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GREEN MONEY
AND
THE COMMON AGRICULTURAL POLICY

R. W. IRVING

and

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WYE COLLEGE.
(University of London)
ASHFORD, KENT

1975

CENTRE FOR EUROPEAN AGRICULTURAL STUDIES

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CENTRE FOR EUROPEAN AGRICULTURAL STUDIES

GREEN MONEY AND THE CAP

by

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FOREWORD

"Green Money" concerns not only farmers, but also housewives, traders, food processors and Chancellors of the Exchequer. It must also be remembered that units of account are used not only in connection with the CAP, but with most other activities of the European Economic Community. The importance to agriculture of its unit of account stems largely from the common pricing principle which is the cornerstone of the CAP, and hence the *raison d'être* of "Green Money".

The EEC, and with it the CAP, was first established in a situation of economic and monetary stability. The first challenge to this stability was the devaluation of the French Franc in 1969, since when the situation has changed with dramatic speed into one of economic and monetary instability, leading to a complexity of arrangements and calculations essentially designed to preserve the system of common pricing and free movement of goods within the EEC.

With this background in mind, the Centre for European Agricultural Studies asked Mr. Ronald Irving and Mr. Howard Fearn to contribute to the current discussion of Green Money and the CAP. The authors are respectively Economic Adviser and Senior Economic Assistant working with the Ministry of Agriculture, Fisheries and Food. It must be emphasised, however, that the selection and interpretation of facts and any judgments expressed in their paper are entirely their own and do not represent the views of the Ministry of Agriculture, Fisheries and Food. Their everyday work has given them a unique opportunity to trace the developments in Green Money that have taken place over the past decade. But what of the future?

The Commission has stated in its "Stocktaking of the CAP" that the re-establishment of a single market must continue to be a fundamental objective of the CAP. "For the future, the Commission cannot accept the application of MCAs insofar as they constitute factors disrupting the unity of the market and generating distortions of competition. On the other hand, the

compensatory amounts should continue to serve as instruments to prevent short-term fluctuations in exchange rates from instantaneously affecting agricultural prices expressed in national currencies". Does this imply that the Commission foresees the removal of MCAs through the aligning of green rates with market rates of exchange? Future discussion of Green Money might conveniently centre around two fundamental issues: the timing of the phasing out; and, more importantly, the definition and value of the market rates that might be used for this purpose. This numeraire will have significant repercussions upon at least four very interested parties: producers and their incomes, consumers and their food prices, traders and processors and the Exchequer.

This numeraire is composed under man-made rules. These rules underwent a basic change in June 1973 when the definition of the market rates of exchange between national currencies and the unit of account for MCA purposes was changed from a \$US numeraire to the present joint float numeraire. The joint-float could be replaced by a more comprehensive "basket", a concept already used for units of accounts attached to other EEC policies and institutions such as the European Development Fund with its EURCO. The weighting within the "basket" could influence the burden of adjustment to be made by each country and hence its farmers, housewives and Exchequers. It can be seen that this is a rich field for debate and discussion amongst farmers, traders, politicians and academics. Thus this Occasional Paper is presented as a contribution to the on-going discussion of this vital subject. It is aimed at furthering the exchange of information and the development of ideas upon problems and opportunities facing European agriculture.

August 1975

Ian G. Reid
Director

GREEN MONEY AND THE CAP

INTRODUCTION

Green money - in particular the so-called green £ - has been the subject of a great deal of attention in recent months. Within the past year we have seen the green £, ie the separate sterling exchange rate for agricultural purposes, devalued on three occasions, the most recent devaluation being agreed by the Council of Agricultural Ministers in July 1975, with effect from 4 August 1975. Several changes have also been made to the values of other green currencies, all of which have significantly affected, in each Member State, the level of food prices, returns to agricultural producers, the cost of imported food, and returns from exported food raw materials; for the Common Agricultural Policy (CAP) itself, green currency changes have had implications for the size and operation of the Community Budget. Changes to the values of green currencies have, however, a longer history, going back to the late 1960s and for the UK, almost to the date of our adoption of the CAP in February 1973. Yet the principles underlying the operation of separate currency exchange rates for agricultural purposes are not widely understood and the extremely complicated mechanisms devised to apply the system to the production of, and trade in commodities, even less so.

Although the background to this important aspect of the CAP and the developments that have taken place over the last decade are highly complex, this paper reviews the main landmarks in the system as it has evolved thus far. The paper also describes, in some detail, the methodology employed in the calculations of compensatory amounts applied to trade in agricultural raw materials and discusses the economic implications that the existence of green money has had for food prices, producer returns, trade, resource use and the cost of operating the CAP. Finally, some questions are posed about the Community's future policy in the field of green rates of exchange.

It must be emphasised that as the purpose of the paper is to provide a wide range of background material and not specific details of current monetary arrangements, those whose business operations involve them in the monetary complexities of the CAP should consult directly EEC Regulations (Appendix 5 lists some of the more important ones) rather than rely on the particular examples which are deployed here.

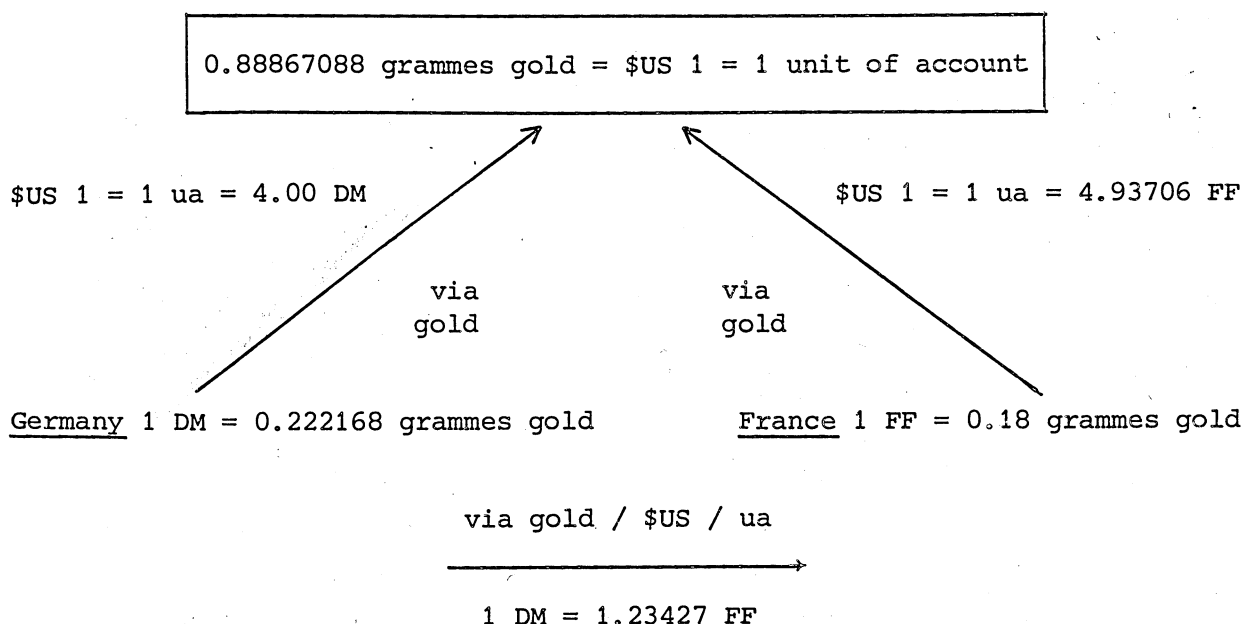
SECTION I THE NEED FOR AND ROLE OF THE GREEN MONEY WITHIN THE CAP

1. Green money - otherwise known as "agri-money", "official conversion rates for agricultural purposes" or, more recently, "Representative rates" - owes its existence to one of the basic features of the CAP - that of common prices. The introduction of the CAP created a need for a mechanism to achieve uniformity of prices throughout the Six original Member States, each of which continued with its own currency and exchange rate policy. This required a set of exchange rates between the currencies of the Member States that would be used to convert sums of monies (ie prices and attendant support measures) from one currency to another within the framework of the CAP. It also led to the need for a common denominator between these currencies so that sums could be fixed on a Community basis and subsequently translated into Member State currencies. The common denominator employed was the agricultural unit of account. The rates of exchange between the national currencies themselves and between these and the unit of account needed, of course, to be internally consistent in order to achieve common pricing. The exchange rates fixed for the purposes of the CAP were the original "green monies". For reasons discussed later the green money of the early 1960s did not, however, give rise to the problems associated with the green monies operating in the 1970s.

The unit of account

2. Since the unit of account is the corner-stone of the common pricing objective of the CAP and as such is the raison d'etre of "green money", it is worthwhile examining briefly its origins. Its primary function is to provide a common denominator between the various Member State currencies so that, for instance, farm prices can be fixed on a Community-wide basis in units of account. (It should be noted that several units of account exist within the Community for various purposes but here we are concerned with the agricultural unit of account). The unit of account is not a currency - and is not traded on foreign exchanges - but is rather an accounting device. Its legal basis is embodied in the EEC Regulation 129/62. This Regulation defines the unit of account in terms of gold and fixed its value at 0.88867088 grammes fine gold. This gold value attached to the unit of account was identical to the value at that time of the \$US.

3. That the unit of account was made equal in value to the \$US was decided upon for convenience and expediency and reflected the international exchange system of the day. The \$US was fixed in terms of gold and was convertible into this metal. Most of the world's major trading nations, including the EEC member states, declared parities with the International Monetary Fund. These parities were defined in terms of the gold content of each currency and, because of the convertibility of the \$US and the world-wide importance of this currency, they were also expressed in terms of the \$US. Under the then existing rules of the International Monetary Fund, countries with declared parities were obliged to limit the margins of fluctuation between their currencies and the \$US to + or - 1 per cent of the par value. The exchange rates between, for instance, the \$US and other currencies and thus between, for example, the French Franc and the Deutsche Mark, were to all intents and purposes fixed. This allowed the Community to employ these exchange rates for the purposes of the CAP. By conferring on the unit of account the same gold content as the \$US, the Community was able to operate an accounting device which shared the same exchange rates already established with the \$US. Thus, the EEC Member State currencies were fixed in terms of the unit of account (via the gold/\$US link) and were fixed in terms of each other by the same means. An example of the situation obtaining in 1962 is shown in the diagram below.



4. These arrangements are formalised in the second Article of EEC Regulation 129/62 which states that for purposes of the CAP, where it is necessary to express in one currency, sums shown in another currency,

"... the exchange rate to be applied shall be that corresponding to the parity declared to the International Monetary Fund and recognised by the latter".

5. These then are the origins of "green money". The original exchange rates used for purposes of the CAP, and embodied formally in EEC Regulations, were nothing more than a re-statement of exchange rates then currently declared to the IMF and which, subject to only small variations, applied also in the day to day foreign exchange operations in the Member States currencies. A very simple example of the application of green rates of exchange is given below. The example relates to white sugar intervention prices obtaining in France and Germany at the beginning of the 1969/1970 marketing season.

	<u>Units of Account</u>	<u>Germany (DM)</u>	<u>France (FF)</u>
Green rate of exchange	1	= 4.0000	= 4.93706
Green cross-rate of exchange		1 DM	= 1.23427 FF
White sugar intervention price (per tonne)	212.30	= 849.20	= 1048.14

Since green rates of exchange corresponded with market rates of exchange, the intervention price of white sugar was identical in France and Germany and, by the same token, in the other Member States.

The Role of the Unit of Account within the CAP

6. So far we have referred to green money as an exchange rate used for purposes of the CAP. It might be useful at this stage to examine more closely these "purposes of the CAP". One of the main principles of the CAP is to fix Community prices and administer mechanisms to support these prices. The prices themselves are fixed in terms of units of account by the Council of Agricultural Ministers - generally annually. These prices include indicator prices (indicative of prices it is deemed reasonable that producers should receive) such as target and guide prices, threshold or sluicgate prices regulating the price at which imports may enter the Community, and intervention prices which provide a floor to the market. All these prices are fixed in units of account. To support these prices, levies and refunds are determined and applied in the Community's

trade in many agricultural products with the rest of the world to bridge the gap between world and Community price levels; these sums are fixed in units of account. More recently, with the accession to the Community of the UK, Ireland and Denmark, a fresh, though temporary, dimension has appeared in the form of accession or transition compensatory amounts designed to bridge the gap between common prices and prices in the new Member States within the CAP for the five years 1973 to 1977. Accession compensatory amounts (not to be confused with monetary compensatory amounts) operate in a similar fashion to the levies and refunds referred to above - though they do serve other purposes - and are also fixed in units of account. Finally, as a form of complementary support, the CAP also provides for certain production aids and subsidies in respect of specific commodities, eg for skimmed milk, olive oil, durum wheat, beef cattle and a wide variety of other aids - often termed "Guidance Section" aids after that part of FEOGA* which provides the funds - aimed at structural improvement and, more recently, to provide aid in mountain and less favoured areas. All of these aids are fixed in units of account and represent money or credit flows between FEOGA and each Member State. These flows, and the Community budget itself, are denominated in units of account.

7. The use of units of account allows the Community's Budget and Accounts to be drawn up in terms of units of account. In the context of the Budget - and the final annual accounts - it is important to note that many transactions and currency conversions are effected by means of the budgetary unit of account. Conversions between Member State currencies and the unit of account for budgetary purposes are made at the pre-Smithsonian parities of the Member States' currencies which have not always coincided with exchange rates for CAP purposes.

* Fonds Europeen d'Orientation et de Garantie Agricoles, or its English designation, the European Agricultural Guidance and Guarantee Fund.

SECTION II EVOLUTION OF GREEN MONEY 1962-1975

8. The system of exchange rates employed by the Community in 1962 was operative with few complications for the first few years, due mainly to the relative stability of exchange rates between Member State currencies themselves and between these and the \$US - and, likewise, between \$US and gold. The then green money rates coincided with rates of exchange reflected in the currency exchanges which were stabilised by the Central Bank interventions under IMF rules. Table 1 sets out the green rates of exchange operated in 1962 and the various changes which have been effected to 1975.

