixing monetary compensatory amounts to be applied in agriculture and certain coefficients and conversion rates necessary for their implementation (OJ L 122, 14. 5. 1990, p. 1). The coefficient takes no account of any changes which may be made to common agricultural prices.

The coefficients in Annex III to the regulation fixing the monetary coefficients reflect only monetary factors.

Formula:

$$MC = \frac{NGR}{OGR} \times \frac{NAMG}{OAMG}$$

where OGR: old green rate
NGR: new green rate
OAMG: old applied monetary gap
NAMG: new applied monetary gap

C — Calculation of the coefficients in the Annex to the regulation fixing the conversion rates used for calculation of the MCAs applicable to specified amounts

Legal basis:

(a) Council Regulation (EEC) No 1676/85 of 11 June 1985 on the value of the unit account and the conversion rates to be applied for the purposes of the common agricultural policy (OJ L 164, 24. 6. 1985, p. 1).

(b) Council Regulation (EEC) No 1677/85 of 11 June 1985 on monetary compensatory amounts in agriculture (OJ L 164, 24. 6. 1985, p. 6), Article 10;

(c) Commission Regulation (EEC) No 3152/85 of 11 November 1985 laying down detailed rules for the application of Regulation (EEC) No 1676/85 (OJ L 310, 21. 11. 1985, p. 1), Article 3.

Article 10 of Regulation (EEC) No 1677/85 provides for the possibility of an exporting Member State paying the MCA which the importing Member State must grant on importation. To convert the MCA of the importing country into the currency of the exporting country, it is necessary to use the (bilateral) conversion rates fixed in the Annex to the Regulation laying down

the conversion rates used for calculation of the MCAs applicable to specified amounts (see, for example, Commission Regulation (EEC) No 1208/90 of 11 May 1990 fixing the conversion rates used for the calculation of monetary compensatory amounts applicable to certain amounts in agriculture (OJ L 122, 14. 5. 1990, p. 82); this option has been exercised by Italy, the United Kingdom and Ireland. It means that the Annex to the Regulation in question is only changed in the event of a variation in the AMG, on the basis of the market exchange rate for floating currencies or central rates for EMS currencies (both adjusted by the correcting factor).

Calculation method:

(a) for currencies maintained within the spread of +/– 2.25%, the coefficient is equal to the ratio between the green central rates concerned; in other words, it is equal to the bilateral green cross-rates;

(b) for floating currencies, the coefficient is equal to the ratio between:

(i) the green central rate of the EMS currency and the green market exchange rate of the floating currency in the case of the conversion rate applicable to an EMS currency and a floating currency, respectively;

(ii) the green market exchange rates, in the case of the conversion rate between two floating currencies.

The coefficients in force at the beginning of 1991 are given in Annex XI.

D — Dual-rate coefficients

1. In the agrimonetary system, all the amounts provided for in the CAP (regulatory levies, refunds, aids, compensatory charges, etc.) are fixed in ecus and are converted into national currencies on the basis of the green rates.

When the expenditure declared by the Member States in national currency is entered in the Community accounts, it is converted into ecus on the basis of the ecu market exchange rates for each currency. Consequently, forecasts of the real expenditure of the EAGGF Guarantee Section depend, for each currency and, sometimes, for each product, on the (variable) relationship between the green rate and the market exchange rate. This ratio is called the 'dual-rate coefficient' (DRC).

2. The DRC is, thus, an indicator of the level of intervention prices in national currency (translated into ecus on the basis of the green rate) of each Member State, which could be compared with the relative level of the agricultural intervention prices of the other Member States expressed by the same indicator. Table 3 shows the dual-rate coefficients for May 1988 for cereals and milk products in all the Member States. It will be seen that there is a considerable discrepancy between coefficients, particularly those of the Federal Republic of Germany (higher level) and those of Greece (lower level).

3. For each national currency, the volume of the EAGGF Guarantee Section expenditure thus varies in proportion to the fluctuations of the relative levels of intervention prices. Where the market exchange rate of a currency falls, the relative level of the intervention prices falls (reduction in the DRC) and likewise the EAGGF Guarantee Section expenditure and the own resources of the currency concerned. In the event of a rise in the market exchange rate of a currency, the relative level of the intervention price rises (higher dual-rate coefficient) resulting in additional expenditure and own resources. It is apparent from Table 3 that the DRC are below zero only in the case of the United Kingdom and Greece, whose currencies (market exchange rates) fluctuate without limit against their central rate (that also being the case for the United Kingdom over the period covered by Table 3).

Table 3 — Dual-rate coefficient,[1] May 1988[2] — Cereals, milk and milk products		
Member State	Cereals	Milk and milk products
Belgium	1.1094	1.1172
Denmark	1.1025	1 1025
FR of Germany	1.1455	1.1515
Greece	0.8089	0 7526
Spain	1.1095	1.1208
France	1.0625	1 0626
Ireland	1.0723	1.0733
Italy	1.0413	1.0733
Luxembourg	1.1094	1.1172
Netherlands	1.137	1 1493
Portugal	–	–
United Kingdom	0.9781	0.9921

[1] Dual-rate coefficient =

$$\frac{\text{ECU 1 converted to national currency at green rate}}{\text{ECU 1 converted to national currency at market rate}}$$

[2] The market rates used to record expenditure declared in May 1988 in the EAGGF accounts in ecus is the rate of 18 March 1988 (OJ C 73, 19 3 1988).

Source Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24 5 1989, p 1)

XII — Repercussions of the agrimonetary system

A — Repercussions on the unity of the market

1. In view of the fact that there are different green rates and market rates, when common agricultural prices in ecus are converted into the national currencies of the various Member States, the unity of the common agricultural market is no more than an illusion. In reality, the common price level differs according to the Member State concerned and, therefore, is not common. The extent of the variation, which is measured in relation to the monetary gap between the green and real rates, has varied considerably during the life of the agrimonetary system and, at certain times, the differences between Member States have been small and at other times large. For example, when the switch-over mechanism was applied in spring 1984, the difference between institutional agricultural price levels expressed in national currency in Germany and France was of the order of 17%.

2. In addition to the variations in common prices as between Member States, since 1984 there has been an increase in the number of different green rates in the national agricultural market sectors. However, the difference in green rates is not the same in all countries. For example, in March 1988, Germany had three green rates (milk, cereals and all other products), France had six (milk, pigmeat, beef and veal, sheepmeat, other animal products, wine and other vegetable products), the United Kingdom had five (pigmeat, beef and veal, sheepmeat, other animal products, all products of vegetable origin) and Italy had three (pigmeat, cereals/oilseeds, other products). This multiplicity of prices was aggravated by the introduction of different neutral margins (see Section F - 4 of this chapter).

3. Thus, although MCAs succeeded in maintaining unity of the Community market in trade, in reality in the national markets there are as many different agricultural prices as there are green rates.

B — Repercussions on the level of institutional prices

1. The switch-over mechanism was created in 1984 to resolve the difficulty of dismantling positive MCAs at a time when increases in ecus prices were being severely restricted. It is true that the creation of new positive MCAs in the fixed exchange rate currencies was thereby avoided and that those already existing in Germany and the Netherlands have been eliminated. These successes have been achieved, however, at the expense of:

(a) greater conceptual complexity deriving from the creation of a set of artificial exchange values for the green ecu (green central rates);

(b) disguised increases in common price levels.

2. The result of creating a green ecu by multiplying the central rates of each currency against the ecu by the correcting factor is that, in addition to the specific green rates used for converting common agricultural prices in ecus into national currencies, a new set of totally theoretical exchange values is created.

3. Since the German mark is the strongest currency in the EMS and the one that has most appreciated, in practice the new calculation method means that the evolution of the green central rate in ecus is linked to that of the central rate of the German mark against the ecu. Whenever the German mark has been revalued, the level of common agricultural prices has increased. At the beginning of 1988, the cumulative effect of those revaluations had caused the level of common prices to rise by 13.7% since March 1984. The result is that the green ecu is 13.7% higher than the real ecu (14.5% at the start of 1990) and that, with each readjustment, the agricultural ecu becomes further remote from the real ecu (see paragraph 10 of Chapter III).

4. An increase of this kind in the common level of prices carries with it the following consequences:

(a) The correcting factor gives rise to automatic increases in the common level of prices whenever there is a revaluation of the German mark against the real ecu; increases in the level of prices are linked to the German mark, which reflects the industrial power of Germany and not the reality of Community agriculture;

(b) such automatic increases in the level of common prices are dissociated from the normal yearly procedures for fixing agricultural market prices;

(c) increases in the common level of prices in this way cause the rises to be largely masked: the prices in ecus agreed at the annual fixing of agricultural prices no longer reflect the real level of the common prices.

5. The switch-over mechanism is, therefore, a technical device making it possible to dismantle the German and Dutch positive MCAs, whilst at the same time maintaining the appearance of a restrictive

common price policy. However, in reality, this has not been achieved without increases in the common prices. Its operation is entirely consistent with the 'gentlemen's agreement' of March 1979, in that most of the reductions in the positive MCAs have been offset by increases in the common level of prices. Some of the reductions of the positive MCAs have been offset by compensation aids charged to the national (and even the Community) budget, in order to avoid adverse effects on agricultural income. On some occasions, the national aid has given rise to compensation of a greater amount than the fall in agricultural income.[1]

C — Repercussions on refunds and levies

1. Export refunds and regulatory import levies reflect, for given products, the difference between their world market price converted into ecus and their common price fixed in ecus.

2. Under the green ecu system, whenever a monetary realignment is carried out using the switch-over mechanism, there is an increase in common prices (although the prices in national currency are not changed) and, therefore, an increase in the variances from world prices, which leads to a rise in refunds and regulatory levies (see Figure 2).

D — Repercussions on national price levels

1. A readjustment in parities which gives rise to a higher correcting factor raises the level of common prices, the effects of which are felt in the subsequent devaluation of the green rates.

2. The Council, on a proposal from the Commission, formally decides on changes in the green rate. Generally, such changes are made once each year, as part of the annual price-fixing decisions.[2] This means that, in negotiations, the Member States are able to

bring considerable influence to bear on the level of their green rates, thus maintaining extensive control over their domestic prices.

3. At certain times, the Member States have considered it to their advantage to resist pressure to dismantle MCAs. In the case of positive MCAs, the reason has been that the national priority was to avoid reducing farmers' income (for example, Germany and the United Kingdom between 1980 and 1985) and, in the case of negative MCAs, to avoid increases in food prices (for example, the United Kingdom in the 1970s and in 1986 and 1987; France in the first years of the agrimonetary system).

4. There have been other cases in which the Member States with negative MCAs asked for special treatment for groups of producers in the form of selective devaluation of green rates. This has occurred, above all, where it was sought to alleviate the effects of the restrictive policy on prices fixed in ecus, achieving increases in prices in national currency by means of adjustments to the green rates. For example, in 1986 and early 1987, MCAs were reduced more for animal products than 'for cereals because it was considered that the trend in livestock farmers' net income presented greater difficulties, at a time when there could be no justification for higher prices for cereal producers.

5. Annex XII and Figure 4 show that since 1984 the Member States have been able to achieve price increases in national currencies by means of changes in the green rates, whilst at the same time containing increases in common prices in ecus. As far as the Community of Ten is concerned, common prices in ecus have recorded a fall since 1983/84, although, as a result of adjustments to the green rates, they have displayed significant annual increases in national currencies. In some Member States, these increases have been considerable: leaving aside the special case of Greece, which is influenced by the adjustment in price levels made after its accession, France, Ireland and Italy obtained, during the period in question, nominal increases in prices in their own currencies in excess of 4% per year.

However, the discrepancy between the two curves in Figure 4 is merely apparent, since producers are not paid in ecus but in national currency. The price increases in national currency in fact reflect the devaluation of the currency in question against the ecu. If the green rates are adjusted immediately — in other words, if no new negative MCAs are created — then producers receive in national currency the equivalent of the common price fixed in ecus, which is not always the case.

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[1] See the Commission report on the functioning, in 1978, of the aid mechanism provided for by the 20th Council Directive (85/361/EEC) of 16 July 1985 on harmonization of the legislation of the Member States on turnover taxes — Common system of value-added tax: exceptions concerning special aids granted for particular agricultural products (SEC(89) 1574 final, 30 10. 1989, paragraph 3 3, p 8).

[2] This is done in an attempt to ensure that the institutional prices in national currency remain stable for fixed periods, for example, a marketing year. However, on occasion changes occur at other times. Since the decision fixing prices for the 1987/88 marketing year, in which provision was made for automatic dismantling of MCAs after the fixing of new parities and specific provisions on MCAs for pigmeat (see Chapter XV), the practice of changing green rates other than at the time of the annual price-fixing decisions has become institutionalized.

E — Repercussions on the allocation of resources

1. Where there are different price levels in the Member States and agriculture is isolated from the remainder of the economy because of the green-rate system and MCAs, it is not surprising that the normal functioning of the price machinery should produce distortions in the allocation of resources. For example:

(a) In countries with an appreciated currency, the green rates lower than those of the market keep agricultural prices above the real common price, increasing farmers' income. This means that agricultural investment and production are greater than they would have been at market rates. In countries whose currencies have depreciated, the reverse situation emerges, when the green rates remain below the market rates. The result is that in the high-income Community regions production is stimulated and in low-income regions it is discouraged, thus exacerbating the already considerable regional disparities within the Community.

(b) The agrimonetary system makes it possible for different treatment to be accorded to different Member States. As a result of devaluation, production costs rise at the same time as the prices of non-agricultural imports, and the same process occurs with labour costs, which are part of the wage-price spiral. Conversely, revaluation tends to lead to lower production costs. Thus, if the green rates are not changed, farmers are better off when currencies appreciate and less well off when they depreciate, which again tends to channel agricultural resources towards countries with appreciating currencies and higher price levels.

2. The Court of Auditors has examined the available Commission reports in an attempt to evaluate the effect of the agrimonetary system on the structures of agricultural production in the Community.[1] Apparently, little effort has been made to analyse the repercussions of such a fundamental system, which affects the functioning of the common market organizations. The Commission published four reports in 1978, 1979, 1984 and 1987[2] on the economic effects of the agrimonetary system, which consist merely of a series of official statistics for each market together with analytical comments. In the first two reports, the Commission interpreted the statistics as meaning that

the Member States with positive MCAs attracted resources for agriculture and increased their proportion of final Community agricultural production at the expense of others with negative MCAs. Those conclusions have been contested,[3] but no specific measures have been taken as a result.

F — Repercussions on patterns of trade

1. Principles

Although the green-rate system applies to all sectors of the market, the existence of a monetary gap does not necessarily mean that compensation will be paid. The principle of applying MCAs is that they are only paid or charged in cases where their absence might give rise to 'distortions in the intervention system and/or in trade'.[4] Where there is no intervention system or no apparent risk of distortion of trade, despite the existence of a monetary gap, MCAs are not applied.

2. The basis of calculation of MCAs

The system for calculating MCAs is necessarily based on fixed data. In most cases, when the level of market prices is directly related to that of prices supported by the intervention system, the method of basing the calculation of MCAs on the intervention price, adjusted to reflect the real level of the support price, operates reasonably well and, in general, does not lead to distortion of the market. Moreover, it does not appear that, for the present at least, the technical coefficients used for derived products are giving rise to difficulties. This does not necessarily mean that they are correct in all cases, but economic agents recognize the need for a standardized system and, unless they observe serious anomalies, they do not object to the coefficients applied by the Commission.

Nevertheless, there have been problems when the influence of the intervention system on market prices is limited, and when the market is affected by factors other than the price-support system. In that respect, one of the most problematic sectors has been that of pigmeat (see Chapters X, Section B - 5(c) and XV).

That sector exemplifies the difficulty of applying the MCA system when the market is not under the influence of a strong intervention system. Neither the option of treating meat as a basic product nor the option of treating it as a derived product of cereals has

[1] Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24 5 1989, p. 1.

[2] COM(78) 20 final, 10 2.1978, COM(79) 11 final, 14.3.1979; COM(84) 95 final, 26 4 1984, COM(87) 168 final, 14.8.1987.

[3] See, for example, Strauss, R 'The economic effects of monetary compensatory amounts', Journal of Common Market Studies, Vol. XXI, No 3, March 1983

[4] Thirteenth recital in the preamble to Council Regulation (EEC) No 1677/85 of 11.6.1985, OJ L 164, 24.6 1985, p. 6.

provided an adequate formula. The *de facto* policy in recent years, in line with the interests of the producers in Member States with depreciated currencies, has been the total elimination of MCAs. However, the structural problems affecting the sector have persisted.

3. Absence of MCAs in particular sectors

As indicated in Chapter X, MCAs are not applied to all sectors, even if they have green rates. In accordance with the principles on which the system is based, the reason for this is the absence of any risk of disturbance of the market or trade-support mechanisms.

However, the Court of Auditors identified a number of problems in the rice and beef/veal sectors, even though they are not subject to MCAs.[1]

In the case of rice, in particular, despite the evidence repeatedly produced by the Court in its annual reports for the years 1978, 1980 and 1985[2] that the Community was losing own resources, measures were not taken until 1986.

The Court of Auditors severely criticized the triangular trade in rice occurring as a result of the absence of MCAs in that sector. The Court identified shipments of rice from third countries entering the Community in Member States where the import levy was low because of an overvalued green rate, and then re-exported immediately to the real destination in other Member States. As a result, own resources were lost (estimated at ECU 1.5 million in 1984 and ECU 2.0 million in 1985). The problem worsened in 1986, a year in which the depreciation of sterling and the opening up of a wide negative monetary gap meant that large quantities of rice for Germany and the Netherlands flowed through the United Kingdom. Exports of long-grain husked rice from the United Kingdom increased from 77 tonnes in 1985 to 27 262 tonnes in 1986 and to the Netherlands from 20 tonnes in the first year to 30 636 in the second. The Court estimated the loss of own resources involved as ECU 3.7 million. When action was finally taken, interestingly, it did not take the form of the introduction of MCAs. Instead, a special conversion rate virtually equivalent to the market rate was introduced for the purposes of calculating the rice levies (see Chapter VII, Section A - 5).

4. Neutral margin

The MCAs are calculated and then are reduced by a flat-rate amount known as the 'neutral margin'. This means that the monetary gap between Member States is not fully covered. Between two Member States, one with positive and the other with negative MCAs, the neutral margins are cumulative. The purpose of the neutral margins is to avoid any overcompensation in the calculation of MCAs, although their flat-rate nature makes this a rather approximate way of achieving this. The Commission in 1987 sought a more flexible approach, with wider neutral margins in those sectors where the impact of the intervention system on the market was reduced. It saw this as a step towards further gradual dismantling of the system. However, although the Council agreed to wider neutral margins in certain specific sectors where it was considered artificial trade flows would not result (e.g. olive oil), Member States were not ready to devolve the general power of the Council to decide the level of neutral margins to the Commission.

The Court of Auditors has examined a number of situations to see whether the existence of neutral margins (and thus of uncovered monetary gaps) has encouraged artificial trade flows. While there seems to be no real evidence that the neutral margins result systematically in such flows, there are particular cases which illustrate the extent of the problem.

A recent example concerns the marked increase in expenditure on export refunds in the Netherlands. Although there has always been a tendency for exports to be directed through strong-currency Member States, the 1988 increases were exceptional. The Dutch authorities observed a considerable increase in the export refunds paid to firms established outside the Netherlands and without subsidiaries in the Netherlands: for example, for the period January to April 1988, 60% of export refunds in the sugar sector paid by Dutch intervention agencies were to such firms, whereas in 1987 the percentage was only 7%. At the same time, French and Belgian export refunds fell significantly.

A particular traffic that has been observed involves loading goods at Antwerp in Belgium, sailing them along the Scheldt to Vlissingen, where they are declared and cleared for export, thus obtaining the export refunds in Dutch guilders. Another involves ships loading at Dunkirk in France and sailing to Vlissingen for export clearance, for the same purpose.

The firms that export to non-member countries through the Netherlands in this way are taking advantage of an uncovered monetary gap made up of:

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[1] Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24.5 1989, p. 1

[2] Paragraph 2 36 of the annual report for 1978, OJ C 326. 31.12 1979; paragraphs 3.12 to 3.22 of the annual report for 1980, OJ C 344, 31.12 1981, paragraphs 3 35 to 3 39 of the annual report for 1985, OJ C 321, 15 12 1986.

(a) the neutral margin for the two countries in question, added together: in the case of cereals, 0.9 points of the 1.0 point neutral margin for Netherlands remaining uncovered plus 1.5 points for France (total 2.4 points), and plus 0.5 of the 1.5 points for Belgium (total 1.4 points);

(b) additional parts of the monetary gap not covered by MCAs because of rounding and application of the non-cumulation rule: in the case of cereals there is no more than the 0.029 points of rounding in respect of France: for milk products, however, an additional 0.385 points were uncovered in the Netherlands by virtue of the non- cumulation rule;

(c) additional parts of the monetary gap caused by the extent of the actual divergence of market rates of exchange as compared with central rates: in this case 0.9 points between the Netherlands and France and 1.7 points between the Netherlands and Belgium.

The direct consequence of this situation is an increase in the Community budget expenditure as a result of the fact that the level of common prices in the Netherlands is greater than in Belgium and France. The Court of Auditors has calculated that such expenditure is 3 to 4.5% higher (according to the sector), which means that EAGGF expenditure for the first half of 1988 was increased by at least ECU 25 million by the refunds being paid in guilders.[1] '

G — Direct budgetary repercussions

Table 4 shows the amounts recorded in the annual accounts of the Community budget under Chapter 28 for the period 1983–87, for which definitive data are available. It appears that in 1987, for example, payments in respect of MCAs amounted to ECU 1 300.9 million and revenue (negative expenditure) amounted to ECU 664 million, leaving a balance of ECU 636.9 million. The MCAs in intra-Community trade — payments of ECU 1 073.9 million (83% of the total) and revenue of ECU 664 million (100% of the total) — play a dominant role.

