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Working Documents

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DOCUMENT 1-1370/83

Report

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (Doc. 1-940/83 - COM(83) 586 final) for

I. a regulation amending Regulation No. 974/71/EEC, particularly in respect of the system of neutral margins and the gradual dismantlement of the monetary compensatory amounts applying to certain agricultural and processed products

II. a regulation amending Regulation No. 2773/75/EEC laying down rules for calculating the levy and the sluice-gate price for eggs

III. a regulation amending Regulation No. 2778/75/EEC laying down rules for calculating the levy and the sluice-gate price for poultrymeat

Rapporteur: Mr P. MARCK

PE 87.601/fin.
OR.NE

English Edition

By letter of 21 October 1983, the President of the Council of the European Communities requested the European Parliament to deliver an opinion, pursuant to Article 43 of the EEC Treaty, on the proposals from the Commission of the European Communities to the Council for regulations amending

I. Regulation No. 974/71/EEC, particularly in respect of the system of neutral margins and the gradual dismantlement of the monetary compensatory amounts applying to certain agricultural and processed products;

II. Regulation No. 2773/75/EEC laying down the rules for calculating the levy and the sluice-gate price for eggs;

III. Regulation amending Regulation No. 2778/75/EEC laying down rules for calculating the levy and the sluice-gate price for poultry meat.

On 27 October 1983, the President of the European Parliament referred these proposals to the Committee on Agriculture as the committee responsible and to the Committee on Budgets for an opinion.

At its meeting of 3-4 November 1983, the Committee on Agriculture appointed Mr P. MARCK rapporteur.

The committee examined the Commission's proposals and the draft report at its meetings of 22-23 November 1983, 25-26 January 1984 and 1-2 February 1984.

At the last meeting, the committee decided by 30 votes to 4, with 3 abstentions to recommend to Parliament that it approved the Commission's proposals with the amendments below.

The Commission has not stated its position on these amendments.

The Committee on Agriculture then adopted the motion for a resolution as a whole by 30 votes to 4 with 3 abstentions.

The following took part in the vote: Mr Curry, chairman; Mr Früh, Mr Colleselli and Mr Delatte, vice-chairmen; Mr Marck, rapporteur; Mr Barbagli (deputizing for Mr Diana), Mr Blaney, Mr Bocklet, Mrs Castle, Mr Cottrell (deputizing for Mr Battersby), Mr Dalsass, Mr Desouches (deputizing for Mr Eyraud), Mr Gatto, Mr Goerens (deputizing for Mr. S. Martin), Mr Helms, Mr Herman (deputizing for Mr Clinton), Mr Hord, Mr Jurgens, Mr Kaloyannis, Mr Kaspereit, Mr Kirk, Mr Ligios, Mr Maffre-Baugé, Mr Mertens, Mr B. Nielsen, Mr d'Ormesson, Mr Papapietro, Mr Pranchere, Mr Provan, Ms Quin, Mr Simmonds, Mr Stella (deputizing for Mr Tolman), Mr Sutra, Mr Thareau, Mr Vernimmen, Mr Vgenopoulos and Mr Vitale.

The present report was tabled on 2 February 1984.

The opinion of the Committee on Budgets is attached.

The deadline for the tabling of amendments to this report appears in the draft agenda for the part-session at which it will be debated.

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The Committee on Agriculture hereby submits to the European Parliament the following amendments to the Commission's proposals and motion for a resolution with explanatory statement:

Proposal I

Preamble and first to fifth recitals unchanged

Amendment No. 1

Sixth recital	Sixth recital
Whereas adjusting the representative rates could lead to a drop in incomes in some Member States; whereas provision should be made for offsetting this via the granting of degressive amounts of aid over a limited period of time, the actual details of which will be decided by the Council in due course;	Whereas adjusting the representative rates could lead to a drop in incomes in some Member States; whereas provision should be made for offsetting this via the granting of degressive amounts of aid, the actual details of which will be decided by the Council in due course;

Seventh to tenth recitals unchanged

Articles 1 to 3 unchanged

Amendment No. 2

Article 4	Article 4
This Regulation shall enter into force on 1 April 1984.	This Regulation shall enter into force on 1 January 1984

Proposals II and III unchanged

A

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposals from the Commission of the European Communities to the Council for

I. a regulation amending Regulation No. 974/71 (EEC), in particular in respect of the system of neutral margins and the gradual dismantlement of the monetary compensatory amounts applying to certain agricultural and processed products;

II. a regulation amending Regulation No. 2773/75/EEC laying down rules for calculating the levy and the sluice-gate price for eggs;

III. a regulation amending Regulation No. 2778/75/EEC laying down rules for calculating the levy and the sluice-gate price for poultrymeat.

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council (COM(83) 586 final and COM(83) 635 final),

- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 1-940/83),

- having regard to the report of the Committee on Agriculture and the opinion of the Committee on Budgets (Doc. 1-1370/83),

- having regard to the result of the votes on the Commission's proposals,

A. recalling its resolution of 18 November 1983 on the Commission's new proposals for the common agricultural policy (COM(83) 500 final), in particular paragraph 22 (1),

B. recalling the final communique of the European Council of 4 and 5 December 1978 and the 'gentlemen's agreement' of March 1978 concerning MCAs,

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(1) PE 87.557

C. having regard to the report by the Court of Auditors on the sound financial management of the European Communities (1), in which the Court called for the abolition of MCAs,

D. whereas MCAs, originally intended as a temporary instrument to reduce the economic impact of fluctuations in the currencies of the Member States, have of necessity acquired a permanent character because of the lack of progress towards monetary union,

E. whereas the lack of harmonization in economic and monetary policy continues to place a severe burden on the economy generally, and on the CAP in particular, and whereas the causes lie outside the agricultural sector,

F. whereas MCAs distort the terms of competition between the Member States as regards production costs by giving a permanent advantage to strong-currency countries while, by the same token, penalizing weak currency countries,

G. furthermore, MCAs disrupt intra-Community trade by creating artificial exchange rates detrimental to countries with negative MCAs,

H. whereas the administrative burden of MCAs is borne by countries with negative MCAs, which constitutes an additional disadvantage for such countries,

I. whereas, because of the complexity of the rules for applying them, MCAs are a potential source of fraud under the EAGGF,

J. whereas, given these considerations, the progressive abolition of MCAs should be a primary objective of the Community,

K. whereas, however, the abolition of MCAs should not penalize farmers in countries with positive MCAs,

L. whereas MCAs result from the absence of genuine economic and monetary union between the Member States of the Community,