Exchange rate changes in 1969

9. The first signs of stress on the green money systems were evidenced in late 1968 and early 1969 when the forward French Franc was particularly weak. This weakness enabled importers in other Member States (particularly Germany) to make cheap purchases of French farm products - mainly grains - which could be sold at a profit in the other Member States. Various temporary measures were taken - mainly in an attempt to prevent the depression of German grain prices. A more major stress on the green money system occurred, however, in August 1969, when the parity of the French Franc was devalued by 11.11 per cent by lowering the gold content declared to the IMF from 0.180 to 0.160 grammes fine gold. Since the gold content of the unit of account remained unchanged, the Franc became worth fewer units of account. The parity of the Franc, in terms of the unit of account, fell from 1 ua = 4.93706 FF to 1 ua = 5.55419 FF and the green Franc was devalued by the same amount. The parity (and market rate) for the Franc was also devalued in terms of other currencies, eg in terms of the DM the Franc was devalued to 1 DM = 1.388548 FF. It is worth examining some of the implications of this devaluation, since it provides a useful illustration of the effects of changing green rates of exchange and of introducing offsetting compensatory adjustments.

10. It can be seen fairly readily with the aid of the example in para. 5 that the introduction of the new green rate for the Franc would cause the common intervention price for sugar, in terms of Francs, to rise by 12.5 per cent, from 1048.14 FF to 1179.15 FF. Indeed, the common prices for all agricultural products in terms of Francs would rise by 12.5 per cent. Such price increases - certainly for many major commodities - were

Table 1 Green Rates of Exchange Operative between 1962 and 1975
(National currencies per 1 unit of account)

Date of effect	France	Germany	Nether-lands	Italy	Belg/Lux	Denmark	UK (b)	Ireland (b)
1 Nov 1962	4.93707	4.00	3.62	625	50			
8 Aug 1969	5.55419							
27 Oct 1969		3.66						
1 Feb 1973						7.57831	0.462022 (2.1644)	0.462022 (2.1644)
17 Sep 1973			3.44					
1 Nov 1973 (a)				650				
1 Jan 1974 (a)				678				
25 Jan 1974 (a)				712				
15 Jul 1974 (a)				801				
7 Oct 1974							0.498679 (2.0053)	0.513215 (1.94852)
28 Oct 1974				833				
3 Mar 1975 (a)	5.63317	3.57873	3.41874	857	49.6400		0.509741 (1.96178)	0.537198 (1.86151)
4 Aug 1975 (a)							0.536570 (1.86369)	0.565473 (1.76843)

Notes:

- (a) The effects of green rate changes made on these dates were, for some commodities, delayed for several months.
- (b) Figures in parentheses represent the more familiar reciprocal, ie units of account per £1 sterling or Irish (indeed, all current Representative rates, as fixed by EEC Regulations, are expressed in terms of units of account per unit of national currency).

unacceptable to the French Government, since the devaluation had been made in a situation of rapid inflation - at least by 1969 standards. France, therefore, obtained the agreement of the Council of Agricultural Ministers to phase - over a period of two seasons - the effects of the devaluation of her green rate on the price levels of commodities covered by the CAP. Under the arrangements agreed by Ministers, France was allowed during the remainder of the 1969/70 season to set intervention prices at the levels existing before the devaluation, ie below the common prices expressed in France at the devalued green rate. France exercised this option in full for many of the major commodities, though for some products she aligned her prices immediately with the full common levels, ie she aligned immediately with the new green rate.

11. For those commodities for which prices were aligned immediately with common prices no problems arose for the operation of the CAP. The remaining commodities did, however, present difficulties for the Community intervention system since the intervention prices effective in France (effectively fixed at the old green rate) differed from the common prices determined by her new green rate and the green rates for other Member State currencies. Without some compensatory measures, the operation of intervention prices in France which were below common price levels would have given France a trading advantage which inter alia would have undermined CAP prices in other Member States and would have caused trade distortions. Whilst this advantage stemmed from the difference between French prices and common prices, in terms of French Francs, the basic cause of it was the devaluation of the green rate of exchange for the Franc and France's unwillingness to accept the implications of this devaluation. To offset this advantage, a system of border levies and subsidies was introduced - these were the first monetary compensatory amounts (MCAs) employed in the Community. Some of the effects in 1969/70 (in terms of white sugar) are given below.

(a) France's exports to Germany

The intervention price of sugar in Germany was 849.20 DM and the effective intervention price in France was 1048.14 FF, ie the pre-devaluation level. If, however, a French trader exported sugar to Germany and sold it there at the intervention price, he would receive 849.20 DM, for which his bank would give him 1179.15 FF (at the new market rate of exchange of 1 DM = 1.388548 FF) - some 131 FF more than he would have received from the

French Intervention Agency. To remove this strong incentive for French traders to sell products into intervention in other Member States, it was necessary to levy her exports to other Member States. It can be seen that the export levy required was equal to the amount by which common prices increased, in terms of Francs, as a result of the devaluation (or 11.11 per cent of the common price expressed in devalued Francs).

(b) French imports from Germany

If a German trader exported sugar to France at the German intervention price of 849.20 DM, the import price into France - at the new market rate of exchange - would have been 1179.15 FF which would have exceeded the intervention price effective in France by some 131 FF. In order to preserve Germany's competitive position, a subsidy equal to 11.11 per cent of the common price expressed in devalued Francs, was paid on imports into France from Germany. A similar subsidy was applied also to French imports from other Member States.

(c) French trade with third countries

The implications of the devaluation of the Franc for France's trade with third countries were similar to those outlined above for intra-Community trade. As a result of the devaluation, the landed price of imports increased, and this was not consistent with the need to keep French farm prices down. France, therefore, subsidised her imports from third countries. In the case of French exports to third countries, her earnings increased in terms of French Francs; this provided an incentive to export which needed to be removed by a monetary compensatory amount levy on exports. These subsidies and levies were equal in size to those applied by France in her trade with other Member States.

12. Later in the same year - October 1969 - the relatively strong German Mark was revalued upwards by some 9.29 per cent - the gold content of the DM being increased from 0.222168 grammes to 0.242806 grammes of fine gold. The parity in terms of the unit of account shifted from 4.0 DMs = 1 ua to 3.66 DMs = 1 ua and the green rate for the DM was adjusted accordingly. A change in the German green rate of this order would reduce CAP prices in terms of DMs - and therefore prices paid to German farmers - by some 8½ per cent, a reduction which the German government was unwilling to accept. Instead, Germany was allowed to reduce her farm prices gradually, with MCAs bridging the gap between the prices actually effective in Germany

and the common prices expressed in revalued DMs. These MCAs operated in the opposite direction to those described above for France, viz they were applied as levies on imports and refunds on exports. However, to afford German farmers a longer period over which to adjust to lower prices, additional measures were introduced. German farmers were given aid on a diminishing scale - partly financed by FEOGA - for 4 years, benefitted from structural measures and were also allowed to retain some of the value added tax added to their sales.

13. The refusal of the French and German governments to allow the effects of a change in their parities (and market rates of exchange) for their currencies to be reflected immediately in their farm and food prices led to situations, temporary as they were, in which two sets of prices were in force - national price levels determined by the old parities and common prices reflecting the new parities. The problems for the CAP stemming from this situation were manifest in the form of price differences but the basic cause was essentially of a monetary nature since the price disparities arose from the unwillingness to accept the consequence of adjusting green rates of exchange. The monetary compensatory amount adjustment mechanisms adopted to accommodate the fixed differences between national and common prices were, however, relatively straightforward compared with some of the adjustments applying in more recent times and which will be discussed later. Yet the positions taken by the French and German governments at the time of these parity changes set precedents which have been followed by all Member States up to the present time.

International Exchange System in 1971

14. The relative stability of exchange rates generally characteristic of the 1960s was replaced in the early 1970s by a situation of relative instability - certainly for most of the EEC countries. This instability brought with it a spate of exchange rate problems for the operation of the CAP. The main period of uncertainty and instability began in mid-1971 and was manifest in the form of relatively strong DM and Benelux currencies and a weak \$US. As a consequence of pressures on these currencies, the DM was floated in May 1971 (ie Germany ceased to observe the margins of fluctuation prescribed by IMF rules). This was the first of a series of events to take place over the following few months which was to put the international exchange system in turmoil. In August 1971, the convertibility

into gold of the \$US was suspended and later that month the Benelux currencies and the Italian Lira were floated. Once again the Community was obliged to accept disparities between rates of exchange used for agricultural purposes (held at their pre-float levels for the currencies involved) and rates for other purposes and MCAs were introduced for these currencies to bridge the gap between the green rate and the floating market rate. However, because these MCAs were based on floating exchange rates, they were variable in nature, unlike those operated by France and Germany following the 1969 alignment of exchange rates.

15. The legal basis for these variable MCAs, first made necessary by the floating of the DM, was provided for by Regulation 974/71 (12 May 1971) of the Council of Agricultural Ministers. This Regulation, and its amending Regulations, have continued to provide the legal basis for the system of MCAs, given that it laid down basic rules for calculating the extent of the divergence between the green rate of exchange and the market rate (ie that used for normal international transactions). In its original form, Regulation 974/71 (ie before amendment by Regulation 1112/73) ruled that this divergence be measured via exchange rates with the \$US. This method of monitoring the divergence continued until May 1973. An illustration of the method of calculating these MCA percentages is shown in Table 2.

Smithsonian Agreement, December 1971

16. Meanwhile, the international exchange system continued to evidence instability during the rest of 1971 such that emergency meetings were convened at the Smithsonian Institute in Washington in December 1971. A number of important decisions were made during these discussions (embodied in the so-called Smithsonian Agreement of 21 December 1971) which later were to have substantial implications for the CAP. First, it was agreed that the \$US should be devalued by raising the price of gold from \$35 per ounce to \$38 per ounce, though convertibility into gold was to continue to be suspended. This \$US devaluation became effective on 8 May 1972. Second, certain countries agreed to operate a system of exchange whereby margins of fluctuation between their currencies were limited to plus or minus 2.25 per cent, ie more flexible than the earlier IMF rules but obviously more restricted than a free float. These countries included the present Nine Members of the EEC and the United States. To

Table 2 Calculation of MCA Percentages up to end May 1973 (ie \$US Based)

Example based on exchange rates operative 17-23 May 1973

	France	Belgium	Nether-lands	Germany	Italy	Denmark	UK	Ireland
(i) Green rate - national currency per unit of account.	5.55419	50	3.62	3.66	625	7.57831	0.46202	0.46202
(ii) Green rate in terms of \$US - national currency per \$US, ie <u>(i)</u> (a) 1.20635	4.60413	41.4473	3.0008	3.0340	518.092	6.2820	0.38299	0.38299
(iii) Market rate against \$ 17-23 May 1973 - national currency per \$US.	4.42495	38.8865	2.8585	2.7595	588.055	6.0879	0.39069	0.39069
(iv) Percentage difference between green rate and spot rate, ie MCA per cent <u>(iii)</u> (ii)	+3.9	+5.5 (b)		+9.0	-13.5 (c)	+3.1	-2.0	-2.0

Notes: (a) The factor of 1.20635 represents the exchange rate 1 ua = \$ 1.20635, reflecting the respective gold contents of the unit of account and the \$.

(b) MCA percentages for the Benelux countries were averaged.

(c) Differs from the actual MCA applied (-14.4%) because of the requirement that MCAs are only changed if the movement is 1 per cent or more.

facilitate these arrangements, the present EEC Member States, with the exception of France, Ireland and the UK, introduced "central rates" about which the values of their currencies would be allowed to fluctuate by plus or minus 2.25 per cent; all of these central rates represented upward revaluations of the parities declared to the IMF. Technically, France, Ireland and the UK did not alter their declared parities but these now operated like a central rate. The Central Banks of countries, availing themselves of these wider margins of fluctuation, intervened in the exchange markets to ensure that the exchange rates of their currencies stayed within a $4\frac{1}{2}$ per cent band (ie $\pm 2.25\%$) of the central rate or parity against the \$US.

The European "Snake" in the Tunnel

17. In March 1972, the EEC Council of Finance Ministers agreed to restrict further the margins of fluctuation between the Member State currencies. Whilst maintaining the existing margins of fluctuation against the \$US ($\pm 2.25\%$), the margin of fluctuation of EEC currencies about their central rates was limited to ± 1.125 per cent, ie the maximum difference at any time between the most appreciated and the most depreciated EEC currency was limited to 2.25 per cent - or half that possible under the Smithsonian arrangements. These narrower margins gave rise to the term "the snake in the tunnel", the 'snake' being the 2.25 per cent band within which EEC currencies could fluctuate against one another and the 'tunnel' being the wider $4\frac{1}{2}$ per cent band within which the EEC currencies could fluctuate against the \$US.

Implications of the Smithsonian Agreement for the CAP

18. Following the Smithsonian Agreement, the Community found itself still with two sets of exchange rates, one for normal international transactions (with currencies linked one with another via the limited margins of fluctuations) and a second set for CAP purposes - the green rates. These latter were, in fact, their parities last declared to the IMF. Whilst these par values had changed in terms of the \$US - because of the latter's devaluation - they remained unchanged in terms of the unit of account, the gold content of which had not changed. The existence of the two disparate rates of exchange necessitated the continuation of variable MCAs. The method of determining the divergence between green

rates of exchange and "market" rates of exchange continued to be based on the \$US. Whilst MCAs during this period were technically variable, in practice they varied only marginally because of the limited margins of fluctuation against the \$US. (See Appendix 1). This system continued with little conceptual change to mid-1973.

