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in

Baourakis G. (ed.).
The Common Agricultural Policy of the European Union: New market trends

Chania : CIHEAM
Cahiers Options Méditerranéennes; n. 29

1998
pages 39-43

THE AGRIMONETARY SYSTEM OF THE EUROPEAN UNION

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Keywords: *European Union, Agriculture, Monetary funds, Monetary policies.*

1. HISTORY - GOALS

The Agrimonetary System has always constituted an integral part of the Common Agricultural Policy (CAP) of the European Union. In spite of the fact that numerous modifications have been made to the details, it continues today to have the same characteristic features, and to serve the same basic goals, as when it was first devised.

The factors which led to its creation can be summarised as follows:

* The need to express the prices and other sums which are defined within the framework of the Common Agricultural Policy in a uniform Agricultural Unit of Account (ECU) and the necessity for the Member States to convert this uniform unit of account into their national currencies.

* The desire for some degree of stability of prices in the Agricultural Sector so that they may not be directly or continuously affected by the changing monetary conditions. This is achieved by the adoption of special agricultural rates known as Agricultural Conversion Rates or Green Rates (ACR or GR).

* The avoidance of distortions in trade flows, which will probably be created by the use of stable green rates that are divergent from the real levels of currency rates, and at the same time the avoidance, at all costs, of negative effects on the incomes of farmers in those Member States which experience a reduction in the Agricultural Conversion Rates because of currency developments.

The basic goals of the Agrimonetary System were at one time achieved through the application of a system of monetary compensation (Monetary Compensatory Amounts/MCA, in the period 1969-1992) and with the application of the Switch Over mechanism (period 1984-1994), and at another through a method of continuous adjustment of the Green Rates, with the reinforcement of the institution of the "operative events for the Green Rates" and the granting of monetary compensation (from 1993 up to the present).

2. EXISTING REGIME

The unit of account in which the various sums arising from Community policy are expressed is the ECU. It is derived from the sum total of the amounts of the 12 Community currencies and its price against each national currency is determined every day on the basis of the exchange rates of the national currencies against the dollar.[1]

It is obvious that the exchange rate of the ECU against a national currency changes every day, inasmuch as the relationship of the national currency to the dollar changes on a day-to-day basis. Therefore for the purposes of the Agricultural Policy the employment of the exchange (real) rate of the ECU against a national currency is not appropriate, and for this reason the so-called "Agricultural Conversion Rate" (ACR) or "Green Rate" (GR) was adopted, which is determined in conjunction with the Real Market Rate (RMR) and is adjusted towards the latter using the following method:

a) Firstly, the month has **three basic reference periods** which extend from the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of the month. For each reference period the so-called Representative Market Rate (RMR) is calculated as the average of the real daily rates for the ECU against a national currency, and put into force on the 1st day which follows the reference period for which it is calculated.

b) The so-called "Monetary Gaps" (MG) are calculated as percentages of the Agricultural Conversion Rate on the basis of the formula

MG = 100 X (1-RMR/ACR)

* Example for the Greek drachma:

RMR: 1 ECU = 300 DRA

ACR: 1 ECU = 290 DRA

MG = 100 X (1-300/290)= - 3.44827 % (Negative Monetary Gap)

* Example for the German mark:

RMR: 1 ECU = 1.85898 DM

ACR: 1 ECU = 1.94962 DM

MG = 100 X (1-1.85898/1.94962) = + 4.649 % (Positive Monetary Gap)

c) The following rules are applied:

• When the negative monetary gap of a Member State is smaller than 2% or the positive monetary gap of a Member State is smaller than 3% no adjustment is made to the Agricultural Conversion Rate.

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[1] The composition of the ECU in 1994 was as follows:
3.431 BLF
0.1976 DKR
0.6242 DKR
0.6242 DM
1.44 DRA
6.885 PTA
1.332 FF
0.008552 IRL
151.8 LIT
0.2198 HFL
1.393 ESC
0.08784 UKL

Thus there exists a **total bilateral gap (margin)** of 5 percentage points from - 2% to + 3%.

• When the negative gap of a Member State is greater than 2%, the Agricultural Conversion Rate is adjusted so that it is reduced by half until it becomes smaller than 2%, on the basis of the following formula:

ACR = RMR (1-MG/100)

Example: RMR = 300 DRA

Desired MG = 1.5

ACR = 300 (1-1.5/100) = 295.5 DRA

The New Green Rate is put into application at the beginning of the following reference period.

The Bilateral Gap or margin (from - 2 % up to + 3 %) is moveable, that is, it can be moved within the limits of 0 % to + 5 %. This means that when one Member State has a gap, e.g. of + 4.5 %, no adjustment to its Green Rate is made. Conversely, if there is another Member State whose gap is - 1.5 %, since the sum total of these two is 6 percentage points, i.e. greater than the permissible 5 percentage points, the Member State with the negative gap adjusts its gap, so that the total gap of the two Member States is smaller than 5 percentage units. In the above example the negative gap of - 1.5 % will first become - 0.75 % and since + 4.5 % and - 0.75 % > 5 % there will be a new adjustment to - 0.75 %/2 = - 0.375 %, so that + 4.5 - (- 0.375 %) = 4.875 % < 5 %.