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(1) OJ No. C 1287, 24 October 1983, paragraphs 2.3.18 and 2.3.19

M. whereas a first step in this direction would be the participation of all Member States in the European Monetary System, in which the ECU should play a more important part,

1. Considers that the Commission's proposals represent a useful contribution towards resolving the problem of phasing out MCAs;

(A) Proposal I

2. Welcomes the Commission's proposal to abolish existing MCAs within a period of not more than two years, on the understanding that:

   (a) this does not reduce earnings in countries with positive MCAs in view of the rise in ECU prices,

   (b) the abolition of negative MCAs can be accelerated at the request of the country concerned and with the agreement of the Council in countries with negative MCAs;

3. Calls for the dismantling of new MCAs following a strict timetable, in accordance with the procedure specified by the Commission in its proposal, on the understanding that these MCAs can be dismantled at a faster rate, with the agreement of the Council, for Member States that so request;

4. Welcomes the provision included by the Commission for Member States to grant compensatory aid where the abolition of positive MCAs would adversely afect the earnings of the farmers concerned; requests, however, that such aid should be degressive and should not be granted for more than three marketing years, as recommended by the Commission;

5. Rejects, on the other hand, any proposal only to allow the creation of negative MCAs in future, for such a proposal

   (a) would place the entire burden of sacrifice on weak-currency countries, which would be contrary to the spirit of the Community,

   (b) would reduce the role of the ECU within the EMS, since such a solution would imply the creation of a 'green' ECU;

(B) Proposals II and III

6. Hopes that the technical modifications recommended by the Commission would have no adverse economic impact on those sectors affected by the MCA changes, such as in the pork production sector, and that in particular there should be no adverse effects on processed products as a result of the planned changes in derivation coefficients,

(C) Other considerations

7. Calls on the Council and Commission in accordance with the Council resolution of 1971 on the gradual implementation of economic and monetary union to take concrete steps at long last to achieve in the medium term convergence in national economic developments which would lead to a stable exchange rate position;

8. Urges, therefore, the United Kingdom and Greece to participate in the European Monetary System in order to achieve this aim;

9. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

B

EXPLANATORY STATEMENT

I. INTRODUCTION

1. On 7 October 1983, the Commission submitted to the Council a series of proposed amendments to the system of monetary compensatory amounts (MCAs). The intention is:

   - to introduce into basic Regulation (EEC) No. 974/71 rules for the progressive dismantling of MCAs, the principle of which was included in the Commission's 28 July 1983 proposals on the common agricultural policy (COM(83) 500 final);

   - to modify the rules governing the calculation of MCAs for the various categories of products as well as the system of neutral margins in accordance with the undertaking given by the Commission when the agricultural prices were fixed for the 1983/84 marketing year. The aim of the changes proposed by the Commission is to limit the application of MCAs to the amount strictly necessary to offset temporary differences in price levels between the Member States and prevent disruption of intervention mechanisms and trade as a result of those price differences.

2. Before examining the Commission's proposals, we shall review:

   - the origin of MCAs,
   - the conclusions drawn by the Commission in an earlier study of the economic effects of the agri-monetary system,
   - and lastly, the positions adopted by the Community bodies on the subject.

II. THE ORIGIN OF MCAs

3. Monetary compensatory amounts (MCAs) were first introduced in 1969 following the devaluation of the French Franc[1] and the revaluation of the German Mark[2]

[1] Regulation (EEC) No. 1586/69, OJ No. L 202, 12.8.1969, p. 1

[2] Regulation (EEC) No. 2464/69, OJ No. L 312, 12.12.1969, p. 4

in order to maintain the system of common prices which had been introduced for the 1967/68 marketing year. The amounts were fixed and were to apply for a limited period.

4. With the introduction of floating exchange rates for the German Mark and the Dutch Guilder in May 1971, a new system of MCAs was introduced by Council Regulation (EEC) No. 974/71 on certain measures of market policy to be taken in agriculture following the temporary widening of the margins of fluctuation for the currencies of certain Member States[1]. Pursuant to the final recital of this regulation, 'The compensatory amounts (were to) be limited to the amounts strictly necessary to compensate the incidence of the monetary measures on the prices of basic products covered by intervention arrangements and it (was) appropriate to apply them only in cases where this incidence would lead to difficulties'. MCAs were thus to be a temporary feature since they were designed to offset the temporary widening of the margins of fluctuation for the currencies of certain Member States.

5. With the generalized floating of the currencies of the Member States, and in the absence for various reasons of any desire on the part of the Member States to adjust the representative (or 'green') rates which were introduced in 1973 for the new Member States and extended in March 1975 to the original Member States, MCAs have taken on a permanent character. This would not be so serious if it did not result in the distortion of the conditions of production and the trade flows between the Member States and, hence, in the undermining of the unity of the common agricultural market.

6. It is for the purpose of restoring that unity that the Commission has on several occasions submitted proposals to the Council to abolish MCAs. But no action has been taken on those proposals.

7. Having failed to bring about their abolition, the Commission has turned to technical measures to mitigate some of the adverse economic effects the agri-monetary system has for importers and exporters alike. Regulation (EEC) No. 1608/74[2], which introduced an equity clause, is one such example.

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[1] OJ No. L 106, 12.5.1971, p. 1

[2] OJ No. L 170, 27.6.1974, p. 38

8. Lastly, the Commission has preferred to reduce or abolish MCAs when submitting its agricultural price proposals to the Council. Reference may be made to the most recent report on the subject, the report by Mr Mouchel (Doc. 1-1325/82) on agricultural prices for the 1983/84 marketing year.

9. Although this method has the advantage of being pragmatic - it is the only one to have been accepted by the Council - it by no means resolves the basic problem of the economic effects of a system that has taken on a permanent character, as can be seen from the annex attached.

For the week 30 January-5 February 1984, MCAs were as follows:

Germany

milk	: + 10.8%
cereals	: + 10.3%
other products	: + 9.8%

United Kingdom

+ 7.6%

Netherlands

milk	: 6.6%
cereals	: 6.2%
other products	: 5.8%

Denmark

+ 1%

Greece

- 4.5%

France

wine	: 0%
milk	: - 3.4%
pigmeat	: 0%
other products	: - 4.4%

Belgium, Luxembourg, Ireland, Italy

0%

III. THE ECONOMIC EFFECTS OF MCAs

10. On 10 February 1978, the Commission submitted to the Council a communication on the economic effects of the agri-monetary system (COM(78) 20 final). As its communication aroused considerable interest in the Council, the Commission decided to submit an updated version on 14 March 1979 (COM(79) 11 final) in which it states that 'generally speaking, the figures obtained since the previous publication have not invalidated but, in most cases, have provided further justification for the earlier comments, thus confirming the

Commission's view that the present agri-monetary system must be dismantled as rapidly as possible'[1]. Even though these documents are relatively old, they merit careful consideration since the conclusions reached in them are still entirely valid.

