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Agriculture and Rural Development



Risk management in agriculture

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Risk Management in the EU

- *Background and context*
- *Current situation*
- *Future*





Risk Management – why an issue?



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- ***Increasingly unstable situation for farmers in the EU***
 - Decreasing role of price stabilization mechanisms
 - Climate change - farmers increasingly exposed to risks

- ***2005 Commission Communication***
“Risk and Crisis Management in EU Agriculture”
EU-wide options:
 - Crop insurance premia subsidy
 - Development of mutual funds
 - Income stabilisation scheme

Context: available Risk Management tools

- CAP: not the only way for farmers to deal with risks, but in the CAP, the following tools are available:
 - Price risks:
 - Intervention
 - Disturbance clauses
 - Direct Payments
 - Production risks:
 - Rural Development measures
 - Veterinary Fund
 - Insurance subsidies: State aids *and/or* Community measures
 - Subsidisation of mutual funds
 - Sector specific solutions: Fruit and vegetables; wine

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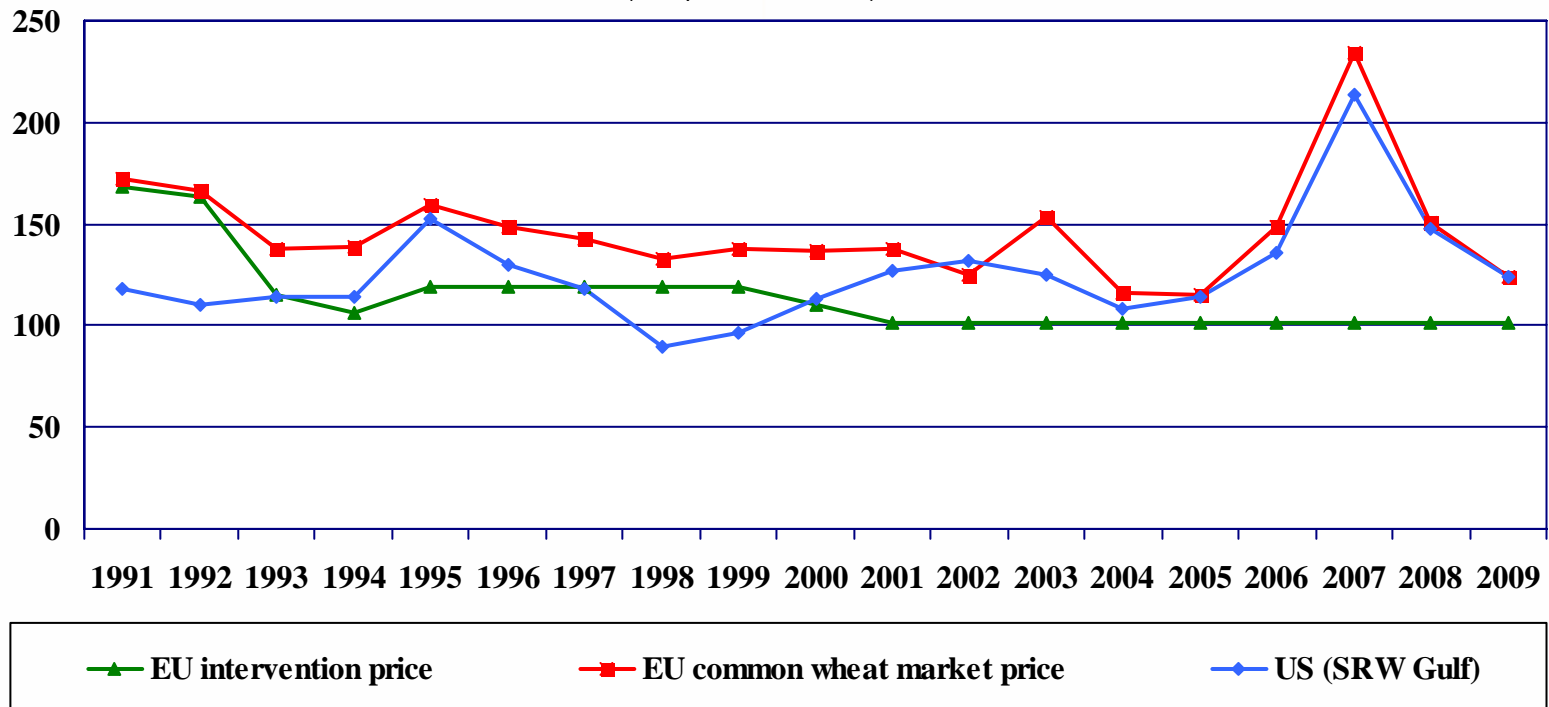
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The evolving role of EU support prices - wheat

