

## Newsletter on the Common Agricultural Policy

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### THE EUROPEAN COMMUNITY CONFRONTED WITH EXCEPTIONAL TASKS

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THE EUROPEAN COMMUNITY CONFRONTED WITH EXCEPTIONAL TASKS

The present situation of the European Communities gives rise to great hopes for the future but also raises many grave problems.

As a result of the monetary measures taken by the United States on the 15 August 1971, the Community suddenly found itself faced with a number of problems concerning its institutions for which a solution has not yet been found.

This situation, while offering a rare opportunity to the EEC, also raises the question of whether the Community can bear the new strains that are imposed on it.

The EEC is faced with the problem of undertaking a number of important actions simultaneously, it must :

- enlarge, by increasing the number of Member States from six to ten ;
- create an economic and monetary union and assure for the enlarged Community its place in the world to which all the peoples of the Member States aspire.

The objectives of the EEC have been defined often enough, but unfortunately they do not at this moment present the clear bold outlines that are necessary. On 1 and 2 December 1969, the Heads of State and Government of the Six tried again to formulate the objectives of the Community. The restrictive terms of the final communiqué of the Hague Conference were not sufficient for facing up to the unforeseen situation which has arisen and for this reason a second summit conference of the Heads of State is envisaged.<sup>1</sup>

It must be decided whether a policy of advance by small stages is sufficient for the making of further progress or whether it is necessary to take the big step forward which is required for the solution of the many accumulated problems. An enlargement of the basis of the Treaty of Rome in the sense of a progress going further than that of integration as at present envisaged is as

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1. Declaration of Mr. Malfatti, the President of the Commission of European Communities, on 19 August 1971.

necessary as an extension of the engagements of the Member States to give, from the legal point of view, priority to Community political measures rather than to measures limited by national interests.

Initial success of the Hague Conference - reinforcement - expansion

As a result of the Conference some initial progress was made. As early as April 1970, the Council of Ministers had reached an agreement, in conformity with the terms of Article 201 of the EEC Treaty, on the procedure by which the contributions of the Member States would be replaced progressively by the Community's own resources<sup>1</sup> in order to achieve financial sovereignty for the Community as well as the definitive financing of the common agricultural policy<sup>2</sup>.

Negotiations with the candidate countries for adhesion were undertaken and speeded up. On 8 October 1970, the group of experts set up for this purpose delivered their "Interim Report" to the Council and to the Commission, setting forth the application by stages of economic and monetary unity (Werner Report). The Report envisages three stages spread over a ten-year period, so that the final stage of complete economic and monetary union could be reached by 1980. In this way the EEC endeavoured to deal with a problem which should have been foreseen when it started developing in 1958.

The economic and monetary union should be obtained in the following three domains :

- a) economic policy ;
- b) fiscal and budgetary policy,
- c) monetary policy.

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1. See also Newsletter on Common Agricultural Policy N° 5 of April 1970.  
2. See also Newsletter on Common Agricultural Policy N° 3 of March 1970.

The first stage was envisaged for the years 1971-1973, then after an intermediary stage, the second stage for 1979 ; after which a new conference of the Heads of Governments will decide on the third and final stage. The Commission also examined the Werner Report and fixed priorities in its proposals.

On 9 February, the Council of Ministers reached agreement although in a regrettably limited measure, especially as far as the objectives of the first stage were concerned, on the planning of stages in order to bring about an economic and monetary union. It is especially necessary to point out the existence of a "safeguard clause" which could become a new obstacle to progress unless the harmonization of certain economic factors concerning the Member States can be achieved.

However, as a whole, the ten year plan should be respected even though most of the main problems will arise during the second half of that period.

One positive factor which should be underlined was the joint intervention of the issuing banks in the foreign currency markets which had been decided on as a part of the first stage and which took place subsequently.