11. The Commission asserts in its communication that 'the use of green rates different from the market rates has broken the unity of the common agricultural market' and that the effects of such a rupture 'become pernicious as soon as it is prolonged beyond the minimum time limit required for adaptation to the new situation'[2].

The Commission points out for instance that[3]

(a) 'Member States have sometimes attempted to counteract, by national aids for producers, those effects of the agri-monetary system which they felt to be adverse',

(b) 'difficulties have been caused by frauds against the agri-monetary system'

(c) 'when MCAs were abolished in the durum wheat/pasta sector, pasta production tended to become concentrated in Italy rather than the other Member States'.

12. The Commission continues its analysis in an unequivocal fashion, even though it tries to temper its comments somewhat. 'It is difficult to deduce from the above facts that the agri-monetary situation has been entirely responsible for any given production trend. However, it is undeniable that it has had an effect on certain branches of production, e.g. by altering the relationship between producer prices and intermediate consumer prices. This influence seems to have been particularly marked where producers reacted to prices, where market prices were close to intervention prices, where the price gaps between Member States remained wide for some time and where producers expected the discrepancies to continue'[4].

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1 COM(79) 11 final - Introduction

2 COM(78) 20 final, p. 2, paragraph 1

3 COM(78) 20 final, p. 8, paragraph 17

4 COM(78) 20 final, p. 10, paragraph 18

13. The effect of MCAs has in fact been felt at several levels. It is interesting to note for instance, in the case of exports of dairy products from Germany and France to Italy, how MCAs have changed the traditional pattern of intra-Community trade.

In 1968, Italy imported 1,300 tonnes of milk and cream from Germany and 2,400 tonnes from France. Things changed in 1970, after the introduction of the first monetary compensatory amounts, and in 1982 Italy imported 1,466,500 and 291,400 tonnes of milk and cream respectively from those countries.

14. Turning to soft wheat, it may be noted that the United Kingdom's share in intra-Community trade has risen sharply since 1980, when it started to receive positive MCAs. In 1979, its share was in line with preceding years - 2.4%. In 1980, it rose to 17.1% and continued to remain high: 13.2% in 1981 and 20.6% in 1982. The same applies to barley.

15. As for sugar, it may be seen that Germany's share more than quadrupled (from 5.1% to 21.9%) from 1971 to 1982 while that of France and the Belgo-Luxembourg Economic Union (BLEU) fell (from about 71% and 20% to 42% and 10% respectively).

16. As regards beef, Germany's share of intra-Community trade more than doubled from 1971 to 1982 (from 9.6% to 24%), whereas Ireland's share dropped from 41.6% to 13.7%. The other Member States by and large maintained their positions.

17. As regards pigmeat, the most spectacular gains on the Community market were made by the Netherlands, which increased its share form 29.6% in 1971 to 40% in 1982. Over the same period, the BLEU registered a significant drop (from 23.6% to 16.3%), as did, to a lesser extent, Denmark (from 29.7% to 25.8%) and France (from 4.7% to 2.5%).

In volume, Dutch exports to the other Member States rose from 504,695 tonnes in 1974 to 943,250 tonnes in 1982. BLEU exports showed little growth, rising from 301,643 tonnes to 383,969 tonnes over the same period. The same applies to the other Member States. The United Kingdom, with a fairly low export volume, increased exports from 25,007 tonnes in 1979, when it was still receiving negative MCAs, to 46,192 tonnes in 1980, when it began to receive positive MCAs.

In Italy for example there was a noticeable increase in pigmeat imports from the Netherlands from 1970 to 1982 at the expense of France, Ireland and to a lesser extent Denmark. Germany has slightly increased its share while the BLEU has held its position.

18. It may be interesting to look at the share of products subject to MCAs in the value of agricultural output. For 1981, the percentages are as follows:

Germany	: 83.6%	Luxembourg	: 93.7%
France	: 78.4%	United Kingdom	: 77.5%
Italy	: 57.0%	Ireland	: 89.3%
Netherlands	: 69.9%	Denmark	: 85.4%
Belgium	: 77.1%	Greece	: 40.1%

These figures illustrate the advantage, or disadvantage, of MCAs for each country, depending on whether they are positive or negative. A country with negative MCAs is at less of a disadvantage the lower the percentage of output subject to MCAs, but this means at the same time that it does not benefit from CAP mechanisms for products given maximum protection by the CAP.

19. Generally speaking, Germany has increased its share of intra-Community trade in agricultural products at the expense of countries with negative MCAs.

Although it cannot be claimed that this trend is due to MCAs alone - greater productivity and better organization of producers having led to a more dynamic export policy - MCAs have undoubtedly had an impact.

In fact, it is clear that the combination of various favourable factors has a multiplier effect: if exports to another country are already structurally well established, the introduction of positive MCAs will accelerate this favourable trend. The existence of substantial positive MCAs over a long period therefore represents an unquestionable advantage for this Member State's exports.

20. If we consider current production costs, it is noticeable that MCAs provide a further advantage to countries with positive MCAs in that their farmers, who benefit from a strong currency (lower import costs), also reap the advantages of a higher price level than in countries with depreciated currencies.

21. The most typical example of the deterioration of the competitive position of some producers is to be found in the pigmeat sector[1].

22. Let us consider one example cited by the Commission in its 1978 study: the pigmeat market in the United Kingdom (which at that time had positive MCAs) experienced an increase in the proportion of imports from the Netherlands and Germany (both countries with positive MCAs) and a decrease in those from Denmark (where MCAs were in general abolished immediately). Denmark sent mainly bacon sides and meat preserves to the United Kingdom and the Netherlands mainly lard, cuts of bacon and preparations such as tinned hams. The Netherlands then took a larger share of the bacon and meat preserves market while its relative share of the market in lard fell, as did that of France, to the advantage of Germany (a country with positive MCAs) and, to some extent, of Italy (for reasons other than MCAs alone, since Italy has always had negative MCAs).