Enlargement of the Community

19. On 23 June 1972, some seven months before adopting the CAP, the UK government notified the IMF that the £ sterling was to be allowed to float. This was the only major change in the EEC currency situation between the Smithsonian Agreement and enlargement of the Community in January 1973. However, the floating of the £ posed problems when it came to introducing the CAP in the UK and in Ireland in February 1973. The last declared parity for the £ was equivalent to 2.4 units of account and had been declared after the November 1967 devaluation of the £ sterling. The rate of exchange between sterling and the unit of account, as reflected by the sterling-\$US exchange rate and the \$-unit of account link through gold, was by the end of 1972, as a result of the sterling float, considerably below the rate of 2.4 units of account embodied in sterling's declared parity. It was decided for CAP purposes that it would be impracticable for the UK to follow the practices of other Member States and the rules existing in Community Regulations, as these would have involved the use of the 1967 declared parity for CAP purposes. In the event, a special exchange rate was devised for expressing CAP prices in sterling terms (for both the UK and the Irish Republic). This green rate of exchange - subsequently termed a "Representative Rate" - was given legal basis by Council Regulation 222/73. It was set with effect from 1 February 1973 at £1 = 2.1644 units of account, which represented the average exchange rate between the £ and the \$US obtaining in the first 2 weeks of January 1973 (£ = \$2.3499) and the conversion to units of account being effected via the \$US-ua gold link (1 unit of account = \$1.08571). Effectively, therefore, the initial green £ of February 1973 was close to the market rate of exchange for the £ according to the criteria employed at that time (ie via the \$US/gold link) for expressing £s in terms of units of account.

Extension of MCA System, February 1973

20. The value of sterling, however, continued to float and this fact needed to be accommodated within the system of MCAs. The result was an amendment of the basic Council Regulation 974/71 so as to include rules applicable to a floating and depreciating currency. The amendments were made by Council Regulation 509/73 and variable MCAs were introduced in the UK on 26 February 1973 (though with some retrospection in certain cases). These variable MCAs changed weekly depending on the performance of sterling against the \$US in the exchange markets and were applied as import subsidies and export levies.

21. The detailed rules for the application of these MCAs were contained in Commission Regulation 648/73. Of the numerous rules contained in this Regulation and in the basic Council Regulation 974/71 (as amended by Council Regulations 2746/72 and 509/73), three features of the system of MCAs operating in early 1973 are noteworthy. First, the divergence between the green £ (the representative rate) and the "market rate" was measured by reference to the \$US - as indeed was the performance of the currencies of the other Member States. In other words, the system was still based on gold values - the gold content of the unit of account and the gold equivalent of Member State currencies via their market exchange rate with the \$US and, in turn, through the gold content of the \$US. An example of the calculation of these MCAs was shown in Table 2. Second, there was a constraint imposed on the magnitude of the MCAs applied by a Member State with a depreciating currency. This rule is contained in Article 4a of Regulation 974/71 (as amended). The effect of the rule was to limit the size of the MCA employed for any commodity (except sugar) by a Member State with a depreciating currency to the size of the levy charged by that country on its imports of the commodity from third countries. Thus, if the levy on imports from third countries was zero, then the MCA was zero. The philosophy upon which Article 4a was based was that the price of imports should not be subsidised to levels below prevailing world prices expressed at the market rate of exchange. This rule was suspended in October 1974 (as part of the price-monetary package) but not before it had caused considerable difficulties in its interpretation - mainly due to imprecise drafting of the article - and a number of actions in the Court of Justice. A third noteworthy feature of the MCA system of early 1973 was that, in the case of intra-Community trade, no MCA import subsidies were paid as such but, instead, MCA export

subsidies were paid by the Member State with the stronger currency. This meant that the UK - with one of the weaker currencies at that time - received directly no MCA subsidies on her imports from other Member States but, instead, the payment of MCA to the exporting country was reflected in lower cif prices of our imports. This modus operandi involved the employment of a complex system of exchange rate adjustments and coefficients.

22. The Republic of Ireland was afforded identical treatment to the UK. The other acceding country - Denmark - had been operating a "central rate" since the Smithsonian Agreement and was among those countries maintaining limited margins of fluctuation between their currencies. In the same way that the UK and Ireland were empowered to use a representative rate, Council Regulation 222/73 allowed Denmark to employ her central rate for CAP purposes. In other words, the "green" Krone was equal in value to the "central rate". However, since the Krone was floating, Denmark was included in the variable MCA system and did apply MCAs as prescribed for Member States with appreciating currencies.

23. Another currency displaying considerable weakness at that time was the Italian Lira. Economic pressures prevented Italy from maintaining the prescribed margins of fluctuation between her own currency and those of the other six Member States (ie excluding the UK and Ireland). Consequently, Italy informed the IMF that the Lira was to be floated from 13 February 1973. This placed Italy in a similar situation to the UK and Ireland - a depreciating currency with variable MCAs.

Developments in Spring 1973

24. No sooner had the MCA system been revised to accommodate the UK, Ireland and Italy, when the international exchange system was subjected to further disruptions. The \$US had been under pressure for some time and on 12 February 1973 the IMF was informed that the President was seeking the consent of Congress to raise the price of gold from \$38 per ounce to \$42.2222 per ounce by changing the par value of \$US from 0.921053 SDR (Special Drawing Right) to 0.828948 SDR. Formally, the gold price was raised by this amount with effect from 18 October 1973, although in practice, a de facto devaluation of the \$US against world currencies occurred in February. The EEC, armed with the experience of the earlier \$ devaluation, was able to accommodate with few difficulties this second devaluation and

did so shortly after the US Presidential announcement in February 1973. The unit of account maintained its gold content and was identical in value to the SDR but was now worth \$1.20635. "Green" exchange rates were unaffected and necessary adjustments were made through the levy system.

The European Joint Float, March 1973

25. Shortly after the President's announcement in February 1973, Belgium, Denmark, France, Germany, Luxembourg and the Netherlands, informed the IMF that their Central Banks would no longer intervene to hold the value of their currencies relative to the \$US within the agreed margins. From 19 March 1973, they would, however, maintain a maximum margin of 2.25 per cent between their own currencies. This arrangement was to become known as the "joint float" since the group of currencies was free to float against all other currencies (except Norway and Sweden, who were also party to the arrangement) whilst the currencies within the group were linked by the prescription of maximum margins of fluctuation. The UK, Ireland and Italy were to remain floating independently. At the time of the launching of this "joint float", Germany revalued upwards her central rate by 3 per cent (from 3.49877 DM per SDR to 3.39687 DM per SDR). The other EEC joint floaters retained the central rates (parity in the case of France) agreed in Washington in December 1971. However, from this time central rates - and their substitutes - were defined in terms of the Special Drawing Right which was equal in gold value to the unit of account and the pre-Smithsonian \$US.

26. By this time the Community's MCA system was, not surprisingly, becoming intolerably complex and was straining even the highly competent and resourceful administrators of the Commission. Frequent changes in market rates of exchange necessitated equally frequent changes in the MCAs telexed from the Commission to the Member States and subsequently published in the Official Journal. Indeed, the heights of absurdity were reached when the information on MCAs transmitted to Member States required telegrams running to 40 and 50 feet in length. A new and simpler system was essential and such was the intention of the new arrangements introduced in June 1973. In order to achieve simplicity, the new system (which, with only minor amendments, is still in force today) made use of the fact that the currencies of all Member States, except the UK, Ireland and Italy, were linked to each other through the joint float arrangements. This meant that the need for variable MCAs between those Member States could be obviated.

The system which was devised involved some fundamental conceptual changes - particularly in respect of the value of the unit of account.

The Revised MCA System of June 1973

27. The new system, as were its predecessors, was concerned with two exchange rates, the "green" rate between Member State currencies and the unit of account for CAP purposes and a second rate of exchange between the Member State currencies and the unit of account, reflecting the performance of the currencies in the foreign exchange markets, ie a market rate of exchange. The green rates were by this time fixed, more or less, and had tended to become less and less related to any rates of exchange determined in the exchange markets. Under the revised system of June 1973, green rates of exchange already in force were retained. The main change concerned the definition of the market rate of exchange between the Member State currencies and the unit of account. For purposes of identifying market rates of exchange with the unit of account, the unit of account was linked to the "joint float" and in effect floated with this group of currencies. Since the central rates of joint float currencies were expressed in terms of the SDR, which had the same gold content as the unit of account, ready made (and fixed) market exchange rates between the joint float currencies and the unit of account were available. Because both these exchange rates and the green rates were fixed for the joint float countries, the difference between them - the MCA - was fixed. The central rates and green rates prevailing in June 1973 at the commencement of the new system, together with the fixed MCA percentages, are shown in Table 3. That fixed MCAs had replaced variable MCAs for these countries was one of the simplifying features achieved by the new system. A second change in the interest of simplification was that each Member State became responsible for the administration of MCAs compensating for the difference between the market rate and the green rate for its own currency. This contrasts with the earlier system under which the country with the stronger currency operated the MCA in trade between two Member States (para. 21). Italy, however, was a temporary exception to this new rule, relying upon other Member States to pay the Italian MCA on their exports to her.

28. The remaining problem was how to deal with (a) the independent floaters (UK, Ireland and Italy) and (b) Community trade with third countries. The ways in which these two matters were accommodated are somewhat complex.

Table 3 System of MCAs Operative from June 1973

Calculation of fixed MCA percentages and monetary coefficients for joint floaters (based on exchange rates operative on 1 August 1975)

	Belgium	France	Netherlands	Germany	Denmark
(i) Central rate (national currency/ua)	48.6572	5.55419 ^(c)	3.35507	3.21978	7.57831
(ii) Representative rate (national currency/ua)	49.6401	5.63317	3.41874	3.57872	7.57831
(iii) Percentage appreciation <u>(i)</u> <u>(ii)</u> - percentage	+2.0	+1.4 ^(a)	+1.9 ^(b)	+10.0	0
(iv) Fixed MCA per cent operative	+2.0	nil ^(a)	+2.0 ^(b)	+10.0	0
(v) Monetary coefficients	0.98	1.00	0.98	0.90	1.00

Notes: (a) MCA of 1.4 per cent not operative on de minimis grounds.

(b) MCA of 2.0 per cent applied to maintain equality with the rest of the Benelux Union.

(c) Parity declared to IMF.

In the case of the independent floaters, any changes through time in the market rates of exchange between their currencies individually and those of the "joint float" (and therefore, the unit of account) would be compensated for by changes in the variable MCA applied by the independent floaters. If, for instance, sterling weakened relative to the joint float currencies in the foreign exchange markets, then the MCA for the United Kingdom would increase. In the case of third countries, any changes through time in the market rates of exchange between individual third country currencies and the joint float (and, therefore, the unit of account) would, if appropriate, be compensated for by changes in the common import levies. Thus, for example, if the joint float strengthened relative to, say, the \$US, then the cif price of Community imports of commodities for which world prices are expressed in \$US would fall in terms of units of account; since the threshold prices in unit of account terms would remain unchanged, then the import levy would increase. These levies (and also the export refunds)

would be subject to adjustment by MCAs, fixed in the case of the joint float countries and variable for the independent floaters. An important feature of this system is that the common levies can vary not only with changes in world or offer price levels, but also with fluctuations in rates of exchange - although this had always been the case for commodities for which the world market prices were expressed in currencies other than the \$US.

29. It is not the intention here to describe in detail all aspects of this new system of MCAs. Detailed rules of the system were set out in Commission Regulation 1463/73 and have now been consolidated in Commission Regulation 1380/75. It is intended here to consider in some detail only a few of the key features of the MCA system. The system comprises the calculation of MCA percentages (representing the percentage difference between green rates and market rates), the transformation of these into absolute amounts to be applied in trade, the calculation of monetary coefficients for fine tuning within the system, and, finally, the calculation of exchange rates between third country currencies and the units of account for purposes of calculating import levies.

30. MCA Percentage. Details of the calculation of MCA percentages for the joint float currencies were shown in Table 3 - for these currencies the MCA percentage reflects simply the fixed percentage difference between the central and green rate of exchange. For the independent floaters, the MCA percentage represents the unweighted average of the variable percentage difference between their green rates - expressed in terms of each of the central rates of the joint float currencies - and the average of the weekly market rates in terms of the joint float currencies. Details - exemplified by the UK - are given in Table 4. The percentage calculated in this manner represents the extent to which CAP prices, expressed in the independent floaters currency, would increase if the green rate were aligned with the market rate. It must be emphasised that the percentage depreciation calculated in this manner for sterling should not be confused with often quoted "depreciation of sterling since December 1971", which is a separate measure of the depreciation against a trade weighted 'basket' of world currencies. The depreciation of sterling for MCA purposes is an unweighted mean of the depreciation against each of the EEC joint float currencies.

31. Absolute MCAs. In practice MCAs are published in the Official Journal and applied in trade in absolute terms - £ per tonne, DM per tonne, etc.

Table 4 System of MCAs operative from June 1973

Calculation of UK MCA percentage and monetary coefficient

Example based on representative rate effective from 4 August 1975 and daily spot rates obtaining between 23 and 29 July inclusive.

	Joint Float Currencies				
	Belgian Franc	French Franc	Dutch Florin	German Mark	Danish Krone
(i) Central rate of joint float currency against unit of account (national currency per unit of account)	48.6572	5.55419	3.35507	3.21978	7.57831
(ii) UK representative green rate (ua per £)	1.86369	1.86369	1.86369	1.86369	1.86369
(iii) Central rates of joint float expressed against £ at representative rate, ie (i) x (ii) (joint float currency per £)	90.6819	10.3513	6.2528	6.0007	14.1236
(iv) Noon spot rate for sterling (joint float currency per £)					
Wednesday	81.87	9.4520	5.6670	5.5130	12.6850
Thursday	81.86	9.4315	5.6730	5.5055	12.6985
Friday	81.99	9.4130	5.6885	5.5190	12.7420
Monday	81.93	9.4180	5.6995	5.5100	12.6940
Tuesday	82.99	9.4925	5.7620	5.5645	12.8245
(v) Average of noon spot rates 23 to 29 July 1975	82.128	9.4414	5.6980	5.5224	12.7288
(vi) Percentage depreciation of £ against its representative rate in terms of each joint float currency					
$\frac{(iii)}{(v)} \times 100 - 100$	10.4153	9.6373	9.7367	8.6611	10.9578
(vii) Mean percentage depreciation of £			9.88		
(viii) Deduction for depreciating currencies			1.25		
(ix) Net MCA percentage (rounded to one decimal place)			8.6		
(x) Monetary coefficient			1.086		

Notes: (a) The exchange rates shown in lines (i), (ii) and (iii) are fixed for relatively long periods. Spot rates (lines (iv) and (v)) fluctuate daily and are averaged for the 5 week days ended Tuesday.

