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BACKGROUND NOTE

CURRENCY CHANGES AND THE EUROPEAN  
COMMON AGRICULTURAL POLICY

The Council of Ministers of the European Community has postponed the fixing of official Community farm prices for 1973/4 until May 1, 1973. The postponement is to allow currency markets to settle down. The European Commission will present its price proposals to the Council in the light of the currency situation.

To allow free trade in agricultural products between member countries, the Community has sought to provide a common system of farm prices for most products. These prices determine the level of price at which imports may enter the Community from third countries and also provide internal market support for the producers of grain, beef, and milk.

Extending the Farm Policy to New Members

In order to extend the farm policy to the three new member countries of the Community at the beginning of February, despite the generally lower official farm prices in the United Kingdom and Ireland, a system of "accession compensatory amounts" is used, applied either as an import levy or an export refund, to level out fundamental differences in price between the new members themselves and between new and established members of the Community.

By taking account of these underlying price differences this compensatory amount system allows farm products to be traded freely between all nine members of the Community.

#### The Unit of Account

All official farm prices for the enlarged Community are expressed in units of account, which then have to be calculated into national currencies. The unit of account is a notional money unit worth a given amount of gold. Until the American dollar was devalued in August 1971, the unit of account bore the same value as the dollar. Now it is worth proportionally more than a dollar. Because the official prices are expressed in units of account, any change in value of national currencies changes national farm price. This makes it hard to fix new prices at present while currencies are "floating".

#### Monetary Compensatory Amounts

Monetary compensatory amounts are fixed by the Commission for all the main farm products. They are subject to change, generally speaking, if there is more than a 1 per cent movement in the value of a currency against its official parity or reference rate. An importer buying from a country whose currency has moved down in value into a market whose currency is unchanged or has gone up in value, will have to pay the monetary compensatory amount as a levy; trade in the opposite direction will qualify for an export refund of the same value. Currency movement should not affect retail prices.

It is the job of the European Commission to work out the basic facts governing monetary compensatory amounts for the whole Community. National customs authorities will then be responsible for working out the detailed rates and the changes necessary to take account of currency movements. For trade between Community countries, the administration of the levies and refunds is in the hands of the country whose currency has best retained its value against parity.