European Communities

EUROPEAN PARLIAMENT

Working Documents

1974-1975

8 July 1974

DOCUMENT 187/74

Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (doc. 133/74) for a regulation on certain measures to be taken in agriculture for Italy as a result on the fixing of a new representative rate for the Italian lira

Rapporteur: Mr. J.M. GIBBONS

PE 37.389/fin.

English Edition

By letter of 7 June 1974 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 (2) of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation on measures to be taken on behalf of Italy in the agricultural sector following the fixing of a new representative rate for the Italian lira.

The President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and the Committee on Budgets as the committee asked for its opinion.

The Committee on Agriculture appointed Mr GIBBONS rapporteur on 20/21 June 1974.

It considered this proposal at its meetings of 20 and 21 June and of 2 and 3 July 1974.

At the latter meeting the committee unanimously adopted the motion for a a resolution and the explanatory statement.

The following were present: Mr HOUDET, Chairman, Mr LABAN, Vice-chairman, Mr BAAS, Mr DALSAGER, Mr DELLA BRIOTTA, Mr FREHSEE, Mr FRUH, Miss LULLING, Mr MARTENS, Mr Jørgen NIELSEN, Mrs ORTH and Mr SCOTT-HOPKINS.

The opinion of the Committee on Budgets is attached, and the opinion of the Committee on Economic and Monetary Affairs will be issued separately.

C O N T E N T S

A

The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement :

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Regulation on measures to be taken on behalf of Italy in the agricultural sector following the fixing of a new representative rate for the Italian lira.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council (COM(74) 837 II)[1];
- having been consulted by the Council pursuant to Article 43 of the Treaty establishing the EEC (Doc. 133/74);
- having regard to the report of the Committee on Agriculture and the opinions of the Committee on Budgets and the Committee on Economic and Monetary Affairs (Doc. 187/74);
- considering that the fixing of a new representative rate for the lira, rendered necessary by the economic situation in Italy, will make it possible for safeguard measures taken under Article 108 of the EEC Treaty to be replaced by measures less disruptive to the functioning of the common agricultural policy;
- considering that this proposal will lead to a reduction in monetary compensatory amounts applied by Italy;

1. Approves the proposed regulation;
2. Stresses once again that it is imperative to achieve economic and monetary union;
3. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

[1] As amended by COM(74) 1059

B

EXPLANATORY STATEMENT

The Purpose of the Present Proposals

1. The purpose of the present proposals is :

   (a) to devalue the "Green lira" by 12.5%;

   (b) increase prices by 12.5% on the Italian market;

   (c) to implement certain measures of conjunctoral policy to delay certain effects of these price increases until the new marketing year.

The Monetary Situation and the Common Agricultural Policy

2. The cohesion of the Common Agricultural Policy, the main pillar of the European Communities, has slowly been eroded since 1968 by excessive monetary fluctuations, due in part to variations in economic growth and a lack of coordination in economic policies.

One result of these monetary fluctuations has been the creation of monetary compensation amounts to prevent abnormal movements of prices from jeopardizing the normal trend in agricultural trade patterns in the agricultural sector.

Regulation (EEC) No 974/71,[1] as amended by Regulation (EEC) No 509/73,[2] allows for :

(a) in a Member State whose currency increases in value beyond the permitted fluctuation for compensatory amounts to be charged on imports and granted on exports;

(b) in a Member State whose currency decreases in value beyond the permitted fluctuation for compensatory amounts to be charged on exports and granted on imports.

Such compensatory amounts are considered repair work to be accepted only on a temporary basis in order to maintain market unity.

At one time the difference in the common agricultural prices expressed in national currencies was 30%, between the German and the Italian markets, the two extremes of the spectrum in which were contained separate blocs : the Benelux countries; the United Kingdom and Ireland; France and Denmark.

In 1973 the problem of floating currencies emerged. It was decided that these would be converted, not at declared IMF theoretical parity, but a representative market rate based on the most realistic factors.[3]

This system was applied when Italy floated the lira on 13 February 1973.

By March 1973 monetary payments were in force between all Member States, except within Benelux.

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[1] O.J. No L 106, 1971; p.l.

[2] O.J. No L 50, 1973; p.l.

[3] Regulation (EEC) No 222/73; O.J. L 27, 1973. Regulation (EEC) No 270/73; O.J. L 30, 1973. Regulation (EEC) No 509/73; O.J. L 50, 1973.

