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Then there are the external repercussions of the southward extension, which are not given due attention in the political public. The admission of European developing countries to the EC will in the first place limit the scope for concessions by the Community to states in the Third World; member states will come first in the disbursement of development funds, technology transfers and preferential treatment for industrial and agricultural products. It is already being argued that the development problems in Europe must receive priority and that a contribution should be made to their solution.

If this argument is not merely a dodge to deter the states of the Third World from more far-reaching demands, the Community will have to take early action. It will have the delicate task of demonstrating the superiority of its own development model. If the accession to the EC fails to result

in a substantial improvement of the material conditions and the consolidation of democracy in Greece, Portugal and Spain, the consequences for the Community's reputation will be devastating. The present readiness of the states of Southern Europe to integrate themselves into the Community, will change into open opposition, and the suspicion that the economically strong are the major beneficiaries of the Community would reinforce the centrifugal tendencies also among the old members. Such failure would fuel the charge of neocolonialism and militate directly against the efforts of the EC to establish a relation of partnership with the Third World.

The decision in favour of a southward extension of the Community was politically motivated. The hope remains that the political aspects will not be lost sight of in all the details of the negotiations about agricultural market organizations and similar items.

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## Agricultural Problems of the Accession of Greece, Portugal and Spain to the EC

by Georg Gallus, Bonn \*

**Apart from other issues raised by the inclusion of Greece, Portugal and Spain in the European Community, it will make the Common Agricultural Policy more difficult rather than easier. Georg Gallus, Secretary of State of the Federal Ministry of Food, Agriculture and Forests, discusses the new agricultural problems the Community, the acceding states and third countries will have to live with.**

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**T**he economies of the Mediterranean countries Greece, Spain and Portugal are characterized by a more or less pronounced agricultural orientation. They have much in common, in agriculture as elsewhere (e.g. the production and unit structures are in general not favourable, a high proportion of the working population is engaged in agriculture), but there are also significant differences between them (e.g. in Greece the production reserves are limited, in Spain they are much larger). The three countries are joining a Community in which agriculture has already to cope with a good many difficulties (e.g. agricultural surpluses, structural problems in certain regions).

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The acceding states are hopeful that they will find it easier to deal with their difficulties in the Community framework. The Community on the other hand expects in a realistic assessment of the economic developments that it will have more rather than fewer problems to attend to in agricultural policy.

The three candidates for accession will move away from a state of autonomous responsibility and independent action and enter a community of states which operates a complicated, diversified and strict regulatory system, at least in the sphere of agriculture. Although the agricultural policies of the "new" members have much in common with those of the "old" members, the adoption of the

agricultural system of the EEC will necessarily take some time; it will involve readjustments by the "old" as well as the "new" Community countries and call for realism in agricultural policies if the successful outcome desired by all is to be attained in full and in the shortest possible time.

The negotiations with the three candidates for accession have reached different stages: The EC concluded the negotiations with Greece essentially in 1978; the accession treaty with Greece will be signed this year, and following its ratification by the parliament in Greece and the parliaments of the member states of the EC Greece is likely to become a member of the Community at the beginning of 1981. The negotiations with Portugal opened in the autumn of 1978. With Spain the EC will shortly enter into negotiations on accession. For political reasons Greece, Portugal and Spain will not all join at the same time. The problems which they pose for the Community are in many respects similar but they differ greatly in their importance. As far as Greece is concerned, the problems have been largely resolved as shown by the negotiations; it must not be overlooked however that during the 16 years of associate status Greece has already adapted to Community conditions in many areas, and its agricultural production capacity is of a size which can be accommodated by the Community. The accession of Spain involves quite different dimensions (the agricultural area is 2½ times as large as in Greece and Portugal together) and the integration with the outside world is much closer (e.g. Spain, unlike Greece, is a big importer of farm produce). While the accession of Greece may have a kind of "pilot effect" on the other two countries, the Greek model is not transferable. That is evident from the detailed negotiations of the Community with the three acceding countries.