/Continued

- (b) Whilst the MCA percentage and coefficient (lines (ix) and (x)) are calculated weekly, the MCA percentage and coefficient actually applied is changed only if the percentage calculated differs by at least 1 percentage point from the level at which MCAs were last fixed. (Thus, in the example above, MCAs would not be changed unless the percentage equalled or exceeded 9.6 per cent or equalled or was smaller than 7.6 per cent). MCAs calculated on a week ended Tuesday, have effect from the following Monday.
- (c) The MCAs for Ireland and Italy are computed by substituting their respective rates and spot rates for those shown in lines (ii) and (iv).
- (d) The "market" rate of exchange of sterling against the unit of account for MCA purposes can be computed by dividing the representative rate by the percentage depreciation, ie
- $$\frac{(ii)}{1.0 + (vi)} \text{ or } \frac{1.86369}{1.0988} \text{ or } \text{£}1 = 1.69611 \text{ units of account}$$
- in the week 23-29 July 1975.

These are generally derived by multiplying the MCA percentage calculated for each Member State by the intervention prices effective in each Member State. Details of these derivations are given in Table 5 for some of the main commodities. The CAP commodities covered by the MCA system comprise cereals and processed cereals (excluding rice and durum wheat), dairy products, beef and veal, pigmeat, eggs, poultrymeat, sugar, wine, oilseeds and certain processed products covered by Regulation 1059/69. The main commodities excluded, therefore, are rice, durum wheat, and fruit and vegetables, tobacco, olive oil. More recently most MCAs for wine and temporarily, UK MCA import subsidies on eggs have been suspended.

32. Monetary Coefficient. Intervention prices were selected as a base from which to calculate MCAs on the grounds that these would be close to the price levels at which goods were traded within the Community. In theory this is reasonable with two exceptions. First, in the case of trade between the original Member States and the new Member States in commodities for which accession compensatory amounts are fixed, the MCA applied by the old Member State is obviously too high (ie it over-compensates) because that trade takes place at the lower price obtaining in the new Member State. To correct for this over-compensation, an adjustment to the accession compensatory amount has been provided for. This adjustment amounts to the application of a monetary coefficient generally by the old Member State, to the accession compensatory amount. The monetary coefficient is derived from the MCA percentage. In the case of appreciated currencies (Germany,

Table 5 System of MCAs Operative from June 1973

Calculation of Absolute MCAs

The table below outlines briefly the derivation of absolute MCAs for some of the main commodities. All MCAs are published in the Official Journal of the Community. MCAs for the UK can be obtained from the Intervention Board for Agricultural Produce, but any requests must be accompanied by the appropriate tariff heading for the commodity in question. MCAs are computed by applying the MCA percentage to the following prices.

Product Description	Common Customs Tariff Number	Member States applying full CAP prices	New Member States not applying full CAP prices
Adult cattle	01.02AII (b)	Common guide price x 90.43%	(Common guide price - ACA (a)) x 90.43%
Presentations of beef & veal	Various	MCA for cattle x various coefficients	MCA for cattle x various coefficients
Pig carcasses	02.01AIII (a) 1	Basic price x 92%	(Basic price - ACA (a)) x 92%
Other presentations of pigmeat	Various	MCA on carcase x various coefficients (b)	MCA on carcase x various coefficients
Butter	04.03	Common intervention price	Common intervention price - ACA (a)
Skimmed milk powder	04.02AII (b)	Common intervention price	Common intervention price
Other dairy products	Various	Constructed from MCAs on butterfat and skimmed milk powder	Constructed from MCAs on butterfat and skimmed milk powder
Common wheat	10.01A	Duisberg intervention price, August	Duisberg intervention price, August - ACA (a)
Barley	10.03	Common intervention price, August	Common intervention price, August - ACA (a)
Maize	10.05	Common intervention price, August	Notional UK intervention price
White sugar	17.01BI	White sugar intervention price fixed for original Member States (excluding Italy) and Denmark.	
Raw sugar	17.01BII	Raw sugar intervention price fixed for original Member States (excluding Italy) and Denmark.	
Eggs	04.05	} MCAs applied to cereals, weighted according to the content of the various cereals in the feed ration prescribed for levy purposes.	
Poultrymeat	02.02		

Notes: (a) Accession compensatory amounts.

(b) Coefficients for pigmeat are set out in Regulations 1620/71 and 460/73. There is no comprehensive coverage by Regulation of coefficients used for calculating MCAs in other sectors; in most cases, however, these can be readily computed from published MCAs.

Benelux), the coefficient is equal to 1.00 minus the $\frac{\text{MCA percentage}}{100}$ and in the case of depreciated currencies, it is equal to 1.00 plus the $\frac{\text{MCA percentage}}{100}$ (see Tables 4 and 5). Second, over-compensation can arise in trade with third countries which generally takes place at price levels below Community intervention prices. To correct for this over-compensation, the coefficients described above are applied by all Member States with MCAs to the import levy or export refund they would normally apply in that trade, ie in the case of new Member States it is applied to levies and refunds net of accession compensatory amounts.*

33. Third country currencies. The final feature we wish specifically to outline is the calculation of market exchange rates between third countries and the unit of account for purposes of establishing "offer" or "world" prices which are used to determine the magnitude of import levies. This calculation is similar to that used for calculating the MCA percentage of the independent floaters and an example is given in Table 6. Briefly, a market exchange rate between a third country currency and the unit of account is established first by measuring the market rates between the third country currency and each of the joint float currencies and then translating these into rates of exchange with the unit of account by means of the central rates fixed between the joint float currencies and the unit of account. The actual market rate of exchange between the third country currency and the unit of account is then calculated by averaging (unweighted) the rates derived via each of the joint float currencies.

34. General Application of MCAs. In trade with third countries, MCAs are added to the levies and refunds (adjusted by the monetary coefficient) for Member States with appreciating currencies and deducted from the levies and refunds (adjusted by the monetary coefficient) for States with depreciating currencies. Until October 1974, there was the rule, already mentioned,

* This particular adjustment can be considered from another viewpoint. The adjustment of the import levy (converted from units of account to a Member State currency at the representative rate) is tantamount to converting the levy from units of account at market rates of exchange. The magnitude of a levy adjusted in this manner (but before adjustment by the absolute MCA) is virtually identical, in terms of market rates of exchange (ie in common price terms), throughout the Community and is not affected by the level of representative rates effective in the Member States.

Table 6 System of MCAs Operative from June 1973

Calculation of exchange rates between the unit of account and third country currencies

The example shown below relates to the week 10 to 16 May 1973. The calculations are performed by the EEC Commission and are not published. The example relates to the \$US but similar calculations are performed in respect of several other currencies.

	Joint Float Currencies				
	Belgian Franc	French Franc	Dutch Florin	German Mark	Danish Krone
(i) Central rate of joint float currency against unit of account	48.6572	5.55419	(a) 3.52282	(a) 3.39686	7.57831
(ii) Mean of daily spot rates of joint float currencies against the \$US 10 to 16 May 1973 (Joint float currency per \$US)	39.642	4.4994	2.9117	2.81002	6.2062
(iii) Rate of exchange between \$US and ua (ii) (ua per \$US) (i)	0.814720	0.810091	0.826525	0.827240	0.818942
(iv) Mean rate of exchange between \$US and ua (ua per \$US)			0.819503		

Note: (a) These rates have been revised since May 1973.

called the "abatment rule" laid down in Article 4a of Regulation 974/71. This rule limited the size of the MCA applied by a country with a depreciating currency to the size of the levy applied by that country on its imports from third countries. In the case of trade between Member States, MCAs were operated as import levies and export subsidies by countries with appreciated currencies. For Member States with depreciated currencies, the MCA import subsidies and export levies were reduced or abated according to the rules of Article 4a of Regulation 974/71.

35. Under the general system operative since June 1973, MCAs serve to maintain domestic farm prices at levels determined by green rates of exchange, by the use of border levies and subsidies which prevent farm

price levels from being unduly influenced by traded foodstuffs. As a consequence, traders are, in theory, afforded protection from changes in exchange rates. Yet, in practice, this protection is not total, given that compensation, ie the MCAs, is generally derived from the intervention price. So that when the prices at which commodities are traded exceed intervention prices (as has been the case in the last year or so for sugar and cereals) the system only partially compensates exchange rate movements. A further reason why the protection provided is incomplete is that MCAs for the independent floaters are derived from an unweighted mean depreciation against the joint float currencies. Because there is generally some variation about this mean, traders dealing with a specific joint float country may find that the MCA either under or over-compensates. A final point is that the MCA cannot be pre-fixed and thus imports and exports attract the MCA operative on the day of importation or exportation and not on the day when an import or export contract was signed. If traders wish to cover themselves against the eventualities mentioned above, then they can have recourse to the foreign currency markets. An example of the application of MCAs in various trading situations is given in Table 7.

Developments since June 1973

36. Less than one month after the introduction of the new system of MCAs, Germany, on 29 June 1973, revalued upwards the central rate for the DMark by some 5.5 per cent (from 3.39687 DM/SDR to 3.21978 DM/SDR). The green rate for the DM was unchanged and the revaluation was accommodated by increasing the fixed MCA from 7.2 per cent to 12.03 per cent.

37. On 17 September 1973, the Dutch government revalued upwards the central rate of the Guilder in order to keep the currency within the "snake" or joint float. The revaluation amounted to some 5 per cent, the rate of exchange with the unit of account (and SDR) being reduced from 3.52282 Guilders to 3.35507 Guilders. The Dutch government was anxious, however, not to raise the fixed MCA partly because it would mean the introduction of MCAs between the Netherlands and Belgium (ie within the Benelux Union) and partly because a reduction in farm prices would help its counter-inflation policy. To this end, the Dutch revalued upwards their green rate of exchange by slightly more than 5 per cent from 3.62 Guilders/ua to 3.4435 Guilders/ua. The revised green rate was from that time termed a representative rate (Council Regulation 2544/73).

Table 7 System of MCAs Operative from June 1973

Example of Application of MCAs in trade (in terms of 82 per cent Butter)

These examples relate to MCAs and intervention prices operated in week beginning 4 August 1975.

A. UK Imports from Germany

(i)	Market price in Germany (assumed to be equal to intervention price)	= 6965.26 Dms/tonne
(ii)	Minus ACA subsidy adjusted by German monetary coefficient: 604.4 ua (at German representative rate) = 2162.98 Dms x monetary coefficient of 0.90.	= 1946.69 "
(iii)	Minus German MCA (10% of intervention price)	= 696.53 "
(iv)	Assume transport costs are zero, therefore cif import price UK	= 4322.04 "
(v)	Market rate of exchange during week beginning 4 August was, say, £1 = 5.51 Dms, therefore cif import price UK	= £784.40/tonne
(vi)	UK MCA import subsidy*	= £61.92/tonne
(vii)	Net landed price in UK	= £722.48/tonne

* UK intervention price of 1341.9 uas/tonne -
representative rate of £1 = 1.86369 ua = £720.02
per tonne multiplied by MCA percentage of
8.6 = £61.92 per tonne.

B. UK Imports from Third Countries (excluding Butter Imported from New Zealand under Protocol 18 of the Treaty of Accession)

(i)	Cif price of UK import, say	= £406.00/tonne
(ii)	UK import levy x monetary coefficient (£431.98 per tonne x 1.086)	= £469.13/tonne
(iii)	Landed price	= £875.13/tonne
(iv)	MCA subsidy	= £61.92/tonne
(v)	Net landed price	= £813.21/tonne

The Dutch MCA percentage remained unchanged (it probably should have been reduced marginally to maintain mathematical accuracy but was fixed at its former level) and CAP prices in the Netherlands fell. Dutch producers were compensated for this fall in prices by temporary adjustments to the

VAT system which enabled them to charge and retain an extra 2 per cent VAT on their sales which was subsequently refunded to purchasers by government. A small contribution to the cost of this compensation was made by FEOGA. The Dutch authorities were also recompensed for the loss in value of intervention stocks of butter consequent on the revaluation.

38. Series of Lira Devaluations. By October 1973 the variable MCA for Italy had increased to some 22 per cent, reflecting the weakness of the Lira. Italy devalued her green rate on 1 November 1973 from 625 Lira to 650 Lira to the unit of account and the revised rate was termed a representative rate. This was the first of a series of devaluations of the green Lira. The green Lira was devalued no fewer than five times between November 1973 and October 1974. The representative rate was devalued to 678 Lira = 1 ua on 1 January 1974 to 712 Lira = 1 ua on 28 January 1974 to 801 Lira = 1 ua on 1 July 1974 and to 833 Lira = 1 ua on 28 October 1974. The effects of these Lira devaluations were staggered, in many cases, to coincide with the beginning of marketing years for various products, in order to ease the problems associated with the changes.

39. The Floating of the French Franc. In January 1974, the French Franc was under pressure and was creating difficulties for the joint float. On 21 January, France ceased to observe the margin of fluctuation prescribed for the joint float and the Franc was floated independently. This required the calculation of variable MCAs for France and the Franc no longer featured in the calculation of variable MCA percentages for the other independent floaters. The value of the green Franc remained unchanged.

October 1974 Package

40. Against a background of rapidly rising production costs and pressure from Community farmers for farm price adjustments, the Council of Agricultural Ministers undertook a mid-season review of farm prices in September and October of 1974. The package agreed at this review comprised a general 5 per cent increase in CAP prices and a monetary element. The representative rates for the £ sterling and the £ Irish were devalued, with effect from 7 October. For the UK, the rate was devalued to 2.0053 ua = £1, with the result that the sterling equivalent of CAP prices increased by some 7.9 per cent. The representative rate for the £ Irish - which up to that time had been equal to that for sterling - was devalued

to 1.94852 ua = £1 Irish, reflecting pressures in Ireland for higher CAP prices. This caused CAP prices in the Republic of Ireland to rise by rather more than 11 per cent. It also meant, of course, the introduction of MCAs between the UK and the Republic of Ireland, giving the Republic a net MCA subsidy on her exports of farm products to the UK. These changes were given effect by EEC Regulation 2498/74.