23. According to the Commission, the reasons for the changes in trade flows at that time could have been:

(a) differences in the composition of animal feed as between Member States;

(b) the poor alignment of green rates in the United Kingdom which, together with the rate of inflation in that Member State, had placed British producers in a difficult situation.

(The situation in the United Kingdom has since changed radically because it has had positive MCAs now for several years whereas previously its negative MCAs had been over the 40 point mark).

On the other hand, (a) above remains valid, and in the case of factory farming products such as pigmeat and poultry, whose profit margins are very low, MCAs

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[1] COM(78) 20 final, Annex C, p. 5

can have a considerable impact on the cost of production factors and thus benefit countries with positive MCAs to the detriment of the others.

24. Another illustrative example is Greece. Before accession, it imported 18% of its meat from the Community. Of this 18%, the BLEU's share was 25% whereas the Netherlands and Germany held only a minor share of the market. After accession, imports from the Community increased considerably but the BLEU's share dropped to 10.6%, in 1982, whereas the Netherlands and Germany increased their share to 41% and 19%, respectively.

25. Finally, to conclude this survey, it should be recalled that MCAs have provided an incentive for fraud and there is nothing to suggest that the situation will change. One example of this is the trade in live animals between Ireland and Northern Ireland before the Commission took the measures needed to combat fraud[1]. Between 1974 and 1977 (first three quarters), the control authorities detected 255 irregularities connected with MCAs, including 196 in the beef and veal sector and 22 in the pigmeat sector, amounting to a total of 5.3 m u.a. This is by no means surprising as the regulation on MCAs is highly complicated and some dealers have found loopholes in it that they can exploit. Reference may also be made in this connection to the third report by the Special Committee of Enquiry on beef and veal[2] which deals with irregularities connected with 'accession' compensatory amounts and MCAs.

26. All these examples prove that a way must be found of ending the pernicious effects of the MCA system. Although MCAs are acceptable in the short term and may facilitate the functioning of the CAP, in the long term they produce economic effects incompatible with a common market and threaten its very existence. They must therefore be dismantled.

IV. POSITIONS ADOPTED BY THE COMMUNITY BODIES

27. The study carried out by the Commission is in itself an argument in favour of abolishing MCAs, and its new proposal is an attempt finally to get the Council to accept an institutionalized system for dismantling them.

But before considering this mechanism in detail, it is worth recalling some of the positions adopted by the other Community bodies.

1 COM(78) 20 final, Annex C, p. 8
2 COM(76) 370 final, pp. 59 to 76

28. To take merely the most striking examples, in its opinion[1] on agricultural prices for the 1980/81 marketing year, the European Parliament called for:

(a) the abolition of existing positive MCAs within four years;

(b) the abolition of existing negative MCAs within two years;

(c) the abolition of new MCAs within one year, following a timetable drawn up by the Commission at the time of their introduction;

(d) Member States who wished to do so, to be able to dismantle their MCAs more quickly.

Similarly, in its opinion[2] on agricultural prices for the 1983/84 marketing year, the European Parliament called for negative MCAs to be totally abolished and positive MCAs reduced in connection with the agricultural price increases recorded in the countries directly concerned.

It also felt that complete economic and monetary union was a prerequisite for restoring the unity of the market on a real and lasting basis. Meanwhile United Kingdom and Greek participation in the EMS would be a first step towards more coherent monetary union between the Member States.

These two opinions make it very clear that the European Parliament is in favour of abolishing MCAs.

29. In its report[3] on the Commission's proposals concerning the CAP (COM(83) 500 final), the Committee on Agriculture recalled the need to abolish MCAs in order to attain a common market and have real common prices. It even felt that existing MCAs should be dismantled within two years.

30. The European Council meeting in Brussels on 4 and 5 December 1978, which led to the creation of the European monetary system (EMS) adopted a resolution, one paragraph of which referred to MCAs[4]: 'the European Council stresses the importance of henceforth avoiding the creation of permanent MCAs and progressively reducing present MCAs in order to re-establish the unity of prices of the common agricultural policy, giving also due consideration to price policy'.

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1 OJ No. C 97, 21.4.1980, p. 33 paras. 103-105; Doc. 1-37/80 - Rapporteur: Mr Delatte

2 OJ No. C 104, 26.4.1982 - Doc. 1-1325/82 - Rapporteur: Mr Mouchel

3 Doc. 1-987/83 - Rapporteur: Mr Curry

4 Bulletin of the European Communities No. 12 - 1978, p. 12

31. This resolution more or less reiterated the Commission communication to the European Council of 4 and 5 December 1978 on the future development of the common agricultural policy[1] in which the Commission welcomed the introducti of the European monetary system (EMS) and urged the European Council 'to agree that the Community should dismantle systematically all existing monet compensatory amounts once the European monetary system had been fully established and became effective, taking account, where necessary, of compensations to producers or consumers'.

32. The 'gentlemen's agreement' entered into by the Council in March 1979 laid down a procedure for reducing MCAs[2].

The new MCAs introduced in the two years following the entry into force of the EMS were to be reduced in two stages, with effect from the beginning of the first and second marketing years respectively following the decision on farm prices taken after the introduction of these amounts.

These reductions were not to lead to a drop in prices in national currencie or a rise in these prices which could cause difficulties for the economy of the Member State in question. During the period covering these two stages, the increase in common prices would be used mainly to dismantle the positiv MCAs. The Council also affirmed its determination to reduce existing MCAs progressively so as to restore the unity of the common farm prices, taking due account of the prices policy. It was envisaged that this progressive reduction could be accelerated on the initiative of the Member State concer

33. At the European Council in Stuttgart from 17-19 June 1983[3], the Court of Auditors was asked to submit a report on the soundness of the financial management of the European Communities. In its report, the Court of Audit is scathing in its criticism of the agri-monetary system. Its critique deserves to be quoted in full[4]:

'The functioning of all the markets is affected by the monetary compensato amounts (MCAs), whose continued existence has had lasting and now familiar effects on the very structure of European agriculture. But it is usually overlooked that:

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1 Bulletin of the European Communities No. 11 - 1978, pp. 131-132
2 Doc. 1-1325/82/B - paragraph 36
3 Bulletin of the European Communities No. 6 - 1983, p. 20
4 OJ No. C 287, 24 October 1983, paragraphs 2.3.18 and 2.3.19

(a) the MCAs involve a system of collecting or paying a total amount of one to two thousand million ECU per year;

(b) this system greatly encourages speculation and/or fraud, but it is very difficult to control without excessive restraints at frontiers, including the internal frontiers of the Community;

(c) the net budgetary cost has varied over recent years, according to the speed with which the 'green' currencies have adapted to the fluctuations of the real currencies, between the levels of 700 to 800 million ECU in 1977 to 1979 and 200 to 300 million ECU in 1980 to 1982.'