The simplification in the system became necessary to allow those concerned to know what compensatory amount should be applied at any particular moment.

By Article 4(a) of Regulation (EEC) 974, compensatory amounts for Member States devaluing their currencies may not be higher than market charges from third countries.[1]

With a joint float of currencies (except for Italy and the United Kingdom) the system was further simplified as countries were to maintain a 2.25% gap between their currencies.

The currencies of Member States, floating together, were to form the basis of departure.[2]

For currencies floating together, account must be taken of the difference between the CAP conversion rate and the central rate. Provision was also made for offsetting price differences caused by currency movements. Hence compensatory amounts were no longer necessary for Denmark and France.

This system came into effect on 4 June 1973. The German revaluation of the Deutsche Mark was covered by this system, and simply resulted in a change in the monetary compensatory amounts.

For the revaluation of the Dutch Gilder, a representative rate closer to the central rate was substituted for the theoretical rate declared to the IMF. The repercussions therefore were carried on to common agricultural prices denominated in Gilders but virtually not to monetary compensatory amounts.

3. In October 1973 representative conversion rates for the Lira were fixed in two stages: a 4% devaluation with effect from 1 November 1973[3], and a second of 4.5%, of which 1% of the price increase was implemented immediately and 3.5% brought forward to the 1974/75 marketing year.[4]

When the Council on 31 October 1973 fixed a representative exchange rate for the Italian Lira, it was considered desirable to soften the impact of this measure, which would have led to some increase in the price of agricultural products on the Italian market, on the Italian economy. Therefore short-term economic measures for sugar in Italy were implemented, stipulating that existing prices for sugar in Italy at 31 October 1973 should be maintained until the end of that current marketing year.[5]

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[1] Regulation (EEC) No. 509/73; O.J. L 50/73.

[2] Regulation (EEC) No. 1112/73 (O.J. L 113/73; p. 4) and Regulation 1463/73 (O.J. 147/73).

[3] Regulation (EEC) No. 2958/73; O.J. L 303/73.

[4] Regulation (EEC) No. 3450/73; O.J. L 353/73.

[5] Regulation (EEC) No. 2959/73 (O.J. L 303/73; p.3), amending Regulation (EEC) 974/71 (O.J. L 106/1971; p.1) as amended by Regulation No. 1225/73 (O.J. 125/73 p.49).

The circumstances that led to the adoption of that provision also existed for other products. Therefore a similar solution was adopted in order to limit the increase in prices resulting from the new representative rate to be applied on 1 January 1974.[1] Article (b) of Regulation (EEC) No. 974/71 was replaced therefore by the following:

"1. Except for the products referred to in the following paragraphs, the intervention and purchase prices applicable in Italy shall be fixed, until the end of the 1973/74 marketing year, at the level resulting from the application of the provisions in force on 31 December 1973, expressed in Italian lira.

The activating price for intervention measures as regards table wine shall be maintained until 15 December 1974 at its level of 31 December 1973, expressed in Italian lira.

The intervention prices for sugar and the minimum prices for sugarbeet applicable in Italy until 30 June 1974, shall be maintained at their level of 31 October 1973, expressed in Italian lira.

2. As regards eggs, poultry meat, ovalbumin and lactalbumin, the effects of the measures referred to in paragraph 1 shall be taken into account up to the expiry of the 1973/74 marketing year.

3. Amounts payable by Italy in accordance with the rules on agricultural markets following other interventions on the internal market shall be fixed by reference to the effects of the measures referred to in paragraph 1.

4. For products in respect of which compensatory amounts are to be applied under Article 1, the effects of the measures referred to in paragraph 1 shall be taken into account when the compensatory amounts are fixed.

5. Where, in applying the regulations on the common organization of agricultural markets, prices on Italian markets are to be retained, the effects of the measures referred to in paragraph 1 shall be taken into account."

Present problems of the Italian Economy

4. One further result of uneven rates of economic growth, domestic consumption and inflation within the Community has been a serious economic crisis in Italy. In the first four months of 1974, the deficit in the Italian balance of payments had reached 2,766 thousand million lira. In April 1974 the deficit reached the record level of 811 thousand million lira. Faced with the seriousness of the situation, the Italian Government introduced a 50% deposit on imports from the Community as well as Third Countries, under Article 109 of the EEC Treaty.