41. As part of the package, the Council agreed to suspend Article 4a, Regulation 974/71 - the MCA abatement rule (see Council Regulation 2497/74) - from 21 October 1974. The main effect of this at the time was felt in the cereals sector. High world prices for grains meant that Community import levies were zero, and because of the abatement rule, MCAs on cereals were zero. With the suspension of Article 4a, the UK was able to grant FEOGA-financed MCA subsidies on imports of bread grains and feed grains from the Continent and from third countries, thus aiding consumers and livestock producers.

February 1975 Package

42. A further round of monetary adjustments was included in the package agreed by the Council of Agricultural Ministers during the price fixing round of meetings in February 1975. These adjustments involved all Member States except Denmark. Member States whose currencies were floating independently (and who were all applying MCAs for depreciated currencies) agreed to devalue their green rates, the UK by 2.2 per cent, Ireland by 4.5 per cent, Italy by 2.8 per cent and France by 1.4 per cent. The new rates were to have effect from the beginning of the 1975/76 marketing years for the various commodities. Furthermore, these Member States agreed to reduce their MCA percentage (and consequently, the monetary coefficient) by 1.25 percentage points with effect from 3 March 1975 - this was to help offset a rise in MCAs due to increases in CAP prices. The other Member States who were party to the joint float arrangements (with the exception of Denmark, who was not operating MCAs), agreed to revalue upwards their green rates, also with effect from the beginning of the 1975/76 marketing years, Germany by 2.3 per cent and Benelux by 0.7 per cent. The effect of these moves, taken as a whole, was of course, to bring the green rates of exchange slightly closer to the respective market rates. The revised green rates and the unchanged rate for Denmark were from then on to be termed representative rates.

43. There are two points arising from the February package worth special mention. First, the difference between the representative rates applied by the UK and the Republic of Ireland widened (to about 5 per cent). The second point concerns the special arrangements for calculating MCAs to apply from 3 March 1975 to the end of the 1974/75 season. It was intended that MCAs during this period should be based effectively on the green rates of exchange operative on 2 March 1975. This was achieved by using the revised representative rates to calculate all MCA percentages to which were then added supplements in respect of commodities for which the 1975/76 season had not commenced. These supplements represented broadly the effect on the magnitude of the MCA percentage of revising the representative rates and were fixed, in terms of percentage points, as follows: UK +2.2; Ireland +4.5; France +1.4; Italy +2.8; Germany +2.3; and Benelux +0.7.

Developments between February and August 1975

44. Following the February package, the French Franc and Italian Lira strengthened in the foreign exchange markets, so reducing their variable MCAs. From late April 1975, MCAs in Italy were applied only to commodities still in their 1974/75 season. In the case of France, MCAs were minimal and were suspended in mid-May 1975. On 10 July 1975, the French Franc re-entered the joint float at its last fixed parity of 5.55419 Francs = 1 unit of account and, therefore, ceased to be eligible for variable MCAs. Because the difference between her green rate (ie the representative rate fixed at the February 1975 Council) and her central rate was small - 1.4 per cent - the de minimis provisions in Regulation 974/71 were invoked and France is not at present applying any fixed MCA. The only other material effect of the Franc's return to the joint float was on the calculation of variable MCAs for the independent floaters and on the calculation of exchange rates between the unit of account and third country currencies; for these purposes, the Franc was included with other joint float currencies in the calculations from 10 July 1975.

45. In contrast to the Franc and Lira, the £ sterling performed less well in the foreign exchange markets. By early July the gap between the revised representative rate for the £ sterling and the market rate of exchange used for MCA purposes, amounted to nearly 22 per cent, the highest ever for sterling. The corresponding gap between the market rate

of exchange and the representative rate for Ireland was some 15½ per cent. At the Council of Agricultural Ministers, 21-22 July 1975, agreement was reached to devalue the UK representative rate by 5 per cent from £1 sterling = 1.96178 units of account to 1.86369 units of account. The representative rate for the Irish Republic was also devalued by 5 per cent from £1 Irish = 1.86151 units of account to 1.76343 units of account. These devaluations had effect from 4 August 1975 (Council Regulation 1925/75) but with certain qualifications. In the case of commodities for which 1975/76 marketing year commences after 4 August, the revised representative rates will not have effect until the beginning of the 1975/76 season. Furthermore, in the case of the variable premiums for beef, the new rate will not have effect until 1 January 1976; in the case of the fixed premium for beef, the representative rate fixed in March 1975 (£1 = 1.96178 ua) will continue to be used until the expiration of the Regulation providing for this premium. The implications of devaluing the UK's green £ are considered in more detail in Section V.

SECTION III FINANCING OF MONETARY COMPENSATORY AMOUNTS

46. The main purpose of this short section is to outline the budgetary aspects of the present MCA system, ie the destination of monies collected as MCA levies and the source of monies paid out as MCA subsidies. Since January 1973, the budgetary effects of the MCA system have been closely integrated with the general operation of the budget, in particular, the FEOGA section. Before that date, FEOGA was only partially involved in the operation of MCAs. Up to 1 July 1972, MCAs were financed nationally, although MCAs applied to imports from third countries were treated as part of the Community's "own resources". Between July 1972 and December 1972, MCA subsidies on exports to third countries were financed by FEOGA. Since January 1973, revenues from, and expenditure on all MCAs have been covered by the operation of the budget. The budgetary implications since January 1973, of the MCA system, are described below.

Intra-Community Trade

47. Income from MCAs (eg MCAs levied on German imports and on, say, Italian exports) and expenditure on MCAs (eg those paid on German exports and Italian imports) are netted by each Member State to yield a net revenue or net expenditure. These net amounts are aggregated for all Member States and transferred to the expenditure side of the FEOGA budgets and the final annual account. If the resulting sum represents expenditure (ie expenditure exceeds revenue) then it is treated like expenditure on intervention measures and is financed in the normal fashion by an appropriation in the Community Budget (Article 760 of the 1975 Budget). The budget as a whole is financed by the Community's own resources plus any required Member State contribution. If, for any one Member State, MCA receipts exceed MCA expenditure, then the net balance merely leads to a reduction in the total expenditure on MCAs.

Extra-Community Trade

48. In the case of trade with third countries, MCAs are normally* netted by the Member States against the appropriate import levy or export refund

* There are special arrangements for Italy (Regulation 3259/74) although their effect on the Community Budget is similar to the general case described.

(adjusted by the monetary coefficient). In cases where income is generated, eg German imports, it is treated as levy income and is passed to the Community, being part of the Community's own resources. They do not, therefore, appear as an offset in the expenditure side of the budget or account. Where MCAs augment export refunds (eg Germany, Benelux), they are treated as export refunds for budgetary purposes and are funded from the refund appropriation for the relevant commodity. The payment of MCAs as subsidies on imports from third countries since the suspension of Article 4a, Regulation 974/71 in October 1974, is also included in the expenditure side of the accounts as though it were an export refund.

Transition arrangements for UK

49. The budgetary implications for the UK and Ireland differ from the above, since these Member States are still in the process of transition to the full system of "own resources". During this transition period, any net revenues collected from MCAs applied by these countries in trade with third countries - eg from levies on exports - usually accrue to the national exchequers because, for the duration of the transition period, there is an upper limit on the contributions made by these countries to total Community expenditure - including FEOGA - in the form of percentage keys. For example, in 1973 the UK contribution to expenditure amounted to 8.8 per cent, while for 1974 the UK share is likely, after the final accounts have been settled, to have been about 11 per cent. UK expenditure on MCAs, in the form of subsidies on imports from other Member States (net of export levies on UK exports to other Member States) and net subsidies on imports from third countries is financed by FEOGA and therefore, is included in the expenditure side of the FEOGA accounts as though it were an export refund.

50. Procedures in UK. In the case of UK imports from third countries, the MCA is deducted from the import levy. If a net charge remains, this must be paid to HM Customs by the importer to obtain customs clearance. The sum collected by HM Customs is then remitted to the exchequer. If, on the other hand, a net subsidy remains, the importer claims the amount due from the Intervention Board for Agricultural Products (IBAP). The treatment of exports is slightly different, any net export charge being payable to IBAP on exportation. The subsidies paid out by IBAP are reimbursed by FEOGA. In practice, expenditure one month in advance is estimated by IBAP and funds are forwarded from FEOGA at the beginning of

the month in which the payments are to be made. Any differences between estimated and actual expenditure is corrected in subsequent months. IBAP claims on FEOGA for MCAs and other eligible expenditure are made in terms of sterling but for budgetary and accounting purposes, need to be expressed in units of account. It is important to note that the exchange rates between the unit of account and Member State currencies for budgetary purposes are pre-Smithsonian parities declared to the IMF. Thus, for the UK the exchange rate for budgetary purposes is £1 = 2.4 units of account. The important implication of this is that the UK contributes to Community expenditure (expressed in units of account) at an exchange rate of 2.4 ua = £1, but effectively receives monies from FEOGA at the representative rate. The UK does not benefit from the whole difference between these exchange rates since we share part of the cost to the Community of this phenomenon via our fixed key, but benefits from a major part of it.

SECTION IV SOME ECONOMIC IMPLICATIONS OF GREEN MONEY

51. As described above, green money represents, in large measure, relatively arbitrary exchange rates used for CAP purposes. During the 13 years since the CAP's inception in 1962, green rates for many Member States have generally differed for about half of that period from market rates of exchange, ie those used for most international transactions. In the case of the UK and Ireland, representative rates have differed from market rates almost from the moment the CAP was adopted in 1973. (Time series of MCA percentages are shown in Appendices 1 and 2). The purpose of this section is to outline some of the effects and implications of the maintenance of green rates at historical levels whilst market rates have changed, in response to the economic performance of the Member States. These are considered under a number of headings below.

Common Pricing

52. The operation of common pricing within a common organisation of the market is intended to help achieve the objectives of the CAP (Articles 39 and 40 of the Treaty of Rome). Any conflict between the operation of the CAP monetary arrangements and the principle of common prices must inevitably hinge upon the definition attached to common prices. In the most stringent case, common prices must be interpreted as CAP prices (fixed in units of account) converted into Member State currencies at green rates which are equal to market rates of exchange. In terms of such a definition, it is clear that the operation of the present monetary arrangements (and, indeed, arrangements in force almost continuously since the devaluation of the French Franc in 1969) conflict with the principle of common prices. That the system of MCAs has resulted in a regime of differential price levels is the opinion expressed by the EEC Commission in its Memorandum to the Council on the CAP Stocktaking exercise.

53. On the other hand, with a rather less stringent definition of common prices, it is difficult to argue that the maintenance of a green rate of exchange with a value different from the market rate conflicts with the principle of common prices, provided MCAs exist to bridge the gap. In support of this is the fact that all green rates between Member State currencies and the unit of account, and between Member State currencies themselves, are internally consistent and are linked to market rates through MCAs. For example, a Belgian wishing to dispose of a ton of butter into intervention stores, would receive broadly the same sum of money - in Belgian Francs - whether he sold the butter in Germany, France or any other Member State.

54. The main difference between this existing situation and one where green rates are equal to market rates is in the absolute level of price received. Where green rates differ from market rates, the price received (ie the common price in national currency terms) is that determined by the green rate. The disparity between common prices on a green rate basis and common prices which would have obtained if market rates had replaced green rates has, on occasion, been considerable. For instance, in August 1973, the use of green rates by Germany and Italy resulted in gross MCAs in trade between the two countries of just over 40 per cent. In other words, had these two countries aligned green rates with market rates, Italian CAP prices would have risen 40 per cent relative to German prices. Such a gap was substantial even in comparison with the price differences which existed in the early 1960s immediately prior to the harmonisation of prices in the original Member States.

55. The argument that green rates in conjunction with MCAs do not run counter to the common pricing principle, cannot be extended to encompass the profitability of agricultural production (since the prices of many input items are, to a large extent, related to market rates of exchange) nor to cover the relative purchasing power of farm incomes. These aspects are considered below as part of the resource allocation problem.

Free Movement of Goods

56. Part of the Treaty of Rome (Part two, Title 1) is devoted to the setting down of the Community's objectives relating to the free movement of goods. The definition conferred on this particular objective by the Treaty hinges on "... the prohibition, as between Member States, of customs duties on importation and exportation and all charges with equivalent effect and the adoption of a common customs tariff in their relations with third countries". It can, of course, be argued that the application of MCAs represents an impediment to the free movement of goods on the grounds that green rates and MCAs operate to protect a particular sector of an economy and, therefore, are similar in effect to a tariff. But the European Court of Justice has on several occasions upheld the system. Nonetheless, from an economic viewpoint, free movement of goods might be defined more broadly as trade flows resulting from equilibrium exchange rates, which in this context means green rates equal to market rates. This point, however, involves resource allocation which is considered below.

Allocation of Resources

57. Probably the most commonly expressed effect of green rates is their effect on resource use and allocation within the economies of the Member States, the optimisation of which is also an objective of the CAP (Article 39(a), Treaty of Rome). The problem of the effects of green rates on resource allocation needs some qualification however. Optimal resource allocation is generally expected to be achieved within an economy when inter alia the outputs generated are sold at freely determined world prices (ie the opportunity costs or prices). In the case of EEC agriculture, however, at least for commodities covered by the CAP and the Common External Tariff, CAP prices, in effect, substitute for world prices as the relevant opportunity price or cost within the Community for Member States operating that particular agricultural policy. The question which arises here concerns the effects that green rates of exchange have had on the allocation of resources within the Community which would have obtained had the CAP been operated with market rates of exchange. In other words, distortion of resource use caused by green rates alone must be distinguished from that caused by the fixing of CAP prices at levels different from those obtaining (or expected to obtain in the future) on world markets, or indeed from other "distortions" such as differing rates of taxation, regional aids and so on, between countries.

