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Monetary decisions and the common agricultural policy

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3

MONETARY DECISIONS AND THE COMMON AGRICULTURAL POLICY

Monetary decisions

On 23 September the Member States agreed on the following measures :
2% revaluation of the German mark and 3% devaluation of the Danish krone against all the other currencies.

... in the European Monetary System (EMS)

The EMS is a system involving monetary solidarity among the participating countries. The value of the European Unit of Account (ECU) is the total of given sums of the Member States' currencies (1). When the currency of one Member State is revalued or devalued, this also affects the value of the ECU and thus the relative position of each of the other currencies in relation to the ECU. If one currency in the EMS is revalued against the others, the ECU is also revalued, but by a smaller amount than that of the currency revaluation because the currency in question is only one of the currencies in the Community basket making up the ECU. For instance, if the German mark is revalued by 1%, the ECU is revalued by $1\% \times 0.33 = 0.33\%$ of its previous value, assuming the weight of the German mark in the basket of currencies forming the ECU is 33%. In terms of the ECU, the German mark is in fact revalued by only 0.66% and the other currencies, in terms of the ECU, are devalued by 0.33%. In the case of a devaluation, the reverse applies. When a currency is devalued or revalued, the central rates (2) of all the currencies have to be redefined.

(1) Sterling does not belong to the EMS, but it is included in the calculation of the ECU on the basis of a notional central rate.

(2) The central rate of a currency in terms of the ECU is the value either side of which that currency may fluctuate within a given margin.

The monetary decisions of 23 September can be summarized as follows :

- 2% revaluation of the German mark against all the other currencies; as the mark represents about one third of the weight of the basket of currencies which determine the value of the ECU, the ECU would have been increased by $2\% \times 1/3 = 0.67\%$. The central rate of the mark would have been reduced by $2\% - 0.67\%$, i.e. about 1.3% (that is to say that, for one ECU, the DM equivalent would have been less) if the relationships between the values of the other currencies had not also been changed.

BUT ...

- The 3% devaluation of the Danish krone at the same time slightly reduced the value of the ECU. The 1.3% divergence between the German mark and the ECU would have been greater if ...

... A third measure had not been adopted at the same time.

- This was an adjustment of the notional rate of sterling on the basis of the monetary situation registered on the exchanges on 21 September. This led to an upward adjustment of the notional rate by just over 2%, the result of which was to increase the value of the ECU.

All three operations taken together cut the difference between the old and the new central rate for the mark to about 1%.

All the other currencies were also affected by these three decisions and the result, which is shown for each currency in Annex I, can be summarized as follows :

- revaluation of the German mark against the ECU by about 1% and of sterling (notional for the EMS) by 2%;
- devaluation of the Danish krone against the ECU by about 3.8%;
- devaluation of the other currencies against the ECU by about 1%.

Consequences of these decisions for the implementation of the common agricultural policy

As is well known, for converting agricultural prices fixed by the Community in units of account for agricultural products into national currencies, the exchange rates are not those recorded on the markets, but special rates known as the "green rates". The differences between the market rates and the green rates are offset for trade in the main agricultural products between Member States by monetary compensatory amounts (MCAs) (1).

The currency changes described above thus necessarily entail provisions in the field of the common agricultural policy as well.

As already stressed in the section on the EMS, because the value of the ECU is made up of a basket of Member States' currencies, a change in the central rate of one of those currencies affects all the other relationships between the ECU and the national currencies as well, so that in principle all monetary differences referred to in the calculation of MCAs are modified. Basically, for the Member States with positive MCAs, with the exception of Germany, whose currency has appreciated, the difference should have been narrowed and for the Member States with negative MCAs the differences should have widened. However, for Denmark, France, Italy and Ireland such an increase was avoided by corresponding adjustments in the representative rates. Only the MCAs of the United Kingdom increased, but this was a result of the change in the exchange rate for sterling, since the effects of the change in central rates were offset by a corresponding devaluation of that currency's representative rate.

