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Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council
(Doc. 176/73) for a regulation concerning measures to be taken in agriculture in
view of the rise in the central rate for the Dutch guilder

Rapporteur: Mr Charles-Emile HÉGER

PE 34.206/fin.

By letter of 27 September 1973 the President of the Council of the European Communities requested the European Parliament to deliver an opinion, pursuant to Article 43 of the Treaty establishing the EEC, on a proposal for a Council regulation on measures to be taken in the agricultural sector following the raising of the central rate of the Dutch florin.

On 9 October 1973 the President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and to the Committee on Budgets for its opinion.

The Committee on Agriculture appointed Mr Héger rapporteur on 26 September 1973. It discussed the proposed regulation at its meetings of 26-27 September and 10-11 October 1973 and adopted the following motion for a resolution by ten votes to one at the latter meeting.

The following were present:

Mr Houdet, chairman; Mr Héger, rapporteur; Mr Baas, Mr Brugger, Mr Früh, Mr John Hill, Mr Jakobsen, Mr de Koning, Mr Labban, Mr Martens and Mr Scott-Hopkins.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on measures to be taken in the agricultural sector following the raising of the central rate of the Dutch florin

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council (COM (73) 1582 fin.);
 - having been consulted by the Council pursuant to Article 43(2) of the Treaty establishing the EEC (Doc. 176/73);
 - having regard to the report of the Committee on Agriculture (Doc. 192/73);
1. Regrets once again the non-existence of an economic and monetary union, a fact which endangers the achievements of the agricultural common market;
 2. Emphasizes that the revaluation of the central rate of the florin appears to have been decided unilaterally and arouses justifiable apprehension among some of the partners;
 3. Regrets that the amount of the cost to be borne by the EAGGF, guarantee section, of part of the aid granted by the Dutch Government, cannot be based on more objective estimates;
 4. Recognizes that the proposed system of compensatory payments does not act to the detriment of the consumer as regards prices of agricultural products;
 5. Notes, however, that the producers are only partially and temporarily compensated for their loss of revenue;
 6. Admits that this system is a simple one and that it will avoid the introduction of compensatory payments in Benelux;
 7. Resigned, moreover, to the temporary nature of the measure and in the light of the foregoing observations approves the proposal for a regulation;
 8. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

EXPLANATORY STATEMENT

1. On the eve of the International Monetary Fund meeting, of which no spectacular results could be expected, the Netherlands thought it necessary to change the central rate of their currency - a step which did not improve the atmosphere in Nairobi and which threatens to plunge exchange markets once again into a state of feverishness.

In addition, the prospect of establishing an independent European unit of account, essential as it is, now seems to be receding.

2. Disillusion follows upon disillusion and sharp fluctuations on the monetary market are rapidly increasing. Since the Washington agreement was solemnly announced on 18 December 1971, the rate of the pound sterling has fallen and continues to float.

The Italian lira, for which the central rate was lowered by 1 per cent at the time of the Washington agreement, was on a two-tier market until it was floated.

The central rate of the Deutsche Mark was raised by 4.61 per cent at the time of the Washington agreement and has since been raised by 3 and then 5.5 per cent.

The central rate of the Benelux currencies was raised by 2.76 per cent at the time of the Washington agreement. Subsequently, in 1971, the Benelux countries agreed to tie the rates of the florin and Belgian franc; but by 1972 the agreement had become meaningless and was replaced by the Benelux 'little snake' moving within a range of 1.5 per cent, while the 'big snake' undulates within a maximum range of 2.25 per cent.

Now the Netherlands have raised the central rate of their currency by 5 per cent, pleading the need to combat growing inflation.

3. What is one to make of this argument? It points to a grave danger. Devaluation or revaluation is no longer to be the result of an economic or financial situation, but is to become a tool in the service of conjunctural policy. Revaluation is used to cool an overheated economy and devaluation to stimulate one that is too sluggish.

Approach to adopt

It is not easy to comment on the consultations which preceded the announcement of the revaluation of the florin. Admittedly, there was no question of referring the matter to the European Parliament; but the fact that

the partners were notified that the step had been taken does not necessarily imply that they were consulted in advance.

Substance

The 5 per cent revaluation will set off movements of funds. We shall see faster recovery of sums due in foreign currencies and a slowing-down in settling of debts incurred abroad.

Method

In its desire to counteract inflation, the Netherlands should logically have lowered the prices of home-grown agricultural produce, but owing to a reluctance to superimpose new adjustments on compensatory payments now in force, it was decided to fix a single rate (representative rate) for conversions of units of account into national currencies under the common agricultural policy.

The Official Journal of 19 September 1973 gives this rate as 1 Dutch florin = 0.2904 units of account.

To act in this way the Council had to resort to an emergency procedure which absolves it from the need to obtain Parliament's prior opinion, and to this end the Council amended Regulation No. 129/62, the amendment having also been published in the Official Journal of 19 September 1973.

Effects in the agricultural sector

Application of the representative rate of exchange entails a reduction in the prices obtained by Dutch producers.

In order to contribute to the expenditure the Dutch Government will incur in applying the system of compensation it proposes, the Commission submitted to the Council the draft regulation under review.

This notes the Dutch Government's intention to assist Dutch farmers by increasing the VAT rate from 4.25 to 6.25 per cent for a period of six months. The total of this assistance could amount to DF1 120 million, a sum which would not cover completely the losses to be borne by Dutch farmers.

The Commission proposes that the EAGGF should contribute 15 per cent of this sum, or 5 million u.a.

This would prevent further disrupting the market and further complicating the calculation of compensatory payments, and at the same time avoid introducing these payments in Benelux.

The financial aspect

The proposal entails an additional burden of 5 million u.a. on the EAGGF, Guarantee Section, but no change in compensatory payments.

To obtain an accurate idea of the financial consequences of the proposal it would be necessary to calculate what would have been the effect of a straightforward application of these compensatory payments with the florin revalued by 5 per cent.

Evidently, a dearer florin would make exports of agricultural products to the Netherlands more attractive and hence EAGGF revenue from levies would increase; at the same time Dutch exports would be somewhat reduced and refunds would diminish, if not in their overall amount, at least as regards the volume of exports to which they apply.

4. What appears to be established, as regards the contribution from the Communities' budget, is that occasional assistance is granted to producers and consumers in the agricultural sector: to producers, so that their income does not fall too drastically; to consumers, so that the prices they pay for agricultural products are not in fact increased when revaluation should improve their purchasing power for foreign products.

5. Bearing in mind that this assistance measure is of limited duration, the Committee on Agriculture feels able to support the proposal for a regulation and invites the European Parliament to approve it.