On 25 March 1971, the Council of Ministers was able to activate agricultural policy, after a long period of stagnation, and made basic proposals for the establishment of a structural and social policy for Agriculture within the Community.<sup>1</sup>

These basic proposals were completed on the 26 May 1971, by the proposals of the Commission concerning regional policies for agricultural aid for areas which should be given priority. All these resolutions had as objective not only the reinforcement of the Community but also its enlargement at the same time.

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1. See Newsletter on Common Agricultural Policy N° 2 of February 1971, and N° 3 of March 1971 (and N° 6 of June 1971).

We know now that the plan drawn up by the Council for the realization of an economic and monetary union by stages must be brought into force rapidly and consistently especially during the first stage to avoid the risk of the Community losing the advantages which it has already acquired.

The role of agricultural policy in the creation of the European Communities.

In discussing political integration at the present time it is Agriculture which comes first to mind. From the point of view of economic policy it is the sector which is best integrated and has closer ties with the Community than any of the other economic sectors which the Treaty of Rome had envisaged for the application of a common policy.

It is not surprising, therefore, that the farmers are waiting for a European political integration policy which will influence those who are perhaps not in favour of a common agricultural policy but who have made no efforts themselves towards progress in the domain of an integrated political policy. It is for this reason that farmers are becoming more and more restless and are demanding that the European Communities should quit the line of one way traffic for political integration in which they are engaged and undertake complementary action in other fields.

Such action must be taken rapidly if it is desired that the common agricultural policy, which is the substance of integration, should survive. Agricultural policy has already made an important contribution to European integration beginning with the financial solidarity which the Member States have agreed to respect by adopting all the measures relating to agricultural policy.

This solidarity has served as a model for other Community regulations concerning finance which are envisaged for the future. But this financial solidarity will also be endangered unless a rapid solution to the present monetary crisis can be found.

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The agricultural market has set up its proper Community institutions, management committees, consultative committees and financing funds, all working in line with the orientation of the policy of the Community. Agricultural policy has had a stimulating influence on foreign trade policy and the harmonization of legislations.

Agricultural policy exercises, therefore, a strong influence on the efforts of the Community as a whole but to affirm that it represents an isolated case would be an error.

On one important point, agricultural policy has endeavoured to look ahead by providing its own solutions in the field of monetary policy. This brings to mind the question of the European unit of account which is in itself a problem at this moment. The present negotiations on economic and monetary unity would not have had such far-reaching implications within the Community if a common agricultural policy and the unit of account had not existed. On this problem the Community could suffer a serious setback. It is for this reason that rapid progress must be made now towards integration in order not to lose the benefits already obtained. Agricultural policy has played an important part in the construction of the European Communities by stimulating, by its own progress, integration in other domains.

#### The false "Green Dollar"

The "Green Dollar" is considered by a number of politicians in agricultural circles and also by many farmers who have let themselves be persuaded, as the incarnation of all that is bad in the Community. Its positive aspects are hardly mentioned although it is an instrument for the fixing and expressing production prices within the Community and is a safeguard and guarantee of prices for agricultural producers.

The unit of account is an instrument of the agricultural policy of the Community. It was introduced in the common agricultural policy of the EEC in 1962 as a standard for the fixing of agricultural prices within the Community.

The value of the UA is the equivalent of 0.889 gr. of fine gold. It corresponds, at the moment, to the value of one dollar. But the parity of the UA is not based on the parity UA-dollar but on the parity UA-gold. The only exactitude of the usual arguments against it lies in the fact that the value of fine gold chosen for the UA is the same as the value of the American dollar.

The expression "Green Dollar" is also erroneous as it gives the impression that the value of the UA is identical with and dependant on the value of the dollar which is not the case.

Thus, for example, the suppression of the unlimited convertibility of the dollar into gold which was announced by the Americans on 15 August last, has in no way affected the value of the UA. The value of the UA will remain unchanged while the parity gold-UA is not modified. This possibility cannot, however, be excluded completely depending on the evolution of the situation. The adoption of the EEC regulation N° 653/68 has made the application of the invariability of the UA more flexible in certain special cases. According to this regulation if one or more of the Member States announce a modification in the parity of their currency, the Council of Ministers of the European Communities may decide, unanimously, to modify the parity gold-UA and decide on the percentage of this modification.