As regards Germany, the monetary difference was maintained by applying the "franchise" recently introduced by Regulation (EEC) No. 652/79. The MCAs of the Benelux countries, for their part, were reduced by 0.9 point, equivalent to the revaluation of the ECU against their currencies.

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

The effects of the currency decisions and of the adjustment of the representative rates on common agricultural prices, expressed in national currencies, and on the monetary compensatory amounts (MCAs) can be tabulated as follows :

	Influence on agricultural prices in national currencies (%)	Influence on the monetary differences used in the calculation of MCAs (percentage points)
Germany	0	0
Belgium } Luxembourg } Netherlands }	0	} from : } + 3.3 or + 2.8 to 2.4 or + 1.9
Denmark	+ 3.952	0
Ireland	+ 0.986	0
France	+ 1	0
Italy	about + 1.1	0
United Kingdom	+ 1.1	from : - 6.5 to - 8.9

In greater detail, the consequences for each of the Member States are as follows (see also Annex II) :

- for the Federal Republic of Germany the mark is revalued against the ECU by 0.999%; the green rates are maintained; there is therefore no change in common agricultural prices expressed in marks. The monetary difference taken as a reference for calculating MCAs, which would have increased by 0.9 percentage points also remains the same, because, for the first time, the one point "franchise" decided on in connection with the application of the EMS to the CAP is applied (1);

(1) One percentage point is deducted when the currency of a Member State with positive MCAs is revalued.

- for the Benelux currencies there is a devaluation against the ECU of roughly 0.982%. As the green rates are maintained, there is no change in common agricultural prices expressed in Belgian francs, Dutch guilders, or Luxembourg francs. On the other hand, the monetary differences have narrowed by 0.9 percentage points; the MCAs charged on imports of agricultural produce into these countries and the MCAs paid on exports are reduced accordingly;
- for Denmark there is a devaluation against the ECU of 3.952%. The green rate, as in the past, has followed the central rate; common agricultural prices expressed in Danish krone have therefore risen by 3.952%, the effect of which is to maintain the monetary difference at zero. This Member State thus still applies no MCAs;
- for Ireland there is a devaluation against the ECU of 0.982%. The aim was that the green rate should reflect the development of the central rate; common agricultural prices expressed in Irish pounds have thus increased by a roughly equal percentage (0.986%), the very slight difference resulting from the method of calculation. The monetary differences are maintained at zero as in the past;
- for France, there is a devaluation against the ECU of 0.982%. The aim was that the green rates for the current marketing year and those for the next one, which is already in force for pigmeat should follow the central rate; common agricultural prices expressed in French francs have thus risen in the various sectors by an amount which keeps the monetary differences unchanged; this means an increase in prices in French francs averaging about 1%;
- for Italy there is a devaluation against the ECU of 0.982%. But it was desired that the green rate in Italy should keep in line with changes in the central rates for the other stable currencies in the EMS (1). Common agricultural prices expressed in lire have thus risen by about 1.1% and the monetary differences remain the same;

(1) All the Community currencies, except sterling and the lire.

- for the United Kingdom there is a technical adjustment of - 2.024%; this technical adjustment has an influence on the calculation of the ECU but no direct effect on the instruments of the common agricultural policy. Without an adjustment of the green rate, the monetary difference would have increased. As in the case of the other currencies mentioned above, the object was to keep the monetary difference at the level prevailing during the week 24 to 30 September, i.e. - 6.5 percentage points. Consequently, the green rate was adjusted, which increased common agricultural prices expressed in sterling by 1.111%. However, as during the reference period 19 to 25 September, which is used for determining the monetary differences applicable after 1 October, sterling depreciated by over one percentage point (2.4 points), the monetary difference applicable with effect from 1 October has been - 8.9 points instead of - 6.5. The MCAs granted on imports of agricultural produce into the United Kingdom or charged on exports are increased accordingly.