#### **Adoption of the EC System**

It is an axiom in all negotiations for EC accession that new members adopt the EEC's agricultural system as it exists at the time of their accession. Greece, Portugal and Spain will assume all the rights but also all the obligations pertaining to the agricultural policy of the EEC. They will, in particular, adopt:

- ☐ The market regulations of the EEC with their various price and support systems and protection arrangements against third countries,
- ☐ The structural arrangements of the EEC, e.g. the measures for modernization of agricultural enterprises and improvement of processing and marketing conditions for agricultural produce,
- ☐ The EC customs union including the removal of internal duties between the EC and the

acceding countries, the substitution of the EC's common external tariff for national tariff rates and the dismantlement of quantitative restrictions vis-à-vis the Community and also third countries.

- ☐ The preferential import arrangements of the EC, e.g. the preferential tariffs for Mediterranean countries, the preferences for the ACP states and the generalized preferences.

In many agricultural areas the adoption of the EC system will cause no difficulties because the acceding countries are operating support schemes which are in many ways similar to the EC one. There will be no need for special arrangements in these sectors which pose no problems. In other agricultural areas conflicts could however arise; in these possible problems are to be obviated, or at least substantially alleviated, for the "new" and the "old" members by transitory arrangements of limited duration. At the end of the transition period these limited arrangements will be discontinued; the new members will then be "full members" of the Community.

The negotiations with Greece which were brought to a successful conclusion shortly before Christmas 1978 show that the transition period was also in the agricultural sector one of the major points at issue. Others concerned special problems related to the market regulation arrangements (e.g. a new market regulation).

The transition period is to enable the candidates for accession and the EC member states to adapt to the new situation. A transition period is however only to be allowed in sensitive agricultural areas. The full effects of accession (e.g. complete freedom of goods exchanges between Greece and the EC, full-scale EC grants for the acceding country) come only into force when the transition period is over. A transition period with appropriate protective mechanisms for the acceding country and the old Community which it joins are justified only where marked distortions of the competitive conditions (e.g. major price, tariff or subsidy differentials between Greece and the EC) are threatening or possible. During this adjustment period there are only two protective mechanisms in operation: the countervailing levies arising on accession and the escape clause. In addition, monetary compensation amounts would have to be applied if needed for exchange rate reasons.

The countervailing levies on accession are used to even up the price levels of the acceding country and the old Community if they differ materially. Their purpose is to prevent the EC prices being undercut by unduly low Greek export prices and to avoid consequent distortions of the competition in the markets of the Community.

The escape clause is an "emergency brake" to be applied in exceptional situations only, for instance when an industry in the acceding country or in the old Community encounters persistent difficulties. An escape clause was also provided in the treaties of accession between the Community of the Six and Great Britain, Denmark and Ireland. It was never put in operation under these treaties however, a fact which confirms its exceptional character.

The safeguards actually protect both the acceding country and the member states of the old Community.

Individual agricultural products (e.g. cotton, figs, raisins, sugar in the case of the negotiations with Greece) may give rise to particular problems.

### Negotiations with Greece

Both the member states of the EC and Greece wanted to conclude the negotiations on the accession of Greece in all essential points with a fair compromise by the end of 1978. Considerable efforts as well as flexibility in the negotiations were however still needed in the final phase to achieve this aim, for two days before the conclusion of the negotiations the EC and Greece were still holding quite different positions on several important points, as is shown by the following recapitulation:

Open Issues	Position of EC	Position of Greece
<b>(1) Duration of transition period</b>		
Normal transition period	5 years	5 years
Maximum transition period	8 years	5 years
Maximum transition period to apply to	olive oil, certain fruits and vegetables, wine	no agricultural products
<b>(2) Mechanisms for transition period</b>		
Countervailing levy	differences about the basis of calculation for the countervailing levy	
Escape clause	during transition period	superfluous
<b>(3) Problems concerning specific products</b>		
Cotton	retention of the essential elements of the Greek system during the transition period	market regulation for cotton
Figs and raisins	retention of the essential elements of the Greek support system during the transition period	market regulation
Sugar	A-quota in the framework of the EEC market regulation for sugar in accordance with the calculations under this regulation (amounting to an A-quota of ca. 190,000 tonnes)	safeguarding of the current Greek production by an A-quota of 300,000 tonnes

After 17 hours of final negotiations the EC and Greece reached agreement on the essential points. The two negotiating parties found it particularly difficult to arrive at a compromise on agricultural matters because substantive and domestic political factors limited the scope for concessions by Greece and likewise by the member states of the EC. The necessary concessions were only worked out after arduous deliberations inside the Greek delegation and inside the EC delegation and after this a common denominator had to be found for these compromise formulae by the two delegations together.