Table 4 also shows that the individual budget items and net totals fluctuate considerably from year to year, depending on the size of the monetary gaps. For example, the fall in net expenditure in 1984 and 1985 reflects the degree of success in dismantling MCAs after the introduction of the switch-over, but in 1986 and 1987 there was a period of relative monetary instability resulting in wider negative gaps, which is reflected in the amounts recorded in the accounts. The importance of MCAs in the budget (as a percentage of EAGGF Guarantee Section payments) is shown in Table 5.

[1] Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24 5 1989, p. 1.

Table 4 — MCAs recorded in the accounts

(million ECU)

Budgetary item	1983	1984	1985	1986	1987
280 MCAs in intra-community trade					
2800 MCAs on imports paid by importing Member State (depreciating currency)	174.8	84.5	67.7	269.3	368.7
2801 MCAs on imports paid by exporting Member State for importing Member State (depreciating currency)	72.4	25.0	66.3	326.4	551.0
2802 MCAs imports levied by importing Member State (appreciating currency)	− 635.3	− 583.2	− 213.9	− 179.7	− 121.8
2803 MCAs on exports paid by exporting Member State (appreciating currency)	750.9	590.8	213.4	185.9	154.2
2804 MCAs on exports charged by exporting Member State (depreciating currency)	− 213.8	− 157.7	− 72.3	−296.0	−542.2
Subtotal — Article 280	149.0	− 39.6	61.2	305.9	409.9
281 MCAs in Extra Community trade					
2810 Portion of MCAs granted on imports (into Member State with depreciating currency) exceeding import levy	0.5	0.1	4.1	69.4	116.1
2811 MCAs on exports paid by exporting Member State (appreciating currency)	338.7	415.5	124.3	100.6	110.9
Subtotal — Article 281	339.2	415.5	128.4	170.0	227.0
Total — Chapter 28	488.2	375.9	189.8	475.9	636.9

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24. 5. 1989, p. 1.

Table 5 — The importance of MCAs within the Community budget

(million ecu)

	1983	1984	1985	1986	1987	1988
MCAs	488.6	376.2	189.8	481.7	654.9	569.5
EAGGF Guarantee Section payments	15 788.2	18 328.3	19 725.9	22 120.0	22 951.8	26 389.6
MCAs (%)	3.1	2.1	1.0	2.2	2.9	2.2

Source: Annual reports of the Court of Auditors for 1983 to 1988 (OJ C 348, 31.12.1984; OJ C 326, 16.12.1985; OJ C 321, 15.12.1986; OJ C 336, 15.12.1987; OJ C 316, 12.12.1988 and OJ C 312, 12.12.1989).

H — Indirect budgetary repercussions

In addition to the direct budgetary impact of MCAs, there is a cost to the Community budget resulting from the use of dual-rate coefficients (see Chapter IV, Section C - 1).

The dual-rate coefficients affect every line in the EAGGF expenditure budget, and Chapter 10 (Agricultural levies) in the revenue budget. However, this effect is not separately identified. In its annual report on the 1987 financial year, the Court criticized the fact that the published budget of the European Communities and the accounts do not permit the effect of dual rates to be assessed. In its reply, the Commission argued that the dual-rate effect was weakening as monetary gaps were reduced. This may have been so under the pre-April 1984 system, but under the switch-over arrangements the effect is becoming more significant and should be clearly identifiable. The Court of Auditors has calculated the indirect effect of MCAs on the 1987 EAGGF expenditure accounts, as shown in Table 6. For the 10 months' expenditure given in the official accounts, it amounts to ECU 1 005.6 million. If ,this is extrapolated to cover the 12 months of 1987, the impact increases to ECU 1 206.8 million, which is almost twice as high as the direct budget cost. In both cases, the MCAs represent 5% of total EAGGF Guarantee Section expenditure.

Table 6 — Estimated total budgetary impact (direct and indirect) of the agrimonetary system, 1987

(million ecu)

	10 months (January to October)		12 months (January to December)	

1. Direct budgetary cost
   (a) MCAs in intra-Community trade
   Article 280 — Expenditure[1]
   Revenue (negative expenditure)[1]
	1 073.9
	(664.0)
			1 212.7
			(764.8)	

Subtotal — MCAs in Intra-Community Trade		409.9		447.8

(b) MCAs in Extra-Community trade
   Article 281 — Expenditure[1]
   MCAs deducted from export refunds[2]
   MCAs adjusting import levies[2]
	227.0
	(94.3)
	30.0
			247.2
			(113.2)
			36.0	

Subtotal — MCAs in extra-Community trade		162.7		170.0
Subtotal — direct budgetary cost		572.6		617.8

2. Indirect budgetary cost (dual-rate coefficient)
   EAGGF expenditure[3]
   agricultural levies[2]
   sugar levies[4]
	1 137.5
	(41.5)
	(90.4)
			1 365.1
			(49.8)
			(108.5)	

Subtotal — indirect budgetary cost		1 005.6		1 206.8
Total — budgetary cost (1+2)		1 578.2		1 824.6

[1] From EAGGF accounts.
[2] Budget estimates For the 10 months January to October, the 12-month data have been reduced proportionately
[3] Calculated by Court of Auditors from actual expenditure data in EAGGF accounts.
[4] Calculated by Court of Auditors from actual data in the revenue accounts The 12-month data have been reduced proportionately to give 10 months January to October data.

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission. OJ C 128, 24.5.1989, p. 1.

I — Frauds and irregularities

1 Frauds and irregularities involving MCAs can occur both in intra-Community and third country trade In the case of third country trade, however, it is normally the export refund or import levy which is the prime reason for the fraud or irregularity, the MCA element being merely incidental

2. Table 7 sets out the number of cases of frauds or irregularities involving MCAs in intra-Community trade reported by the Member States under Council Regulation (EEC) No 283/72 [1] These 142 cases involve an estimated ECU 11.5 million, 95 of which were considered as closed at the beginning of September 1988–ECU 1.5 million had been recovered (13% of the total amount involved)

3. Table 7 also shows that 58 of the 142 cases reported concerned the United Kingdom, nearly all of them involving problems on the border between Northern Ireland and Ireland. In 1980 and 1981, when the United Kingdom had high positive MCAs, pigs and cattle were smuggled across the border to Northern Ireland to avoid the MCA payable on import, and then legally exported back to Ireland, thus qualifying for the MCA payment (granted on exports). In some cases the animals repeated the journey several times. This

'carousel' arrangement was stopped when improved controls were introduced, but also because the smuggling became no longer worthwhile as the monetary gaps between the United Kingdom and Ireland diminished. Subsequently, in 1986, sterling depreciated substantially, leading to a large negative gap, with significant disparities in MCAs between the two countries. Cattle reared in Northern Ireland were then smuggled across the border to avoid paying the MCA on import, were slaughtered in Ireland and the meat then exported legally to the United Kingdom mainland where it attracted a large MCA payment. The illegal trade was estimated[2] to have netted in excess of UKL 100 (ECU 150–160) per head of cattle, paid from the Community budget In order to stop this trade, special task forces were established in 1986 by the United Kingdom and Irish customs authorities to police the border in an attempt to prevent the smuggling.

J — Complexity of the agrimonetary system

1. As the Commission itself has recognized,[3] the system has become extraordinarily complex and the changes made have gradually deprived it of any

Table 7 — Frauds and irregularities involving MCAs in intra-Community trade, reported by Member States, 1980–87

(Number of cases)

Member States	1980	1981	1982	1983	1984	1985	1986	1987	Total
Belgium	2	0	1	1	0	2	1	0	7
Denmark	3	0	1	0	0	0	2	1	7
FR of Germany	10	4	3	3	3	10	2	0	35
Greece	0	0	0	0	0	0	0	0	0
France	3	5	4	0	3	1	3	0	19
Ireland	0	0	0	1	0	0	0	0	1
Italy	0	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0	0	0
Netherlands	8	1	0	1	2	2	0	1	15
United Kingdom	17	12	8	3	8	9	1	0	58
Total EUR 10	43	22	17	9	16	24	9	2	142

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system accompanied by the replies of the Commission, OJ C 128, 24 5 1989, p. 1.

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[1] OJ L 36, 10 2 1972

[2] 'External trade measures for agricultural produce', report by the Comptroller and Auditor General, UK National Audit Office, 22 January 1988, p 12

[3] 'Report on the agrimonetary system', COM(87) 64 final, 24 2 1987, p 25

transparency. The first aspect may be considered at different levels, namely, the conceptual complexity of the roles for calculating MCAs and the complexity of the day-to-day functioning of the system with its multiplicity of rates and scales of customs duties and procedural and control requirements.

2. Similarly complicated are the rules for calculating the MCAs and for dismantling them, which were laid down by the June 1987 agreement, and considerable experience and dedication is needed to understand them. An indication of the importance of succeeding in understanding them is the number of organizations, governmental departments, institutions with commercial responsibilities and commercial undertakings which have their own computer programmes for 'monitoring' the Commission's official calculations, particularly the weekly changes in the rates of variable MCAs.

3. Conceptually, the system has become more complex as it has developed and the introduction of the switch-over mechanism, with the correcting factor and the green ecu, has meant that very few people, with the exception of specialists in the Commission, in the administrations of the Member States and in the private sector, understand it entirely.

4. The complexity of the agrimonetary system is so great that fresh problems to be resolved are frequently discovered. This occurred after the reform of the structural Funds, which also affected the EAGGF-Guidance Section.

5. Council Regulation (EEC) No 1677/85, based on Article 43 of the EEC Treaty, provides for the application of the agrimonetary system to all amounts fixed in the measures concerning the common agricultural policy. Consequently, the green rate fixed by the Council must be applied to the amounts relating to the EAGGF-Guidance Section.

Similarly, Article 22 of Council Regulation (EEC) No 4253/88, based on Article 130e of the EEC Treaty, excludes from the scope of the agrimonetary system all amounts relating to the EAGGF Guidance Section fixed by the Commission.

6. In this way, after the entry into force of the Commission Regulation laying down the rules for use of the ecu in budgetary implementation of the structural Funds (OJ L 170, 3.7.1990, p. 36) (Regulation (EEC) No 1866/90), the amounts relating to the EAGGF-Guidance Section are dealt with as follows:

(i) The amounts fixed by the Commission are excluded from the agrimonetary system. These amounts are fixed in real ecus and are converted using the 'accounting rate';

(ii) The amounts fixed by the Council remain subject to the agrimonetary system. They are fixed in green ecu and are converted using the 'green rate'.

7. One of the consequences of this situation is that decisions to grant Commission aid, expressed in ecus, remain subject to the maximum limits fixed by the Council in green ecu. Expenditure incurred in national currency must be converted at the green rate in order to verify compliance with the maximum limits laid down by the Council, and this is already being done at the present time. Once this condition is satisfied, the expenditure in national currency is then converted at the accounting rate for payment in ecus.

This creates great administrative complexity owing to the use of two conversion rates:

(i) the accounting rate, for aid and payments; and

(ii) The agricultural conversion rate, to verify compliance with the maximum grant limits.

In order to avoid this complexity, it is therefore necessary for the amounts relating to the EAGGF-Guidance Section fixed by the Council in green ecu also to be converted into accounting ecu, the correcting factor being applied to them.

XIII — Dismantlement of MCAs — The 'gentlemen's agreement' of March 1979

1. On various occasions, the Commission has submitted proposals to the Council defining clear and simple criteria for the fixing of green rates, on the basis that the MCAs should be dismantled in accordance with more or less mathematical rules.

(a) The first proposal was submitted in 1976.[1] It provided for adjustment of the green rates whenever the applied monetary gap passed a specified threshold. The adjustment must be made every six months for the Member States with negative MCAs and, in principle, at the beginning of each marketing year for Member States with positive MCAs; this applied to both categories of MCAs, depending on the trends of the rates of exchange recorded in the market during a reference period. This period was 18 months starting, as a rule, two years before the entry into force of the new green rate. Nevertheless, that mathematical method was not to provide a basis for exceeding a maximum percentage which differed as between Member States with positive MCAs and Member States with negative MCAs: it was to be lower for the former than for the latter.

(b) The second proposal, made in 1977, provided for dismantlement in seven equal steps of the MCAs existing at that time; newly created MCAs were to be dismantled at each of the stages. In any event, the adjustment of the green rates was not to exceed 5% per year; any portion remaining was to be dismantled at the time of the following adjustment.

(c) A third proposal, made in 1979,[2] in the context of establishment of the EMS, provided that every time the average rates were changed the Council should decide what was to happen to the new MCAs. If the Council made no decision, then an automatic system would come into operation under which the new MCAs were to be dismantled in two equal stages, taking effect at the beginning of the first and the second marketing years following the introduction of the MCAs.

The old MCAs existing at the beginning of the definitive EMS phase were to be dismantled within a period of two years.

Those rules were, however, limited to Member States with stable currencies.

(d) A fourth proposal, made in 1983,[3], distinguished between old and new MCAs. Old MCAs were to be

[1] OJ C 274, 19.11 1976, p. 3.
[2] OJ C 50, 24.2 1979, p. 15.
[3] OJ C 299, 5.11 1983, p. 7.

dismantled in two equal stages at the beginning of the two marketing years following the entry into force of the proposed system; new MCAs were to be eliminated in three stages, the first coming immediately after the average rates were changed, and the other two at the start of the following marketing years.

2. The reason for which all these proposals failed was the same in all cases: the political impossibility of achieving agreement for the principle of automatic adjustment of the level of prices in national currency, even where this process would have taken place some time after the monetary event.

In any case, experience with the MCA system meant that, year after year, the need became more urgent to eliminate these amounts, whose negative effects became more evident as the monetary gaps became wider. Since that time, efforts have been made to agree a compromise between the wish for rapid dismantlement and the fear of an uncontrolled effect on prices. From the legal point of view, no solution has yet been arrived at. Nevertheless, a political agreement was reached between most of the Member States which has, since then, guided the political decisions taken in this area.

This agreement was reached in 1979 in Luxembourg in the form of a 'gentlemen's agreement', based on the view that the creation of new MCAs had to be avoided and that, accordingly, the Council should meet to study the impact of a change in the average rates for the functioning of the CAP and to adopt the necessary measures.

In the case of the new MCAs which came into being, despite everything, the Council had to adjust the green rates in order to eliminate them within the framework of the annual price-fixing decision. In doing so, the Council had to take particular account of the market situation, without thereby bringing about an automatic increase in prices in units of account, and developments concerning agricultural income.

The green rates had to be adjusted in order to reduce the new MCAs in two stages, taking effect at the beginning of the first and second marketing years following the decision on agricultural prices adopted after the introduction of those amounts.

However, it was necessary that those reductions should not amount either to a drop or to an increase in prices in national currency, which might lead to difficulties for the economy of the Member State in question, but this rule did not exclude a rapid reduction designed to avoid the creation of permanent MCAs.

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During the two stages mentioned above, the preferred course of action would be to increase common prices expressed in ecus before dismantling the positive MCAs.

The strategy was even less clearly defined with regard to existing MCAs; the Member States which were parties to the agreement recorded their firm intention progressively to reduce the existing MCAs in order to restore the unity of common agricultural prices, taking due account of the prices policy, and also envisaging the possibility that this progressive reduction might be accelerated on the initiative of the Member State in question.

3. Although it is true that the question of dismantling MCAs arose each year when price fixing and associated measures in agriculture were discussed, in 1968 several factors converged which accentuated the scope of the problem. Under Article 6(1) and (4) of Regulation (EEC) No 1677/85, the switch-over mechanism was limited to the expiry of the 1986/1987 marketing year and the Council was therefore required to take a decision on the future system before the start of the 1987/88 milk marketing year on the basis of the Commission report. Moreover, under Article 5(1) of Regulation (EEC) No 855/84, the German and Dutch positive MCAs which had been in existence since 1 January 1985 were to be eliminated by the beginning of the 1987/88 marketing year by an adjustment to the green rates, which was not possible without infringing the 'gentlemen's agreement' of March 1979, under which the dismantlement of positive MCAs should not lead to a reduction in prices.

In the report which it submitted to the Council in 1987,[1] the Commission expressed the view that the switch-over mechanism had operated correctly from the technical point of view; it went on to say that the system could not be maintained in that form and had to be supplemented by means of an almost automatic system for dismantling MCAs. It had also submitted proposals for green rates designed to reduce the monetary gaps and, above all, to eliminate positive MCAs in Germany and the Netherlands. It had also expressed its intention to subject to the MCA system a number of products such as olive oil and a number of preserves and jams, at the same time increasing the neutral margin to 10 points. Within that framework, the Commission would have had to decide, by means of the management committee procedure, on the neutral margin to be applied to each sector.

4. The decisions finally adopted by the Council on 30 June 1987 (Regulation (EEC) No 1889/87 and Regulation (EEC) No 1890/87 of 2 July 1987) observe the guidelines proposed by the Commission, although the fact remains that the implementation and details thereof depart considerably from the proposals. Those decisions are dealt with in Chapter XIV.

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[1] COM(87) 64 final, 24.2.1987.

XIV — Dismantlement of MCAs — Council Decisions of 30 June 1987

Those decisions may be summarized as follows:[1]

A — Future system

1. The present agrimonetary system is maintained (the green ecu' or 'switch-over' system). As a result, every future readjustment of the monetary parities within the EMS can only give rise to the creation of negative MCAs, since positive MCAs deriving from revaluation of the strongest currency are automatically converted into negative MCAs for the other Member States.

2. The system is to be reshaped as regards the dismantlement of negative MCAs resulting from application of the switch-over mechanism, known as 'artificial' or 'transferred' MCAs. These negative MCAs will be dismantled in three stages at the start of the three marketing years following the monetary realignment, i.e.:

(a) 25% at the start of the following marketing year. The increase in prices resulting from this dismantlement will, however, be neutralized by a corresponding fall in prices in ecus. Nevertheless, Member States whose currency would be revalued and for which prices in national currency would be affected by this fall, will be entitled to allocate compensatory social aid not linked to production, chargeable to the national budget;

(b) 50% of the remainder at the start of the marketing year after the monetary realignment, without this operation being accompanied by any parallel fall in prices;

(c) the remainder at the start of the third marketing year after the monetary realignment, likewise without any reduction of prices.

3. As far as negative MCAs are concerned, the so-called 'traditional' or 'natural' MCAs, i.e. those resulting from the devaluation of a currency, will also be dismantled in three stages as follows:

(a) a maximum of 30% at the time of the monetary realignment;

(b) dismantlement of the remainder in two equal stages at the start of the two marketing years following the monetary adjustment.

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[1] See the document entitled *Newsflash — Green Europe*, No 41, 1987, 'Farm prices 1987/88 Council decisions', paragraph 3.2, p. 3.

4. These adjustments will be ordered by the Commission under the management committee procedure. The dismantlement of the negative applied monetary gaps may not, however, at any time exceed the real monetary gap existing when the agricultural conversion rate is adjusted.

The increase in prices resulting from the first stage of dismantlement of the artificial MCAs (25%) must be offset, as indicated earlier, by a corresponding reduction in the agricultural prices fixed in ecus.

For that purpose:

(a) a coefficient will be fixed, appropriately apportioned at the stage envisaged for dismantlement, which reflects the relationship between the new and the old correcting factors;

(b) prices fixed under the CAP are divided by that coefficient. The other amounts fixed in ecus under the same policy will be adjusted correspondingly, as the case arises.

5. The future agrimonetary system will be reviewed before 1 July 1988 in the light of a joint report of the Minsters for Finance and the Ministers for Agriculture (in fact, this did not occur — see Chapter XVI; paragraph 6).

B — Dismantlement of the existing MCAs

The agrimonetary decisions for the 1987/88 marketing year and their impact on prices are set out in detail in Annex XIII. The decisions applicable after the 1988/89 marketing year, already decided upon in the context of the 1987/88 price package, are set out in Annex XIV. Those decisions may be summarized as follows:

1. Positive MCAs

(a) Immediate dismantlement by 15 points, as follows:

1 point by the switch-over mechanism (conversion into negative MCAs for the other Member States), with effect from the start of the marketing years or from 1 July where the year has already commenced (without any effect on the prices in Germany and the Netherlands);

0.5 points with effect from 1 July 1987, by means of an increase in the neutral margin (from 1 to 1.5 points) for Germany (no effect on prices) and with revaluation of the green Dutch guilder for the Netherlands (price reduction of 0.5%).

(b) Dismantlement by 1 point at the start of the 1988/89 marketing year, with revaluation of the green currencies involved (German mark and Dutch guilder),

bringing about a price reduction of 1%. In Germany, this price reduction will be offset by means of national aid equivalent to 2 VAT points which will disappear at the end of 1988, the aid in question not being linked to production.

(c) Elimination of the remainder (which should be minimal and affect a very limited number of products) at the beginning of the 1989/90 marketing year.

2. Negative MCAs

(a) Dismantlement of the existing negative MCAs (in accordance with the procedures set out in Annexes XIII and XIV).

(b) Additional dismantlement of part (0.5 points) of the 'artificial' MCAs created following the switch-over of 1 point, only for France, Ireland, the United Kingdom and Spain.