[1] O.J. No L 353/73; p.25

The Commission's Proposals

5. The Commission of the European Communities has sought to arrive at a compromise between the need to meet the demands of Italy's economic situation and the necessity to maintain the unity of the Common Market. Its efforts have concentrated on the Common Agricultural Policy, which is the one area where a unified policy exists. The framework, as a result, has shifted from Article 109 to Article 108, Community rather than national action.

In respect of agricultural products, the Commission authorized the following :[1]

- from 10 June onwards, the security will be abolished for young calves for fattening;
- Italy will be authorized to maintain a reduced security of 25% for other categories of meat until a date to be determined later;
- the 'Green' lira, it is now proposed, will be devalued, this time by 12.5%;
- at the same time, intervention and buying-in prices will be increased by 12.5%.

6. The fixing of a new representative rate for the lira has certain advantages for Italy :

(a) better conditions for agricultural producers will be created;

(b) internal consumption will be reduced;

(c) monetary compensation amounts will be reduced by an equivalent figure of 12.5%.

Since monetary compensation amounts are not applied in the case of devaluations of less than 2.5% (and the difference between prices expressed in lira and those calculated on the basis of the official relation between the lira and the unit of account being only 2.5%), monetary compensation amounts will be effectively ended in respect of Italy.[2]

7. For the Community as a whole, this measure has the following advantages :

(a) encouraging Italy to accept the 'Community' rather than the national measures;

(b) reducing or even eliminating monetary compensation amounts in respect of Italy, and so helping to rebuild the unity of the market;

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1 Commission decision 8 May 1974, OJ No. L 152/74, p. 18

2 This, of course, depends on whether the market rate of the lira continues to fall; if so, compensatory amounts will continue to be required.

(c) reintroducing Community preference in Italy : compensatory amounts were deducted from customs duties on meat imports from third countries.

8. It should be noted that these provisions will help reduce certain existing distortions.

In the case of cereals, for example, compensatory amounts are virtually not applied because there is no charge on cereal imports from third countries : Article 4(a) of Council Regulation No 974/71,[1] as amended by Regulation No 509/73[2] stipulates that 'in trade with third countries, compensatory amounts granted on imports shall be deducted from the import charge.'

This is not the case with other agricultural sectors, and particularly milk; the resulting imbalance leads to distortion on the Italian market. Such difficulties will be reduced by a reduction of compensatory amounts.

9. The overall result of the fixing of the new representative rate for the lira, in respect of intra and extra Community trade, will be as follows :

(a) a reduction of monetary compensatory amounts in Community trade;

(b) a reduction of monetary compensatory amounts in trade with third countries. This will result, following the provisions of Article 4(a) of Regulation (EEC) No 974/71[3] which establishes that compensatory amounts may not be higher than the charge on products imported from third countries, in an increase in refunds, export levies and tariff rates;

(c) following the increase in prices expressed in lira, due to the application of a new representative rate, an increase in refunds and levies financed within the framework of the Common Agricultural Policy.

Timetable of Price Increases

10. Regulation (EEC) No 3450/73[4] laid down that the 3.5% price increase resulting from the application of the representative rate applied from 1 January 1974 should be deferred until the beginning of the 1974/75 marketing year in the case of cereals, rice, pork[5] and poultry. Further exceptions for other products made when the representative rate was devalued by a further 5% on 28 January 1974 mean that for wine and olive oil the deferred increase now amounts to 8.5%, or 13.5% in the case of sugar. This measure remains in force. The new representative rate for sugar takes effect from the beginning

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1 O.J. No L 106, 1971.

2 O.J. No L 50, 1973; p.1.

3 Regulation (EEC) No 509/73; O.J. No L 50, 1973, p. 1.

4 O.J. No L 353, 1973.

5 1 July 1974 for pigmeat

of the new marketing year for sugar, 1 July 1974, in order to limit speculation.

11. However, Article 1 of the present proposal means that for products for which the marketing year has already begun, beef and milk, the devaluation of the 'Green lira' will result in an immediate increase in prices of 12.5%.

For those products for which the marketing year has not begun, Article 2 paragraph 1 of the present proposal establishes a derogation from Article 4(b) of Regulation (EEC) No 974/71, as amended by Regulation 3450/73, whereby prices should be frozen until the beginning of the new marketing year : buying-in and intervention prices will now be increased by 12.5% on the date yet to be fixed for the entry into effect of the Decision referred to in Article 7(4) of the Commission Decision of 8 May 1974 authorizing the Italian Republic to take certain protective measures under Article 108(3) of the EEC Treaty.