The value of the UA can only be modified automatically in certain special cases. When several countries modify the parities of their currencies at the same time and in the same sense, the parity of the UA can be modified, taking into account the smallest modification in parity made. No decision to modify the value of the UA was taken, however, when the French franc was devalued nor when the German mark was revalued in 1969. Since the agricultural prices are fixed for all the Member States in UA, all the equivalents in national currencies must be worked out on the basis of the rates which have been declared to the International Monetary Fund (IMF).

When a Member State modifies its exchange rates then the intervention price to be paid in the currency of that country is automatically adapted at the same time.

In the case of a devaluation, the intervention price increases by the percentage of the devaluation (e.g. the devaluation of the French franc in August 1969) and in the case of a revaluation they decrease in the same proportion (e.g. revaluation of the German mark in October 1969).

This automatism guarantees, in the case of devaluation or revaluation, that the level of the joint agricultural prices fixed by the Council of Ministers is maintained, but brings about, however, modifications in the levels of national agricultural prices (which are also linked with supra-national obligations) of the state which has devalued or revalued its currency. On the other hand, prices of other national goods and services which are not subject to direct obligations of this kind remain unchanged.

On the level of inter-community commercial exchanges and foreign trade, revaluation brings about an increase in the price of non-agricultural goods and services in an exporter Member State while a devaluation brings about a diminution in the prices of non-agricultural goods and services.

Any modification in the exchange rates introduced by a Member State resulting in modifications in the levels of its agricultural prices causes a disequilibrium of agricultural prices within the Member States of the Community. Decreases in prices due to revaluation bring about an immediate decrease in agricultural revenue and devaluation brings about an increase in that revenue.

Although the UA remains unchanged, the relation between the level of prices of the Member States which has modified its parity and the prices of the Community has changed. After a devaluation, the agricultural producers of the country which has devalued obtain for the sale of a product a higher nominal price than that of the other countries, while a revaluation brings about a decrease in agricultural prices expressed in the national currency. However, the variation in prices differs for different products. It corresponds to the rate of revaluation for products for which the intervention price has been determined on the Common Market but the prices of other dependant products are also influenced.



Important repercussions

The changes in the value of currencies had important repercussions within the EEC in 1971. Although the common agricultural market was principally affected, they also prevented the Community from beginning the first stage towards economic and monetary unity.

For information it should be recalled that :

1. France devalued by 12.5 % on 8 August 1969. The result was that the French agricultural market was separated from the other five agricultural markets because of the application of export taxes and subsidies for imports and this until 1 August 1971, when France returned to the price system of the Community.
2. On 29 September 1969, the German Federal Republic liberated exchange rates provisionally. Until 31 December 1969, the imports of agricultural products of the EEC into the German Federal Republic were submitted to import taxes so that, in fact, the common market was temporarily divided into three.

Furthermore, the German farmers are to receive, for a period of four years, compensatory subsidies of 1.7 milliard DM to compensate them for the losses suffered.

The common agricultural market had subsequently been stabilized with difficulty when it was again shaken by the events of 10 May :

On this date the German Federal Republic again liberated the exchange rates for the DM and was followed by the Netherlands but at a different level. Contrary to fixed changes in exchange rates caused by devaluation or revaluation, the liberalization of exchange rates is in complete contradiction with the measures taken for fixing prices of agricultural products within the framework of the units of account system which cannot permit any fluctuation in exchange rates.