'The only valid solution to the various aspects of the problem of the MCAs is the introduction of a system of automatic and accelerated phasing out. The constraints inherent in such a process would in turn be a burden on all the other agricultural policy decisions and in particular the annual decisions on prices, but would, on this occasion, arise from an attempt to return to a single market.'

34. It is undeniable that MCAs have been considerably reduced in the framework of the EMS since the maximum difference between positive and negative MCAs, which was as high as 50 points, has been reduced by between 10 and 15 points since the creation of the EMS. Nevertheless, uncertainties still exist in that two Member States, the United Kingdom and Greece, are not in the EMS. Moreover, Germany has for years benefited from positive 'structural' MCAs of the order of 10 points.

35. At the European Council in Stuttgart from 17 to 19 June 1983, the Commission was again instructed to consider the problem of MCAs and to make appropriate proposals in accordance with the fundamental principles of the CAP and the objectives of Article 39 of the EEC Treaty[1]. It is these proposals that are examined in this report.

V. THE COMMISSION'S PROPOSALS

36. The Commission's MCA proposals comprise three groups of measures which we shall analyse briefly.

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[1] Bulletin of the European Communities No. 6 - 1983, p. 21

A. Dismantling MCAs by adapting representative rates (aligning green rates to central rates)

37. The Commission proposes:

- dismantling existing MCAs and their neutral margins in two stages at the beginning of the marketing years following entry into force of the regulation;

- dismantling new MCAs created after the regulation enters into force; dismantling would take place in three equal stages: the first when the central rates are realigned and the other two at the beginning of the following two marketing years.

38. These rules apply to fixed and variable (both positive and negative) MCAs in the same way and at the same time.

Variable MCAs however depend essentially on changes in the market rates and may thus be created even if the central rates are not realigned; provision is thus made for dismantling in two stages, at the beginning of the two marketing years following their creation when there is no realignment of the central rates and the general scheme cannot function.

39. Lastly, as adjustments in the green rate may lead to lower incomes in countries with strong currencies, the Member States concerned may grant degressive off-setting aids for a maximum of three marketing years. A Community financial contribution may be made following a Council decision.

B. Changes in the 'neutral margin', 'non-cumulation' and 'de minimis' rules

(a) Neutral margins

40. Neutral margins were introduced in 1974 in order to reduce the impact of MCAs. In the case of basic products for which a strict intervention system exists (cereals, butter, milk powder, sugar), the Commission proposes that the present system be maintained whereby the neutral margin for positive MCAs is 1 point and for negative MCAs 1.5 points.

41. In the case of other basic products for which the intervention system is less strict (e.g. wine) or theoretical (pigmeat), the Commission has made

provision for special measures, which are discussed in detail below. For processed products which are increasingly affected by processing costs but only to a limited extent by the cost of the basic product, the Commission proposes applying a neutral margin of up to 2 points, but this should in no way disrupt trade.

(b) The 'de minimis' rule

42. The 'de minimis' rule, which was introduced to prevent over-frequent changes in the MCAs, has the same effect as a neutral margin. It provides that MCAs should not be changed unless there has been a change of at least 1 point. The Commission proposes that this rule be maintained and, for the sake of administrative simplification, that where MCAs are minimal (for instance 0.5 ECU/100 kg for basic products and 1 ECU/100 kg for processed products), they should not be applied.

(c) The non-cumulation rule

43. This rule provided that a percentage of 1 should be applied as long as, after deduction of 1 or 1.5 points as the case may be, the result obtained is less than 1.1 and more than 0. Apart from being very complicated, this rule has resulted in an unfortunate situation where MCAs are automatically reintroduced without any opportunity being given to await confirmation of a trend in a currency. The Commission therefore proposes that it be discontinued.

C. Rules of calculation, by sector

44. Only small changes are proposed as regards basic products for which a strict intervention system exists.

The system for calculating MCAs in the cereals sector has not been changed. For sugar, the only change proposed is that the storage levy be disregarded in the calculations; in the milk products sector, the only changes envisaged are aimed at totally excluding processing costs from the calculations for derived products and, possibly, changing the derivation coefficients after careful consideration.

45. As regards basic products for which the intervention system is less strict or theoretical, the Commission has reached the following conclusions:

Wine:

46. A 'contraction' system has been applied in the wine sector since 1979. This means that in wine-producing countries with negative MCAs, the MCA applied is the highest MCA minus the lowest MCA. Initially, there was little difficulty in applying this rule, since only two Member States, France and Italy were involved. The situation changed with the accession of Greece, a wine-producing country. The system had to be suspended whenever, in a Member State concerned, the MCA was 0; this measure, needed to ensure equal conditions, has been adopted until the end of 1983.

When contraction is applied, changes have become very frequent because of the existence of three producer states. The rates may vary widely in a Member State without any change in the value of its currency, an irrational consequence. For these reasons, the contraction system will have to be discontinued.

47. Instead, the Commission proposes that:

- the 'guaranteed minimum price', which is equal to 82% of the guide price, be maintained as the basis for calculating MCAs, and

- the neutral margin be increased from 1 or 1.5 points to 5 points for both negative and positive MCAs. Taking present levels as a basis, this would lead to elimination of the 2.2% MCAs in France and the 1.6% MCAs in Greece and to a reduction in the German MCA, which is currently 9.8%.

Beef and veal

48. Since the market price is below the intervention price in this sector, the Commission proposes that the basis for calculating the MCAs (i.e. the intervention price level) be reduced by 15% instead of by 10% as at present.

Pigmeat

49. Although pigmeat has so far been regarded as a basic product, given the existence of a system of intervention buying, this facility has hardly ever

been used. In calculating MCAs, it thus seems appropriate to regard pigmeat as a product derived from the cereals that make up the pig fodder rather than as a basic product. Taking account of the differences in feed costs, existing MCAs would then be reduced by 50%. This reduction would be effected in two stages, the first in January 1983 and the second in November 1984, when the theoretical intervention system existing in the pigmeat sector is abolished.