(c) As regards the remaining negative MCAs ('stock'), the Council took no decision. This means that they will be able to be dismantled in accordance with the ordinary procedures (i.e. in general, by devaluation of the green currencies when the decision on prices is adopted).[1]

C — Other decisions on MCAs

1. Introduction of MCAs and differential amounts in new sectors

(a) Olive oil and certain processed products

The Commission will apply the MCA system from 17 August 1987 to olive oil, certain preserved fruits, prepared meats and certain products covered by Regulation (EEC) No 3033/80 (non-Annex II products); (in fact, MCAs in the olive-oil sector were introduced with effect from 7 September 1987 — see Chapter X, Section B — 5(j).

(b) Peas, field beans and sweet lupins

Introduction in this sector of a system of differential amounts, similar to that applied to oilseeds, but with a neutral margin of 5 points.

2. Method of calculating MCAs

(a) Basic price

There is a possibility that the Commission (management committee procedure) may base the overall

calculation of MCAs on the market price in the cereals and milk sector, within the limits of a reduction in relation to intervention prices of 7.5% and 5%, respectively; reduction of 20% (instead of the earlier 15%) of the price in the beef and veal sector; reduction of 7% in relation to the target price for the oilseeds sector.

(b) Pigmeat

In the case of pigmeat, the Commission adjusts the green rates, in accordance with the management committee procedure, in order to avoid the creation of new MCAs. In any event, this adjustment must not have the effect in the Member State in question of making the difference between the monetary gap applicable to the pigmeat sector, on the one hand, and the monetary gap applicable to the cereals sector, on the other, exceed 8 points. This Council decision represents a further endeavour to maintain the competitiveness of those pigmeat producers who use a higher proportion of cereals in the feed ration for pigs (see Chapter XV).

(c) Neutral margin

Extension of the existing maximum neutral margin of 5 points for wine to the poultrymeat sector (5 points) and fixing of a neutral margin of 10 points for olive oil.

(d) Monetary coefficients

For products subject to MCAs, the monetary coefficient will be derived from the applied monetary gap. For eggs and poultry, the basis used will be the enlarged neutral margin.

(e) Non-Annex II products

Commission preparedness to raise the minimum threshold for applying MCAs from ECU 1/100 kg to ECU 2 or 3/100 kg (see Chapter X, Section B — 5(i).

D — System for the automatic dismantlement of negative MCAs

1. Provisions

The provisions governing the dismantlement of negative MCAs are set out in Article 6(2), (3), (4), (5), (6) of Regulation (EEC) No 1677/85, as amended by Regulation (EEC) No 1889/87.

Pursuant to the second subparagraph of Article 6(2) of Regulation (EEC) No 1677/85, the agricultural conversion rates are to be adjusted in such a way as to eliminate any newly created monetary gaps. The first subparagraph of Article 6(2) of that regulation

[1] The dismantling of these negative MCAs must be carried out on a proposal by the Commission according to the economic situation in the Member States, taking into account, in the light of previous experience, the need not to disturb the balance in the market and not to aggravate inflation in the Member States affected ('gentlemen's agreement' of March 1979).

defines artificial or transferred MCAs as those resulting from the application of the correcting factor; this implies that the monetary gap in question is an artificial real monetary gap.

In order to ensure a uniform approach to the dismantlement of transferred MCAs, on the one hand, and natural MCAs, on the other, it is necessary to apply the automatic dismantling rules to the newly created real monetary gaps.

The system for the adjustment of green rates extends also to the sectors not subject to MCAs. This results in uniform treatment for all sectors and all the Member States, regardless of the level of the neutral margins.

2. Calculations

(a) The negative artificial or transferred MCAs are those resulting from a change to the green central rate (GCR) for currencies in the EMS or to the green market exchange rate (GMR) for floating currencies in the form of an increase in the correcting factor, calculated in accordance with the following:

Formula for EMS currencies:

$$NTRMG = 100 \times \left(\frac{NCR \times (NCF - OCF)}{GR} \right)$$

where NTRMG: new transferred real monetary gap
NCR: new central rate GR: green rate (existing)
NCF: new correcting factor
OCF: old correcting factor

Formula for floating currencies:

$$NTRMG = 100 \times \left(\frac{NMR \times (NCF - OCF)}{GR} \right)$$

where NMR: new market exchange rate.

(b) The additional or natural negative MCAs are those which result from the devaluation of a currency as a consequence of a monetary realignment and are equivalent to the difference between the total volume of the new negative real monetary gaps and the volume of the transferred real monetary gaps, calculated in accordance with the following formula:

$$NNRMG = NTRMG - NtRMG$$

where NNRMG: new natural real monetary gap
NTRMG: new total real monetary gap
NtRMG: new transferred real monetary gap

For currencies in the EMS, the NTRMG is equal to the difference between the real monetary gap ruling on the eve of the realignment (RMG0) and the gap immediately thereafter (RMG 1).

Formula:

$$NTRMG = RMG\ 1 - RMG\ 0$$

For floating currencies, account must be taken of three factors in determining the level of the MCAs created after the last realignment, namely:

(i) changes affecting the currency in question during the period between two realignments;

(ii) the dismantlement carried out during the period between the two realignments;

(iii) the impact of the realignment on the monetary gaps.

The last factor is taken into account by calculating, for floating currencies, the real monetary gap immediately after the realignment on the basis of the quotations for the currencies in question during the two days (Monday and Tuesday) following the realignment.

Formula:

$$NTRMG = RMG1 - DE - RMG\text{-}1$$

where RMG1: real monetary gap recorded immediately after the realignment in question, before the dismantlement

RMG-1: real monetary gap established after the previous realignment

DE: dismantlement effected, in points

In any case, this formula does not apply where a specified currency with negative MCAs has been revalued in the period prior to the realignment. In fact, the revaluation occurring in that period may be equal or superior to the MCAs created, above all the MCAs transferred by the realignment. In any such case, the decrease in the negative monetary gap occurring during that period as a result of revaluation of the exchange rate is not taken into account in calculating the newly created monetary gap. In any such case, the new monetary gap must be calculated by the same procedure as that used for EMS currencies.

3. Rate of dismantlement

The new MCAs must be dismantled as follows:

(i) up to 30% of the new natural real monetary gap immediately after the realignment of parities;

(ii) 50% of the remainder of the new natural real monetary gap, plus 25% of the new transferred real monetary gap, at the start of the first marketing year following the realignment of parities;

(iii) the remainder of the new natural real monetary gap, plus 37.5% of the transferred real monetary gap, at the start of the second marketing year following the realignment of parities;

(iv) the remainder (namely, 37.5%) of the transferred real monetary gap at the start of the third marketing year following the realignment of parities.

4. First phase of dismantlement

The first phase of dismantlement entails a reduction of 30%, as a maximum, of the new natural real monetary gap.

It is necessary, first, to calculate the dismantlement in points and then to determine the total real monetary gap after dismantlement in accordance with the following formula:

NRMG2 = RMG1 – (NNRMG x D%)

where D% is the percentage of the real monetary gap which is to be dismantled.

On the basis of the new total for the real gap, the new green rate (NGR1) is calculated using the usual formulas:

$$NGR1 = 100 \times \left(\frac{ECR}{100 - NRMG2} \right) \text{ EMS currencies:}$$

$$NGR1 = 100 \times \left(\frac{GMR}{100 - NRMG2} \right) \text{ floating currencies:}$$

5. Second phase of dismantlement

In the second stage, there must be dismantled:

(a) 50% of the remainder of the undismantled new natural real monetary gap;

(b) 25% of the new transferred real monetary gap.

The first dismantlement of the 'transferred' MCAs (i.e. the dismantlement of 25% of them, with effect from the start of the first marketing year following the realignment of parities) must be accompanied by a reduction in agricultural prices fixed in ecus, so as to neutralize any increase in the prices in national currency deriving from changed agricultural conversion rates.

For that purpose, a coefficient is determined which represents 25% of the difference between the new and the old correcting factors. Thereafter, the agricultural prices in ecus must be divided by that coefficient.

NB: The calculations and the coefficient are rounded to eight decimal places.

(c) The real monetary gap applicable after the dismantlement will then be calculated using the following formula:

NRMG3 = NRMG2 – (NnRMG x 0.35) – (NtRMG x 0.25).

Then the NRMG3 will be incorporated in the formulas set out in the foregoing section for calculation of the new green rates.

6. Third phase of dismantlement

During the third phase of dismantlement, both the remainder of the new natural real monetary gap and 37% of the new transferred real monetary gap must be eliminated. Thus, the real monetary gap applicable after the dismantlement and the new green rate will be calculated using the following formula:

NRMG4 = NRMG3 – (NnRMG x 0.35) – (NtRMG x 0.375)

The new green rate will be calculated by incorporating the NRMG4 in the formula given in paragraph 4.

7. Fourth phase of dismantlement

In the final phase, the remainder of the new transferred real monetary gap has to be dismantled so that the real monetary gap applicable after such dismantlement is equal to the level in force immediately after the realignment of parities existing at the start of the dismantlement process, using the following formula:

NRMG5 = NRMG4 – NRMGts = RMG0

where NRMGts is the remainder of the new transferred real monetary gap after dismantlement.

8. Possible modifications

The scheme for automatic dismantlement just described may be changed by new events of a monetary nature, by decisions of the Council on dismantlement of the existing MCAs or as a result of accelerated dismantlement of the new MCAs.

If, as a result of a monetary development, a new monetary realignment were to be carried out during the period for automatic dismantlement of the MCAs, the dismantlement deriving from the automatic scheme for MCAs created by the new realignment would merge with the dismantlement envisaged for the phases of the first automatic dismantlement.

If decisions are adopted to dismantle the existing MCAs ('stock') with effect from the start of the

marketing year, the new green rates will be fixed on the basis of the dismantlement decided on by the Council, with the addition of the dismantlement envisaged for the marketing year in question within the automatic system.

Such decisions as may be adopted by the Council in order to accelerate automatic dismantlement for a given marketing year, by increasing the number of points to be dismantled, will not affect the automatic dismantlement envisaged for the subsequent phases provided that the new monetary gaps covered by the automatic dismantlement are not yet completely dismantled.

9. Entry into force of the new agricultural conversion rates

The new green rates, decided on as part of the second, third and fourth phases, will come into force at the start of the marketing year for the products in question. In the past, for those products without a marketing year, the date of entry into force of the new green rates was fixed as the date of entry into force of the new prices fixed for those products. The same procedure will be followed for the green rates resulting from the automatic dismantlement of the second, third and fourth phases.

Should the Council decide to prolong certain marketing periods, the entry into force of the new agricultural conversion rates will also be deferred.

XV — Dismantlement of MCAs in the pigmeat sector

A — Principles

A new provision (Article 6(a)) was inserted in Regulation (EEC) No 1677/85, which has applied since 1 July 1987 and provides that, as from that date, in principle, it will not be permissible to introduce any new MCA in that sector. For that purpose, it would be necessary to adjust the conversion rate whenever new MCAs were introduced or existing MCAs were increased. The Commission undertakes the adjustment in accordance with the management committee procedure.

However, such adjustments to the green rate may not have the effect, in the Member State in question, of making the difference between the MCA applicable to the pigmeat sector, on the one hand, and the MCA applicable to the cereals sector, on the other, exceed 8 points.

B — Adjustment of the green rates

The MCAs, expressed in national currency, are calculated using the following formula:

MCA = CP x GR x AMG

where CP: is the common price,
GR: green rate
AMG: applied monetary gap (See Chapter X, Section B).

In this formula, GR and AMG are interdependent variables — in other words, by definition, a change in one factor will modify the other.

This means that, if the stable result is maintained in this formula (the MCA), it is mathematically impossible to calculate from it the green rate and the applied monetary gap corresponding to the unchanged MCA.

For this reason, the factor treated as stable is not the MCA expressed in national currency but the applied monetary gap.

Where the real monetary gap exceeds the neutral margin by more than 0.5 points (non-accumulation rule), the calculation of the new green rate must be based on the real monetary gap, since a change to the real gap would directly entail a corresponding change to the applied monetary gap.

Formula:

$$NGR = \frac{GCR}{(100 - ORMG)}$$

where ORMG is the old real monetary gap which is to be maintained unchanged.

However, where:

(i) it is necessary, in principle, to introduce new MCAs (in other words, where the old real gap was less than the neutral margin by up to 0.5 points); or

(ii) the negative MCAs are converted into positive MCAs or, conversely, the positive MCAs are converted into negative MCAs,

the formula for calculating the NGR is then as follows:

$$NGR = \frac{GCR}{(100 \times NM)}$$

where NM: neutral margin

Example:

In the reference period between 19 and 25 August 1987, the drachma was devalued so that the real monetary gap increased from −47.798 (i.e. gap taken into consideration for the last fixing of the MCAs) to −49.190. It would therefore be necessary to increase the MCA from −46.3 to −47.7.

During that period, the green market rate for the drachma was Ecu 1 = 175.892. At the same time, the real market rate was: Ecu 1 = 156.252 drachmas, and the correcting factor was 1.125696.

The new green rate is equal to:

$$NGR = \left(\frac{175.892}{100 - (-47.798)}\right) \times 100 = DR\ 119.008$$

whilst the green rate ruling on 1 July 1987 was Ecu 1 = DR 117.901.

C — Compliance with the 8-point limit

The purpose of the limit for the dismantlement of MCAs in the pigmeat sector, set out in Article 6(a) of Regulation (EEC) No 1677/85, is to limit any distortion which might result from the difference between the prices of cereals (factor of production), on the one hand, and the prices of pigmeat (final product), on the other. This limit must be interpreted so as to ensure that, when Article 6(a) is applied, the adjustment to the agricultural conversion rate for

pigmeat does not increase the difference existing between the AMG for cereals and the AMG for pigmeat.

Article 6(2) of Regulation (EEC) No 1677/85 (automatic dismantlement of transferred MCAs) is applicable only where the monetary parities are readjusted in the context of the EMS. In principle, in such a case it is necessary, pursuant to Article 6(a), to dismantle the MCAs created for the pigmeat sector as a result of that monetary development. However, it is possible that Article 6(a) could not be applied since the maximum difference of 8 points between the pigmeat AMG and the cereals AMG was attained; in those circumstances, the remainder of the MCAs, left after the first dismantlement phase (a maximum of 30% of the natural MCAs with immediate effect) would have to be applied. This consequence does not raise any problem in practice. In fact, either the impact of the readjustment of parities or that of automatic dismantlement of the monetary gaps for the pigmeat and cereals sectors is the same or else the overstepping of the 8-point limit resulting from the realignment of parities would be reduced by the automatic dismantlement.

It must be emphasized that automatic dismantlement does not conflict with the provisions of Articles 6 and 6(a) of Regulation (EEC) No 1677/85. The purpose of Article 6(a) is to avoid the creation of new MCAs, without compromising compliance with the maximum difference of 8-points. Once the MCAs are created, Article 6 applies with a view to eliminating the existing MCAs; consequently, the 8-point limit comes into play.

The revolutionary aspect of this system is the possibility of frequent changes to the green rate. This approach is intended to resolve, in a limited sector, the problem raised by one of the factors which, to date, have justified the fixing of MCAs: the need for stability of guaranteed prices during the marketing year. However, a special situation prevails in the pigmeat sector, where the institutional prices have hardly any impact on the market price.

NB: In February 1990, the Commission submitted a proposal (COM(90) 73 final of 20 February 1990) for amendment of the current agrimonetary rules (Article 6(2) of Regulation (EEC) No 1677/85) to limit the possibilities of adjusting the agricultural conversion rate for pigmeat, so as to reduce the risk of frequent and economically unjustified changes in MCAs. The proposal was finally adopted by the Council in July 1990 (Regulation (EEC) No 2205/90, OJ L 201, 31.7.1990, p. 9) which rejected the amendments proposed by the European Parliament (PE 141.422).

XVI — Dismantlement of MCAs — Council Decisions of 19 July 1988

At its meeting held on 18 and 19 July 1988, the Council reached a formal agreement on institutional agricultural prices and on certain related measures applicable during the 1988/89 marketing year. That agreement envisages the following agrimonetary measures:[1]

1. The Council and the Commission declared their intention to dismantle existing real negative monetary gaps for those currencies which comply with the rules of the EMS, by adjustment of the green rates in four stages by 1992.

As regards the other currencies with real monetary gaps which are not the subject of automatic dismantlement arrangements, the Council also agreed on the need to provide for appropriate dismantlement measures.

2. The first stage of dismantlement of approximately 25% was undertaken on 1 January 1989 in the manner set out below:

(a) 1 point for Denmark,

1 point for sheepmeat in Spain,

1.5 points for France,

1.55 points for Ireland,

2.5 points for Italy (except for sheepmeat, for which the green rate is aligned with that applicable to the other sectors),

3.2 points for the United Kingdom,

all gaps for the Belgo-Luxembourg Economic Union (BLEU).

However, as regards beef and veal, the decisions on green rates will be adopted when the reform of the common market organization in that sector is finally approved.

(b) For Portugal, the dismantlement extends to all existing monetary gaps, with effect from the start of the 1988/89 marketing year, except for marketing years which have already commenced, for which the effective date was 25 July 1988.

3. For Greece there is a dismantlement of 15 points for animal products and 20 points for crop products. The new green rates are applicable at the start of the marketing years, for each product, except for marketing years which have already commenced, where the operation started on 25 July 1988.

4. For the Netherlands, the green rate for milk was aligned with that for cereals at the start of the 1988/89 marketing year.

5. Under this agreement, the Council and the Commission have agreed that in the next dismantlement, to be carried out in accordance with the gentlemen's agreement, the appropriate measures will be adopted for Greece, taking account of its economic situation and its pattern of trade, in order to follow the direction established in the decision already adopted for its benefit.

6. The Council also formally adopted a text on 9 June 1988 which, in view of the lack of recent monetary developments, placed on record that it was impossible to undertake, before 1 July 1988, a new review of the agrimonetary system envisaged by the Heads of State or Government of the Twelve at its meeting on 29 and 30 June 1987. That summit meeting had planned a new review 'in the light of a joint report from the Ministers for Finance and the Ministers for Agriculture'. That Council decision is tantamount to a tacit renewal, sine die, of the currently valid agrimonetary system at present in force (green ecu or switch-over system).

7. The Council's agrimonetary decisions of 19 July 1988 are set out in more detail in Annex XV.

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[1] See the document entitled *Newsflash — Green Europe*, No 44, 1988, 'Farm prices', 1988/89 and related measures-Council decisions', paragraph 2.2, p. 3.

XVII — Dismantlement of MCAs — Council Decisions of 22 April 1989

These decisions may be summarized as follows:

1. Federal Republic of Germany

Dismantlement of up to 0.4 points of the real monetary gaps for all products of animal origin.

No dismantlement for other products.

2. Netherlands

Elimination of the real monetary gap for all products except cereals.

3. Denmark

Elimination of all remaining real monetary gaps in all sectors.

4. France

Reduction of the real monetary gap of 2 points for all sectors, except the pigmeat sector, for which the gap (1.5 points) was totally dismantled, and the beef and veal sector, where the existing residual gap (0.531 points) was totally dismantled.

5. Ireland

Reduction of the real monetary gap of 2 points for all sectors, except for beef and veal, where the existing real monetary gap (- 2.0 points) was totally dismantled.

6. Italy

Dismantlement of 50% of the existing real monetary gap as at 1 January 1989.

7. United Kingdom

Dismantlement of 50% of the existing real monetary gap as at 24 April 1989 for all products. In the beef and veal sector, dismantlement of the entire monetary gap existing as at 24 April 1989.

8. Greece

Dismantlement of 16.5 points of the real monetary gaps for all products, except in the sheepmeat sector and structural measures, for which the monetary gap existing as at 24 April 1989 was totally dismantled.

9. Spain

Dismantlement of one-third of the real monetary gaps in force on 1 January 1989 in the sectors of rice, olive oil, oilseeds, wine, fruit and vegetables, dried fodder, linseed, hemp and silkworms.

10. Portugal

Total dismantlement of the real monetary gap existing as at 24 April 1989 for the sectors subject to MCAs (sugar and olive oil).

11. The Council's agrimonetary decisions of 22 April 1989 are shown in more detail in Annex XVI.

XVIII — Dismantlement of MCAs — The Commission's plan of autumn 1989

A — Principles

1. Attainment of the objectives of 1992 presupposes the elimination of all controls on intra-Community trade and, consequently, the abolition of monetary compensatory amounts.

2. This objective cannot be attained without parallel monetary integration of the agricultural sector into the economy as a whole. In the Commission's view, it will be necessary, in order to follow that course, to ensure that:

(a) between now and the end of 1992, all MCAs are completely dismantled;

(b) as from 1993, an agrimonetary system is adopted which is based on the principles antedating 1969 (see Chapter I, Section A — 4). In view of the specific features of the agricultural sector and the requirements of the CAP, that system would be implemented after a transitional period of adjustment (of 18 to-36 months).

3. In order to achieve that objective, it would be necessary, in the Commission's view:

(a) to abandon the switch-over mechanism;

(b) to change the current system of dismantling MCAs for the period between 1989 and 1992;

(c) to introduce, as from 1993, a new agrimonetary system which would integrate the agricultural sector into the remainder of the economy.

B — Abandonment of the green ecu agrimonetary system

1. Since the introduction of the agrimonetary switch-over system in 1984, the CAP guidelines have developed substantially, particularly with regard to agricultural prices, guarantees and budgetary discipline.