With the introduction of floating exchange rates, the rates vary from day to day and these fluctuations must be compensated by taxes imposed at the different frontiers, worked out on a day to day basis, in order to protect the prices for the production of agricultural products fixed at Community level, against the fluctuations arising out of the decisions of Germany and the Netherlands. The Council has agreed, however, that compensatory taxes may not be imposed at the frontiers with a view to protecting agricultural intervention prices except when the fluctuations of the official rate of the DM against the dollar (1 American dollar = 3.66 DM) exceed 2.5 %. This is what is called the level for the application of compensatory taxes at the frontiers. The Council considered that the repercussions would be relatively insignificant when the rate of fluctuation remained below 2.5 %. The compensatory taxes are to be reviewed when the rate varies by one point over a certain period.

The Community agricultural market divided into three.

The result of the negotiations of the Council of Ministers of Agriculture and the decision adopted on the morning of 12 May signified that the agricultural market, once again practically closed, was divided into three separate markets :

- a) The German Market,
- b) The Netherlands Market,
- c) The French, Italian and Belgo-Luxembourg Market where the situation remained normal.

From this moment the Community agricultural market found itself back again into the transition stage of the Treaty of Rome, with the reappearance of taxes at the frontiers of the Member States of the Community as they had existed until 1967 or in the case of some products until 1968. Back to a system of inter-community taxation. The Member States with floating exchange rates had engaged themselves, however, to return to a system of fixed exchange rates based on the previous system as soon as possible.

Deterioration of the situation on 19 August 1971

In contrast with the measures taken by the Member States on 12 May 1971, measures which were based, especially in so far as the German Federal Republic was concerned, on internal economic necessities in order to avoid inflation. On 15 August 1971, the Community had to face new outside monetary difficulties arising from the measures adopted by the American government for a new orientation of its monetary policy. It became apparent, at least as far as internal policy was concerned, that the Community was not sufficiently consolidated to resist such pressure from outside.

The protection measures adopted by the Member States were in many respects of a different nature and although they had been approved by the Community had no communal characteristics. Luxembourg and Italy joined the Member States with a floating currency and who had already liberated their exchange rates in relation to the American dollar on 12 May.

This new blow to the monetary structure of the common agricultural market meant that the markets of the Member States were obliged to protect themselves more and more against each other. This was necessary in order to protect agricultural production prices from fluctuations in foreign exchanges which can only produce deviations in the flow of agricultural products as had already been the case in 1969.<sup>1</sup> Since 1 August 1971, French agriculture, for which certain special dispositions had remained in force since the devaluation of the franc in August 1969, has become again an integrated and complete member of the Common agricultural market. This permitted the suppression of a system of export taxes and import subsidies when at the same time such a system was being re-introduced by other Member States.

Italy which has also liberated its exchange rates has not yet employed methods of compensatory taxes at the frontiers and remains the exception.

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1. When monetary fluctuations occur and in the absence of protection measures, agricultural products have a tendency to flow towards the Member Countries where the rate of revaluation has been highest.

While on 12 May 1971, the common agricultural market of the EEC was divided into three, we are now faced with a market that is divided into four components :

1. Agreements of the Member States with other countries outside the framework of the EEC.
2. The German agricultural market.
3. The Benelux agricultural market.
4. The French agricultural market,  
The Italian agricultural market.

Since the 12th. May, the Commission has regularly presented reports on the consequences of the monetary situation on the agricultural markets. The first was published on 14 June 1971 and the fourth was submitted to the Council during its session of 27 September. Furthermore, on that date the Commission submitted to the Council a "rapport sur les conséquences".

This report underlined particularly the grave danger that perturbation of the agricultural market could have on the integration policy of the Community, taking into account the monetary measures adopted by the Member States since the 15th August.

How does the compensatory system work ?

For products for which intervention measures have been adopted, the compensatory payments are equal to the application of percentage prices on the difference between :

- the parity of the national currency declared to the International Monetary Fund and recognized by that organization, and
- the arithmetical average of the rate of exchange (at sight) of the currency in question in relation to the American dollar over a determined period.<sup>1</sup>

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1. Article 1 of the EEC regulations N° 974/71.