Other amounts paid out in the framework of the EAGGF are to be subject to the same provisions.

The amounts of the aids for durum wheat and the subsidy for olive oil, however, shall be maintained at their present rates.

12. These provisions have financial implications. The Commission has a number of observations to make in this connection, although it pointed out that it could only base them on rough estimates. As a whole, the proposed provisions should, however, lead to an overall cutback in Community expenditure despite increased expenditure in the aid sector. [1] In fact, the compensatory amounts fall within the EAGGF budget. When the currency of a given country depreciates, the compensatory amounts granted for imports are charged to the Community. This happened in Italy which, as a whole, is a net importer of agricultural products. The reduction of the compensatory amounts therefore represents a saving for the Community budget.

13. It should be noted furthermore that the Council has taken a provisional decision on the basis of article 103 of the EEC Treaty and that this measure is to be integrated into the Common Agricultural Policy on the basis of Article 43, requiring the opinion of the European Parliament.[2]

Observations

14. The Committee on Agriculture has deplored the effects of the monetary situation on the unity of the agricultural market and the distortions resulting from the system of monetary compensatory amounts, adding, however, that 'the system must be maintained until Member States have declared new parities to the IMF'.[3]

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[1] Except, of course, for aid to olive oil and durum wheat.

[2] Regulation (EEC) No. 1424 of 6 June 1974, OJ No. C 150/74; p. 39

[3] Doc. 69/72; report by Mr HEGER.

The Committee on Agriculture, in two reports by Mr HEGER on previous proposals on Regulations amending Regulation (EEC) No 974/71 as regards the prices of agricultural products in Italy in consequence of developments on the monetary situation, approved these proposals and stressed 'once again that it is imperative to achieve economic and monetary union.'[1]

15. The present proposal cannot solve all the problems facing Italian agriculture at the moment, nor can it remove distortions in trade in agricultural products between Italy and other Member States created by changes in currency rates. This will only be possible once a common monetary policy for the European Community has been arrived at. The proposal does constitute, however, an important step towards re-establishing the unity of the agricultural market, and as such can meet with the approval of the Committee on Agriculture.

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[1] Docs. 275/73 and 365/73.

OPINION OF THE COMMITTEE ON BUDGETS

Letter from Mr AIGNER, vice-chairman of the Committee on Budgets, to Mr HOUDET, chairman of the Committee on Agriculture

Brussels, 3 July 1974

Dear Mr Chairman,

At its meeting of 1 and 2 July 1974, the Committee on Budgets considered the proposal for a regulation of the Council on measures to be taken on behalf of Italy in the agricultural sector following the fixing of a new representative rate for the Italian lira (Doc. 133/74).

The Commission proposes that in respect of products for which the marketing year has not yet commenced, the intervention and buying-in prices applicable should be increased by 12.5% except for durum wheat and olive oil.

The aim of this measure is to go some way towards improving conditions for Italian agricultural production by devaluing the 'Green Lira.' It would also make it possible for the Commission, under its decision of 8 May 1974 authorizing the Italian Republic to adopt certain protective measures, to take steps for the partial withdrawal of that authorization. As regards the financial implications, the expenditure of the EAGGF, Guarantee Section, would be reduced by 36 million u.a. in 1974 (1975: 58 million u.a.), while revenue would be increased by 52 million u.a. (1975: 103 million u.a.).

The Committee on Budgets delivers a favourable opinion on this proposal not only for budgetary reasons but also because this seems an appropriate way of supporting the efforts of the Italian Government to redress the balance of payments with Community funds.

Yours sincerely,

Heinrich AIGNER

This opinion was adopted unanimously. The following were present: Mr AIGNER, vice-chairman and acting chairman; Mr ARTZINGER, Mr BANGEMANN (deputizing for Miss FLESCH), Mr BERTHOIN (deputizing for Mr ROSSI), Mr BOANO, Mr CONCAS, Mr FABBRINI, Mr LENIHAN, Mr MAIGAARD, Mr NOTENBOOM, Mr PETRE, Mr POUNDER, Mr VERNASCHI, Mr YEATS (deputizing for Mr TERRENOIRE).