Eggs and poultry

50. The change envisaged in the system for calculating MCAs in this sector concerns the fodder ration.

Non-Annex II products

51. The MCAs for non-Annex II products are calculated on the basis of the MCAs for the basic products incorporated in them, using certain coefficients. Three qualifiers are already applied:
- flat-rate reduction of 10% on all MCAs;
- no MCAs are applicable if their impact in relation to the market price is less than 2.5%; the MCA is reintroduced if the impact exceeds 3%;
- no MCAs if the equivalent value in ÉCU does not exceed 1 ECU.

There seems to be no case for changing the system, except to increase the neutral margin by one point, as for all the other derived products.

VI. ANALYSIS AND CRITICISM OF THE PROPOSALS

52. The Commission's proposals have already been the subject of preliminary discussions within the various Community bodies. These may be summarized as follows:

(a) Document from the Greek Presidency presented at the special 'Stuttgart Mandate' Council of 9/10/11 November 1983 in Athens

The document prepared by the Greek Presidency proposes that the existing MCAs be totally dismantled by the 1987/88 marketing year (i.e. in 4 1/2 years), with a third to be dismantled by the start of the 1984/85 marketing year.

This document endorses the modifications proposed by the Commission to the calculation methods and supports facilities for granting degressive aid for the farmers affected.

For new MCAs, farm prices expressed in ECU should be increased by 2/3 of the highest revaluation figures whenever the central rates of a currency are realigned within the EMS; the MCAs should then offset the difference and progressively disappear.

(b) Proposal examined by the Commission in COM(83) 500 final for keeping just negative MCAs, based on a German proposal

The MCAs would be calculated by reference to the green rate of the strongest currency. The results at the time of transition would be

- no change in the price level in national currency, since there would be no change in green rates,
- the disappearance of all positive MCAs,
- the application of negative MCAs for all Member States other than that with the strongest currency, for which the MCA would be zero.

The Commission rejected this proposal in the end.

(c) The European Parliament's response to COM(83) 500 final (Resolution of 18 November 1983 - CURRY report - Doc. 1-987/83)

The European Parliament believes that the elimination of monetary compensatory amounts is indispensable to the achievement of a genuine open market and common prices and that a decision should be taken to dismantle these MCAs as quickly as possible, at the most within three years, without any reduction in farmers' earnings; future realignments could be made by introducing negative MCAs instead of new positive MCAs, for negative MCAs may be more easily eliminated by readjusting the green rates.

Parliament also considers that no permanent solution to these currency problems is possible unless the Community develops a true economic and monetary union.

(A) Dismantling of existing MCAs

53. Without calling into question the principle of dismantling MCAs, it is however easier in practice to dismantle MCAs if they are negative rather than positive since, in the latter case, it is farmers' incomes expressed in national currencies that fall. However, when we look at the indices of gross added value at market price or the trend in the 'cost-price squeeze' we can see that the trend in Germany is similar to that in the other Community countries.

54. This means that dismantling MCAs in strong currency countries does not have such an adverse effect as might be supposed since belonging to a country with a strong currency leads to advantages as regards import prices. We need only mention machines, fertilizers and feedingstuffs.

55. It must be admitted that Germany has made a special effort to dismantle its MCAs; since 1969, the German Mark has been considerably revalued whereas the German MCA is currently at 9.8%. This picture, which is often painted by German Ministers for Agriculture, should not however blind us to the fact that for at least ten years Germany has received a bonus of 10% on average on the prices paid to its farmers.

56. This situation is not without its economic repercussions. Either slightly outmoded agricultural structures can be maintained or the most efficient farms can be further modernized. Moreover, as we said above, it allows the agri-foodstuffs sector to pursue an efficient export policy while protecting itself from imports from other Member States.

57. The way in which MCAs have been dismantled so far, i.e. in conjunction with the fixing of agricultural prices in order to prevent a loss of earnings for German farmers, has been too slow to permit their complete abolition since, in the interval, monetary movements have created new MCAs. On the other hand, it would hardly be reasonable to blame the strong currency countries for trying to curb inflation.

In any event, farmers in these countries should not be penalized by such a situation.

58. The approach adopted by the Commission, aiming for the abolition of existing positive MCAs within two years on condition that the farmers in the countrie: concerned do not suffer a drop in income - taking into account the rise in tl price of ECU which, this year, is likely to be particularly low - was finally chosen by the Committee on Agriculture as the best solution.

The deadline proposed by the Greek Presidency is, however, too long to be effective in practice.

For Germany, this would involve a reduction in its MCAs by 3.2% in the first year, and by 2.1% thereafter. It would unquestionably be better to achieve a faster reduction by employing the degressive aids provided for in the Commission's proposal.

59. As to the possibility of granting aid to farmers in the countries concerned to compensate for loss of income, the Commission's proposal appears to be fair provided that such aid is indeed degressive and stops at the appointed time.

A negative experience in the past calls for a firm stand on this point.

60. In 1969, Germany had a positive MCA of 9.3%, which was abolished on 31 December of the same year. However, under Regulation (EEC) No. 2364/69, the Council allowed Germany to grant its producers aid amounting to DM 1,700 m for 1970 to 1973, to compensate for loss of income due to the abolition of this MCA. At the same time, the Community decided to reimburse Germany, through the EAGGF, for some of the aid granted - 90 million u.a. in 1970, 60 million u.a. in 1971 and 30 million u.a. in 1972.

Germany granted this aid to producers in the form of a reduction of 3% in the rate of VAT on farm products and in the form of direct aid on a hectare basis (DM 920 m in 1970, DM 934 m in 1971 and DM 793.5 m in 1972).

In 1973, the Council decided that the direct hectare aid would have to be abolished. It also authorized Germany to phase out the VAT reduction on farm products. In 1976, the reduction was cut to 2.25%, in 1977 to 1.50% and in 1978 to 0.75%, with a return to normal in 1979.

German producers therefore benefited from special conditions for nine years instead of four years, as originally planned. The recurrence of such a situation should be avoided.

61. The proposal for Community participation in financing degressive aids is balanced in that Germany - since it is the country essentially involved - would make sacrifices whereas its partners would show financial solidarity for the most difficult period in the implementation of Communtiy provisions to dismantle MCAs.

It is premature however to make any definitive pronouncement on this matter so long as the Commission has not submitted a concrete proposal and has not evaluated the cost of such an operation.

62. Once the problem of existing MCAs has been settled, it should be easier to dismantle any new MCAs created in accordance with the timetable drawn up by the Commission.