2. A policy of drastically reducing prices in ecus with a view to eliminating surpluses, such as that systematically followed by the Community in the last few years, is pointless if it is hampered by a pattern of prices in national currency which runs counter to the efforts made at Community level (see Chapter XII, Section D). Whilst the switch-over system was a

technical innovation designed to provide a political solution for the problem of the fall in farm income in some Member States with a strong currency which, on other occasions and for different reasons, supported a reduced Community budgetary effort for the benefit of the agricultural sector, it will be impossible to maintain it as from 1992. The reason for this is that, by converting positive monetary gaps into negative gaps, that system constantly generates negative MCAs, and also an artificial potential for devaluation of the green rates which, particularly in Member States with weak currencies, goes further than monetary developments, thus increasing the differences in price levels between Member States within a (theoretically) single market.

3. Nevertheless, abandonment of the switch-over system would entail the creation of positive MCAs, giving rise to a whole series of political problems regarding their dismantlement. The use of national aid to compensate for the fall of agricultural income in Member States with strong currencies, resulting from a reduction in the common prices consequential on the dismantlement of positive MCAs, might be a solution to this problem, as it was in the past (see Chapters VI, Section D and XII, Section B). The greatest disadvantages of this option are the risk of overcompensating some farmers and the temptation for some rich countries to re-nationalize the CAP.

C — Modification of the current system of dismantling MCAs during the period 1989–92

1. Dismantlement of the existing MCAs and of those created before the end of 1992 is governed by two Council decisions which provide for their systematic elimination (see Chapter XIV). A brief description of them is repeated below to facilitate better understanding of the considerations which follow concerning changes to them:

(a) Newly created MCAs

As from 1 July 1987, strict rules were introduced concerning the so-called newly created MCAs. This system provides, in the event of monetary realignment, for automatic dismantlement of transferred negative MCAs (resulting from the switch-over) in the following way:

(i) 25% at the start of the marketing year following monetary realignment (with a reduction in the prices fixed in ecus in order to neutralize the increase in prices in national currency brought about by the simultaneous modification of the green rates).

(ii) 37 5% at the start of the second and third marketing years following the monetary realignments.

The other negative MCAs, known as natural MCAs, created after a monetary realignment, will be dismantled

(i) by a maximum of 30% at the time of the realignment,

(ii) in two equal stages (35% each) at the start of the two marketing years following the realignment.

The procedures for dismantling the transferred MCAs resulting from the switch-over and the natural MCAs resulting from changes to the exchange rate for a currency (GCR or GMR) are shown in Table 8.

Table 8 — Application of the system for automatic dismantlement of newly created MCAs up to the end of 1992

(%)

	Dismantlement of newly created MCAs			
	Phase 1	Phase 2	Phase 3	Phase 4
	Immediately after monetary realignment	At the start of the		
Newly created MCAs		first marketing year	second marketing year	third marketing year
Natural MCAs	30 (maximum)	35	35	
Transferred MCAs	—	25[1]	37 5	37 5

[1] With reduction of the prices fixed in ecus

NB· The system for automatic dismantlement is triggered solely by a monetary realignment.

(b) Existing MCAs

1. In July 1988, the Council adopted the principle of dismantling the stock of MCAs (essentially, the MCAs existing after the monetary realignment of 12 January 1987):

(i) in four stages for EMS currencies (the first two stages of 25% each were carried out at the start of the 1988/89 and 1989/90 marketing years);

(ii) at an appropriate rate for the floating currencies (see Chapter XVI, paragraph 1).

For the stable currencies, the above automatic dismantling system results, in practice, in small-scale reductions (1 to 1 3 points), the effects of which can be verified without great difficulty.

Special problems arise for the floating currencies since the automatic dismantling system affects only MCAs created after the last realignment (12 January 1987). However, the creation of MCAs for those currencies is not linked solely to a realignment since it depends on daily trends in their exchange rates Consequently, during the period 1989 to 1992, such variable MCAs as are created will be amenable to dismantling only by means of monetary realignment Otherwise, special

decisions would have to be taken for the dismantlement of MCAs created as from 1 January 1987.

For monetary realignments occurring after 1 April 1990, the automatic dismantling system will lead to the total elimination of MCAs at the start of the 1992/93 marketing year Whilst the first stage of automatic dismantlement comes after the start of the 1990/91 marketing year, the complete elimination of MCAs at the end of 1992 cannot be hoped for under the automatic system as it stands Accordingly, the system must be changed (the dismantling period must be shortened)

If the realignments take place at the end of the period 1989–92, it will be necessary to carry out rapid and substantial dismantling operations. The large devaluations of the green rates which would come about would, without doubt, have far-reaching repercussions for agricultural production.

The system for the automatic dismantling of MCAs envisages automatic reduction of agricultural prices, nullifying a 25% increase of them resulting from the switch-over This reduction would have to be greater if the rate of dismantlement were to be changed, in order to comply with the objectives of 1992

D — Introduction, as from 1993, of a new agrimonetary system directed towards greater integration of the agricultural sector into the remainder of the economy

1. MCAs reflect the difference in price levels between the Member States. The problem of MCAs is in fact a problem of prices reflected in the existence of a multitude of green rates which differ according to product and to country. This price problem in turn is the result, in the agricultural sector, of the differences in the economies of the Member States, reflected by the existence of weak currencies and strong currencies. How can harmony be restored at Community level?

2. The simplest solution would of course be to achieve economic and monetary union. If stable exchange rates were fixed there would be no need for specific green rates. Community farmers would benefit from fair prices and, what is of fundamental importance, MCAs would be unnecessary. Unfortunately, it is pointless to dream of any political and economic consensus for such a union in the near future. The European Commission is thus faced with the titanic task of dismantling the MCAs in a situation where Portugal and Greece have floating currencies, Spain and the United Kingdom have a margin of fluctuation of +/- 6%, and the remainder of the Member States adhere rigorously to the Bundesbank discipline, within a spread of +/- 2.25%.

3. If this illogical situation is accepted, and if the principle is adopted that it should persist in the coming years, the Commission's main concern should be to find a realistic approach which, without producing intolerable disturbances, can replace the present switch-over mechanism which has been in force since 1984. The relative success of that system so far has been attributable above all to the fact that it affects MCAs only in the event of a general realignment within the EMS. Between 1984 and the end of 1989, there were only two general realignments, thanks to the convergence of the monetary amounts and the acceptance of the hegemony of the German mark within the system. On the other hand, there have been several unilateral devaluations of the currencies of some Member States, even though they were not very substantial. Under the present system, green rates are devalued only after a realignment. These devaluations ensure compensatory price increases for farmers in the countries with negative MCAs. At the same time, they prevent the creation of new positive MCAs after a change in the central rate. The negative MCAs created by the switch-over mechanism are thus known as

artificial MCAs. In this way, until a realignment takes place, the Commission may be certain of the success, even if partial, of its policy of progressively eliminating MCAs.

4. This apparently satisfactory solution is valid only for countries with a strong currency. The enlargement of the Community and the obstinate refusal of the United Kingdom to join the EMS make the present switch-over system ineffective and unrealistic. Ostensibly, nothing prevents the creation of new MCAs in countries with weak currencies, as was demonstrated by the introduction of positive MCAs in Spain in 1988. However, with all its imperfections, the system has been able to limit MCAs only in four countries with almost stable or floating currencies. The exchange-rate discipline imposed on the other Member States has made it possible, over the last five years, to eliminate all the MCAs which affected their agricultural products.

In order to reinforce the partial success of the switch-over system, whilst implicitly recognizing its defects as a long-term Community approach, the Commission examined a number of more comprehensive solutions. The suggestions made by the experts are set out in a working document prepared by Commission officials for the members of the Commission in autumn 1989. It must be pointed out that in the absence of a genuine economic and monetary union, those suggestions, if examined closely, are far from ideal. Unfortunately, at present this union is more a matter of desire than of political reality.

5. The first suggestion made by the Commission experts for the dismantlement of MCAs consists in returning to the 1968 position. The green rate would be eliminated and exchange rates would be fixed permanently for agricultural trade in accordance with the market exchange rates for each of the Member States. Many objections may be made to this suggestion. The stability of the exchange rate would guarantee general stability in agricultural prices in the countries with strong currencies, whereas in the others an impossible situation would arise, with frequent variations in the fixed agricultural prices, reflecting fluctuations in exchange rates. These changes in the common prices in national currency could endanger the Community agricultural price policy. In practice, the economic effectiveness of such a policy depends on three factors: the extent of the intervention systems for market prices; the market situation (surplus, deficit or balance); and the capacity to control agricultural production. Thus, where there was a surplus on the market, a 3% revaluation of the German mark and a 2% devaluation of the french franc would cause the price of French products imported into

Germany to fall by around 5%. In such a case, the fact that the maximum guaranteed figures were exceeded could be offset by the level of market prices. The price increases would thus affect the Community budget discipline. Furthermore, price rises are inflationary in a country where there is a devaluation and inflation triggered by a change in exchange rates is incompatible with the main objective of the EMS, which pursues a system of anti-inflationary exchange rates.

6. The second perspective, which is slightly less effective, is to finance all CAP measures in ecus and to pay farmers in ecus instead of their national currency. Thus, transfrontier exchange rates would be eliminated but it would be necessary to convert transactions back into national currency. In any event, this proposal is, for the time being, pure fiction since there has been little progress in the use of the ecu as a substitute currency. Everything points to the conclusion that, apart from developments in the private ecu market, it is unrealistic to think that the ecu could be used as a working currency in the short term. Moreover, in consequence of the different weightings of the currencies within the value of the ecu, farmers in Member States with weak currencies would suffer a loss on conversion by comparison with those in Member States with strong currencies. Reality must thus prevail: this suggestion once again places the cart before the horse unless the ecu is first successfully converted into a working currency.

7. A third possibility, which appears to be realistic for at least some products under present circumstances, is the enlargement of the neutral margins. This solution partially isolates products from the reality of the market without creating distortions in trade and exchange rates. The level of the neutral margins depends on the impact of the intervention systems on market prices. The lesser that impact, the more the neutral margin can be extended. If account is taken of that factor, it is possible, for a product such as olive oil for which the support policy is fairly liberal, to have a neutral margin of 10 points. However, the neutral margin and extension thereof do no more than widen the gap between the green rate and the exchange rate. For a product subject to Community support measures, which are very strict, and whose level of trade within the Community is very high, the extension of the neutral margins would not be possible. Since the green rate governs the intervention price, the larger the gap between the green rate and the central rate the greater is the tendency of producers in Member States with overvalued green rates to invest in a product whose yield reflects the market reality. In other words, an extension of the neutral margin could destabilize even further the precarious equilibrium of the various

agricultural markets. In conclusion, even though this measure is feasible in the short term, it could be used only for a limited number of products.

8. The Commission's fourth, and most practical, idea involves a compromise between the two previous suggestions. Because of the existence of institutional prices, the effects of a monetary event are immediately felt in the agricultural sector. But in the general economic context, the effects are neither total nor immediate, and this different situation means that, where there is a change in parity, a mixed system is applied (raising of neutral margins with parallel adjustment of the green rates).

This system would in fact combine the extension of neutral margins and the adjustment of green rates with reference to the market rates. The first component of the system would insulate the sector from the application of market forces by dissociating the two rates, the green and central rates, whereas the second would expose the sector to economic reality. The two components are, thus, diametrically opposed. In the medium term, the neutral margin could be progressively eliminated for all products, which would mean that the green rates were progressively brought closer to the market rates. The principal advantage of this system would thus be that the Commission could announce the timetable for elimination of the neutral margin in advance, which would make it possible to advise farmers of the forthcoming changes so that they could make the adjustments necessary with a view to a free market. The dismantlement of neutral margins would then serve to integrate agriculture into the general economy. In any event, if this method is analysed critically, it becomes apparent that there is a great problem: the incompatibility between the intervention system envisaged for the CAP as a means of ensuring agricultural income, transfrontier trade and floating exchange rates.

The problem of periodical variations in agricultural prices would re-emerge once the neutral margins had disappeared. It is possible to imagine the administrative problems which would arise in an unstable monetary economy with high inflation as, for example, in the case of trade between Portugal and Germany. Agricultural prices would have to be continuously adjusted in Portugal.

9. Thus, the dismantlement of the agrimonetary system will continue to be a headache for the Commission, firstly because, whatever combination of measures is proposed, even the best can only be holding measures of a temporary nature. None of the four scenarios suggested for the post–1992 period is economically valid since none provides a satisfactory

long-term answer and none resolves the fundamental problem of the exchange rate or, therefore, of cross-frontier trade. Whilst exchange rates are not fixed, farmers in the various Member States will have to cope with different prices according to whether they are importing or exporting.

10. In the short term, the main obstacle to any initiative towards the total dismantlement of MCAs will be of a political nature. Negative MCAs may perhaps have disappeared in some Member States with weak but stable currencies, but positive monetary gaps exist in countries with a strong currency such as Germany and the Netherlands. The dismantlement of negative MCAs guarantees higher prices for farmers in the countries concerned, but the converse occurs in the case of positive MCAs. In the latter cases, German and Dutch farmers are faced with an automatic fall in their export prices. It is this political problem — made greater by the recent developments in the countries of Eastern Europe, by which the Federal Republic of Germany is affected in particular (German unification) — which is the main reason for the Commission's very careful approach to agrimonetary matters, its ideas having, so far, been limited to the abovementioned working document.

Moreover, the feeling in Bonn is that the Commission is not prepared to extend the reduction in VAT, which serves to compensate German farmers for the revaluation of the German mark in March 1984 (see Chapter VI.D), after 31 December 1992. The amount involved at 1992 rates is DM 1 040 million.

This reduction had been authorized by the EEC in 1984 at a level of 5%, and was later reduced to 3% in 1989, although Bonn managed to ensure that the remaining 2% was replaced by national 'socio-structural' assistance. This system of VAT rebates will come to a close at the end of 1991 and the national assistance on 31 December 1992.

According to reports in the trade press, the German Minister for Agriculture, Mr Ignaz Kiechle, has already asked the Commissioner for Agriculture, Mr Ray Mac Sharry, for a proposal to the Council for an extension of these arrangements. However, according to the Commission's spokesperson, there are currently no draft texts being prepared on this matter. This prompted the spokesperson on agriculture for the CDU-CSU Members of the German Parliament, Mr Ego Susset, to call for an alternative solution providing equivalent financial cover.

The solution could lie in increasing structural assistance to a level equivalent to the 3% reduction in VAT. However, the problem is that the present level of assistance, restricted to a maximum of DM 8 000 per holding, does not fully meet Community criteria and the other States could be opposed to an extension of this aid, which might seem to endorse Germany's current tendency to neglect its obligations under the CAP (in the last price-fixing round, Bonn already obtained authorization for paying out compensation for milk quota reductions in advance), not to mention the fact that the measure in question is supposedly intended to compensate for income losses resulting from the revaluation of the German mark seven years earlier.

Another possibility would be to make use of the system of direct Community aid to agricultural income established in 1989 (Regulation (EEC) No 768/89, Official Journal L 84, 29.3.1989, p. 8). According to the Commission's spokesperson, such a solution would create fewer problems than an extension of the national assistance scheme. Moreover, this system is more restrictive than the current German system of assistance, as the former was formulated for a period of five years with the maximum aid being based on the average regional or national income and not exceeding ECU 2 500 per work unit, with a maximum of ECU 1 000 per work unit per year degressively and two work units per holding as far as the section co-financed by the Commission is concerned (70% in the regions listed under 'Objective 1', 25% in all other cases).

XIX — Dismantlement of MCAs — Council Decisions of 27 April 1990

The Council was obliged to take account of the specific features of certain products in certain countries in the Community.

Having regard to the Commission's initial proposals, the Council made the following decisions concerning the following countries:

1. Netherlands and the Federal Republic of Germany:

There is no dismantlement for cereals. In the Federal Republic of Germany, the new green rates for sugar will enter into force on 1 October 1990.

2. Spain

(i) There is no dismantlement for cereals, cotton, rice, oilseeds, fruit and vegetables and beef and veal.

(ii) Dismantlement of one sixth of the real monetary gaps existing in the sectors other than wine, olive oil, dried fodder, linseed, hemp and silk. The new green rate in the sugar sector will enter into force on 1 October 1990.

3. United Kingdom

(i) Dismantlement of 50% of the real monetary gap existing in the beef and veal sector.

(ii) Complete dismantlement of the monetary compensatory amounts in the pigmeat sector, observing the 8-point relationship with cereals (green rate = 0.838723).

(iii) New green rate of 0.779552 for pigmeat and agricultural products.

(iv) In the other sectors, adjustments to the rate for milk (0.758185).

4. Greece

(i) Dismantlement to attain a real monetary gap of a neutral margin of 1.5 in the pigmeat sector.

(ii) In the other sectors, the Commission's proposal is adopted which, nevertheless, takes account of the real rate of inflation, namely + 2 points.

5. As regards all the other sectors and countries not so far mentioned, the Council decided to follow the Commission proposal. In the case of the pigmeat sector, the Commission is willing to introduce implementing rules which ensure that in no case will the monetary gap of 8 points between the MCAs in the pigmeat and cereals sectors be exceeded.

Annex XVII sets out the Council decisions on intervention prices for agricultural products for the 1990/91 marketing year and the monetary repercussions for 1990.

XX — Dismantlement of MCAs — Council Decisions of 24 May 1991

1. Germany and the Netherlands

Total dismantlement of the positive monetary gaps still existing for cereals.

2. Spain

Dismantlement of one-third of the existing gaps for the majority of products. Reduction of 1 point for pigmeat, the green rate which will be applied also to milk, i.e. for the latter sector, a reduction of 0.4 points; no reduction will be applied for sugar, whose green rate will also apply to cereals, i.e. a reduction of 0.4 points for the latter sector; the number of green rates is reduced to three.

3. United Kingdom

Alignment of the green rates to the market rates.

4. Greece

Dismantlement of 75% of the negative monetary gaps and alignment of the green rates with the most favourable green rate.

5. Annex XVIII sets out the Council decisions on prices for the marketing year 1991/92 and the agrimonetary repercussions thereof.

XXI — Conclusions

1. Monetary compensatory amounts, a nightmare for some and a salvation for others, are, without any doubt whatsoever, one of the most controversial components of the common agricultural policy. Indeed, monetary compensatory amounts are at the same time a foreign body within the common agricultural policy and a consequence of it.

2. In the first place, they are a foreign body within the common agricultural policy. Divergent monetary developments do not lead to similar phenomena in the other sectors of the economy. In order to stabilize farm incomes, the common agricultural policy established a price guarantee mechanism, based on a common monetary unit, the unit of account. Guaranteed agricultural prices are converted into national currency using the agricultural conversion rate. By definition, a guaranteed price cannot vary weekly according to monetary fluctuations. As soon as the monetary gap diverges significantly from the conversion rate used in fixing the prices, the risk emerges of upsetting the mechanisms which guarantee maintenance of price levels. For those mechanisms to operate precisely and effectively, it is necessary to offset the resulting price difference. The monetary compensatory amount thus came into being which is inherently both a mechanism that enables trade to be carried on within the framework of the common market organization and an obstacle to the free movement of products.

3. At the same time, MCAs are an integral part of the common agricultural policy. Having been introduced in the first place for a transitional period under Article 103 of the Treaty, they were consolidated on the basis of Article 43 of the Treaty. It became clear that their financial consequences had to be embodied in the common agricultural policy and that, as a result of monetary disorder, it was to be an essential element of that policy.

4. The agrimonetary system, still largely dependent on events of a monetary nature, is, therefore, an essentially agricultural system. Even though the fundamental features concerning compensation have been maintained unchanged, over the years it has been altered in such a way as to make it increasingly less transparent. In order to take account of specific needs, decisions were taken which follow divergent and sometimes contradictory guidelines.

5. In this way, the agrimonetary system has become more complex than any other. In particular, the difficulty of dismantling MCAs, whether positive or negative, and the need to take account of the specific requirements of particular Member States have led to the evolution of a system which loses itself in a mass of details and is, from many points of view, inconsistent. The use of the green rate to determine national price levels has introduced an element of renationalization and arbitrariness. The existence of different green rates for different Member States and sectors has become the general rule and plays an important role in the annual decisions on prices.

6. MCAs and their dismantlement have become a constant problem. From the outset, they were regarded as a necessary evil because, by their very characteristics, they represent an obstacle to trade; nevertheless, they are necessary because of the existence of price guarantee mechanisms and compensation for different price levels.

7. In fact, the problem arises not from the introduction of MCAs but from the existence of the guarantee mechanisms and discrepancies between agricultural prices, of which the green rates are no more than the expression and the MCAs the consequence. Their *raison d'être* lies in the fact that monetary developments produce very different effects in the agricultural sector from those experienced in non-agricultural sectors. In the latter, the impact of a realignment of parities essentially takes the form of a change of price in the imported factors of production. In the absence of institutionalized prices, the market price of a non-agricultural product reflects, as a matter of economic reality, the effect of the monetary realignment in so far as it is influenced by the prices of the imported factors of production after the readjustment. Consequently, the market price does not reflect either completely or immediately the consequences of the monetary development and, in any event, those consequences fade out after a certain time. In agriculture, the position is reversed. Where there is no green rate, the guaranteed prices which influence market prices and guide them towards the desired level are immediately affected for the duration of the effects of the monetary event in question.

8. Hence there is a political will to moderate the impact of monetary events and defer their effects by creating green rates, which move away from economic reality. In any event, the problem is not resolved in this way but merely deferred and the monetary gap thus created persists at a time when evolution of the market would have caused it to disappear sooner or later. Thus, the problem tends to become worse and prompts the need to find rules to deprive cumulative monetary gaps of their effects. The initial approach was, and continues to be, to adjust the green rates. In any case, because of the impact on prices and incomes, the procedures for calculating MCAs have been changed

so that it is now easier than in the past to dismantle them by applying the switch-over mechanism.