ANNEX I

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IMPACT OF THE CHANGES IN CENTRAL RATES DECIDED ON 23.9.1979

Currency	Central rates valid up to 23.9.1979		Central rates valid with effect from 24.9.1979		Difference (%)
	ECU	NC	ECU	NC	
	(1)		(2)		(2 : 1)
DM	2.51064		2.48557		- 0.999
FF	5.79831		5.85522		+ 0.982
(UKL) ¹	0.663247		0.649822		- 2.024
(LIT) ²	1148.15		1159.42		+ 0.982
HFL	2.72077		2.74748		+ 0.982
BFR/LFR	39.4582		39.8456		+ 0.982
DKR	7.08592		7.36594		+ 3.952
IRL	0.662638		0.669141		+ 0.982

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

2. The maximum spot margin of the lira against other EMS currencies is 6%, not 2.25%.

JV/ea
28.9.1979

Annex II

Exchange rates applicable in agriculture with effect from 1.10.1979
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Member State	Sector	Representative rates in force (1)				Devaluation of green rates	Effect on agricultural prices	Monetary differences	
		Before 1.10.1979		At 1.10.1979				Applied before 1.10.1979	Applicable as from 1.10.1979
		1 NC = ... ECU	1 ECU = ... NC	1 NC = ... ECU	1 ECU = ... NC				
B.R. Deutschland (DM)	Pigmeat, wine milk and milk products	0.355326	2.81432	0.355326	2.81432	-	-	+ 10.8	+ 10.8 ⁽²⁾
	Other	0.359271	2.78341	0.359271	2.78341	-	-	+ 9.8	+ 9.8 ⁽²⁾
Belg/Lux. (BFR/LFR)	Pigmeat, milk and milk products	0.0244982	40.8193	0.0244982	40.8193	-	-	+ 3.3	+ 2.4
	Other	0.0246335	40.5951	0.0246335	40.5951	-	-	+ 2.8	+ 1.9
Nederland (HFL)	Pigmeat, milk and milk products	0.355292	2.81459	0.355292	2.81459	-	-	+ 3.3	+ 2.4
	Other	0.357252	2.79914	0.357252	2.79914	-	-	+ 2.8	+ 1.9
Danmark (DKR)	All products	0.141125	7.08592	0.135760	7.36594	- 3.802 %	+ 3.952 %	0	0
Ireland (IRL)	All products	1.53177	0.652840	1.51682	0.659274	- 0.976 %	+ 0.986 %	0	0
France (FF)	Pigmeat	0.175052	5.71259	0.173343	5.76891	- 0.976 %	+ 0.986 %	0	0
	Wine	0.184265	5.42697	0.182387	5.48285	- 1.019 %	+ 1.030 %	- 5.3	- 5.3
	Other	0.181501	5.50961	0.179622	5.56725	- 1.035 %	+ 1.046 %	- 3.7	- 3.7
Italia (LIT)	Wine	$\frac{100 \text{ LIT}}{0.0995023}$	1005.00	$\frac{100 \text{ LIT}}{0.0984327}$	1015.92	- 1.075 %	+ 1.087 %	- 8.9	- 8.9
	Other	$\frac{100 \text{ LIT}}{0.0953434}$	1048.84	$\frac{100 \text{ LIT}}{0.0942746}$	1060.73	- 1.121 %	+ 1.133 %	- 4.3	- 4.3
United Kingdom (UKL)	All products	1.72039	0.581264	1.70148	0.587724	- 1.099 %	+ 1.111 %	- 6.5	- 8.9

(1) Depending on when the marketing year begins.

(2) After deduction of a "franchise" of 1 point. This is the first time that the new third subparagraph of Article 2(a) of Regulation (EEC) No. 974/71 has been applied, this rule having been inserted into Regulation No. 974 by Article 3 of Regulation (EEC) No. 652/79; the latter Regulation introduced the ECU into the CAP.



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