58. The distorting effects of green rates stem from the fact that resources tend to move into those sectors of the economy where their marginal value product is greatest. Since the marginal value product, we may assume, is equal to the price of the outputs (in practice output subsidies or taxes generally complicate this equation) which in turn is affected by the exchange rate, it follows that the arbitrary use of more than one exchange rate will have implications for resource allocation. In the case of the UK, for example, the value of the green £ or representative rate is a major determinant of the prices of many of the main agricultural outputs. The prices of outputs from all the other sectors of the UK economy - wherever these are influenced by world prices - are determined by the market rate of exchange which has, of course, tended to be weaker than that used for CAP purposes. In the case of inputs into the UK agricultural sector, the prices of these - with the exception of purely agricultural inputs such as feed grains, store cattle and pigs - reflect the weaker market rate of exchange.

In broad terms, this means that relative to other sectors of the UK economy, agriculture received lower end prices but, with the exception of feed grains and store cattle and pigs, incurs the same higher costs (these other costs include labour and material inputs such as fertilisers, fuel and machinery). The result is that the ability of agriculture to compete with the rest of the economy for resources has been diminished. The extent of this disadvantage to UK agriculture is, however, difficult to gauge because of the transitional arrangements and the various ad hoc cash injections which have taken place on a national basis (eg pig and cattle subsidies) which in some cases could have been replaced by an adjustment to the green £.

59. The situation facing Member States with strong currencies is the opposite. Green rates of exchange mean that farm prices are higher than would be the case if market rates were used and result in the retention of resources within agriculture which would otherwise be attracted towards the non-agricultural sectors.

60. Resource mal-allocation caused by the use of green money does not, of course, involve those commodities which are outside the CAP of which the main ones are sheepmeat and potatoes, though there will be some spillover effects in the case of sheepmeat market prices which are related to those of other meats. There are also a number of commodities covered by the CAP and to which greater green rates of exchange apply but which are excluded from the MCA system. This group includes fruit and vegetables, rice and durum wheat. For this group of products, it is probably the case that some misallocation of resources could occur in the case of member states with stronger currencies (since support prices will be higher than import prices) whilst for countries with weaker currencies, the lower support price reflecting the green rate is probably subordinate to the traded price, resulting in no resource mal-allocation.

Income Transfers

61. Associated with the resource allocation problem is the question of income distribution which has probably been the most important single impediment to the more rapid alignment of green rates with market rates. The immediate adjustment of farm price levels following

green rate changes was shunned by France and Germany in 1969. France did not wish to increase farm prices because it would have meant higher consumer prices; this prevented a transfer of income from consumers to agricultural producers. In the case of Germany, consumers were denied the benefits of lower food prices which should have attended a strengthening of their currency (stemming largely from the efforts of German labour); thus the strong German farming lobby prevented an immediate transfer of income from the agricultural sector to consumers. The actions of France and Germany in 1969 have typified the position taken up by various Member States since, with the exception of the Netherlands in 1973 and perhaps the Republic of Ireland, whose economy is more dependent on the agricultural sector than other Member States, and who have regularly sought to devalue her representative rate closer to the value of her market rate.

Foreign Exchange Effects

62. Another related issue is the short term foreign exchange effect which stems largely from the system of financing MCAs but involves also the level of self-sufficiency in those agricultural products covered by MCAs. Countries with weak currencies and which are net importers of food (eg the UK) will generally gain in terms of foreign exchange from the maintenance of overvalued green rates since they obtain transfers from FEOGA for MCA subsidies on their imports which more than offset MCA levies collected on their exports. Countries with weak currencies, but who are net exporters (such as Ireland, and, for most of 1974, France), would normally expect to incur foreign exchange losses to the extent that MCA export levies, collected in the local currency, would be remitted to the Community. Ireland, however, probably escapes much of the foreign exchange burden because of the nature of the budget transition rules. In the case of the stronger currencies, net exporters such as the Netherlands would expect on balance to gain directly from MCA subsidies on exports, whilst importers such as Germany would expect to lose. The direct flows of MCAs monies and the contributions from Member States to finance them constitute, therefore, resource gains and losses since transfers of foreign exchange are involved.

63. But as mentioned, these foreign exchange transfers are only one part of the effect. To the extent that agricultural production is lower - and consumption higher, in States with weak currencies relative to their green rates (and the opposite in States with strong ones) then the volume of imports of foodstuffs will be higher or the volume of exports lower. Whether or not this involves resource costs for the state in question is a subject outside the scope of this paper but it would not be disputed that the balance of trade would, initially, be adversely affected. Consequently, there may be these other effects in addition to those stemming directly from the flow of funds to finance MCAs. This area is considered in more detail below in relation to the consequences of green pound changes for the UK.

SECTION V IMPLICATIONS FOR THE UK OF DEVALUING THE REPRESENTATIVE RATE

64. The representative rate for the £ sterling has been devalued on three occasions since October 1974, the cumulative devaluation amounting to some 16 per cent. The most recent devaluation had effect from 4 August 1975. The decision to devalue the representative rate on this last occasion was made at a time when the UK MCA exceeded 20 per cent, the highest ever for sterling. This section considers some of the main effects resulting from a devaluation of the UK's Representative Rate (ie the green £), mainly by reference to the 5 per cent devaluation effective from 4 August 1975.

Effects of a devaluation

65. A devaluation of the representative rate causes CAP support prices (intervention, target, etc) to rise in sterling terms and reduces the MCA percentage by closing the difference between the green rate and the market rate of exchange. The absolute MCA also declines, though by proportionately less than the MCA percentage since the revised absolute MCAs will reflect the increased intervention prices. The 5 per cent devaluation in August 1975, raised CAP prices in sterling terms by 5.26 per cent, ie $\frac{£1 = 1.96178}{£1 = 1.86369}$

and, in the first week of its application, reduced the MCA percentage from the level it would otherwise have reached by 5.8 percentage points. Reduced MCAs mean that the net, landed prices of imports increase and the prices received for exports increase. These price changes are similar in magnitude to, and act so as to reinforce, the increases to intervention prices. Those production aids and subsidies provided for and partly funded by the CAP will generally increase in sterling terms, though there are exceptions to this.

66. There are four main components of the UK economy which are affected by a devaluation of the representative rate - agricultural producers' incomes, consumers (food prices), the foreign exchange transactions and exchequer revenues and expenditure. These effects on producers' incomes largely derive from transfers from consumers or the tax payer (via the exchequer) while the costs borne by consumers through higher prices represent transfers to UK producers and processors (internal transfers), transfers to the exchequer (internal transfers stemming from reduced

MCA's on imports from third countries) and finally, transfers to FEOGA (external transfer, ie a real resource loss due to loss of MCA receipts). It is apparent from this that if the transfers between UK consumers and producers could be ignored - and it is of course not suggested that they can - then decisions determining the level of the representative rate would be governed largely by the potential effect on the foreign exchange transactions which would provide a broad measure of the resource costs involved. As transfers from consumers to producers cannot, however, be ignored in this way, especially at a time when counter-inflation policies are in operation, the decision concerning any devaluation consequently becomes that much more complex. The paragraphs below discuss some of the more salient implications of a devaluation for four main components of the economy most likely to be affected by a devaluation.

67. Producer returns. As a result of the effect of the devaluation on intervention prices and import prices, producer returns for cereals, sugar and some types of pigs should be higher than would otherwise have been the case were the representative rate not devalued. By the same token, however, the cost of grains fed to livestock should also be higher than otherwise. The extent by which prices of these commodities will be higher will depend, in large measure, on factors affecting the markets for these products. In the case of pigs, the main primary effect would be to reduce the MCA subsidy on imports of bacon and canned products; any effects on UK pig prices will depend on the extent to which such a cut in MCAs is passed on by the importer. In the case of milk, the effect on producer returns would be largely determined by the increase in the guaranteed price which, in the case of the August 1975 devaluation, was fixed at the maximum permitted level from 1 September 1975. This meant an increase of 2.2p per gallon for the remainder of the milk year, equivalent to just over an extra 1.1p per gallon on the guaranteed price for the 1975/76 season as a whole. Sugar beet producers would benefit from higher minimum prices for beet and also from any increase in the value of beet pulp, the price of which tends to be linked to that of feed grains. Refiners and processors of sugar - both domestic beet and imported cane raws - would also benefit from higher margins.

68. For beef, the effects of a green £ devaluation on producer returns would stem mainly from consequential increases in target prices (for clean cattle) and "buying-in" prices under the intervention arrangements

(more strictly, the effective buying-in prices which are equal to the buying-in prices less any premia paid). Following the August 1975 devaluation, buying-in prices were not increased but the scale of target prices announced on 24 July 1975 for the months up to February 1976, reflect in part the effects of the devaluation. The fixed headage premium (provided for by Regulation 465/75, Article 1(a)) will continue to be converted into sterling at the pre-devaluation representative rate (£1 = 1.96178 ua) for the period of application of Regulation 465/75. In the case of the national supplementary premium granted under the same Regulation, the devalued representative rate will have effect from 1 January 1976.

69. For eggs and poultrymeat, the devaluation is unlikely to have any significant, immediate impact on producer prices, since there are no intervention arrangements for these commodities and imports, on average, represent a relatively small fraction of UK supplies. Also, MCAs on UK imports of eggs in shell are temporarily suspended. Producers of eggs and poultrymeat will, however, face feed grain prices which are likely to be higher than would have been the case had the representative rate for the £ not been devalued.

70. Consumer costs. For most commodities, the effect of the devaluation on food prices is related to the extent by which market prices rise in response to increased intervention prices, the higher cost of imports and the enhanced attractiveness of exports. Thus, first-hand selling prices of sugar, grains and flour used for human consumption, dairy products (mainly butter and cheese) might be expected to be higher - broadly proportionate to the devaluation - than would otherwise have been the case. The prices of beef and pork might also be firmer in the short term though, in the longer term, they would probably increase to reflect the full effect of the devaluation. This would have some firming influence on the price of lamb. The effects on eggs and poultrymeat prices would probably be indirect, and stem from the influence of grain prices on production costs and, therefore, on the future level of production. The effect of the devaluation on the price of liquid milk is related to decisions on the guaranteed price and simultaneously, on the level of subsidy on liquid milk - both matters for HM government. Following the recent devaluation, it was decided that the cost of increasing the guaranteed price for milk should be borne by consumers. Some of the cost will be met from higher dairy product prices but the remainder

will be financed by higher retail prices for liquid milk. The alternative to the latter would have been to increase the level of the exchequer subsidy.

71. Food subsidies financed wholly by the UK are not directly affected by a devaluation of the representative rate. The August 1975 devaluation did, however, have implications for the consumer butter subsidy, the financing of which is shared by FEOGA and the UK exchequer. The cost sharing arrangements are defined in terms of units of account. At the time of the devaluation, the government decided to contain the subsidy at its existing sterling level. This meant that the value of the subsidy in terms of units of account fell and, hence, that the FEOGA contribution declined in unit of account terms.

72. Foreign Exchange Transactions. The main foreign exchange effects - at least in the short term - stem from the loss of the MCAs paid as subsidies on our imports from third countries, where these act to reduce import prices to below prevailing world prices, and on our imports from other member states. The loss of these MCAs offset in part because the cost to FEOGA on account of MCAs will decline, resulting in smaller UK contributions. There could also be some other offsets to the foreign exchange costs arising from increased UK receipts from FEOGA in respect of market intervention measures, various production and marketing aids and allowances, guidance section aids, higher export prices and any absorption of the reduction in MCAs by the foreign supplier. Nevertheless, the overall net effect of a representative rate devaluation in the short term is most likely to be a cost item for the foreign exchange accounts.

73. In the longer term, however, the foreign exchange effects should become less unfavourable. Higher farm prices should yield a positive production response, whilst higher food prices should lead to some, albeit small, changes in the pattern of consumption. Both would result in the volume of imports being smaller than otherwise.

74. Exchequer Effects. The overall effects on the exchequer of a devaluation are likely to be favourable - certainly during the period of the UK's transition to the system of "own resources". First, since the Community will spend less on UK MCAs, following a devaluation, then the UK contribution to the cost of MCAs diminishes. Second, because the

levies imposed on UK imports from third countries will be subject to smaller MCAs, then exchequer revenues from import levies will be larger. In addition, there are other minor effects such as small additional costs for the consumer butter subsidy and the possibility of higher contributions to FEOGA on account of greater intervention on UK markets, stemming from increased support prices.

75. Overall Effect. These effects are all inter-related. In broad terms, the cost to consumers of a devaluation of the green £ matches to the sum of the gains to UK producers (net of any higher feed costs not passed on) and processors, the cost in terms of the foreign exchange reserves (mainly the gains to FEOGA) and the gains to the UK exchequer. In the longer term, ie in post transition period, some of the current gains to the exchequer stemming from increased import levy revenues will also represent a foreign exchange cost, since these will be remitted to the Community. Some, if not all, of the foreign exchange cost of a devaluation would be ameliorated by any stimulation of UK agricultural production and small changes in the pattern of UK food consumption as a result of the devaluation.

SECTION VI WHITHER THE SYSTEM OF GREEN MONEY?

76. The foregoing summarises the Community system of green money and its attendant MCAs and describes how the arrangements have evolved in recent years. The most significant conceptual change took place in June 1973, when the definition of the "market rates" of exchange between national currencies and the unit of account for MCA purposes was changed from a \$US numeraire to the present joint float numeraire. Since June 1973, various adjustments have been made to green rates so as to reduce existing levels of MCAs. Many of the green rates for the stronger joint float currencies have been revalued upwards and green rates of the generally weaker independently floating currencies have been devalued. The revaluations of the stronger currencies have, however, happened to be substantially smaller in general than the devaluations of the weak currencies. Despite these adjustments, there remains a relatively wide gap between the green rates of some Member State currencies compared with market rates. Inevitably the question arises as to the Community's future policy on green rates of exchange and MCAs.