(B) Dismantling of new MCAs

63. Generally speaking, no Member State really wants MCAs to be automatically dismantled as soon as they are created, countries with positive MCAs for the above reasons and countries with negative MCAs so that they can keep control of the national rate of inflation. Each Member State quite legitimately wants to keep some margin of manoeuvre. On the other hand, they must for the sake of the Community accept the timetable for abolition proposed by the Commission, it being understood that they can always ask for their MCAs to be dismantled more quickly.

64. In view of the importance of this subject, it would be useful to evaluate the advantages and disadvantages of the various proposals currently under discussion.

(a) Inflationary impact

65. The inflationary impact of the current method of calculating MCAs and that of the method advocated by Germany ('green ECU system') may be compared on a qualitative basis.

A. Current method

(1) Basket effect

The current method of calculating MCAs is based on the ECU central rates (fixed MCAs) and market rates (variable MCAs).

If the central rates are altered, the MCAs created as a result mainly apply to the revalued or devalued currency. As a result of the basket effect, however, part of the revaluation of a particular currency is redistributed among the other basket currencies. The extent of this redistribution is determined by the weight of the revalued currency in the basket.

The higher negative MCAs created by this redistribution require farm price adjustments in national currencies to be relatively higher than would be necessary without this redistribution.

(2) ECU price effect

Since the dismantling of positive MCAs is only possible[1] if the resulting drop in national currency prices is compensated by price increases in ECU, Community price increases have always taken this factor into account. Both in the farm price proposals and especially in the Council' final price decisions the level of ECU increases has allowed for the negative price impact of the dismantling of positive MCAs. Without the need to dismantle positive MCAs, the increases in the Community price level in ECU would have been lower.

(3) Impact of the dismantling of negative MCAs

So far, no strict rules have been laid down for dismantling negative MCAs, so the countries concerned have been able to start dismantling regardless of the domestic economic situation, which may reinforce the inflationary trend in their countries.

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[1] In the past, on the basis of the gentlemen's agreement; in view of the discussion on this point, future policy must be based on the same (political) principles.

B. Green ECU system

(1) DM effect

The calculation of MCAs would be based on the strongest currency, currently the DM.

Instead of being partly redistributed, the effect of the revaluation of the DM would be passed on in full to the other currencies. The size of national farm price adjustments would accordingly be larger, resulting in increased inflationary pressure in these countries.

(2) ECU price effect

As there would no longer be any need to dismantle positive MCAs, the annual price increases in ECU would be lower, which would curb inflation.

Furthermore the changeover to a green ECU system would mean that the Community price level would rise compared with the world market price level, in line with the revaluation effect of the DM. This rise would, amongst other things, lead to increased levies and refunds. This 'price effect' would undoubtedly have an additional disinflationary impact on annual price increases in ECU, but would not have any impact on the internal market.

(3) Impact of the dismantling of negative MCAs

Stricter rules for dismantling negative MCAs - one aim of the Commission's proposals - would enable such action to be better coordinated with national economic developments and policies, in order to avoid the inflationary effects of ad hoc green rate devaluations.

(b) The position of the ECU

66. It is clear that the ECU would lose a great deal of its importance in such a system, precisely at a moment when it is called upon to play a greater role within the community. The CAP would then be decoupled from the European Monetary System, which would be in flagrant contradiction with all the resolutions adopted by the European Parliament on this subject.

An additional problem is posed by the floating currencies, which would be difficult to integrate within the 'German system', particularly the Pound Sterling, which could from time to time be stronger than the German Mark. Could a floating currency then be used as the reference currency? This is a question worth asking.

Moreover, there are currently three different rates for the 'green' German Mark (milk, cereals, other products). Would this mean three different MCA percentages for the other countries?

(c) Administrative constraints

67. In the case of negative MCAs, exporters may obtain credit for the negative MCAs before receiving payment for the exported goods. Importers on the other hand sometimes have to wait up to two months before receiving the negative MCAs.

The entire administrative and financial burden of these operations therefore falls on those countries with negative MCAs, which represents a considerable handicap for these countries.

(d) Budgetary implications

68. Adopting the German solution would freeze the gap of about 10% between the green rate and the central rate of the German Mark within the EMS.

In budgetary terms, the result would be an increase in the cost of this dual rate every time negative MCAs were reduced, but it should be emphasized that this solution would not be more expensive than measures under the current system to increase ECU farm prices to a sufficient level to prevent a drop in the earnings of German farmers as a result of the abolition of positive MCAs.

69. The advantage of the German proposal is that it resolves the problem of positive MCAs, but it also involves a number of serious disadvantages, particularly in monetary, budgetary and administrative terms.

Even though the Commission's proposal appears to be more fair and realistic, it nevertheless poses a serious political problem given the negative attitude of Germany on this point.

A compromise should therefore be found, though it should keep the timetable for dismantling advocated by the Commission.

(C) Other modifications proposed by the Commission

70. The Commission proposes a number of technical modifications designed to reduce the economic impact of MCAs on various sectors (see Chapter V above). Some comments may be made on the proposals for the pigmeat and poultry sectors.

(a) Pigmeat sector

71. Since the Commission proposes the abolition of the more or less theoretical intervention system (interventions in the pigmeat sector are minimal), the next step could be to abolish the basic price, which is used to determine the intervention price. The basic price is however important for initiating the intervention measures to aid private storage, a step which the Commission may decide to take when market prices reach 103% of the basic price. We must not underestimate the likelihood of this action particularly if market prices were to fall to a very low level. In that case, there would no longer be a political basis for taking a decision. This must be avoided.

(b) Poultry sector

72. It is important to note that the feed processing coefficient is also used to calculate the levy on imports from third countries. The proposed modification would reduce the level of protection against third countries. A different proposal aims to maintain this protection by increasing the flat-rate amounts for calculating the sluice-gate price.

In any event, the refunds need to be adjusted more rapidly and brought into line with the calculated rates, which are now lower as a result of the reduction in the feed processing coefficient.

VII. CONCLUSIONS

73. This report has tried to illustrate the adverse economic effects of MCAs, which were originally devised to enable the common agricultural market to function smoothly in the Member States.

However undesirable MCAs may be, they are nevertheless solely the consequence of the lack of genuine economic and monetary union between the Member States.

74. Monetary union is slowly being achieved by means of the EMS, but the United Kingdom and Greece still have to participate in it. The United Kingdom has shown how one country whose currency is not linked to the others can move from very negative MCAs to positive MCAs.

Before a common monetary policy can be implemented, interest rates must be harmonized, monetary reserves pooled and perhaps a common central bank created.