• When the positive monetary gap of a Member State is greater than + 5 % the gap is not automatically reduced by half at the end of a reference period; it is followed instead by the so-called "confirmation periods" before adjustment is made. There are four comfirmation periods for four periods of ten days; all that happens is the nullification of any negative gaps, if they have occurred, at the end of each confirmation period.

3. THE ECONOMIC RESULTS OF THE MONETARY GAPS AND THE ADJUSTMENT OF THE GREEN RATES

The Agricultural Conversion Rate (ACR) was originally determined as very near to the real market rate and thus the monetary gap amounts to almost nil. When the exchange rate for the currency of a Member State is devalued against the ECU then a negative monetary gap is created which has as its consequence:

• Sums in ECUs are converted into the national currency at a rate lower than that of the exchange rate (reduction of revenues from the FEOGA).

• The prices which are applied inside the Member State are lower than Community prices. Therefore every readjustment of the Green Rate towards the level of the Real Rate **increases** the inflow of revenues from the Agricultural Funds and adjusts the prices to the Community level.

The exact opposite occurs in cases of the revaluation of the exchange rate of a Member State. Here, if a revaluation (reduction in the Green Rate) is achieved after the confirmation periods, and under the prerequisite that this is "sensible", the Council convenes in order to decide upon compensatory measures in view of the reduction in farmers' incomes which resulted from the reduction in the Green Rate. Such compensatory measures have been adopted from time to time for most of the Member States with a strong currency.

4. "OPERATIVE EVENTS"

Given that the green rate can be changed many times during the trade period, the question arises as to which rate should be taken into consideration for the conversion of a statutory price or aid into a national currency, or in Community jargon, when the underlying cause is brought into play.

The latter occurs at the moment when the economic goal of the respective action is achieved. Community rules define the operative events for all cases. Thus the operative events for intervention are considered to prevail at the moment when the delivery of the product to the intervention authority begins. In the case of export returns/import levies this is the date of acceptance of the clearance, in the case of competitions it is the final day on which tenders are submitted, for the premium for sheep/goat meat it is the last day of the trade period, and for aid per stremma (area) for grain it is the first day of the trade period etc.

5. THE AGRIMONETARY SYSTEM WITH A VIEW TO 1999 AND THE INTRODUCTION OF THE EURO

With the beginning of the third stage of European and Monetary Integration on January 1st , 1999, it will be necessary for those Member States participating to define stable and irrevocable rates against the new currency, which is to be called the EURO and which will replace the ECU.

Under these conditions there will no longer be any reason for the existence of the Agrimonetary System and it must be abandoned. Conversely, rules similar to the existing ones will have to be devised for those Member States which will not be participating in this stage of the Union.

ANNEX 1

Main agrimonetary regulations in force

1. Basic regulation

Council Regulation (EEC) No. 3813/92 of 28 December 1992 on the unit of account and the conversion rates to be applied for the purposes of the Common Agricultural Policy (OJ No. L 387, 31.12.1992, p.1).

Amended by:

(a) Regulation (EC) No. 3528/93 (OJ No. L 320, 22.12. 1993, p.32)

(b) Regulation (EC) No. 150/95 (OJ No L. 22, 31.01.1995, p.1)

2. Detailed rules of application

Commission Regulation (EEC) No. 1068/93 of 30 April 1993 on detailed rules for determining and applying the agricultural conversion rates (OJ No. L 108, 01.05.1993, p. 106).

Amended by:

(a) Regulation (EC) No. 567/94 (OJ No. L 69, 12.03.1994, p.1)

(b) Regulation (EC) No. 157/95 (OJ No. L 24, 01.02.1995, p.1)

(c) Regulation (EC) No. 1053/95 (OJ No. L 107, 12.05.1995, p.4)

(d) Regulation (EC) No. 2853/95 (OJ No. L 299, 12.12.1995, p.1)

3. Compensatory aid

Council Regulation (EC) NO 1527/95 of 29 June 1995 regulating compensation for reductions in the agricultural conversion rates of certain national currencies (OJ No. L 148, 30.06.1995, p.1)

Council Regulation (EC) No 2611/95 of 25 October 1995 establishing the possibility of national aid being granted in compensation for losses of agricultural income caused by monetary movements in other Member States (OJ No. L 268, 10.11.1995, p.3)

Council Regulation (EC) No. 2990/95 of 18 December 1995 regulating compensation for appreciable reductions in the agricultural conversion rates before 1 July 1006 (OJ No. L 312, 23.12.1995, p.7)

Council Regulation (EC) No. 2921/95 of 18 December 1995 laying down detailed rules for compensation for reductions in certain agricultural conversion rates (OJ No. L 305, 19.12.1995, p.60) *amended* by Regulation (EC) No 459/96 (OJ No. L 64, 14.03.1996, p.12)