77. The Commission's views have been restated recently in the Commission's Memorandum to the Council on the CAP Stocktaking Exercise (see EEC "Newsletter on the CAP" 1975, No. 3 - Stocktaking of the CAP). In this, the Commission states that "the re-establishment of a single market must continue to be a fundamental objective of the CAP". The Commission acknowledge that "... MCAs have served as a transitional instrument to maintain the machinery of the CAP in operation whilst the international monetary system, together with the Community system, was changing from a fixed exchange rate system to a floating exchange rate system". However, "For the future, the Commission cannot accept that application of MCAs insofar as they constitute factors disrupting the unity of the market and generating distortions of competition. On the other hand, the compensatory amounts should continue to serve as instruments to prevent short-term fluctuations in exchange rates from instantaneously affecting agricultural prices expressed in national currencies". The inevitable conclusion from these statements is that as far as the Commission is concerned most, if not all, of the existing MCAs should be removed - presumably by aligning green rates with market rates. No timetable is referred to but in practical

terms, some phasing out period would be required. Any decisions, however, to remove or phase out MCAs must be made by the Council of Ministers.

78. If green rates were eventually to be aligned more closely to market rates so as to reduce or eliminate MCAs, then important consequences would obtain for farm and food prices and the cost of administering the Common Agricultural Policy: in effect, the same form of consequences as gave rise in the first place to the existing complex of arrangements described above. Overcoming the adverse effects that might otherwise have to be borne by Member States may require the introduction of new arrangements for translating common prices into prices operating in each Member State. At present the joint-float currencies are used as the numeraire for the unit of account. Pre-June 1973 the unit of account, being linked to the \$US-gold, was translated to Member State currencies via this link. Such an arrangement could be revived or some alternative method devised. For the purpose of administering the European Development Fund (under the Lomé Convention) and for the operations of the European Investment Bank, the unit of account is defined in terms of a basket comprising all Member State currencies. (Details of the methods employed to compute market rates of exchange for the unit of account for these purposes are contained in Appendix 3). Many possibilities exist and this whole subject area of the numeraire of the unit of account is a rich field for debate and discussion amongst agriculturists, traders, academics and others. As yet, little has been published, but it is hoped that this summary of the development of "green" money will encourage a wide discussion of not only the existing arrangements but also of those that might be applied in the future.

APPENDIX 1 MCA PERCENTAGES MAY 1971 TO FEBRUARY 1973

<u>Period Commencing</u>	<u>Italy</u>	<u>France</u>	<u>Germany</u>	<u>Netherlands</u>	<u>Belg/Lux</u>
<u>1971</u>					
12 May	-	-	+ 3.0	-	-
21 June	-	-	+ 4.2	-	-
2 August	-	-	+ 5.4	-	-
6 August	-	-	+ 6.4	+ 3.0	+ 3.0
24 August	-	-	+ 6.4	+ 3.0	+ 3.0
30 August	-	-	+ 7.0	+ 3.6	+ 3.6
27 September	-	-	+ 8.2	+ 5.1	+ 5.1
4 October	-	-	+ 8.4	+ 6.9	+ 6.9
29 November	-	-	+ 9.4	+ 7.9	+ 7.9
12 December	-	-	+10.7	+ 8.9	+ 8.9
<u>1972</u>					
3 January	+ 4.9	+ 5.9	+10.8	+ 9.5	+ 9.5
24 January	+ 5.9	+ 7.1	+12.2	+11.5	+11.5
14 February	+ 5.9	+ 8.2	+13.3	+11.5	+11.5
28 February	+ 5.9	+ 8.2	+13.3	+11.5	+11.5
13 March	+ 5.9	+ 9.2	+13.3	+11.5	+11.5
20 March	+ 7.2	+ 9.2	+13.3	+11.5	+11.5
9 May	0	+ 1.9	+ 5.7	+ 4.0	+ 4.0
26 December	0	0	+ 5.7	+ 4.0	+ 4.0
<u>1973</u>					
7 February	0	+ 1.4	+ 5.7	+ 4.0	+ 4.0

APPENDIX 2 MCA PERCENTAGES MARCH 1973 TO AUGUST 1975

Week	UK	Ireland	Italy	France	Germany	Nether-lands	Belg/Lux	Denmark
<u>1973 (a)</u>								
26- 4 Mar	- 7.0	- 7.0	-10.3	- 2.5	+ 2.5	+ 1.3	+ 1.3	0.0
5-11 "	- 5.8	- 5.8	-10.3	0.0	+ 5.2	+ 4.0	+ 4.0	0.0
12-18 "	- 5.8	- 5.8	-10.3	0.0	+ 5.2	+ 4.0	+ 4.0	0.0
19-25 "	- 5.8	- 5.8	-10.3	0.0	+ 5.2	+ 4.0	+ 4.0	0.0
26- 1 Apr	- 5.8	- 5.8	-10.3	+ 1.5	+ 6.9	+ 4.0	+ 4.0	+ 1.4
2- 8 "	- 5.8	- 5.8	-10.3	+ 1.5	+ 6.9	+ 4.0	+ 4.0	+ 1.4
9-15 "	- 5.8	- 5.8	-13.1	+ 1.5	+ 6.9	+ 2.5	+ 2.5	+ 1.4
16-22 "	- 5.8	- 5.8	-13.1	+ 1.5	+ 6.9	+ 2.5	+ 2.5	+ 1.4
23-29 "	- 5.8	- 5.8	-13.1	+ 1.5	+ 6.9	+ 2.5	+ 2.5	+ 1.4
30- 6 May	- 5.8	- 5.8	-14.4	+ 1.5	+ 6.9	+ 2.5	+ 2.5	+ 1.4
7-13 "	- 5.8	- 5.8	-14.4	+ 1.5	+ 6.9	+ 2.5	+ 2.5	+ 1.4
14-20 "	- 4.7	- 4.7	-14.4	+ 1.5	+ 6.9	+ 2.5	+ 2.5	0.0
21-27 "	- 3.1	- 3.1	-14.4	+ 1.5	+ 6.9	+ 3.7	+ 3.7	+ 1.2
28- 3 June	- 2.0	- 2.0	-14.4	+ 3.9	+ 9.0	+ 5.5	+ 5.5	+ 3.1
	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
4-10 "	- 4.4	- 4.4	-16.0	0.0	+ 7.2	+ 2.7	+ 2.7	0.0
11-17 "	- 7.4	- 7.4	-13.6		+ 7.2			
18-24 "	- 7.4	- 7.4	-22.7		+ 7.2			
25- 1 July	- 8.8	- 8.8	-27.5		+ 7.2			
2 "	-10.0	-10.0	-24.8		+ 7.2			
3- 8 "	-10.0	-10.0	-24.8		+12.03			
9-15 "	-12.3	-12.3	-24.8					
16-22 "	-16.5	-16.5	-28.2					
23-29 "	-15.2	-15.2	-26.4					
30- 5 Aug	-18.1	-18.1	-28.3					
6-12 "	-19.1	-19.1	-28.3					
13-19 "	-17.7	-17.7	-26.2					
20-26 "	-16.6	-16.6	-23.5					
27- 2 Sept	-14.1	-14.1	-19.5					
3- 9 "	-14.1	-14.1	-18.2	↓	↓	↓	↓	↓

APPENDIX 2 (continued)

Week	UK	Ireland	Italy	France	Germany	Nether- lands	Belg/ Lux	Denmark
<u>1973</u>								
10-16 Sept	-14.2	-14.1	-18.2					
17-23 "	-18.2	-18.2	-18.2					
24-30 "	-18.2	-18.2	-18.2					
1- 7 Oct	-18.2	-18.2	-20.1					
8-14 "	-18.2	-18.2	-20.1					
15-21 "	-18.2	-18.2	-20.1					
22-28 "	-19.2	-19.2	-20.1					
29-31 "	-19.2	-19.2	-21.7					
			(c)					
1-11 Nov	-19.2	-19.2	-17.1					
12-18 "	-16.7	-16.7	-15.7					
19-25 "	-13.8	-13.8	-14.3					
26- 2 Dec	-13.8	-13.8	-14.3					
3- 9 "	-13.8	-13.8	-14.3					
10-16 "	-13.8	-13.8	-14.3					
17-23 "	-13.8	-13.8	-14.3					
24-30 "	-13.8	-13.8	-13.0					
<u>1974</u>								
			(c)					
31- 6 Jan	-13.8	-13.8	-13.0					
7-13 "	-11.2	-11.2	- 6.9					
14-20 "	- 9.8	- 9.8	- 6.9					
21-27 "	- 9.8	- 9.8	- 6.9	- 5.5				
			(c)					
28- 3 Feb	-11.8	-11.8	- 2.7	- 5.5				
4-10 "	-11.8	-11.8	- 6.3	- 5.5				
11-17 "	-10.6	-10.6	- 6.3	- 5.5				
18-24 "	-12.7	-12.7	- 8.3	- 5.5				
25- 3 Mar	-12.7	-12.7	- 8.3	- 6.6				
4-10 "	-12.7	-12.7	- 9.7	- 6.6				
11-17 "	-12.7	-12.7	- 9.7	- 5.3				
18-24 "	-12.7	-12.7	- 9.7	- 5.3				
25-31 "	-12.7	-12.7	- 9.7	- 5.3				

APPENDIX 2 (continued)

Week	UK	Ireland	Italy	France	Germany	Nether-lands	Belg/Lux	Denmark
<u>1974</u>								
1- 7 Apr	-13.7	-13.7	- 8.6	- 6.9				
8-14 "	-13.7	-13.7	- 9.7	- 6.9				
15-21 "	-13.7	-13.7	-11.1	- 8.9				
22-28 "	-13.7	-13.7	-11.1	- 8.9				
29- 5 May	-13.7	-13.7	-12.7	-10.2				
6-12 "	-15.4	-15.4	-15.0	-12.8				
13-19 "	-15.4	-15.4	-15.0	-14.6				
20-26 "	-17.4	-17.4	-15.0	-14.6				
27- 2 June	-16.4	-16.4	-15.0	-13.4				
3- 9 "	-16.4	-16.4	-15.0	-13.4				
10-16 "	-15.3	-15.3	-15.0	-12.3				
17-23 "	-15.3	-15.3	-16.3	-13.3				
24-30 "	-15.3	-15.3	-16.3	-13.3				
1- 7 July	-15.3	-15.3	-16.3	-12.2				
8-14 "	-15.3	-15.3	-15.3	-10.6				
			(c)					
15-21 "	-15.3	-15.3	-15.3	-10.6				
22-28 "	-15.3	-15.3	-15.3	-10.6				
29- 5 Aug	-15.3	-15.3	- 2.5	-10.6				
6-12 "	-15.3	-15.3	- 2.5	- 8.1				
13-18 "	-15.3	-15.3	- 2.5	- 8.1				
19-25 "	-15.3	-15.3	- 2.5	- 8.1				
26- 1 Sept	-15.3	-15.3	- 2.5	- 8.1				
2- 8 "	-15.3	-15.3	- 2.5	- 8.1				
9-15 "	-15.3	-15.3	- 1.3	- 6.7				
16-22 "	-15.3	-15.3	- 1.3	- 6.7				
23-29 "	-14.3	-14.3	- 1.3	- 6.7				
30- 6 Oct	-14.3	-14.3	- 1.3	- 6.7				
	(c)	(c)						
7-13 "	- 6.1	- 3.1	- 1.7	- 5.5				
14-20 "	- 6.1	- 3.1	0.0	- 5.5				
21-27 "	- 7.8	- 4.7	0.0	- 7.3				

APPENDIX 2 (continued)

Week	UK	Ireland	Italy	France	Germany	Nether-lands	Belg/Lux	Denmark
<u>1974</u>			(c)					
28- 3 Nov	- 7.8	- 4.7	0.0	- 7.3				
4-10 "	- 9.0	- 5.9	1.2	- 7.3				
11-17 "	- 9.0	- 5.9	1.2	- 7.3				
18-24 "	- 9.0	- 5.9	1.2	- 7.3				
25- 1 Dec	-11.4	- 8.3	3.0	- 8.9				
2- 8 "	-11.4	- 8.3	- 4.1	- 8.9				
9-15 "	-11.4	- 8.3	- 4.1	- 8.9				
16-22 "	-11.4	- 8.3	- 4.1	- 8.9				
23-29 "	-13.8	-10.5	- 4.1	- 7.2				
<u>1975</u>								
30- 5 Jan	-13.8	-10.5	- 4.1	- 7.2				
6-12 "	-13.8	-10.5	- 4.1	- 7.2				
13-19 "	-15.1	-11.8	- 4.1	- 7.2				
20-26 "	-15.1	-11.8	- 5.3	- 7.2				
27- 2 Feb	-15.1	-11.8	- 5.3	- 7.2				
3- 9 "	-16.5	-13.2	- 5.3	- 7.2				
10-16 "	-16.5	-13.2	- 5.3	- 7.2				
17-23 "	-15.2	-12.0	- 5.3	- 7.2				
24- 2 Mar	-15.2	-12.0	- 5.3	- 7.2				
	(c)	(c)	(c)	(c)				
	(d)	(d)	(d)	(d)	(d)	(d)	(d)	
3- 9 "	-12.7	- 6.9	- 2.2	- 4.2	+10.0	+ 2.0	+ 2.0	
10-16 "	-12.7	- 6.9	- 2.2	- 4.2				
17-23 "	-12.7	- 6.9	- 2.2	- 4.2				
24-30 "	-12.7	- 6.9	- 2.2	- 4.2				
31- 6 Apr	-12.7	- 6.9	- 2.2	- 4.2				
7-13 "	-12.7	- 6.9	- 2.2	- 3.1				
14-20 "	-12.7	- 6.9	- 1.0	- 3.1				
21-27 "	-12.7	- 6.9	- 1.0	- 1.4				
28- 4 May	-12.7	- 6.9	0.0	- 1.4				
5-11 "	-12.7	- 6.9	↓	0.0				
12-18 "	-13.8	- 8.0	↓	0.0				

APPENDIX 2 (continued)

Week	UK	Ireland	Italy	France	Germany	Nether-lands	Belg/Lux	Denmark
<u>1975</u>				(e)				
19-25 May	-15.7	- 9.7						
26- 1 June	-17.0	-11.0						
2- 8 "	-17.0	-11.0						
9-15 "	-17.0	-11.0						
16-22 "	-17.0	-11.0						
23-29 "	-18.6	-12.5						
30- 6 July	-18.6	-12.5						
7-13 "	-20.6	-14.3						
14-20 "	-20.6	-14.3						
21-27 "	-18.2	-12.1						
28- 3 Aug	-16.5	-10.5						
	(c)	(c)						
4-10 "	- 8.6	- 3.0						
11-17 "	- 8.6	- 3.0						

Notes: (a) Retrospective to 13 February 1973 in certain cases.