75. A currency however is never more than the reflection of a country's economic situation, and the economic situation varies widely from one Member State to another; some have a quasi-structural inflation and others 'quasi-chronic' stability. This depends not only on production structures but on social structures and a variety of other factors too numerous to mention.

Economic union is far from being attained. Apart from VAT differences and market sharing (e.g. car dealers), there are many technical obstacles to trade that prevent attainment of the common market.

76. Unless more progress is made towards European integration, there will always be monetary divergences between the Member States of the Community and thus new MCAs since agricultural prices are expressed in ECU. The Committee on Agriculture is therefore in favour of a mechanism for dismantling MCAs in accordance with a specific timetable so that there can be a genuine common market in the agricultural sphere at least.

77. On the other hand, if MCAs are to become a permanent feature, as is the case mainly for countries with positive MCAs, markets will become compartmentalized and there will be a veiled renationalization of the CAP, which is unacceptable.

1. COM(83) 586 final is a Commission report on the rules for calculating monetary compensatory amounts (MCAs), as requested by the Council when fixing the agricultural prices for 1983: it also contains the proposals for regulations which present the report's conclusions in the form of amendments to existing regulations. One of the proposals for a regulation deals with the gradual dismantling of MCAs.

The Commission document contains four proposals for regulations.

A. A regulation amending Regulation (EEC) No. 974/71 in particular in respect of the system of neutral margins and the gradual dismantlement of the monetary compensatory amounts

2. This is by far the most important proposal for a regulation in this document, adding to Regulation (EEC) No. 974/71 a new Article 5(a) on the phasing-out of monetary compensatory amounts by means of adjustments to the representative, or "green", rates. As already stated in the general document COM(83) 500 (Common Agricultural Policy - Proposals of the Commission), existing MCAs would be dismantled in two equal stages at the beginning of the first and second marketing years following the entry into force of the regulation. Any new MCAs introduced as a result of currency events would be eliminated in three stages: one-third immediately (by means of a corresponding adjustment of the relevant representative rates) and the remainder in two equal stages (at the beginning of each of the next two marketing years). Variable MCAs might develop as a result of a change in market rates, without a subsequent adjustment of central rates. MCAs would then have to be dismantled in two stages: at the beginning of the first and second years following the introduction of the amounts concerned. The adjusted "green" rate and the date on which this rate is to take effect would have to be determined at the same time in the case of market organizations for which marketing years do not apply. The possibility of speeding up the elimination of MCAs, following a decision by the Council, is provided for.

3. Adjustment of the "green" rates, with a view to eliminating MCAs, may lead to reductions in prices, expressed in national currencies, and therefore to loss of income. In paragraph 4 of Article 5(a) it is proposed that, in this instance, Member States be authorized to grant offsetting aids. Such aids

would have to be degressive; under no circumstances could they exceed the degree of loss of income, and they could be granted for no more than three marketing years. This would enable positive-MCA countries to absorb the effects of the dismantling of MCAs over a number of years.

4. The Committee on Budgets is of the opinion that these proposals are compatible with the position taken by the European Parliament in paragraph 22 of its resolution of 18 November 1983 on the Communication from the Commission of the European Communities to the Council on the Common Agricultural Policy - proposals of the Commission:

> "Believes that ... a decision should be taken to dismantle these MCAs as quickly as possible, at the most within three years, without any reduction in farmers' earnings;".

5. At the beginning of Article 5(a), it is proposed that adjustments of the representative rates should be made under the procedure provided for in Article 6, which is the Management Committee procedure. Does this procedure not run counter to the automatic nature of the MCA-dismantling process?

6. The other articles of this regulation are more concerned with technical aspects, such as the arrangements for pigmeat, which is gradually to be transferred from the system of basic products to that of derived products, and the neutral margin arrangements (franchises), some of which are to be discontinued while others are to be increased.

7. The financial implications of these measures are considerable (see separate document COM(83) 635 final):

- Dismantling of MCAs:

diminution of expenditure	226 m ECU
diminution of receipts	4 m ECU
net diminution	222 m ECU

- Changes in the neutral margins and in the method of calculation of the MCAs:

diminution of expenditure	153 m ECU
diminution of receipts	64 m ECU
net diminution	88 m ECU

B. A regulation amending Regulation (EEC) No. 652/79 on the impact of the European Monetary System on the Common Agricultural Policy

7. Parliament has already delivered an opinion on this proposal for a regulation on the basis of a report drawn up by Mr Pol MARCK on behalf of the Committee on Agriculture (Doc. 1-1139/83) (resolution of 16 December 1983).

C. A regulation amending Regulation (EEC) No. 2773/75 laying down rules for calculating the levy and the sluice-gate price for eggs
A regulation amending Regulation (EEC) No. 2778/75 laying down rules for calculating the levy and the sluice-gate price for poultrymeat

8. In the egg and poultrymeat sectors, the common market organization chiefly consists of a system of levies and sluice-gate prices that are calculated on the basis of the quantity of feed grain required for the production of one kilogram of eggs or poultrymeat and on the basis of other production and marketing overheads. Advances in production techniques and in marketing and changes in production, processing and marketing costs in recent years, have in fact brought basic changes in these factors. The Commission now proposes to make a corresponding adjustment to the components used to calculate the levy and the sluice-gate price, but nowhere does it mention the financial implications of these proposals (though at first sight they do not appear to be considerable).

9. The draftsman would like to take this opportunity to clear up a constitutional misunderstanding that, to judge from the explanatory memorandum accompanying each proposal for a regulation, holds sway in the Commission. The last sentence of the final paragraph of the memorandum is as follows:

> "By adopting these proposals the Member States would highlight their desire to ensure that Community rules are in harmony with present-day technical and marketing aspects of this agricultural production sector."

The draftsman was under the impression that the Common Agricultural Policy was a matter for the Community rather than an intergovernmental concern.

CONCLUSION

10. The Committee on Budgets endorses all the regulations proposed in COM(83) 586 final, provided that it is demonstrated that

- intervention by the Management Committees to adjust the representative rates (in the context of the dismantling of MCAs) cannot interfere with the automatic nature of this dismantling process, and that

- altering the rules for calculating the levy and the sluice-gate price for eggs and poultrymeat will not entail additional expenditure for the Community.

11. The Committee on Budgets points out that the Member States are supposed to be bringing their economic and monetary policies into line with each other and that this is the only way of avoiding excessive fluctuations in exchange parities and the related monetary compensatory amounts.