### Results

The most important results of the negotiations are as follows:

<b>(1) Duration of transition period</b>	
Normal transition period	5 years
Maximum transition period	7 years
Maximum transition period to apply to	tomatoes and peaches (fresh and processed)
<b>(2) Mechanisms for transition period</b>	
Countervailing levy	observation by Greece of an import price corresponding to the EC reference price, with the proviso that this price is reduced by between 2% (in the first year) and 6% (in the third year); special arrangements for calculation of EC import prices for Greek products; substantial import preferences for Greek products as compared with third countries
Escape clause	for duration of transition period
<b>(3) Problems of specific products</b>	
Cotton	special protocol in treaty of accession, subsidy for producers up to a fixed ceiling
Figs and raisins	subsidies under the EEC market regulation for processed products made from fruits and vegetables
Sugar	A-quota of 235,000 tonnes and B-quota of 65,000 tonnes

A comparison of the negotiating positions at the opening of the final phase and the outcome of the negotiations shows that both the Community and Greece had to make substantial concessions; but both delegations found the final compromise acceptable, for overriding general political and for accession policy reasons.

Protagonists and critics of the southward extension have published a number of speculative fore-

casts and also several more or less credible calculations about its positive and negative effects. Without wishing to add to their number, it can be said that several trends are already clearly discernible and can indeed be foreseen with some measure of certainty.

The acceding countries, the individual member states of the EC and our international trading partners often differ in their assessment of the effects of the accession of Greece, Portugal and Spain in the agricultural sphere. This is perfectly understandable as the balance of interests is not the same for the three groups.

### Consequences of the Accession

The new member states expect their accession to the EC to lead to:

- ☐ Stoppage of the import obstructions hampering their exports to the Community (e.g. abolition of the countervailing levies and of the escape clause),
- ☐ Inclusion of their farmers in the EC price, support and export subsidy system with higher and better-secured supported prices for several agricultural products,
- ☐ Improvement of producer incomes, especially for some typical Mediterranean products, together with limited output increases in several regions,
- ☐ Access to EC structural and market subsidies with the aim of medium- and long-term improvements of the agricultural and marketing structures and a consequent strengthening of the competitive position of their products in the Community markets,
- ☐ Increased competition by northern zone products (e.g. meat, milk, dairy products) in their markets with attendant dangers for domestic production units which will now have to compete with thoroughly rationalized enterprises in the old Community,
- ☐ Limited increases of the consumer prices for some foodstuffs due to loss of national consumer subsidies and/or the adoption of higher EC prices, and certain consumer price reductions for a few foodstuffs which can be imported from third countries at the lower external tariff rates of the EC,
- ☐ Net inflows particularly from the agricultural funds in Brussels (e.g. European Orientation and Guarantee Fund),
- ☐ Necessity of a large number of adaptive measures in regard to seeds, veterinary law, plant protection and administration of agricultural markets.

The Community and its members expect the accession to lead to:

- ☐ Increased production of certain Mediterranean products (e.g. olive oil, several varieties of fruits and vegetables, wine, tobacco) owing to the nature and dimensions of the EC's agricultural support system and the utilization of production reserves which still exist in Greece and Spain in particular,
- ☐ Aggravation of the structural problems in the new Community of Twelve and large outlays on their solution which can in some cases only be achieved in the medium term (e.g. revision of field and farm boundaries) or in the long term (e.g. enlarging of farms),
- ☐ Substantial additions to the expenditure on the marketing and structural sections of the European Orientation and Guarantee Fund,
- ☐ Exports on a limited scale of northern zone farm products (meat, high-value dairy products, feedstuffs) to the new EC member countries as incomes may rise, consumer habits change and there is only limited scope for the growing of fodder crops in these Mediterranean regions,
- ☐ Better, cheaper and more even supplies of certain agricultural products from the Mediterranean for the population of the old Community as a result of increased competition between the southern regions of the old Community and the new Mediterranean members,
- ☐ More friction between members of the old Community about the nature and extent of compensatory measures for producers in the Mediterranean regions (e.g. in Italy and France) in connection with the accession of Greece, Portugal and, more especially, Spain.
- ☐ Intensification of the confrontation of the enlarged Community's institutions and the member states with agricultural problems in the North-South dialogue.