In practice the compensatory payments are calculated as follows:

Example : soft wheat

Period 6 to 12 May 1971

(First determination of compensatory payments made by the Commission)

The compensatory payments for a Member State are due when the percentage fluctuation of its currency reaches 2.5 % (German Federal Republic) or 2 % (the Netherlands), the threshold for bringing compensatory measures into operation.

The intervention price at the beginning of the period serves as a basis for the calculation of the compensatory payments.

Commercial exchanges between the Community and the German Federal Republic

Intervention price 1970/71		98.75	/t	
3 % (monetary fluctuation) on 98.75 UA	=	2.962		
2.962 X 3.66 (official parity)	=	10.841	DM/t	compensatory payment

Commercial exchange between the Community and the Netherlands

Intervention price 1970/1971		98.75	/t	
2 % (monetary fluctuation) on 98.75 UA	=	1.975		
1.975 X 3.62 (official parity)	=	7.149	F1/t	compensatory payment

For the calculation of the compensatory payment for exchanges between the German Federal Republic and the Netherlands a different method must be used as the movement of the two currencies varies in relation to the American dollar.

Since during the period 6 May to 12 May 1971 the parity was 1 Florin = 1 DM, the compensatory payment to be made for the Netherlands has only to be subtracted from the compensatory payment of the German Federal Republic to obtain the correct figure.

Calculation after 15 August 1971Period 16.9.71 to 22.9.71Example: soft wheatTrade between the Community and the German Federal Republic

The method of calculations remains the same.

Intervention price 1971/72	=	100.72	/t
100.72 : 8.2 % (monetary fluctuation)	=	8.25904	/t
8.25904 x 3.66 (official parity of the dollar)	=	30.2280	DM/t compensatory payment

Trade between the Community and the Netherlands

100.72 : 5.1 % (monetary fluctuation)	=	5.13672
5.13672 x 3.62	=	18.5949

Fl/t, compensatory payment

Trade between the Community and Belgium

100.72 : 5.1 % (monetary fluctuation)	=	5.13672
5.13672 x 50	=	256.8360

/t compensatory payment.

These calculations are based on regulation 2050/71 of the Journal Officiel of the European Communities N° 217 of the 27.9.71, in conformity with which the compensatory payments have been calculated on the basis of the following rates :

DM	:	8.2
BFRs and FL. (average)	:	5.1

Period 16.9.71 to 22.9.71

Trade with countries outside the Community (five days money market)  
from Thursday to Wednesday.

German Federal Republic

Average CIF price on the world markets as basis

55.83 /t common corn : 8.2 % = 4.75806 UA

4.75806 x 3.66 (official parity) = 16.7556 DM/t

Compensatory payment = 16.70 DM

The Netherlands

CIF price = 55.83 /t common corn

55.83 : 5.1 % = 2.84733

2.84733 x 3.62 (official parity) = 10.3073 Fl/t

Compensatory payment = 10.30 Fl/t

Belgium

CIF price = 55.83 /t common corn

55.83 : 5.1 % = 2.84733

2.84733 x 50 (official parity) = 142.3665 BF/t

Compensatory payment = 142.30 BF/t

The compensatory payments at the frontiers are based on the effective dates of import or export. The importer must, therefore, be prepared to pay on the date of import an amount in excess of that which he had calculated in the first place. This problem can only interfere with commercial exchanges in the long run.

As the examples cited above show, it is clear that compensatory payments have shown a rising trend since 10 May last. The compensatory payments due at the frontiers are re-calculated each time that the divergence in exchange rates rises by one point.

This point has already been underlined in the example given for the period 23 to 29 September. During this period the exchange rates had already exceeded :

- 9.4 for the DM
- 6.5 for Florins and Belgian francs (average).

A new calculation was, therefore, necessary.