9. Thus, since 1984, the method of calculating MCAs has been based on the strongest currency, which means that the consequences of any realignment in monetary parities affects only negative MCAs. However, the dismantlement of negative MCAs, which in 1984 was regarded as more feasible since it leads to an increase in prices in national currency, is exposed to increasing uncertainty because the Community, faced with the ever greater problem of surpluses, must take account of the risk of encouraging production which accompanies any increase in prices. Furthermore, it is important not to underestimate the inflationary impact of a significant increase in consumer prices of food products in the economy of certain Member States with weak currencies. For that reason, the Commission is reluctant to propose price increases in national currency which exceed the rate of inflation.

10. Nevertheless, producers in Member States with weak currencies are aware that the maintenance of negative MCAs and overvalued green rates seriously detracts from their income. Consequently, the greater the increase in negative MCAs, the greater the pressure for them to be eliminated and for prices to be increased.

11. This problem was not overlooked in 1984. For that reason, in the switch-over mechanism introduced in 1984, a choice had to be made between maintenance of price levels and of MCAs, on the one hand, and the elimination of MCAs and an increase in prices, on the other. In view of the situation in the various Member States concerning production and agricultural profitability, the solution adopted was to determine different green rates for each sector within each of the Member States.

12. The situation was rendered complicated by a substantial depreciation of sterling and the drachma which, in the recent past, experienced monetary gaps exceeding 20 and 40 points respectively. The monetary evolution of those two currencies, in opposite directions, led to a drop in the UK MCAs and a considerable increase in the Greek MCAs.

13. Those margins led not only to very high negative MCAs (see Annex VII) but also to difficulties in trade in certain products for which there were no MCAs. Those difficulties, according to sector, manifest themselves in different ways depending on whether they affect trade between Member States or trade with third countries, or both at the same time.

14. This situation is largely attributable to the fact that the agricultural guaranteed price system is overlaid by

a monetary phenomenon unconnected with the agricultural system. Monetary decisions are justified by the divergent development of economies and consequently of the currencies of the Member States. Until it is possible to achieve convergence of economic policy among the Member States, realignments of monetary parities will continue to occur.

15. The agrimonetary problem is, therefore, a reflection of the economic and monetary situation in the Community. Until such time as there is a common economic and monetary policy, embodied in a single Community currency generally applied, problems will continue to arise in the agricultural sector.

16. The time has come to consider the question in depth. Account must be taken of the Community's political objectives, in particular the attainment of the large internal market in 1992, together with economic and social cohesion.

17. There is no doubt that a solution to the agrimonetary problem can be found by a number of different approaches. Nevertheless, it is appropriate to activate the decision-making process taking particular account of the approaching horizon of 1992. It is hardly imaginable that MCAs — which, in the eyes of the public, are the symbol of differing price levels and obstacles to trade — should continue to be applied after 1992 between the various Member States. Accordingly, dismantlement of monetary compensatory amounts is an objective which the Community authorities have pursued tenaciously since they were introduced; this is a laudable effort, but is reminiscent of the task of Sisyphus, since monetary developments re-create them incessantly.

18. The European Parliament, wishing to make progress in that direction, asked the Commission and the Council — in its report on agricultural prices and related measures for the 1988/89 marketing year — to fix a precise timetable for the progressive elimination of all MCAs between 1989 and 1992, together with appropriate accompanying measures.

19. The recent decisions adopted by the Council are moving in that direction. The most noteworthy measure within the arsenal of innovations available is the automatic system of dismantling new negative MCAs, which had never been taken into account previously. The system is necessarily accompanied by an adjustment of prices in national currency. Consequently, the agrimonetary problem is no less controversial than it ever was. MCAs could be eliminated using one of the formulas advocated by the Commission, but the risk of price inflation or proliferation of national aids continues to exist below the surface.

20. From the linguistic point of view, 'dismantling' means demolishing walls. It has already been emphasized in various parts of this paper that MCAs, seen as obstacles to trade, are walls. They can be totally or partially dismantled. In order to do this, essentially, measures are required which focus on the monetary gap or on prices, these being the two main factors in the calculation of MCAs.

21. The monetary gap reflects a different evolution of central rates as against green rates, which are those used to convert into national currency prices and other amounts fixed in ecus under the CAP, and which, therefore, have a direct impact both on the prices received by the producers and on the prices paid by consumers. Since central rates for currencies are fixed with only scant regard to agricultural problems, the adjustment of green rates constitutes the only approach from the agrimonetary point of view to the elimination of MCAs. The disadvantages of this approach have been dealt with in Chapter XVIII, Section D — 5 (the first scenario for the dismantlement of MCAs). The other possible option — i.e. compensation for the dismantlement of MCAs by adjusting agricultural

prices expressed in national currency — goes against the principles of market unity and price stability (the prices being fixed by the Council once each marketing year) and, therefore, has not been explored by the Commission.

22. The fact is that MCAs cannot be eliminated without adverse repercussions for farmers in the Community until it is no longer necessary to compensate for the negative effects of the common market organizations, which in turn derive from the lack of a true common monetary and economic policy. The achievement of a common monetary policy is clearly dependent on the progress achieved in securing convergence of the economies of the Member States and, in particular, of the outcome of the intergovernmental conferences under way. In the absence of such progress, all the possible scenarios for the elimination of MCAs will in all probability represent no more than illusory intellectual efforts which will merely exacerbate the existing difficult situation of many small Community family holdings, which have been affected the most by 'CAP reform'.

Figure 1 — 'Traditional' system (applied before the 1984/85 marketing year) — Dismantlement of positive and negative MCAs
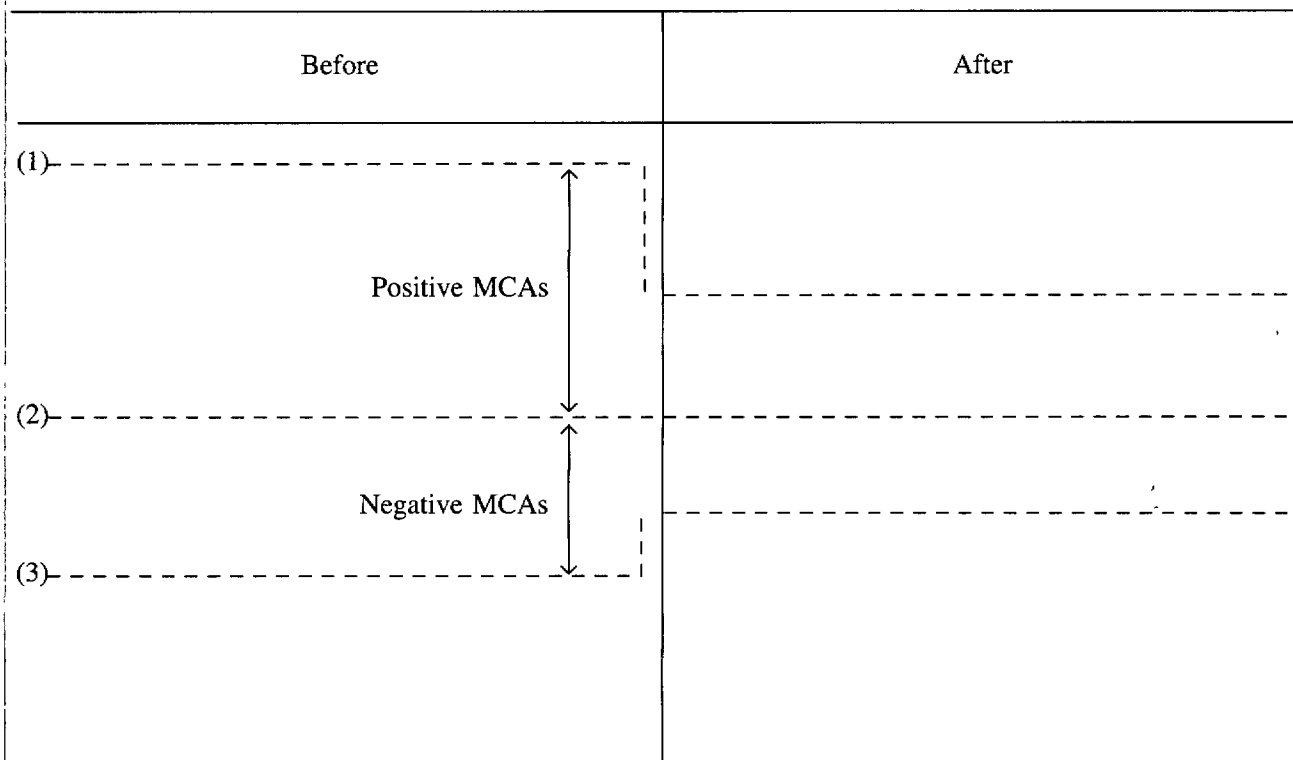
Before	After
(1) ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐	
Positive MCAs	
(2) ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐	
Negative MCAs	
(3) ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐ ⌐	

NB: (1) Price in German marks, defined by the green rate.
    (2) Community price in ecus, defined by:
        real central rate according to original method A
        green central rate according to new method of calculation B
    (3) Price in French francs, defined by the green rate.

Figure 2 — 'Green ecu' system (applied since the 1984/85 marketing year) — Dismantlement of positive and negative MCAs
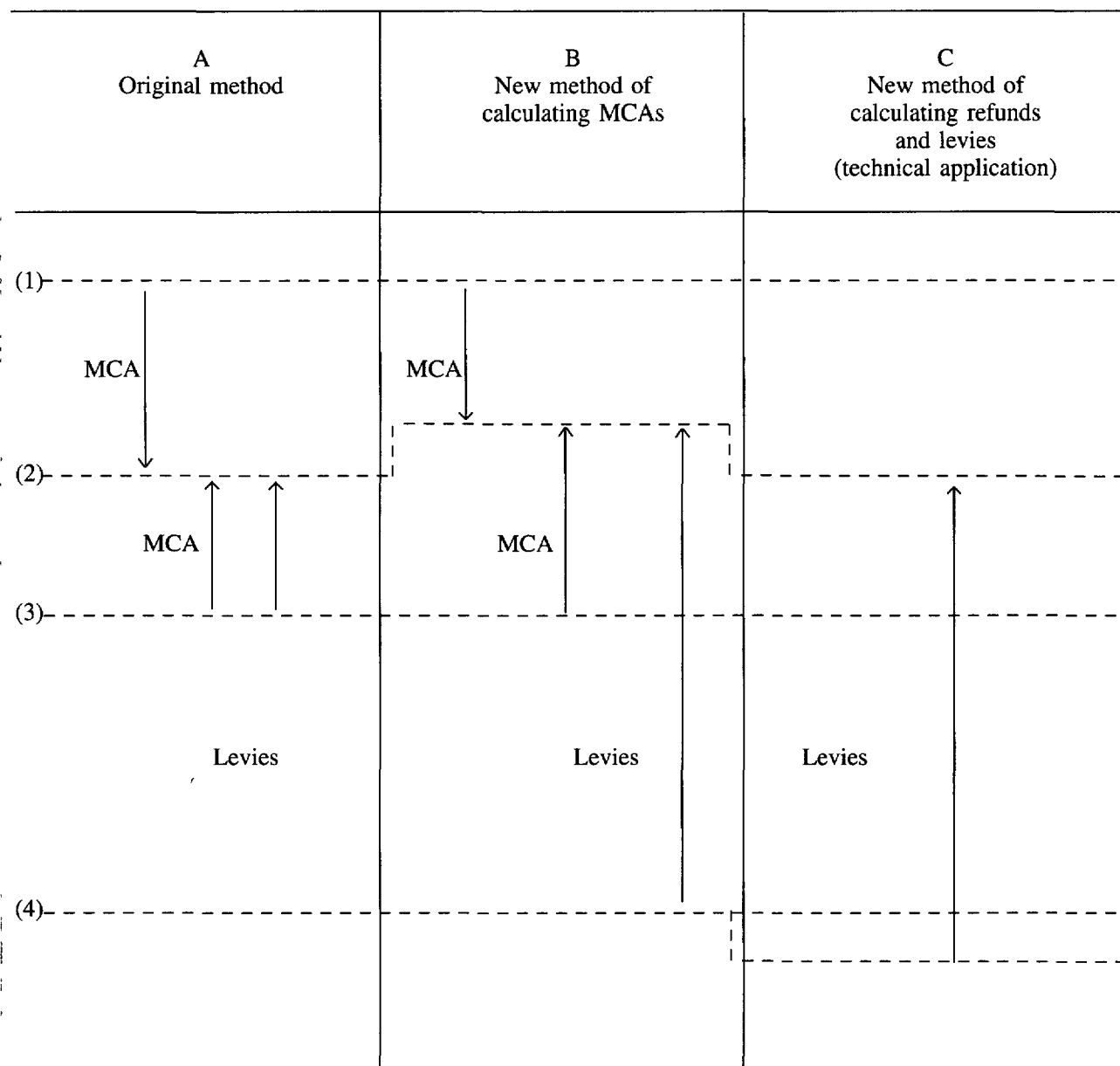
A Original method	B New method of calculating MCAs	C New method of calculating refunds and levies (technical application)

NB: (1) Price in German marks, defined by the green rate.
(2) Community price in ecus, defined by:
real central rate according to original method A
green central rate according to new method of calculation B.
(3) Price in French francs, defined by the green rate.
(4) World market price, defined by:
real exchange rate according to original method A;
green exchange rate according to new method of calculation C.

Figure 3 – Implementation of the switch-over mechanism

Situation 1 Point of departure	Situation 2 Realignment: Revaluation of DM Devaluation of FF Introduction of green rates	Situation 3 Introduction of switch-over Correcting factor = 1.033651	Situation 4 Dismantlement marketing year 1984/85		Situation 5 At 1. 1. 88 Correcting factor = 1.137282
					Green rate
					DM 2.38516 ↕MCA + 1.9%
					ECU 1 (g) = ↑DM 2.34113 FF 7.85183
	Green rate	Green rate			MCA – 5.0% ↓
	DM 2.51457 ↑	DM 2.51457 ↑			1.137782 Green rate FF 7.45826
	MCA + 10.8%	MCA + 7.8%	Green rate		
		ECU 1 (g) = DM 2.31728 = FF 7.10190	DM 2.38516 ↑ MCA + 2.8%		
Central rate	ECU1 = DM 2.5147	ECU 1 = DM 2.24184	} 1.033651 ↑	MCA – 3.5%	ECU 1 = DM 2.05853	ECU central rate
	= FF 6.49211	= FF 6.87456↑		Green rate ↓	= FF 6.90403
		MCA – 5.9%	MCA – 9.5%	FF 6.86866	
	Green rate ↓	Green rate ↓			
	FF 6.49211	FF 6.49211			

Figure 4 — Index of changes in intervention prices in ecus and in national currency for the marketing years 1982/83 to 1988/89

All agricultural products, EUR 10

(1982/83 = 100)
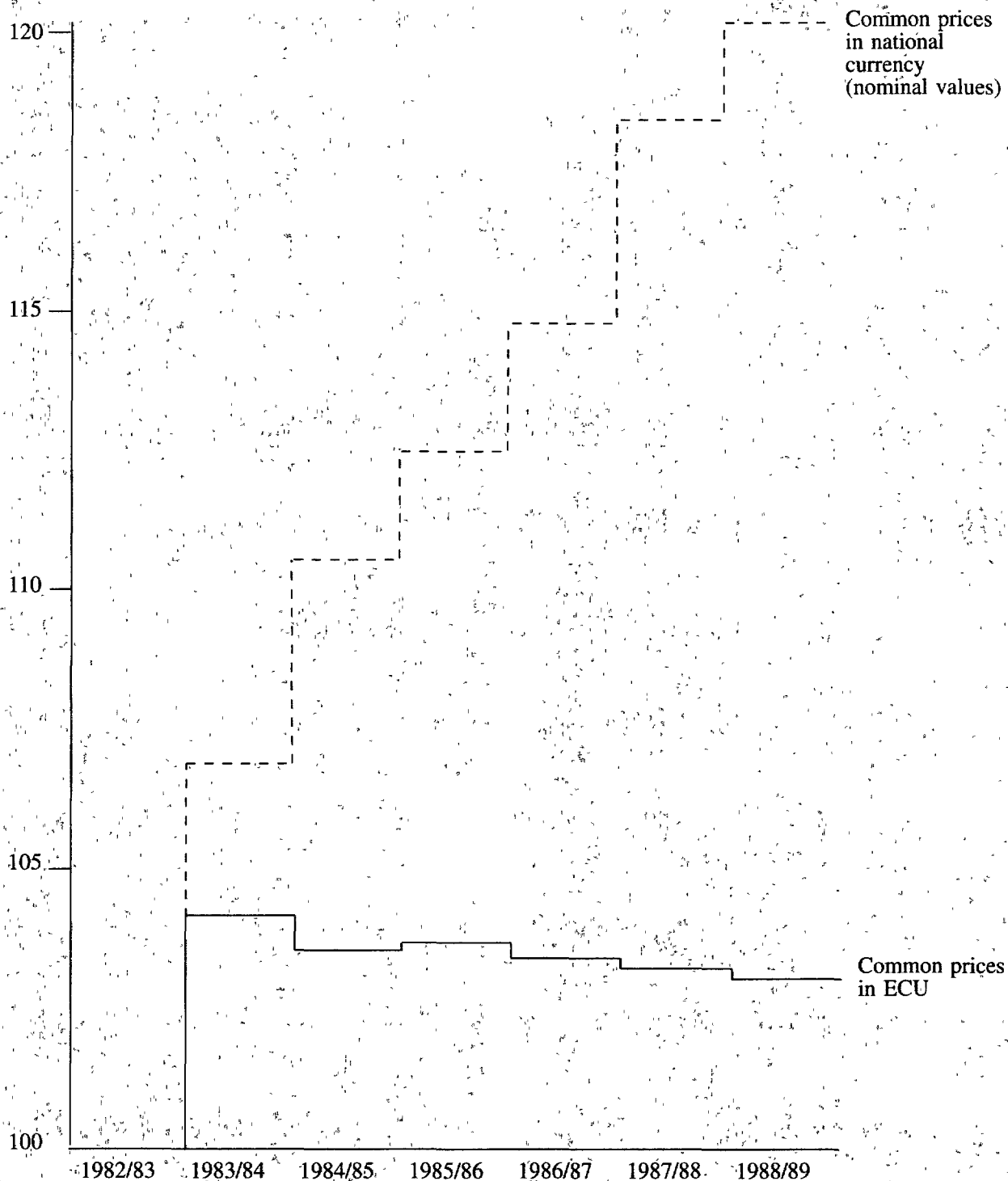
Common prices
in national
currency
(nominal values)

Common prices
in ECU

120

115

110

105

100

1982/83   1983/84   1984/85   1985/86   1986/87   1987/88   1988/89

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24.5.1989, p. 1.

Annex I

Regulatory framework — agrimonetary system[1]

Institution	No	Date	OJ reference	Title	Comment
Council	1676/85	11 6 1985	L 164, 24 6 1985	The value of the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy	Concerns the fixing of green rates
Council	1677/85	11 6 1985	L 164, 24 6 1985	Monetary compensatory amounts in agriculture	Defines the rules for the introduction of MCAs for the calculation of real and applied monetary gaps Provides for the correcting factor (switchover), and automatic dismantlement Includes general rules on accounting for MCAs
Council	1678/85	11 6 1985	L 164, 24 6 1985	Fixing the conversion rates to be applied in the agricultural sector	Sets out the actual green rates to be applied Amended each time a green rate is changed
Commission	3152/85	11 11 1985	L 310, 21 11.1985	Laying down detailed rules for the application of Regulation (EEC) No 1676/85 on the value of the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy	(Self-explanatory)
Commission	3153/85	11 11 1985	L 310, 21 11 1985	Fixing the methods for the calculation of monetary compensatory amounts	Detailed calculation rules based on principles set our in Regulation (EEC) No 1677/85
Commission	3154/85	11 11.1985	L 310, 21 11 1985	Laying down detailed rules for the administrative application of monetary compensatory amounts	Detailed rules for administrative application of MCAs when goods imported and exported between Member States, and with third countries
Commission	3155/85	11 11 1985	L 310, 21.11 1985	Providing for the advance fixing of monetary compensatory amounts	(Self-explanatory)
Commission	3156/85	11 11.1985	L 310, 21 11 1985	Transitional measures concerning the application of monetary compensatory amounts	Measures to prevent speculation at the time of changes to monetary gaps
Commission	3578/88	17 11 1988	L 312, 18 11 1988	Laying down detailed rules for the application of the system for the automatic dismantlement of negative monetary compensatory amounts	Rules for putting into effect the decisions on dismantlement agreed in June 1987 and 1988

[1] In force until the end of 1988

Source: Special report no 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24.5.1989, p. 1.

Annex II

Calculation of market exchange rates for the drachma (from 23.9.1987 to 29.9.1987)

(One unit of national currency = (NC) DR ...)