The trading partners of the Community of Twelve expect the accession of the Mediterranean countries Greece, Portugal and Spain to lead to:

- ☐ Increased competition, more particularly in certain Mediterranean products, because the Community will have to step up its exports and has great financial strength,
- ☐ Greater need for third countries to develop complementary production and export structures even more than hitherto in order to safeguard their commercial position in the severely contested agricultural markets of the EC,
- ☐ A review of their existing agreements with the Community in the light of the extenuation of their import preferences by the accession of the

Mediterranean countries and compensation for diminution of their sales of agricultural products in the Community,

□ Greater awareness on the part of the Community of its — further increased — economic responsibility to the developing countries (e.g. in the Mediterranean and ACP-regions) and industrialized states with an interest in agricultural exports (incl. still North America, Australia).

The inclusion of Greece, Portugal and Spain in the EC raises a variety of issues (e.g. social, industrial, financial, foreign trade and agricultural questions) as evidenced by the negotiations with Greece. These issues bear in different ways on each of the acceding countries and also on the old members of the EC but are regarded and judged by the new members and the old Community alike as a "package". This is the case because of the general economic ramifications of the individual areas and also because of the

bargaining tactics of combining substantially different questions in a "negotiating package".

The southward extension of the EC will not make its agricultural policy any easier. If anything, it will become more difficult. The common agricultural policy will have to live with the new agricultural problems; it will have to come to grips with them even though it may be impossible to solve them all or solve them quickly. This basically positive and also optimistic view must not however induce us to turn the agricultural policy of the EC into a "beast of burden" for the policy of enlarging the EC. It is only logical that agricultural conflicts which have political causes and are induced by the accession should be tackled and solved by political and general economic measures. It is a prerequisite of these general economic solutions that they should be tenable on grounds of order and finance policy and unobjectionable from the point of view of the people in the agricultural sector who are affected by them.

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## EUROPEAN MONETARY SYSTEM

# The Taming of the Shrew(ish Snake)?

by Manfred Borchert and Helmut Ross, Munster \*

**An article in the last issue of INTERECONOMICS discussed problems of the monetary integration in Europe as they may arise under the new European Monetary System<sup>1</sup>. It dealt more particularly with the exchange rate problems whereas the following contribution is concerned with the intervention and credit mechanism.**

**T**he new European Monetary System (EMS) goes back in a certain currency area — which is almost identical with the EC — to the old "fixed" (though adjustable) exchange rates, the "adjustable peg". This kind of exchange rate system existed after World War II, albeit in a different institutional form, in the Bretton Woods system and later also in the — at times swelling and subsequently contracting — currency "snake".

This snake regularly contracted whenever a member country faced a fundamental balance of payments deficit — and this means, whenever it should have become bigger and more comprehensive on grounds of stability policy. The institution of the ECU as a new European Currency

Unit<sup>2</sup>, in combination with an intervention mechanism with similar effects as the European joint currency float<sup>3</sup> and extended credit facilities<sup>4</sup>, is deemed to provide a more serviceable instrument for charming the snake — both to prevent a contraction and to create a stable currency zone in Europe.

<sup>2</sup> The ECU however is no parallel currency (yet). To make it that, the institutional details would have to be developed much further. Concerning the problems of parallel currencies cf. Roland Vaubel, Die Pläne für eine europäische Parallelwährung (The plans for a European parallel currency), in: Weltwirtschaftliches Archiv, Vol. 108 (1972), p. 136 ff.

<sup>3</sup> A comprehensive survey of possible intervention and balancing arrangements and their effects is given in Rolf Caesar, Monetäre Wirkungen eines Multiwährungs-Interventionssystems mit Saldenausgleich (Monetary effects of a multi-currency intervention system with balances settlement), in: Kredit und Kapital, Vol. 1 (1975), p. 91 ff.

<sup>4</sup> ECU 14 bn as short-term currency standby credits and ECU 11 bn as medium-term financial assistance. Cf. the European Council resolution of December 5, 1978 on the setting-up of a European monetary system and connected questions, Bulletin of the Federal Government's Press and Information Office, Bonn.

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<sup>1</sup> Cf. Hans-Eckart Scharre, Problems of Monetary Integration in Europe, in: INTERECONOMICS, 1978, No. 11/12, p. 267 ff.