'Ten years of monetary compensatory amounts', from Le Monde (8 March 1979)

Caption: On 8 March 1979, the French daily newspaper Le Monde carries out a ten-year review of the system of monetary compensatory amounts (MCAs), designed to offset disparities in competition between the agricultural products of the Member States of the European Economic Community (EEC).

Source: Le Monde. dir. de publ. FAUVET, Jacques. 08.03.1979, n° 10 607. Paris: Le Monde. "Dix ans de montants compensatoires", p. 40.

URL:
http://www.cvce.eu/obj/ten_years_of_monetary_compensatory_amounts_from_le_monde_8_march_1979-en-763222e4-bf58-4944-85a7-efd23ad4d07c.html

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Ten years of monetary compensatory amounts

Monetary compensatory amounts (MCAs) were created to correct any distortions in competition that might emerge between the EEC Member States as a result of fluctuations in exchange rate parities.

Since the unity of agricultural prices in the EEC is the basis of the common agricultural policy (CAP), the European Commission fixes farm prices every year in European units of account that are then converted by each Member State into its own currency.

Price unity is sustained as long as the parities of the national currencies are stable. If, for example, the French franc were to depreciate, then the unity would no longer function because French farm produce would become cheaper and more competitive in the other EEC countries. Conversely, if the German mark were to appreciate, the price of German farm products expressed in other currencies would be higher and therefore less competitive.

In order to restore market unity in the event of a currency devaluation, farm prices expressed in the national currency have to be increased and, in the opposite scenario of a currency appreciation, prices have to be reduced.

However, devaluation tends to boost inflation, and price reductions are politically unenforceable. In response, a system of levies and subsidies has been devised in order to restore equilibrium.

Under this system, levies are collected on products that benefit from a devaluation, and subsidies are paid out to products adversely affected by an appreciation of the national currency. In other words, these ‘amounts’ — the levies and subsidies — are, as their name implies, a way of compensating for fluctuations in national currencies.

The 1969 proposal

MCAs are applied on trade between countries, and therein lies the paradox. Farm commodities in the strong-currency countries, where farmers gain advantage from the purchasing power of their currency, are supported via subsidies, while producers in countries with a weaker currency are required to pay levies on their exports. The first are called positive MCAs and the second, negative MCAs.

This system was put forward by France in 1969, at the time of the most recent devaluation of the French franc, which was shortly followed by a revaluation of the German mark. Within a year and a half of the system’s operation, MCAs were no longer needed, thanks to the give and take of price increases in francs and price reductions in German marks, accompanied by considerable benefits in the form of EEC aid and so forth. MCAs disappeared while France remained within the *snake*, from April 1972 to January 1974. Then, in 1974, MCAs rose as high as 14.6 % and were then reduced to 7.2 % in 1975. They were abolished once again when France rejoined the *snake* on 19 May 1975, when France left the system once again on 25 March 1976, MCAs were reinstated.

Today, positive MCAs are 10.8 % for Germany and the Benelux countries. Negative MCAs are 10.6 % for France (6.5 % for pigmeat), 14.9 % for Italy, 2 % for Ireland and 27 % for the United Kingdom. They are zero for Denmark, where farm prices are regularly adjusted in line with the value of its currency.