Currencies		1 23.9.87	2 24.9.87	3 25.9.87	4 28.9.87	5 29.9.87	6 Average	7 Reference rate NC = ECU	8 Conversion rate DR/ECU
1	LIT	0.105943	0.106096	0.105919	0.106016	0.106109	0.106017		
2	UKL	228.65837	227.743672	227.910751	228.815805	229.141603	228.454074		
3	ESC	0.970460	0.969978	0.969436	0.970599	0.973335	0.970762		
4	PTA	1.145018	1.146562	1.146486	1.1477963	1.154286	1.148063		
5	BFR	3.684174	3 689726	3.683002	3 685178	3.688446	3.686105	0.0235526	0.638956
6	DKR	19.891806	19.919907	19.861668	19.900207	19.913779	19.897473	0.1273540	0.640051
7	DM	76.449544	76.586671	76.438852	76.482795	76.552926	76 502158	0.4857840	0.634994
8	FF	22.926738	22.963419	22.927867	22.940398	22.982073	22.948099	0.1448430	0.631176
9	HFL	67.922228	68.059767	67 916130	67.952826	68.041550	67.978500	0.4311400	0.634230
10	IRL	205 166672	205.115597	204.827022	205.145225	205.389106	205.128724	1.3013900	0.634426

Average: DR 100 = ECU 0.635639
Conversion rate in force: DR 100 = ECU 0.639991
Applicable as from 30.9.1987: DR 100 = ECU 0.635639
ECU 1 = DR 157.322

No change.

Annex III

Calculation of market exchange rates for the drachma (from 17.1.1990 to 23.1.1990)

(One unit of national currency (NC) = DR ...)

Currencies	17.1.1990	18.1.1990	19.1.1990	22.1.1990	23.1.1990	Average	Reference rate NC = ECU	Conversion rate DR/ECU
UKL	260.918746	260.787261	262.173226	262.380255	261.351419	261.522181		
ESC	1.059636	1.059441	1 060196	1.059317	1.058613	1.059441		
PTA	1..446613	1.444448	1 437912	1.439160	1.435477	1.440722		
BFR	4.450788	4.454953	4 452466	4.450244	4.456753	4.453041	0.023714700	0.532551
DKR	24.095433	24.093226	24.073830	24.058944	24.085743	24.081435	0.128231000	0.532489
DM	93.241617	93.229220	93.155162	93.112093	93.240907	93.195800	0.489127000	0.524838
FF	27.418167	27 425628	27.410074	27.395255	27.427195	27.415264	0.145840000	0.531966
HFL	82.719600	82 731781	82.679350	82 633192	82.735164	82.699817	0 434107000	0.524919
IRL	246.574898	246.542537	247.221419	247.123885	247.084515	246.909451	1.310340000	0.530697
LIT	0.125159	0 125206	0.125175	0.125167	0.125305	0 125202	0.000653723	0.522135

Average. DR 100 = ECU 0.528514
In force   DR 100 = ECU 0.527961
Average· ECU 1 = DR 189.210
In force· ECU 1 = DR 189.408

Source: Commission of the European Communities.

Annex IV

Calculation of market exchange rates for the US dollar (from 30.9.1987 to 6.10.1987)

(USD 1 = . units of national currency (NC))

Currencies	30 9.1987	1 10.1987	2.10 1987	5 10.1987	6.10.1987	Average	Reference rate NC = ECU	Conversion rate USD/ECU
LIT	1 327.003939	1 330 097518	1 329.000222	1 329 504736	1 322.599144	1 327.641112		
UKL	0 614252	0 616142	0.616445	0.615764	0.611622	0.614845		
DR	140 590448	141 080064	140.909776	141.210487	140 629935	140.884142		
ESC	144.840437	145.140510	145.021503	145 000355	144.585116	144.917584		
FTA	122.050193	122.299618	122 299268	122.199950	121.700119	122.109830		
BFR	38.176338	38.262420	38 233917	38 257530	38.072610	38.200563	0.0235526	0.899723
DKR	7.068517	7.085486	7.078484	7.089004	7.048516	7.074001	0.1273540	0 900902
DM	1.839508	1.843501	1.841898	1.842702	1.833208	1.840163	0.4857840	0.893922
FF	6.123012	6.137989	6.132485	6.134007	6.104513	6.126401	0.1448430	0.887366
HFL	2.069907	2.074199	2.072596	2.073305	2.062605	2.070522	0.4311400	0.892685
IRL	0.685262	0.687521	0.686387	0.686154	0 682829	0.685631	1.3013900	0.892273

A — Average: USD 1 = ECU 0.894479
B — Conversion rate in force·   USD 1 = ECU 0 888418

Difference (%) $\frac{A}{B}$: 0.68

Applicable as from 7. 10. 1987. USD 1 = ECU 0.888418
No change   ECU 1 = USD 1.125596

Source: Commission of the European Communities.

Annex V

Calculation of market exchange rates for the US dollar (from 17.1.1990 to 23.1.1990)

(USD 1 = ... units of national currency (NC))

	17.1.1990	18.1.1990	19.1.1990	22.1.1990	23.1.1990	Average	Reference rate NC = ECU	Conversion rate USD/ECU
UKL	0.605438	0.608271	0.609940	0.609498	0.608571	0.608344		
DR	157.970110	158 629276	159.910031	159.920117	159.050850	159.096077		
ESC	149.079668	149.729265	150.830610	150.965257	150.244618	150.169884		
PTA	109.199993	109.820011	111.209859	111.120474	110.800034	110.430074		
BFR	35 492619	35.607400	35.914934	35.935133	35.687610	35.727539	0.023714700	0.847268
DKR	6.556019	6.583978	6.642484	6.647013	6.603527	6.606604	0.128231000	0.847171
DM	1.694202	1.701497	1.716599	1.717501	1.705805	1.707121	0 489127000	0.834999
FF	5.761512	5.783980	5.833988	5.837511	5.799020	5.803202	0.145840000	0.846339
HFL	1.909706	1.917392	1.934099	1 935301	1.922409	1.923781	0.434107000	0.835127
IRL	0.640658	0.643415	0.646829	0.647125	0.643710	0.644347	1.310340000	0.844314
LIT	1 262.153211	1 266 950215	1 277.496041	1 277.653721	1 269.305521	1 270.711742	0.000653723	0.830693

A — Average: USD 1 = ECU 0.840844
B — In force : USD 1 = ECU 0.829675

Difference (%) $\frac{A}{B}$. − 1.34618

Change: ECU 0 840844
Average: ECU 1 = USD 1.18928
In force·   ECU 1 = USD 1.20529

Source: Commission of the European Communities.

Annex VI

Calculation of monetary gaps for the drachma (from 23.9.1987 to 29.9.1987)

Stages / Sectors	Cereals	Pigmeat	Beef and veal	Eggs and poultry-meat	Milk and milk products	Wine	Sugar	Olive oil
1 World market rate (WMR)	0.635639	0.635639	0.635639	0 635639	0.635639	0.635639	0.635639	0.635639
2 Reverse WMR	157.322	157.322	157.322	157.322	157.322	157.322	157.322	157.322
3 Corrected reverse WMR[1]	178.919	177.097	178.919	178.919	178.919	178.919	178.919	177.097
4 Green rate	134.174	119.008	124.840	128.340	124.840	134.174	134.174	116.673
5 Real monetary gap	−33.348	−48.811	−43.319	−39.410	−43.319	−33.348	−33.348 '	−51.789
6 Neutral margin ('Franchise')	1.5	1.5	1.5	5	1.5	5	1.5	10
7 Art. 5 (3)(a), Reg. (EEC) No 1677/85 (non-cumulation rule)	−31.848	−47.311	−41.819	−34.410	−41.819	−28.348	−31.848	−41 789
8 Real monetary gap in force from 26.8.1987 to 1.9.1987	−32.445	−47.798	−42.348	−38.466	−42.348	−32.445	−32.445	−50.780
9 Art. 9 (2), Reg. (EEC) No 1677/85 (de minimis rule)	−0.903	−1.013	−0.971	−0.944	−0.971	−0.903	−0.903	−1.009
9a Change on 5.10.1987								
10 Real monetary gap adopted	−33.348	−47.798	−43.319	−39.410	−43.319	−33.348	−33.348	−51.789
11 Neutral margin ('Franchise')	1.5	1.5	1.5	5	1.5	5	1.5	10
12 Gap to be applied from 5.10.1987	−31.8	−46.3	−41.8	−28 3	−41.8	−28.3	−31.8	−41.8
13 Monetary coefficient	1 318	1.463	1.418	1.344	1.418	1.283	1.318	1.418
14 Art. 6(a) (2), Reg. (EEC) No 1677/85 (new green rate)		119.824						

[1] Switch-over coefficient 1 137282 (pigmeat and olive oil 1 125696)

Source: Commission of the European Communities.

Annex VII

Monetary compensatory amounts (valid from 9.5.1988)

(Rates in %)

Sectors	BLEU	DA	D	GR	E	F	IRL	I	NL	P	UK
Beef and veal	0.0	0.0	0.0	−48 0	0.0	−1.0	−2.0	−5.5	0.0	−	−2.5
Milk and milk products	0.0	0.0	0.0	−48.0	0 0	−3.5	−3.5	−5.5	0 0	−	−9.5
Pigmeat	0.0	0.0	0 0	−37.5	0 0	0.0	−2 1	−1.6	0 0	−	−4.9
Sugar	0.0	0 0	0.0	−37 6	0.0	−3.5	−3.6	−5.5	0 0	−9.4	−11.1
Cereals	0.0	0.0	1.0	−37 6	0.0	−3.5	−3.6	−6.5	1 0	−	−11 1
Eggs and poultrymeat											
Monetary gap	0 0	0 0	0.0	−40.5	0 0	0.0	0.0	−2.0	0.0	−	−6.0
MCA	0.0	0.0	0.0	−34.1	0.0	0 0	0.0	−3.0	0 0	−	−7 6
Monetary coefficient	0.0	0 0	0 0	−40.5	0.0	0.0	0.0	−2.0	0.0	−	−6 0
Wine	−	−	0.0	−34 1	0.0	−1.0	−	−2.6	−	−	−
Olive oil	0.0	0.0	0.0	−29.1	0.0	0.0	0.0	0 0	0.0	−1 0	−2 6

Source: Commission of the European Communities.

Annex VIII

Calculation of monetary gaps for the drachma (from 19.12.90 to 25.12.90)

Sectors / Stages	Cereals	Pigmeat	Beef and veal	Eggs and poultry-meat	Milk and milk products	Wine	Sugar	Olive oil
Average market rate: DRA 100 =	0.468784	0.468784	0.468784	0.468784	0.468784	0.468784	0.468784	0.468784
Exchange value: ECU 1 =	213.318	213 318	213.318	213 318	213.318	213.318	213.318	213.318
Corrected exchange value[1]	244.272	244 272	244.272	244.272	244.272	244.272	244.272	244.272
Green rate	230.472	240.052	204 710	212.503	204.710	230.472	230.472	232.153
Real monetary gap	−5.988	−1.758	−19.326	−14 950	−19.326	−5.988	−5.988	−5.220
Neutral margin ('Franchise')	1.5	1.5	1.5	5.0	1.5	5.0	1.5	10.0
Art. 5 (3)(a), Reg (EEC) No 1677/85 non-cumulation rule	−4 488	−0 258	−17.826	−9.950	−17 826	−0 988	−4.488	0 000
Real monetary gap in force from 12.12 1990 to 18.12.1990 (valid from 24.12.1990)	−5.719	−1.500	−19.023	−14.659	−19.023	−5 719	−5.719	−4.954
Art 9 (2), Reg (EEC) No 1677/85 (de minimis rule)	−0 269	−0 258	−0.303	−0 291	−0.303	−0.269	−0.269	−0.266
No change								
Real monetary gap adopted	−5.719	−1.500	−19.023	−14.659	−19 023	−5.719	−5 719	−4.954
Neutral margin ('Franchise')	1.5	1 5	1.5	5 0	1.5	5.0	1.5	10.0
Gap to be applied from 1.1 1991	−4.2	0.0	−17 5	−9.7[2]	−17.5	−1.0	−4.2	0.0
Monetary coefficient	1.042	1.000	1.175	1.097	1.175	1.010	1.042	1.000
Art. 6 (a) (2), Reg (EEC) No 1677/85 (new green rate for pigmeat)								

[1] Correcting factor 1 145109
[2] Applied MCA Gap −1 0

Source. Commission of the European Communities.

Annex IX

Monetary compensatory amounts (valid from 1.1.1991)

(Rates in %)

Sectors	BLEU	DA	D	GR	E	F	IRL	I	NL	P	UK
Beef and veal	0.0	0.0	0.0	−17.5	2.7	0 0	0.0	0 0	0 0	0 0 Change	−1.0
Milk and milk products	0.0	0.0	0.0	−17.5	2 1	0.0	0.0	0.0	0.0	0 0 Change	−5.7
Pigmeat	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0 Change	0.0
Sugar	0.0	0.0	0.0	−4.2	1.3	0.0	0.0	0.0	0.0	0.0 Change	−2.7
Cereals	0.0	0.0	0.0	−4.2	1.7	0.0	0.0	0.0	0.0	0.0 Change	−2.7
Eggs and poultrymeat Monetary gap	0.0	0.0	0.0	−9.7	0.0	0.0	0.0	0 0	0 0	0.0 Change	−2.2
Monetary MCA	0.0	0.0	0.0	−1.0	0.0	0.0	0.0	0 0	0.0	0.0	0.0
Monetary coefficient	0.0	0.0	0.0	−9.7	0.0	0.0	0.0	0.0	0.0	0.0	2.2
Wine	−	−	0.0	−1.0	0.0	0.0	−	0.0	−	0 0 Change	−
Olive oil	0.0	0.0	0.0	0.0	0.0	0.0	0 0	0.0	0.0	0.0 Change	0.0

Source: Commission of the European Communities.

Annex X

Monetary compensatory amounts — Monetary coefficients (valid from 1.1.1991)

(Rates in %)

Sectors	BLEU	DA	D	GR	E	F	IRL	I	NL	P	UK
Beef and veal	–	–	–	1.175	0.973	–	–	–	–	–	1.010
Milk and milk products	–	–	–	1.175	0.979	–	–	–	–	–	1.057
Pigmeat	–	–	–	–	–	–	–	–	–	–	–
Sugar	–	–	–	1.042	0 987	–	–	–	–	–	1.027
Cereals	–	–	–	1.042	0.983	–	–	–	–	–	1.027
Eggs and poultrymeat	–	–	–	1.097	–	–	–	–		–	1.022
Wine			–	1 010	–	–		–		–	
Olive oil	–	–	–		–	–	–	–	–	–	–
Preserves and jams (Reg. (EEC) NO 426/86)	–	–	–	–	–	–	–	–	–	–	–
Transf. prod (Reg. (EEC) No 3033/80) To be applied to import levies	–	–	–	1.175	0.979	–	–	–	–	–	1.057
To be applied to refunds Cereals	–	–	–	1.042	0.983	–	–	–	–	–	1.027
Milk	–	–	–	1.175	0.979	–	–	–	–	–	1.057
Sugar	–	–	–	1.042	0 987	–	–	–	–	–	1.027

Source: Commission of the European Communities.

Annex XI

Market conversion rate to be applied for certain amounts under the common agricultural policy (valid from 1.1.1991).

	ECU 1	LIT 100	UKL 1	IRL 1
BFR	48 5563	2 75661	59 7595	55.2545
DKR	8 97989	0.509801	11.0518	10.2186
DM	2.35418	0 133650	2.89735	2.67893
DR	243.653	13.8325	299.870	277.264
ESC	207.836	11 7991	255 789	236.506
FF	7.89563	0.448246	9.71736	8.98480
HFL	2 65256	0 150590	3 26458	3 01847
IRL	0.878776	0.0498894	1.08153	–
LIT	1 761 45	–	2 167.86	2 004.44
PTA	149.222	8.47154	183.652	169.807
UKL	0.812528	0.0461284	–	0.924613

NB Based on current rates from 19.12 1990 to 25.12.1990

Source: Commission of the European Communities.

Annex XII

Index of increases in intervention prices in ecus and in national currencies, 1982/83 to 1988/89: all agricultural products

(1982/83 = 100)

Member State	1982/83		1983/84		1984/85		1985/86		1986/87		1987/88		1988/89	
	ECU[1]	NC[2]	ECU[1]	NC[2]	ECU[1]	NC[2]	ECU[1]	NC[2]	ECU[1]	NC[2]	ECU[1]	NC[2]	ECU[1]	NC[2]
Belgium	100.0	100.0	104.4	107.7	103.8	110.6	104.0	110.4	103 9	112.3	103.9	114.2	103.9	114.6
Denmark	100.0	100.0	104.0	104.7	103.3	106.3	103.4	106 4	102.7	107.8	102.6	110.6	102 6	111.4
FR of Germany	100.0	100.0	104 1	102.0	103.5	101.4	103.8	101.7	103.6	101 5	103.6	101 5	103 6	101 5
Greece[3]	100.0	100.0	105.6	125.8	106.0	147.9	106 4	168.1	105.9	190.7	105.5	216 1	104 8	246.8
France	100 0	100.0	104.0	109.4	103 4	114.9	103.3	116.8	103.0	119 2	102 8	124.0	102.8	125.4
Ireland	100.0	100.0	104.2	109.0	103 6	111.9	104.0	112.4	103 7	115.2	103.7	125 0	103.7	127.6
Italy	100.0	100.0	104.5	108.7	104.1	115.7	103.9	119.5	103 3	124 5	102 8	126.5	102.5	128.9
Luxembourg	100.0	100 0	103.9	107.2	103.4	110.2	104.0	110.9	103.9	112 7	103.9	114 5	103.9	114.9
Netherlands	100.0	100.0	104.0	102.6	103.5	102.1	104.0	102.6	104 0	102.6	104.0	102 6	104.0	102.4
United Kingdom	100 0	100 0	104.2	104.4	103.6	103 8	103.8	104 0	103 3	105.0	103.2	112.6	103.2	115.3
EUR 10	100.0	100 0	104 2	106.9	103.6	110.3	103.7	112.3	103 4	114.8	103.2	118 6	103.1	120.5

[1] Common prices in ecus (intervention or equivalent) weighted by agricultural production
[2] Common prices in ecus converted into national currencies (NC) at green rates resulting from the annual price decisions, taking into account the incidence on prices expressed in national currencies of adjustments in green rates since the previous price decisions
[3] Including incidence of the adjustment of national prices on common prices following measures connected with adhesion

Source: Special report No 1/89 of the Court of Auditors on the agrimonetary system, accompanied by the replies of the Commission, OJ C 128, 24.5.1989, p 1.

Annexes

Annex XIII

Agrimonetary decisions – 1987/88

Member State/Sector	Green central rates		Green rates		Old monetary gaps		New monetary gaps		Difference in monetary gaps	Impact on prices	Revaluation or devaluation of green rates
	Old	New	Old	New	Real	Applied	Real	Applied			
BLEU[4]											
Sheepmeat	47 7950	48 2869	47 3310	47 3310	-0 980	–	-2 020	–	1 040	–	–
Other livestock products	47 7950	48 2869	47 3310	48 0467	0 980	0 0	-0 500	0 0	-0 480	1 51	-1 49
Crop products	47 7950	48 2869	46 8712	48 0658	-1 971	0 0	0 460	0 0	-1 511	2 55	-2 49
Denmark[4]											
Pigmeat[1]	8 83910	8.93007	8 70847	8 88697	-1 500	1 0	0 485	0 0	-1 015	2 05	-2 01
Sheepmeat	8 83910	8 93007	8 58163	8 58163	-3 000	–	-4 060	–	1 060	–	–
Other livestock products	8 83910	8 93007	8 58163	8 75497	-3 000	-1 5	-2 000	0 0	-1 000	2 02	-1 98
Crop products	8 83910	8 93007	8 54064	8 75497	-3 495	-2 0	-2 000	0 0	-1 495	2 51	-2 45
FR of Germany[4]											
Milk	2 31728	2 34113	2 41047	2 41047	3 866	2 9	2 877	1 4			
Cereals	2 31728	2 34113	2 39792	2 39792	3 363	2 4	2 368	1 0			
Wine	2 31728	2 34113	2 38516	2 38516	2 846	0 0	1 846	0 0			
Other products	2 31728	2 34113	2 38516	2 38516	2 846	1 8	1 846	0 0			
Greece[5]											
Pigmeat[1]	174 251	176 044	117.901	129 691	-47 798	-46 3	-35 741	-34 2	-12 057	10 00	-9 09
Sheepmeat	174 251	176 044	130 674	150.275	-33 348	–	-17 148	–	-16 200	15 00	-13 04
Tobacco	174 251	176 044	116 673	134 174	-49 349	-47 8	-31 210	-29 7	-18 139	15 00	-13 04
Wine	174 251	176 044	116 673	134 174	-49 349 ·	-44 3	-31 206	-26 2	-18 143	15 00	-13 04
Eggs and poultrymeat[3]											
Other crop products	174 251	176 044	116 673	128 340	-49 349	-47 8	-37 174	-35 7	-12 175	10 00	-9 09
Other products	174 251	176 044	116 673	124 840	-49 349	-47.8	-41 019	-39 5	-8 330	7 00	-6 54
Structures	174 251	176 044	116 673	137 262	-49 349	–	-28 254	–	21 095	17 65	-15 00
Spain[5]											
Pigmeat[1]	160 520	162 172	149 272	158 087	-7 450	-6 0	-2 584	-1 1	-4 866	5 91	-5 58
Sheepmeat	160 520	162 172	151 806	151 806	-5 740	–	-4 101	–	-1 639	0 00	0 00
Other livestock products	160 520	162 172	147 208	155 786	-9 043	-7 5	-4 101	-2 6	-4 942	5 83	-5 51
Wine	160 520	162 172	145 796	154 213	-10 052	-5 1	-5 163	0 0	-4 889	5 77	-5 46
Crop products	160 520	162 172	145 796	154 213	-10 052	-8 6	-5 163	-3 7	-4 889	5 77	-5 46
France[4]											
Milk	7 77184	7 85183	7 31248	7 47587	-6 282	-4 8	-5 029	-3 5	-1 253	2 23	-2 19
Pigmeat[1]	7 77184	7 85183	7 65699	7 69621	-1 500	0 0	-2 022	-1 0	0 522	0 51	-0 51
Cattle	7 77184	7 85183	7 54539	7 69553	-3 001	-1 5	-2 031	-1 0	-0 970	1 99	-1 95
Sheepmeat	7 77184	7.85183	7 54539	7 54539	-3 001	–	-4 061	–	1 060	–	–
Other livestock products	7 77184	7.85183	7 20131	7 45826	-7 923	–	-5 277	–	-2 646	3 57	-3 45
Wine	7 77184	7 85183	7 20771	7 43671	-7 827	-2 8	-5 582	-1 0	-2 245	3 18	-3 08
Crop products	7 77184	7 85183	7 09967	7 47587	-9 468	-8.0	-5 029	-3 5	-4 439	5 30	-5 03