(b) New arrangements for calculating MCA percentages were introduced on 4 June 1973.

(c) Broken horizontal lines represents a change in green rate of exchange.

(d) From 3 March 1975 the percentages for depreciating currencies are net of the 1.25 per cent reduction but the percentages from that date exclude the supplements which were applied to all countries applying MCA for those commodities still in their 1974/75 marketing years. See para. 44.

(e) Suspended.

APPENDIX 3 UNIT OF ACCOUNT FOR EUROPEAN DEVELOPMENT FUND AND EUROPEAN INVESTMENT BANK

For purposes of administering the EDF (under the Lome convention) and the EIB, the Council of Finance Ministers agreed to define the unit of account in terms of a "basket" of EEC currencies (Council Decision No. 75/250/EEC - Official Journal No. L104, 24 April 1975). The value of this particular unit of account equals the sum of fixed amounts of each Member State currency. There are two main elements to the calculation of this unit of account, the composition of the "basket" itself and the calculation of daily rates of exchange between the unit of account on the one hand and EEC currencies and third country currencies on the other.

Composition of the "basket"

(a) Percentage weights. Percentage weights were computed for each Member State, reflecting the relative importance of the Member States in such areas as Community GNP and trade (see Table below).

(b) Value of "basket" in terms of Member State currencies. The base period for determining the individual contributions of each Member State currency to the "basket" was 28 June 1974, when the "conventional" unit of account had the same gold content and value as the Special Drawing Right. (Subsequently, the SDR itself was defined in terms of a "basket" of world currencies). The market rate of exchange on 28 June 1974 between each Member State currency and the SDR (computed via the \$US and gold) was multiplied by the percentage weight calculated as outlined above to yield the national currency contributions. This is shown in the Table below. Thus, the contribution to the basket of each Member State currency will be fixed, ie at 0.828 DMs, 8.85 pence, 1.15 FF, etc. The value of the unit of account, however, will change as the exchange rates between the different currencies fluctuate.

Calculation of daily rate of exchange between ua and EEC currencies

The composition of the "basket" fixed by this method is used to calculate the market rates of exchange (daily in the case of EIB and EDF) between the ua and the Member State currencies. In the first instance, the market rate of exchange between the Belgian Franc and the unit of

APPENDIX 3 (continued)

		Market rate of exchange against SDR 28 June 1974 (national currencies per 1SDR) (rounded)	Percentage weight %	Composition of basket in terms of national currencies
Germany	(DM)	3.033	27.3	0.828 DM
UK	(£)	0.506	17.5	£0.0885
Ireland	(£ Irish)	0.506	1.5	£0.00759 (Irish)
France	(FF)	5.897	19.5	1.15 Francs
Italy	(Lira)	778.57	14.0	109.00 Lira
Netherlands	(D Fl)	3.178	9.0	0.286 Florins
Belg/Lux	(B Fr)	46.329	8.2	3.80 Francs
Denmark	(Kr)	7.233	3.0	0.217 Kroner

account is computed - using market rates of exchange between the Belgian Franc and the other currencies of the "basket" - and having determined this exchange rate, rates between the unit of account and other EEC currencies are calculated also by reference to the exchange rate with the Belgian Franc. These calculations are illustrated below. It should be noted, however, that the examples are for illustrative purposes only and are not based on the market rates of exchange employed in any official calculation performed by the EEC Commission.

The derivation of exchange rates between the unit of account and other currencies is achieved simply by adjusting the unit of account rate against the Belgian Franc by the exchange rates between the other currencies and the Belgian Franc. Thus, using the exchange rates in Column (2) of the Table, 1 unit of account = £0.558, 3.076 DMs, 5.274 FF, etc. (ie 45.681 B Fr divided by Column 2). Third Country currencies can likewise be given values in terms of the unit of account. For example, \$US 1 is worth 37.62 B Frs, 1 unit of account is worth \$US 1.214. The daily exchange rates calculated by these means are published in the Official Journal ("C" edition).

APPENDIX 3 (continued)

Composition of basket in national currencies	Market rate of exchange of national currency against Belgian Franc	National currency contribution in terms of Belgian Franc (1 x 2)
(1)	(2)	(3)
0.828 DMs	1 DM = 14.85 B Fr	12.296
£0.0885 sterling	£1 = 81.87 B Fr	7.245
£0.00759 Irish	£1 = 81.87 B Fr	0.621
1.15 French Franc	1 FF = 8.662 B Fr	9.961
109 Lira	1 Lira = 0.0571 B Fr	6.224
0.286 Dutch Florin	1 Fl = 14.45 B Fr	4.133
0.217 Kroner	1 Kr = 6.454 B Fr	1.401
3.80 Belg/Lux Franc		3.800
TOTAL		45.681

ie - 1 unit of account = 45.681 Belgian Francs.

APPENDIX 4 GLOSSARY OF TERMS

ACCESSION COMPENSATORY AMOUNTS (ACAs) - also known as Transitional Compensatory Amounts). Amounts reflecting any differences between full CAP prices and the CAP prices fixed for the New Member States (see Treaty of Accession: Part Four; Title II. Articles 52, 55 and 56). They apply - mainly in trade in CAP products - to compensate for such price differences during the transition period (1973 to 1977) in which farm prices in the New Member States will be aligned with full CAP prices.

CENTRAL RATES. Exchange rates adopted for several currencies following the Smithsonian Agreement of December 1971 about which the value of the currency is allowed to fluctuate within prescribed margins. They are similar in concept to fixed parities - they are advised to the IMF - but are associated with wider margins of fluctuation. Central rates were originally fixed in terms of the \$US but later were expressed against the SDR. The values of central rates for several currencies have been revised since December 1971.

FLOATING CURRENCY. A currency for which no maximum margins of fluctuation are prescribed. In theory, the currency is allowed to find its own value in terms of other currencies in the foreign exchange markets, although in practice, Central Banks might intervene to support the currency (this latter often colloquially termed "dirty float").

GREEN RATE OF EXCHANGE. Exchange rates between Member State currencies and the unit of account for CAP purposes. Formerly equivalent to IMF parity but now synonymous with Representative Rate.

JOINT FLOAT (see also "Snake"). A group of European - mainly EEC - currencies which are linked one with another by small (\pm 1.125 per cent) margins of fluctuation which is allowed to float against all other currencies. It was established in March 1973 and currently (August 1975) comprises the currencies of Benelux, Denmark, France, Germany, Norway and Sweden. Occasionally, still referred to as the "snake".

MARKET RATE OF EXCHANGE.

(a) Rates of exchange between currencies determined by and measured in the foreign exchange markets. Such rates can fluctuate daily.

(b) Rate of exchange between a currency and the unit of account computed by

APPENDIX 4 (continued)

reference to currencies actually traded in the foreign exchange markets and a link between one or more of these and the unit of account. Formerly, the \$US provided this link for CAP purposes but more recently, the "joint float" currencies have been used in this role.

MONETARY COEFFICIENT. A coefficient, based on unity, which reflects the monetary percentage and is part of the MCA system. It is applied to import and export levies and refunds and accession compensatory amounts. Computed as follows:

$$\text{Appreciated currency: } 1.00 - \frac{\text{MCA percentage}}{100}$$

$$\text{Depreciated currency: } 1.00 + \frac{\text{MCA percentage}}{100}$$

MONETARY COMPENSATORY AMOUNT (MCA). A border levy or refund applied to offset the effects stemming from the maintenance of green rates of exchange at values different from market rates of exchange within the CAP. MCAs may be fixed or variable, depending on the status of the currency.

MONETARY COMPENSATORY AMOUNT PERCENTAGE. The difference between the green rate of exchange and the market rate of exchange (as defined for MCA purposes) expressed as a percentage of the market rate of exchange, where exchange rates are expressed in terms of units of account per unit of Member State currency. Since March 1975, the percentage has been subject to a reduction by 1.25 percentage points in the case of depreciated currencies.

PARITY or PAR VALUE. Rate of exchange - generally in terms of gold or the \$US - declared to the IMF about which the value of a currency is allowed to fluctuate only marginally (⁺ 1 per cent). Formed the basis of the international exchange system devised at Bretton Woods (1944). Since December 1971, the operation of declared parities for many major currencies has been superseded by central rates, associated with wider margins of fluctuation, or by freely floating exchange rates.

REPRESENTATIVE RATE. Rate of exchange fixed by EEC Regulation between the currencies of the EEC Member States and the unit of account, for converting, for CAP purposes, sums of money from one currency into and out of the unit of account.

APPENDIX 4 (continued)

SPECIAL DRAWING RIGHT (SDR). International accounting device used mainly in the operations of the IMF. Formerly equal to the pre-Smithsonian \$US (ie $\frac{1}{35}$ ounce gold) but since mid 1974, equal to a "basket" of world currencies.

"SNAKE". The fore-runner of the joint float, comprising a group of European - mainly EEC - currencies linked one with another by narrow (± 1.125 per cent) margins of fluctuation. Originated in March 1972 and was, up to March 1973, associated with a "tunnel" representing the wider (± 2.25 per cent) margins of fluctuation prescribed between these currencies and the \$US. In March 1973, Community Member States ceased to observe margins of fluctuation between their currencies and the \$US and the "snake" became known as the "joint float".

UNIT OF ACCOUNT (AGRICULTURAL). An accounting device serving as a common denominator between the Member State currencies and between these and third country currencies. Its value in 1962 was made equal to 0.88867088 grammes fine gold by EEC Regulation 129/62. Since 1971, it has been necessary to impute market rates of exchange to the unit of account, vis-a-vis, floating currencies.

UNIT OF ACCOUNT (BUDGETARY). An accounting device for establishing and operating the Community Budget and its attendant accounting operations. Its value is defined as 0.88867088 grammes fine gold. Conversions into and out of Member State currencies are made at pre-Smithsonian parity rates of exchange.

UNIT OF ACCOUNT EDF/EIB. An accounting device used for the operations of the European Development Fund and European Investment Bank (see Appendix 3).

APPENDIX 5 PRINCIPAL EEC REGULATIONS RELEVANT TO GREEN MONEY

AGRICULTURAL UNIT OF ACCOUNT

Regulation 129 (of 1962)	OJ 30.10.62, p 2553/62
as amended by Regulation 653/68	OJ L123 of 31.5.68, p 4
Regulation 2543/73	OJ L263 of 19.9.73, p 1
Regulation 653/68	OJ L123 of 31.5.68, p 4
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LES MONNAIES VERTES ET LA POLITIQUE AGRICOLE COMMUNE

Résumé

Un des objectifs principaux de la Politique Agricole Commune est la fixation de prix agricoles communs: il en résulte deux conséquences importantes et inévitables, c'est-à-dire, les monnaies vertes et les variations des taux de change. Ces deux conséquences sont d'ailleurs extrêmement complexes.

Cette étude passe en revue les bornes principales du système en tant qu'il s'est développé jusqu'ici. L'étude décrit aussi en détail les modalités appliquées au calcul des montants compensatoires monétaires à l'égard du commerce des matières premières agricoles. On fait aussi examen des monnaies vertes, dont l'existence avait pour résultat des rapports économiques aux prix alimentaires, au profit des producteurs, au commerce, à l'application des ressources, et aux dépenses nécessaires pour faire marcher la politique agricole. On pose finalement des questions de la politique future communautaire à l'égard des taux de change des monnaies vertes.

On doit souligner que le but de cette étude est celui de fournir toute une gamme des informations de fond plutôt que des détails spécifiques en ce qui concerne les aménagements monétaires actuelles. Par conséquent, ceux dont les affaires entraînent les complexités monétaires de la politique agricole commune feraient mieux de consulter directement les Règlements communautaires (voir Annexe 5) plutôt que de compter sur les exemples cités dans cette étude.

LES MONNAIES VERTES ET LA POLITIQUE AGRICOLE COMMUNE

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DAS GRÜNGELD UND DIE GEMEINSAME AGRARPOLITIK

Zusammenfassung

Grüngeld und Devisenkurse sind wichtige und unvermeidliche Faktoren des einheitlichen Preisziels der Gemeinsamen Agrarpolitik. Sie sind ausserdem sehr kompliziert. Diese Abhandlung gibt einen Überblick über die Hauptpunkte des Systems soweit es sich bis jetzt entwickelt hat. Weiterhin werden sowohl die Methodik der den Landwirtschaftsrohprodukthandel betreffenden Grenzausgleichbetragsrechnung als auch die ökonomischen Folgen der Existenz von Grüngeld für Nahrungsmittelpreise, Erzeugerumsatz, Handel, und die Operationskosten der Gemeinsamen Agrarpolitik eingehend beschrieben. Schliesslich stellen sich einige Fragen über die zukünftige Politik in dem Bereich der Grüngeldkurse.

Der Zweck dieser Veröffentlichung ist das Vorstellen Hintergrundmaterials im weiten Bereich, ohne in Einzelheiten jetziger Geldangelegenheiten einzugehen. Es ist daher hervorzuheben, dass jeder, für dessen Geschäft die Finanzanordnungen der Gemeinsamen Agrarpolitik in Frage kommen, sich direkt an die EWG Verordnungen (Anhang 5) wenden und sich nicht auf die hierzitierten Beispiele verlassen soll.

DAS GRÜNGELD UND DIE GEMEINSAME AGRARPOLITIK

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