Official rates of the 6.10.1971 : Frankfurt money market

1 American dollar =	3.3170 German marks	= 10,34 % revaluation
1 American dollar =	5.3760 French francs	= 3.31 % revaluation
1 American dollar =	46.91 Belgian francs	= 6.59 % revaluation
1 American dollar =	3.3624 Florins	= 7,66 % revaluation
1 American dollar =	611.65 Ital. Lire	= 2.18 % revaluation

The revaluation rate of the DM during the first week of October had already passed the critical point of 10 % which gave rise to a state of crisis in the common agricultural market and in the policy for agricultural prices.

Taxes at the frontiers have reached recently the level of those of 1966, before the creation of a system of free circulation of agricultural products within the EEC, and have now reached the level of taxes of 1962. The Ministers of Agriculture examined the situation of 27 and 28 September 1971, after the failure of the session of the Council of Finance Ministers of 19 August 1971 and the restoration, more apparent than real, of a united monetary front for the Six decided on by the Finance Ministers on 13 September.

The Ministers of Agriculture have insisted that a rapid solution of monetary problems must be found and they reaffirmed the principles of free circulation of goods between the countries of the Community, common preferences for the agricultural products of the Community in reciprocal trade and financial solidarity.



Reflections on the European situation

The fact that not one of the governments of the Member States of the European Communities is satisfied with the evolution of the situation at the present time can be considered as a positive element. An inflationary disequilibrium has existed within the Community for the last three years and the Member States have not undertaken adequate measure for the formation of a common front against these inflationary tendencies. In so far as medium term economic policy is concerned, the objectives of the Community have only been taken into consideration to a very small extent. It was precisely at the moment when the desirability of taking action on these lines became apparent that the present serious crisis arose.

"The set-back of 9 May will have repercussion on national economic thinking for a long time".<sup>1</sup>

Although it is fully understood that "united, even the weakest are powerful" it should also be remembered that "a bow-string which is stretched too tight will break".

The measures taken by the Americans force the Community to take common decisive action immediately and on the lines laid down by the initial objectives.

What is urgent and absolutely indispensable is a Community decision on a rapid return to fixed exchange rates. Each Member State must play its part in facing the problem on a Community basis. The countries of the EEC must fix realistic parities between their currencies.

From an international point of view, the real problem is the deficit in the balance of payments of the United States. This deficit in the balance of payments cannot, however, be covered in a few months, on the contrary it will certainly remain a fact for a very long time closely linked as it is with many other important problems.

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1. Rainer Hellmann : "Europäische Gemeinschaft", N° 10/1971, page 16, Bonn liaison office of the European Communities.

This is why the Community must take action immediately if it does not wish to become the victim of events which are working against its development and which indeed are not directly connected with its organization.

The Community must take protective measures against speculative movement coming from outside. The new-born Community system must not be allowed to collapse under pressure from outside forces. The Community must, therefore, seek a definite and lasting solution to the problem, a solution which cannot be questioned from one day to another as has happened in the past. A decision at Community level must be taken during the coming months.

This decision could form a platform, from the political point of view, for the creation by the Six of an organized cooperation permitting the negotiation of definitive regulations which would not be unilaterally unfavourable to any of the contracting parties. It is certain that the final solutions will be accompanied by a profound modification of the economic and monetary systems of the whole world and this gives the Community the opportunity to play its part in the establishment of a better international equilibrium.

The strengthening of the common agricultural market must be the centre of these preoccupations as it is indispensable as a factor of equilibrium and stability. Before the end of March 1972, the Council of Ministers should be in a position to decide on the prices for agricultural products for the period 1972/1973 and the progressive suppression of taxes at the frontiers.

The UA must be transformed into a real instrument of the Community, independent of forces acting on it from outside the EEC. The new UA should be supple enough to preserve the farmers of one or other of the Member States against prejudices which may arise from certain quarters. In this way the UA can become a positive factor in the pursuit of the full development of the Community and will quickly cease to be regarded as a perturbing element as it has been considered by many on numerous occasions during the last two years.

In the present situation, all the Member States have marked their approval for the finding of a common solution.... but words must give place to action now.

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