



European Commission
Agriculture and Rural Development



Risk and Crisis Management in the EU

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- I. Risk Management in the CAP : context
- II. The 2005 communication
- III. The situation of insurance in the Member States



I. Risk Management in the CAP : context

1. The role of the CAP
2. The current instruments
3. The agenda



1. The role of the CAP

- Risk management is not a new subject
 - One of the objectives of the CAP (Treaty) : stabilisation of income
 - Before 1992 : market stabilisation tools + price support
 - The reforms :
 - 1992 : direct payments
 - 2003 : decoupling
- ➔ the link between production and payment disappears :
adaptation to the market with a more efficient income support



→ CAP becomes more sustainable *BUT*

- the farmers are now responsible for managing the risks (in the past taken by market and price support policies)
- Liberalisation → increase competition and possibly price variability



2. The current instruments

- Natural disasters and catastrophic events
 - MS: emergency aid, compensation of losses, restoration of agricultural and forestry potential
 - EU: framework for state aids, *ad hoc* derogations in CMOs, rural development, EU Solidarity Fund
- Sanitary Crises
 - MS: primarily responsible, compensation possible
 - EU: Veterinary Fund, exceptional market support (EAGGF)
- Economic Crises
 - EU: Common Market Organisations



Recent measures

- Localised Crises
 - *de minimis* rules for state aids : 3 000 € / 0.3 % of production

- Sanitary Crises
 - Co-financing exceptional market support measures



3. The agenda

- **January 2001** : Commission presented an analysis on risk and crisis management tools in the CAP
- **26 June 2003** : political compromise on the reform on the CAP – annex 11 :

“The Commission will examine specific measures to address risks, crises and national disasters in Agriculture. A report accompanied by appropriate proposals will be presented to the Council before the end of 2004.

The Commission will analyse in particular the financing of these measures through the one percentage point of modulation directly re-distributed to Member States as well as the inclusion, in each common market organisation, of an article empowering the Commission to act, in the case of a Community-wide crisis, along the lines established for such cases in the common market organisation for beef.”



– December 2003 : Council conclusions (Italian Presidency)

- To lead the debate on risk management tools in agriculture + provide an updated inventory of risk management tools available in Member States;
- To examine the advantages and disadvantages of different risk management options – Possible new instruments to replace, if appropriate, current measures should be taken into account and examined on the understanding that distortions of competition must be avoided, WTO rules must be observed and the financing of any new measures must be in keeping with the financial commitments already in place;
- To assess the opportunities provided by the Community guidelines for State aids in the agricultural sector and if necessary to suggest adaptations.

→ March 2005 : Commission's Communication



II. The 2005 communication

1. Extension of the beef clause
2. The financing through modulation
3. The 3 options :
 - Insurances
 - Mutual funds
 - Basic income coverage



1. Extension of beef clause

Article 38 of Reg. (EC) No 1254/1999

- “ When a substantial rise or fall in prices is recorded on the Community market ... the necessary measures may be taken.”
- “ Detailed rules for the application of this article shall be adopted by the Commission ...”



No generalisation of beef clause !

- CAP reform: most CMO safety net provisions remain available
- Single farm payment provides income stability
- For other CMOs (fruit & vegetables, wine, pigs and poultry) no new justification to introduce safety net

But...

- Commission might look at specific needs based on case by case analysis → wine and fruit and vegetable sectors



2. Financing through modulation funds

- Mandate of the 2003 reform compromise (annex 11) : 1% of modulation
- Modulation must be used for rural development measures → WTO green box compatibility
- New measures should improve competitiveness – “Priority Axis 1”
- New Member States : no modulation available → find another solution
- Principle of budget annuality



3. The 3 Options

1. Insurance against natural disasters
2. Mutual funds
3. Basic income coverage

and...

improve the know-how about risk management
tools: training and information



1. Insurance against natural disasters

- Could help reduce *ad hoc* compensation payments
- Farmers who buy insurance get premium subsidy (of max. 50%)
- Compensation is paid when loss is more than 30% of average production value in reference period
- Reference period: 3 years or “Olympic average” - system of reference data needed
- Compensation not more than 100% of the loss
- Compensation must not specify the type or quantity of future production
- Alternative to premium subsidies: public system of reinsurance



2. Mutual Funds

- Could help encourage farmers to share risk among producer groups
- Temporary and degressive support for *administrative* operations
- Granted per farmer participating in the fund
- Fund must be recognised by Member State
- Green box compatibility to be assessed individually



3. Basic Income Coverage

- Inspired by Canadian model and WTO green box provisions
- Focus on income: increase liquidity in case of income crisis
- Open to all farmers
- Reference period: 3 years or “Olympic average” - system of reference data needed
- Compensation triggered when loss is more than 30% of average agricultural income in reference period
- Income indicator to be determined
- Compensation must be less than 70% of income loss
- Compensation solely related to income



Follow-up...

- 30 May 2005 – Agricultural Council debate
 - No clear mandate for legal proposals
 - No generalisation of beef clause but case by case approach
 - If modulation is used, it must be green box compatible
 - Possible new measures shall not interfere with existing systems
- 20 June 2005 – expert hearing in European Parliament
- Autumn 2005 : adoption of European Parliament and Economic and Social Committee reports
- 2006 – Review of CMOs for fruit and vegetables and wine
- 2006 – Study on technical aspects of insurance systems
- 2005/2008 – Research project on income variability and stabilisation (Wageningen)



III. The situation of insurances in the MS

1. The study launched by DG Agri
2. The situation in the Member States regarding
 - a. risk coverage
 - b. Public or private schemes and subsidies



1. The study launched by DG Agri

- DG Agri launched a study in 2005 with the Joint Research Center (JRC) of ISPRA on insurance schemes in EU 27
- Final results expected by the end 2006
- Main objectives : updated inventory of risk management tools available in Member States + analysis of the technicalities of agricultural insurance + assessment of the possibility for an EU wide instrument



2. The situation in the MS

a. Risk coverage

- Single risk insurance (hail) is available in all MS
- Multi or combined risks insurance, calamity funds and ad hoc aids are available in in the majority of MS
- Some products are not well developed:
 - ✓ Yield insurance (Aust, Fr, It, Lux, Sp)
 - ✓ Indirect-index insurance (Sp),
 - ✓ whole farm yield insurance (Fr),
 - ✓ stabilisation account (Sp, Sw, Finl)
- There are **pilot project on income/revenue insurance** in Fr and Lux



b. Public/private schemes and subsidies

- Calamity funds and *ad hoc* aids are always public schemes
- Except in Greece and Cyprus, insurances schemes operate through private companies
- Very few market players per country in the insurance sector
- More than 1,5 bn€ of insurance premiums in EU25
- Public involvement at EU level:
 - 14 countries
 - Insurance subsidies : around 500 M€
 - Ad hoc and funds payments around 1bn€/year



The next steps...

- Necessity to continue the analysis on the subject (both on insurance and income stabilisation)
- Take advantage of other experiences (US, Aus, Can...)
- Simplification, efficiency and control issues to be taken into account



Further information

- Communication: COM (2005) 74 final
- Working Document: SEC (2005) 320
- http://europa.eu.int/comm/agriculture/publi/communications/risk/index_en.htm