Member State/Sector	Green central rates		Green rates		Old monetary gaps		New monetary gaps		Difference in monetary gaps	Impact on prices	Revaluation or devaluation of green rates
	Old	New	Old	New	Real	Applied	Real	Applied			
Ireland[4]											
Cattle	0 864997	0 873900	0 817756	0 844177	−5 777	−4 3	−3 521	−2 0	−2 256	3 23	−3 13
Pigmeat[1]	0 864997	0 873900	0 829519	0 843427	−4 277	−2 8	−3 613	−2 1	−0 664	1 68	−1 65
Sheepmeat	0 864997	0 873900	0 817756	0 817756	−5 777	–	−6 866	–	1 089	0 00	0 00
Other livestock products	0 864997	0 873900	0 817756	0 832119	−5 777	−4 3	−5 021	−3 5	−0 756	1 76	−1 73
Crop products	0 864997	0 873900	0 782478	0 831375	−10 546	−9 0	−5 115	−3 6	−5 431	6 25	−5 88
Italy[5]											
Cattle	1681 05	1698.35	1554	1613	−8 178	−6 7	−5 293	−3 8	−2 885	3 80	−3 66
Pigmeat[1]	1681 05	1698 35	1577	1638	−6 600	−5.1	−3 684	−2 2	−2 916	3 87	−3 72
Sheepmeat	1681 05	1698 35	1554	1554	0 8178	–	−5 293	–	−2 885	–	–
Cereals, oilseeds	1681 05	1698 35	1539	1597	−9 230	−7 7	−6 348	−4 8	−2 882	3 77	−3 63
Fruit & veg, tobacco	1681 05	1698 35	1554	1629	−8 178	–	−4 257	–	−3 921	4 83	−4.60
Wine	1681 05	1698 35	1554	1603	−8 178	−3 2	−5 948	−1 0	−2 230	3 15	−3 06
Other products	1681 05	1698 35	1554	1613	−8 178	−6 7	−5 293	−3 8	−2 885	3 80	−3 66
Netherlands[4]											
Milk	2 61097	2 63785	2 71620	2 70230	3 874	2 9	2 385	1 4	1 489	−0 51	0 51
Cereals	2 61097	2 63785	2 70178	2 68801	3 361	2 4	1 866	1 0	1 495	−0 51	0 51
Sheepmeat	2 61097	2 63785	2 68749	2 68749	2 847	–	1 847	–	1 000	–	–
Other products	2 61097	2 63785	2 68749	2 67387	2 847	1 8	1 847	0 0	1 500	−0 51	0 51
Portugal[5]											
Sugar	181 423	183 290	151 812	171 725	−19 505	−18 0	−6 740	−5 2	−12 765	13 12	−11 60
Sheepmeat	181 423	183 290	162 102	181 888	−11 919	–	0 381	–	−12 300	12 21	−10 88
Fishery products	181 423	183 290	153 283	173 609	−18 358	–	−4 358	–	−14 000	13 26	−11 71
United Kingdom[5]											
Pigmeat[2]	0 788336	0 796450	0 661898	0 694266	−19 102	−17 6	−14 718	−13 2	−4 384	4 89	−4 66
Cattle	0 788336	0 796450	0 668197	0 710546	−17 980	−16 5	−12 092	−10 6	−5 888	6 34	−5 96
Sheepmeat	0 788336	0 796450	0 652575	0 652575	−20 804	–	−19 669	–	−1 135	–	–
Other livestock products	0 788336	0 796450	0 635626	0 665547	−24 025	−22 5	−19 669	−18 2	−4 356	4 71	−4 50
Crop products	0 788336	0 796450	0 626994	0 656148	−25 733	−24 4	−21 385	−19 9	−4 348	4 65	−4 44

[1] Pigmeat — entry into force of old green rate on 1 7 1987, new gap not taking account of Article 6a of regulation (EEC) No 1677/87

[2] Pigmeat — United Kingdom green rate in force on 1.7 1987 0 664702 with an applied gap of –17 1 pursuant to Article 6 bis of Regulation (EEC) No 1677/87

[3] Eggs and poultrymeat MCAs calculated on the basis of cereals minus a margin of 5 points, monetary coefficients calculated on the basis of the green rate for eggs and poultrymeat minus a margin of 5 points

Floating currencies the calculations are carried out on the basis of the rates for the week 24 6 1987 to 30 6 1987

[4] Fixed MCAs

[5] Variable MCAs

NB New coefficient 1 137282.
  Old coefficient 1 125696

  Entry into force: 1 7 1987 for products the marketing years for which begin before that date, beginning of the marketing year for the other products

Source Commission of the European Communities, 'Notes rapides de l'Europe verte', No 41 (1988)

Annex XIV

Agrimonetary decisions, 1987/88

Member State/Sector	Green central rates		Green rates		Old monetary gaps		New monetary gaps		Difference in monetary gaps	Impact on prices	Revaluation or devaluation of green rates
	Old	New	Old	New	Real	Applied	Real	Applied			
FR of Germany											
Milk	2 05853	2 34113	2 41047	2 38591	2 877	1 4	1 877	0 0	1 000	−1 02	1 03
Cereals	2 05853	2 34113	2 39792	2 37360	2 368	1 0	1 368	0 0	1 000	−1 01	1 02
Wine	2 05853	2 34113	2 38516	2 36110	1 846	0 0	0 846	0 0	1 000	−1 01	1 02
Other products	2 05853	2 34113	2 38516	2 36110	1 846	0 0	0 846	0 0	1 000	−1 01	1 02
Netherlands											
Milk	2 31943	2 63785	2 70230	2 67490	2 385	1 4	1 385	0 0	1 000	−1 01	1 02
Cereals	2 31943	2 63785	2 68801	2.66089	1 866	1 0	0 866	0 0	1 000	−1 01	1 02
Other products	2 31943	2 63785	2 67387	2 64704	1 347	0 0	0 347	0 0	1 000	−1 01	1 01

NB Coefficient 1 13728
Entry into force beginning of 1988/89 marketing year

Source. Commission of the European Communities, Notes rapides de l'Europe verte, No 41 (1988).

Annex XV

Agrimonetary Decisions, 1988/89[1]

Member State/Sector	Previous situation			Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation , or devaluation	Impact on prices
BLEU[3]									
Sheepmeat	47.3310	−2.020	0	2	48.2869	0.000	–	−1.980	+2.020
Other livestock products[2]	48.0467	−0.500	0	0.5	48.2869	0.000	0	−0.497	+0.500
Crop products	48.0658	−0.460	0	0 5	48.2869	0.000	0	−0.458	+0.460
Denmark[3]									
Pigmeat	8.88697	−0.485	0	0.5	8.93007	0.000	0	−0 483	+0.485
Sheepmeat	8.58163	−4.060	–	1.0	8.66492	−3.060	–	−0.961	+0.971
Other livestock products[2]	8.75497	−2.000	0	1.0	8.84165	−1.000	0	−0.980	+0.990
Crop products	8 75497	−2.000	0	1.0	8.84165	−1.000	0	−0.980	+0.990
FR of Germany[3]									
Milk	2.38591	+1.877	0	0					
Cereals	2.37360	+1.368	0	0					
Other products	2.36110	+0.846	0	0					
Greece[4]									
Pigmeat	134.328	−38 977	−37 5	15	150.580	−24.109	−22.6	10 8	12.1
Sheepmeat	150.275	−24.229	–	15	170.912	−9.345	–	12.1	13.7
Wine / olive oil tobacco / cereals / sugar	134.174	−39.136	−37 6	20	156.699	−19.262	−17.8	14.4	16.8
Poultrymeat	128 340	−45.461		15	143.096	−30.600		10.3	11.5
Other crops	128.340	−45.461	–	20	148.799	−25.594	–	13.7	15.9
Other products	124.840	−49.539	−48.0	15	138.759	−34 682	−33.2	10.0	11.1

Member State/Sector	Previous situation			Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
Spain[4]									
Pigmeat	155.643	+0.892	0	0					
Sheepmeat	151.806	−1.663	−	1.0	153.315	−0.663	−	−0.984	+0.994
Other livestock products	155.786	+0.983	0	0					
Other products	154.213	−0.027	0	0					
France[3]									
Milk	7.47587	−5 029	−3.5	1.5	7.58418	−3.529	−2.0	−1.428	+1.449
Pigmeat	7.73579	−1.500	0	1.5	7.85183	0.000	0	−1.478	+1.500
Beaf / veal	7.69553	−2.031	−1.0	0			−1.0		
Sheepmeat	7.54539	−4.061	−	1.5	7.65577	−2.561	−	−1.442	+1.463
Other livestock products[2]	7.45826	−5.277		1.5	7.56606	−3.777		−1.425	+1.445
Wine	7.43671	−5.582	−1 0	1.5	7.54389	−4.082	0	−1.421	+1.441
Other crop products	7.47587	−5.029	−3.5	1.5	7 58418	−3.529	−2 0	−1.428	+1.449
Ireland[3]									
Pigmeat	0.843427	−3 613	−2 1	1 55	0.856236	−2.063	−1.0	−1.496	+1.519
Beef / veal	0 844177	−3.521	−2 0	0			−2.0		
Sheepmeat	0.817756	−6.866	−	1.55	0.829788	−5.316	−	−1.450	+1.471
Other livestock products[2]	0.832119	−5.021	−3.5	1.55	0.844585	−3 471	−2.0	−1.476	+1.498
Crop products	0.831375	−5.115	−3.6	1.55	0.843818	−3.565	−2.1	−1.475	+1.497
Italy[4]									
Pigmeat	1 674.00	−3.053	−1.6	2.5	1 716.00	−0.530	0	−2.448	+2.509
Sheepmeat	1 554.00	−11.010	−	6.6	1 652.00	−4.425	−	−5.932	+6.306
Cereals / oilseeds	1 597.00	−8.021	−6.5	2.5	1 635.00	−5 511	−4.0	−2.324	+2.379
Fruit & veg. tobacco	1 629.00	−5.899	−	2.5	1 668.00	−3.423	−	−2.338	+2.394
Wine	1 603.00	−7 617	−2 6	2.5	1 641.00	−5.125	0	−2.316	+2.371
Other products[2]	1 613.00	−6.950		2.5	1 652.00	−4.425	−2.9	−2.361	+2.418

Member State/Sector	Previous situation			Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
Netherlands[3]									
Milk	2.67490	+1 385	0	0.5	2.66089	+0.866	0	+0.527	−0 524
Cereals	2.66089	+0.866	0	0					
Other	2.64704	+0.347	0	0					
Portugal[4]									
Sheepmeat / non −									
Annex II	181.888	−4.915	−	3.4	188.007	−1.500	−	−3.255	+3 364
Fish products	173.609	−9.918	−	8.4	188.007	−1.500	−	−7.658	+8.293
Crop products	171.725	−11.123	−9 6	9.6	188.007	−1.500	0	−8.660	+9.481
Structures	171 725	−11.123	−	9.6	188.007	−1.500	−	−8.660	+9.481
United Kingdom[4]									
Pigmeat	0.704020	−6.406	−4.9	3.2	0.725849	−3.206	−1.7	−3.007	+3.101
Beef / veal	0.710546	−5.429	−3.9	0					
Sheepmeat	0.652575	−14.794	−	3.2	0.671291	−11.594	−10.1	−2.788	+2 868
Other									
livestock products[2]	0.665557	−12.555	−	3.2	0.685035	−9.355	−7.9	−2 843	+2.927
Crop products	0.656148	−14.169	−12.7	3.2	0.675071	−10.969	−9.5	−2.803	+2.884

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[1] Entry into force of new green rates on 1 1 1989, with the exception of
Greece and Portugal· beginning of marketing year 1988 / 89 or 25 7 1988 for products for which the marketing year had already begun at that time,
Netherlands 25.7 1988 for milk
[2] Not including beef / veal
[3] Fixed MCAs
[4] Variable MCAs

Source: Commission of the European Communities, 'Notes rapides de l'Europe verte, No 44 (1989).

Annex XVI

Agrimonetary decisions, 1989/90

Member State/Sector	Previous situation				Dismantlement	New situation			Consequences	
	Green central rate[1]	Green rate	Real monetary gap	Applied monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	ECU 1 = NC	point	point	point	ECU 1 = NC	point	point	%	%
BLEU	48 2869									
All products[2]		48 2869	0	0	0 000	48 2869	0 000	0 0	0 000	0 000
Denmark[2]	8 93007									
Pigmeat		8 93007	0	0	0 000	8 93007	0 000	0 0	0 000	0 000
Sheepmeat		8 66492	-3 060	–	-3 060	8 93007	0 000	–	2 969	3 060
Other products		8 84165	-1 000	0	-1 000	8 93007	0 000	0 0	0 990	1 000
Germany[2]	2 34113									
Milk		2 38591	1 877	0	1 477	2 35053	0 400	0 0	1 505	-1 483
Other livestock products		2 36110	0 846	0	0 446	2 35053	0 400	0 0	0 450	-0 448
Cereals		2 37360	1 368	0	0 000	2 37360	1 368	0 0	0 000	0 000
Other products		2 36110	0 846	0	0 000	2 36110	0 846	0 0	0.000	0 000
Greece[3]	197 622									
Pigmeat		167 523	-17 967	-16 5	-16 500	194 765	-1 467	0 0	-13 987	16 262
Sheepmeat		180 508	-9 481	–	9 481	197 622	0 000	–	-8 660	9 481
Poultrymeat		149 762	-31 957	-15 0	-16 500	171 165	-15 457	0 0	-12 504	14 291
Cereals, sugar		164 729	-19 968	-18 5	-16 500	190 998	-3 468	-2 0	-13 754	15 947
Wine		164 729	-19 968	-15 0	-16 500	190 998	-3 468	0 0	-13 754	15 947
Olive oil		164 729	-19 968	-10 0	-16 500	190 998	-3 468	0 0	-13 754	15 947
Tobacco		164 729	-19 968	–	-16 500	190 998	-3 468	–	-13 754	15 947
Other crop products		156 020	-26 665	–	-16 500	179 387	-10 165	–	-13 068	14 977
Structures		190 827	-3 561	–	-3 561	197 622	0 000	–	-3 438	3 561
Other products		145 018	-36 274	-34 8	-16 500	164 996	-19 774	-18 3	-12 108	13 776
Spain[3]	144 284									
Pigmeat		146 854	1 750	0 0	0 000	146 854	1 750	0 0	0 000	0 000
Sheepmeat		153 315	5 890	–	0 000	153 315	5 890	–	0 000	0 000
Poultrymeat		155 786	7 383	1 4	0 000	155 786	7 383	1 4	0 000	0 000
Other livestock products		155 786	7 383	5 9	0 000	155 786	7 383	5 9	0 000	0 000
Wine		154 213	6 438	1 4	0 805	152 896	5 633	1 0	0 861	-0 854
Olive oil		154 213	6 438	0 0	0 805	152 896	5 633	0 0	0 861	-0 854
Rice, oilseeds, fresh fruit		154 213	6 438	–	0 805	152 896	5 633	–	0 861	-0 854
Dried fodder, flax, hemp, silk		154 213	6 438	4 9	0 805	154 213	5 833	–	0 000	0 854
Other crop products		154 213	6 438	4 9	0 000	–	6 438	4 9	–	0
Other products		155 786	7 383	–	8 000	155 786	7 383	–	0 000	0 000
France[2]	7 85183									
Milk		7 58418	-3 529	-2 0	-1 529	7 69787	-2 000	0 0	-1 477	1 499
Pigmeat		7 85183	0	0	0 000	7 85183	0 000	0 0	0 000	0 000
Beef and veal		7 81036	-0 531	0	-0 531	7 85183	0 000	0 0	-0 528	0 531
Sheepmeat		7 65577	-2 561	–	-0 561	7 69787	-2 000	–	-0 547	0 550

Member State/Sector	Previous situation				Dismantlement	New situation			Consequences	
	Green central rate[1]	Green rate	Real monetary gap	Applied monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	ECU 1 = NC	point	point	point	ECU 1 = NC	point	point	%	%
Other livestock products		7 56606	−3 777	0	−1 777	7 69787	−2 000	0 0	1 712	1 742
Wine		7 54389	−4 082	0	−2 082	7 69787	−2 000	0 0	−2 000	2 041
Olive oil		7 58418	−3 529	0	−1 529	7 69787	−2 000	0 0	−1 477	1 499
Cereals, sugar		7 58418	−3 529	−2 0	−1 529	7 69787	−2 000	−	−1 477	1 499
Other products		7 58418	−3 529	−	−1 529	7 69787	−2 000	−	−1 477	1 499
Ireland[2]	0 8739									
Sheepmeat		0 829788	−5 136	−	−3 316	0 856765	−2 000	−	−3 149	3 261
Beef and veal		0 856765	−2 000	0 0	−2 000	0 873900	0 000	0 0	−1 961	2 000
Pigmeat		0 856765	−2 000	0 0	0 000	0 856765	−2 000	0 0	0 000	0 000
Poultrymeat		0 844585	−3 471	0 0	−1 471	0 856765	−2 000	0 0	−1 422	1 442
Crop products		0 843818	−3 565	−2 1	−1 565	0 856765	−2 000	0 0	−1 511	1 534
Other products		0 844585	−3 471	−2 0	−1 471	0 856765	−2 000	0 0	−1 422	1 442
Italy[3]	1 703 67									
Pigmeat		1 716 00	0 719	0 0	0 116	1 714 00	0 603	0 0	0 117	−0 117
Poultrymeat		1 652 00	−3 128	0 0	−1 840	1 682 00	−1 288	0 0	−1 784	1 816
Cereals, oilseeds, dried fodder		1 635 00	−4 200	−2 7	−2 367	1 673 00	−1 833	0 0	−2 271	2.324
Fresh fruit, vegetables, tobacco		1 668 00	−2 138	−	−1 329	1 690 00	−0 809	−	−1 302	1 319
Wine		1 641 00	−3 819	0 0	−2 168	1 676 00	−1 651	0 0	−2 088	2 133
Olive oil		1 652 00	−3 128	0 0	−1 840	1 682 00	−1 288	0 0	−1 784	1 816
Other products		1 652 00	−3 128	1 6	−1 840	1 682 00	−1 288	0 0	−1 784	1 816
Netherlands[3]	2 63785									
Cereals		2 66089	0 866	0	0 000	2 66089	0 866	0 0		
Milk		2 66089	0 866	0	0 866	2 63785	0 000	0 0	0 873	0.866
Others		2 64704	0 347	0	0 347	2 63785	0 000	0 0	0 348	−0 347
Portugal[3]	192 002									
Olive oil		188 007	−2 125	0 0	−2 125	192 002	0 000	0 0	−2 081	2 125
Other products		188.007	−2 125	0 0	−2 125	192 002	0 000	0 0	−2 081	2 125
United Kingdom[3]	0 729831									
Pigmeat		0 723693	−0 848	0 0	−0 424	0 726750	−0 424	0 0	−0 421	0 422
Sheepmeat		0 671291	−8 721	−	−4 361	0 699340	−4 360	−	−4 011	4 178
Beef and veal		0 710546	−2 714	−1 2	−2 714	0 729831	0.000	0 0	−2 642	2 714
Poultrymeat		0 683050	−6 539	−3 1	−3 270	0 706728	−3.269	0 0	−3 069	3 167
Olive oil		0 675071	−8 112	0 0	−4 056	0 701383	−4 056	0 0	−3 751	3 898
Other vegetable products		0 675071	−8 112	−6 6	−4 056	0 701383	−4 056	−2 6	−3 751	3 898
Others		0 685035	−6 539	−5 0	−3 270	0 706728	−3 269	−1 8	−3 069	3 167

8B Decision of 22 4 1989
Applicable from 1 6 1989 or the start of the 1989/90 marketing year following that date

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[1] Coefficient 1 137282 (0 879289), reference week 12 4 1989 - 18 4 1989.
[2] Fixed MCAs
[3] Variable MCAs
NC = Units of national currency
Source Commission of the European Communities, 'Europe verte' No 1/89.

Annex XVII

Agrimonetary decisions 1990/91

Member State/Sector	Previous situation			Consequences of automatic dismantlement		Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap	Green rate	Real monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	point	point	ECU 1 = NC	point	point	ECU 1 = NC	point	point	%	%
BLEU[3]	Green central rate[1] = 48.2868										
All products	48 2869	0 000	0 0			0 000	48 2869	0 000	0 0	0 000	0 000
Denmark[3]	Green central rate[1] = 8.93008										
All products	8 93007	0 000	0 0			0 000	8 93007	0 000	0 0	0 000	0 000
FR of Germany[3]	Green central rate[1] = 2.34113										
Livestock products	2 35053	0 400	0 0			0 400	2 34113	0 000	0 0	0 402	−0 400
Cereals	2 37360	1 368	0 0			0 000	2 37360	1 368	0 0	0 000	0 000
Other products[2]	2 36110	0 846	0 0			0 846	2 34113	0 000	0 0	0 853	−0 846
Greece[4]	Green market rate[1] = 227.625										
Pigmeat	220 221	−3 362	1 9	220 221	−3 362	−1 862	224 261	−1 500	0 0	−1 802	1 835
Sheepmeat and structures	211 490	−7 629	−	216 600	−5 090	−3 738	224 589	−1 352	−	−3 557	3 688
Poultrymeat	183 177	−24 265	−6 4	199 911	−13 863	−4 006	207 201	−9 857	0 0	−3 518	3 647
Cereals, sugar	204 401	−11 362	−9 9	216 600	−5 090	−3 798	224 722	−1 292	0 0	−3 614	3 750
Wine	204 401	−11 362	−6 4	216 600	−5 090	−3 798	224 722	−1 292	0 0	−3 614	3 750
Olive oil	204 401	−11 362	−1 4	216 600	−5 090	−3 798	224 722	−1 292	0 0	−3 614	3 750
Tobacco	204 401	−11 362	−	216 600	−5 090	−3 798	224 722	−1 292	−	−3 614	3 750
Other crop products	191 975	−18 570	−	209 512	−8 645	−3 914	217 343	−4 731	−	−3 603	3 738
Other products	176 576	−28 910	−27 4	192 706	−18 120	−4 081	199 603	−14 039	−12 5	−3 455	3 579
Spain[4]	Green market rate[1] = 150.023										
Pigmeat	149 026	−0 669	0 0	149 026	−0 669	−0 112	149 192	−0 557	0 0	−0 111	0 111
Sheepmeat	153 315	2 147	−	153 315	2 147	0 358	152 756	1 789	−	0 366	−0 365
Beef and veal	155 786	3 699	2 2	155 786	3 699	0 000	155 786	3 699	2 2	0 000	0 000
Poultrymeat	155 786	3 699	0 0	155 786	3 699	0 617	154 794	3 082	0 0	0 641	−0 637
Other livestock products	155 786	3 699	2 2	155 786	3 699	0 617	154 794	3.082	1 6	0 641	−0 637
Wine	152 896	1 879	0 0	152 896	1 879	0 626	151 927	1 253	0 0	0 638	−0 634
Olive oil	152 896	1 879	0 0	152.896	1 879	0 626	151 927	1 253	0 0	0 638	−0 634
Dried fodder, flax, hemp, silk	152 896	1 879	−	152 896	1 879	0 626	151 927	1 253	−	0 638	−0 634
Rice, oilseeds, fresh fruit	152 896	1 879	−	152 896	1 879	0 000	152 896	1 879	−	0 000	0 000
Cereals and cotton	154 213	2 717	1 2	154 213	2 717	0 000	154 213	2 717	1 2	0 000	0 000
Other crop products[2]	154 213	2 717	1 2	154 213	2 717	0 453	153 498	2 264	1 0	0 466	−0 464
Other products	155 786	3 699	−	155 786	3 699	0 617	154 794	3 082	−	0 641	−0 637

Member State/Sector	Previous situation			Consequences of automatic dismantlement		Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap	Green rate	Real monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	point	point	ECU 1 = NC	point	point	ECU 1 = NC	point	point	%	%
France[3]	Green central rate[1] = 7 85183										
Pigmeat, beef and veal	7 85183	0 000	0 0			0 000	7 85183	0 000	0 0	0 000	0 000
Other products	7 69787	−2 000	0 0			−2.000	7 85183	0 000	0 0	−1 961	2 000
Ireland[3]	Green central rate[1] = 0.873900										
Beef and veal	0 873900	0 000	0 0			0.000	0 873900	0 000	0 0	0 000	0 000
Other products	0 856765	−2 000	0 0			−2 000	0 873900	0 000	0 0	−1 961	2 000
Italy[3]	Green central rate[1] = 1751.67										
Pigmeat	1726 00	−1 487	0 0	1751 67	0 000	0 000	1 751 67	0 000	0 0	0 000	0 000
Poultrymeat	1 709 00	−2 497	0 0	1751 67	0 000	0 000	1751 67	0 000	0 0	0 000	0 000
Dried fodder, cereals, oilseeds	1 700 00	−3.039	−1 5	1736 00	−0 903	−0 903	1751 67	0 000	0 0	−0 895	0 903
Fresh fruit, tobacco	1717 00	−2 019	−	1751 67	0 000	0.000	1751 67	0 000	−	0 000	0 000
Wine	1703 00	−2 858	0 0	1739 00	−0 729	−0 729	1751 67	0 000	0 0	−0 723	0 729
Olive oil	1 709 00	−2 497	0 0	1751 67	0.000	0 000	1751 67	0 000	0 0	0 000	0 000
Other products	1 709 00	−2 497	−1 0	1751 67	0 000	0 000	1751 67	0 000	0 0	0 000	0 000
Netherlands[3]	Green central rate[1] = 2.63785										
Cereals	2 66089	0 866	0 0			0 000	2 66089	0 866	0 0	0 000	0 000
Others[2]	2 63785	0 000	0.0			0 000	2 63785	0 000	0 0	0 000	0 000
Portugal[4]	Green market rate[1] = 206.902										
Olive oil	199 761	−3 575	0 0	206 902	0 000	0 000	206 902	0 000	0 0	0 000	0 000
Others	199 761	−3 575	−2 1	206 902	0 000	0 000	206 902	0 000	0.0	0 000	0 000
United Kingdom[4]	Green market rate[1] = 0.853610										
Pigmeat	0 756267	−12 872	−11 4	0 761571	−12 085	−10 310	0 838723	−1 775	0 0	−9 199	10 131
Sheepmeat	0 702276	−21 549	−	0 707776	−20 605	−11 105	0 779553	−9 500	−	−9 207	10 141
Beef and veal	0 733029	−16 450	−15 0	0 738632	−15 566	−8 225	0 795232	−7 341	−5 8	−7 117	7 663
Poultrymeat	0 709729	−20 273	−16 2	0 715249	−19 344	−6.758	0 758185	−12 586	−4 5	−5 663	6 003
Milk	0 709729	−20 273	−18 8	0 715249	−19 344	−6 758	0.758185	−12 586	−11 1	−5 663	6 003
Olive oil	0 704335	−21 194	−11 2	0 709837	−20 254	−10.754	0 779553	−9 500	0 0	−8 943	9 821
Other crop products	0 704335	−21 194	−19 7	0 709837	−20 254	−10 754	0 779553	−9 500	−8 0	−8 943	9 821
Others	0 709729	−20 273	−	0 715249	−19.344	−6 758	0 758185	−12 586	−	−5 663	6 003

[1] Coefficient 1 145109, reference week 11 4 1990–18 4 1990 (MCAs applicable from 23.4 1990)
[2] Dismantlement applicable to sugar from 1 10 1990
[3] Fixed MCAs
[4] Variable MCAs
NC = units of national currency
Source: Commission of the European Communities, 'Europe verte', No 4/90

Annex XVIII

Agrimonetary Decisions, 1991/92

Member State/Sector	Previous situation			Consequences of automatic dismantlement		Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap	Green rate	Real monetary gap		Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	point	point	ECU 1 = NC	point	point	ECU 1 = NC	point	point	%	%
BLEU[5]	Green central rate[1] = 48.5563										
All products	48.5563	0 000	0 0		0 000		48 5563	0 000	0 0	0 000	0 000
Denmark[5]	Green central rate[1] = 8.97989										
All products	8 97989	0 000	0 0		0 000		8.97989	0 000	0 0	0 000	0 000
FR of Germany[5]	Green central rate[1] = 2.35418										
Cereals	2 37360	0 818	0 0		0 818		2 35418	0 000	0 0	0 825	–0 818
Other products	2 35418	0 000	0 0		0 000		2 35418	0 000	0 0	0 000	0 000
Greece[6]	Green market rate[1] = 257.895										
Pigmeat	246 319	–4 700	–3 2			–4 700	257 895	0 000	0 0	-4 489	4 700
Sheepmeat	231 754	–11 280	–	236 250	–9 162	–6 872	252 121	–2 290	–	–6 295	6 718
Poultry meat	212 503	–21 361	–6 9	232 541	–10 903	–8 613	252 121	–2 290	0 0	–7 766	8 420
Fish products	206 395	–24 952	–	229 864	–12 195	–9 905	252 121	–2 290	–	–8 828	9 683
Cereals, sugar, wine, tobacco	230 472	–11 899	–10 4	236 250	–9 162	–6 872	252 121	–2 290	–1 0	–6 295	6 718
Olive oil	232 153	–11 088	–1 1	236 250	–9 162	–6 872	252 121	–2 290	0 0	–6 295	6 718
Grain legumes	204 710	–25 981	–	228 862	–12 686	–10 396	252 121	–2 290	–	–9 225	10 163
Particular products[4]	231 968	–11 177	–	3	3	–8 887	252 121	–2 290	–	–7 993	8 688
Other crop products	222 905	–15 697	–	231 968	–11 177	8 887	252 121	–2 290	–	–7 993	8 688
Structures	230.337	–11 964	–	236 250	–9 162	–6 872	252 121	–2 290	–	–6 295	6 718
Other products	204 710	–25 981	–24 5	228 862	–12 686	–10 396	252 121	–2 290	–1 0	–9 225	10 163
Spain[6]	Green market rate[1] = 145.756										
Pigmeat	145 756	0 000	0 0			0 000	145 756	0 000	0 0	0 000	0 000
Sheepmeat	152 756	4 582	–			1 219	150 828	3 363	–	1 278	–1 262
Beef and veal	155 786	6 438	4 9			1 000	154 138	5 438	3 9	1 069	–1 058
Milk	154 794	5 839	4 3			0 401	154 138	5 438	3 9	0 426	–0 424
Sugar	153 498	5 044	3.5			0 000	153 498	5 044	3 5	0 000	0 000
Cereals	154 213	5 484	4 0			0 440	153 498	5 044	3 5	0 466	–0 464
Tobacco, seeds, peas	153 498	5 044	–			1 681	150 828	3 363	–	1 770	–1.739
Rice, oilseeds, fruit and vegetables	152 896	4 670	–			1 307	150 828	3 363	–	1 371	–1 353
Cotton	154 213	5 484	–			1 591	151 660	3 893	–	1 683	–1 656
Grain legumes	154 794	5 839	–			1 946	151 660	3 893	–	2 066	–2 025

Member State/Sector	Previous situation			Consequences of automatic dismantlement		Dismantlement	New situation			Consequences	
	Green rate	Real monetary gap	Applied monetary gap	Green rate	Real monetary gap	Dismantlement	Green rate	Real monetary gap	Applied monetary gap	Revaluation or devaluation	Impact on prices
	ECU 1 = NC	point	point	ECU 1 = NC	point	point	ECU 1 = NC	point	point	%	%
Other crop products	151 927	4 062	0 0			1 354	149 813	2 708	0 0	1 411	– 1 391
Other products	154 794	5 839	4 3			1 946	151 660	3 893	2 4	2.066	– 2 025
France[5]	Green central rate[1] = 7.89563										
All products	7 89563	0 000	0 0	0 000			7 89563	0 000	0 0	0 000	0.000
Ireland[5]	Green central rate[1] = 0.878776										
All products	0 878776	0 000	0 0	0 000			0 878776	0 000	0 0	0 000	0 000
Italy[5]	Green central rate[1] = 1 761 45										
All products	1 761 45	0 000	0 0	0 000			1 761 45	0 000	0 0	0 000	0.000
Netherlands[5]	Green central rate[1] = 2.65256										
Cereals	2 66089	0 313	0 0	0 313			2 65256	0 000	0 0	0 314	– 0 313
Other products	2 65256	0 000	0 0	0 000			2 65256	0 000	0.0	0 000	0 000
Portugal[6]	Green market rate[1] = 205.190										
Pigmeat	205 190	0 000	0 0			0 000	205 190	0 000	0 0	0 000	0 000
Other products	208 676	1 671	0 0			0 000	208.676	1 671	0 0	0 000	0 000
United Kingdom[6]	Green market rate[1] = 0.795423										
Pigmeat	0 796802	0 173	0 0			0 173	0 795423	0 000	0 0	0 173	– 0 173
Sheepmeat	0 779553	– 2 036	–			– 2 036	0 795423	0 000	–	– 1 995	2 036
Beef and veal	0 795232	– 0 024	0 0			– 0 024	0 795423	0.000	0 0	– 0 024	0 024
Crop products	0 779553	– 2.036	– 1 0			– 2 036	0 795423	0 000	0 0	– 1 995	2 036
Other products	0 758185	– 4 911	– 3 4			– 4 911	0 795423	0 000	0 0	– 4 682	4.911

NB Decision of 25 5 1991

Applicable from 17 6 1991 or start of the 1991/92 marketing year

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[1] Coefficient 1 145109 (agrimonetary correcting factor), reference week 15 5 1991 - 21 5.1991 (MCAs applicable from 27 5 1991)

[2] From the packet prize dismantlement

[3] Applicable at start of marketing year for milk, cucumbers, tomatoes, courgettes, aubergines, silkworms, cherries, dried fodder, cauliflowers, apricots, peaches and nectarines, cherries in syrup, prunes, pears, lemons, tinned pineapples

[4] Products whose 1991/92 campaign has already begun

[5] Fixed MCAs

[6] Variable MCAs

Source· Commission of the European Communities, CAP Working Notes, Agricultural Prices, 1991/92, DS XI.

Annexes

Glossary of agrimonetary terms

The terms in this glossary are in alphabetical order. References are given to the chapter in which they first appear and, where appropriate, to the relevant figure and/or annex.

Accounting rate	The conversion rate of the currencies of the Member States against the real ecu published in the *Official Journal of the European Communities* for each day on which the currency markets operate.	Chapters V
Agricultural conversion rate (green rate (GR))	The conversion rate fixed by the Council to convert institutional prices fixed in ecus into national currencies in the Member States. It is called 'green' because it applies only to agricultural products.	Chapter VII and Annex II
Applied monetary gap (AMG)	The real monetary gap less the neutral margin, rounded to one decimal place. It is the percentage applied in calculating monetary compensatory amounts.	Chapter IX and Annex VIII
'Artificial' or 'transferred' real monetary gap (RMGt)	The part of a positive RMG resulting from a revaluation of the central rate of the strongest currency (German mark) which, by application of the correcting factor, becomes a negative RMG.	Chapter XIV
Central rate	The conversion rate fixed by each Member State participating in the EMS for its national currency against the ecu. The central rates are fairly stable.	Chapter V and Annex II
Corrected monetary gap (CMG)	The real monetary gap less the neutral margin.	Chapter IX and Annex III
Correcting factor (CF)	This factor is determined by revaluation against the ecu of the strongest currency (German mark) used to multiply the central rates and 'switch' the positive MCAs into negative MCAs.	Chapter III and Figures 2 and 3
Cross-rate	Bilateral exchange rate used in calculating the variable MCAs and the real conversion rates.	Chapter VIII
De minimis rule	Under this rule the AMG will only be changed when the difference between the new AMG and the current AMG is equal to or more than 1 point.	Chapter IX
Derivation coefficients	Coefficients used for the calculation of MCAs for derived products, without an intervention price, on the basis of the MCAs in force for the basic products; they are determined *ad hoc*.	Chapter X
Differential amounts	These are applied to the aids granted in the oilseed and high-protein plant sectors; they are regarded as equivalent to MCAs and are treated in the same manner.	Chapter II
Dual-rate coefficient (DRC):	The coefficient that results from the fact that when payments are made from the budget, the ecu amounts are converted into national currency using the green rate, but when they are recorded in the accounts of the Community, they are reconverted into ecus using market exchange rates. The dual-rate coefficient is defined as the equivalent of ECU 1 in national currency, converted at the green rate, divided by the equivalent of ECU 1 in national currency, converted at the market rate.	Chapter IV

EMS currencies	Currencies of the Member States which keep within a maximum spread at any time of +/- 2.25% by reference to their central rates.	Chapter V
European Monetary System (EMS)	The exchange-rate stabilization system of the European Community established in 1979. The ecu forms the basis of the system.	Chapter V
Fixed MCAs	MCAs calculated for the EMS currencies: these MCAs change only if the green or central rates change, which happens infrequently	Chapter IV, Figures 1 to 3 and Annex IX
Floating currencies	Currencies of the Member States which comply with a maximum spread at any time of +/- 6% by reference to their central rates (Italian lira until 4.1.1990 and Spanish peseta as from 21.9.1989) or do not comply with any margin of fluctuation.	Chapter V
Green central rate	The central rate multiplied by the correcting factor, used for calculation of the RMGs under the 'green ecu' system.	Chapter VI
Green ecu	The equivalence of the green central rates against the ecu is obtained by multiplying the real ecu by the correcting factor.	Chapter III
Green market exchange rate (GMR)	The market rates of exchange multiplied by the correcting factor; used for the calculation of the variable MCAs.	Chapter IX
Institutional Prices	Agricultural support prices and other amounts decided by the Council as part of the operation of the common agricultural market organizations.	Chapter XII
Market exchange rate (MR)	The actual rates of exchange of one national currency against another, as fixed in the currency markets.	Chapter IX
Minimum threshold	Limit on the exchange value of the MCA expressed in ecus/ unit of weight, under which the latter does not apply. It is used for products not included in Annex II to the Treaty and certain processed fruits and vegetables.	Chapter IX
Monetary coefficient (MC)	The monetary coefficient is applied to levies and refunds in trade with third countries. Its purpose is to adjust levies and refunds, which have been converted from their ecu amount into national currency using the green rate, so that they are all worth about the same at market rates. The MCA is then added to/subtracted from the adjusted levy/refund. The monetary coefficient is calculated in accordance with the following formula: $$MC = \frac{(100 - AMG)}{100}$$	Chapter XI and Annex IX
Monetary compensatory amount (MCA):	An amount applied in trade between Member States or between Member States and third countries to cover the AMG. The objective is for the MCA to fill the gap created by having green rates that vary from the rates of exchange in the market.	Chapter IV, Figures 1 to 3 and Annex IX

Monetary rea-lignment (or rea-lignment of mo-netary parities)	A change in the central rates of the Member States participating in the EMS, as a result of which the central rates and, consequently, the market exchange rates are altered.	Chapter VI
Natural real mo-netary gap (RMGn)	The part of the negative RMG resulting from a devaluation of the central rate for the currency of a Member State.	Chapter XIV
Negative MCAs	MCAs applied by Member States with weak currencies (e.g. the United Kingdom, Italy and Greece), i.e. their agricultural prices in national currency are below the common price level. Negative MCAs are applied as a subsidy on imports and a levy on exports, in principle restoring the final price to the common price level.	Chapters IV, Figures 1 to 3 and Annex IX
Neutral margin (NM) ('Franchise')	A flat-rate reduction made to the real monetary gap to give the applied monetary gap.	Chapter IX and Annex VIII
Non-cumulation rule	If the RMG less the neutral margin is equal to or less than 0.50, the percentage MCA to be applied will be zero; if this difference is equal to or less than 1, but above 0.50, an MCA of 1% will be applied.	Chapter IX
Positive MCAs	MCAs applied by Member States with strong currencies (e.g. Federal Republic of Germany, Netherlands and Spain), i.e. their agricultural prices in national currency are above the common price level. Positive MCAs are applied as a levy on imports and a subsidy on exports, in principle restoring the final price to the common price level.	Chapter IV, Figures 1 to 3 Annex IX
Real conversion rate (RCR) or world market rate (WMR):	Rates used for the purposes of the CAP in recording world market data.	Chapter VIII
Real ecu	The value of the ecu and the conversion rates for the ecu published daily in the *Official Journal of the European Communities*.	Chapter V
Real monetary gap (RMG)	The percentage difference between the green rate and the central rate, according to the formula:	Chapter IX

(a) EMS currencies:

$$RMG = \left(1 - \frac{CR}{GR}\right) \times 100$$

(b) Floating currencies:

$$RMG = \left(1 \times \frac{MR}{GR}\right) \times 100$$

Since the introduction of the switch-over mechanism (1984), the central rate has been multiplied by the correcting factor, so that:

(a) EMS currencies:

$$RMG = \left(1 - \frac{GCR}{GR}\right) \times 100$$

(b) Floating currencies:

$$RMG = \left(1 - \frac{GMR}{GR}\right) \times 100$$

Within the switch-over arrangements, the RMG for Member States with weak currencies (i.e. the RMG is negative) divides into two parts, the 'artificial' RMG and the 'natural' RMG.

Switch-over mechanism	The arrangements whereby, since 1984, existing positive MCAs have been dismantled and the creation of new ones avoided. This is done by multiplying each central rate by a correcting factor, thus creating the green central rate. The real monetary gap between the green rate and the green central rate is reduced for strong-currency countries (with a corresponding reduction in positive MCAs) and increased for weak-currency countries (with a corresponding increase in negative MCAs). The purpose of the switch-over mechanism is, thus, to convert positive MCAs into negative MCAs.	Chapter III and Figures 2 and 3
Variable MCAs	MCAs calculated for the floating currencies. These MCAs are reviewed weekly.	Chapter IV, Figures 1 and 3 and Annex IX

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