(in € per metric tonne)



Sources: European Commission - DG Agriculture and Rural Development and World Bank

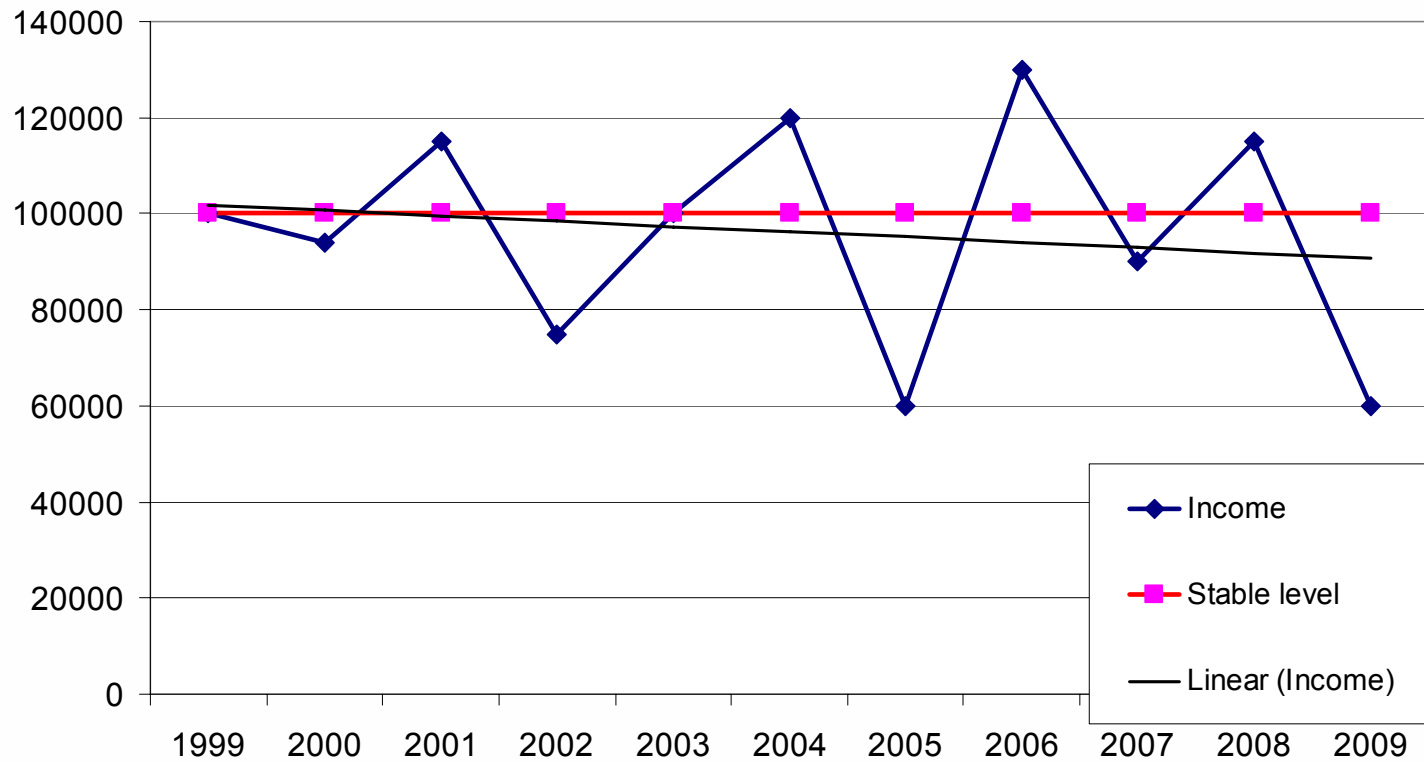


What do we mean by stability?



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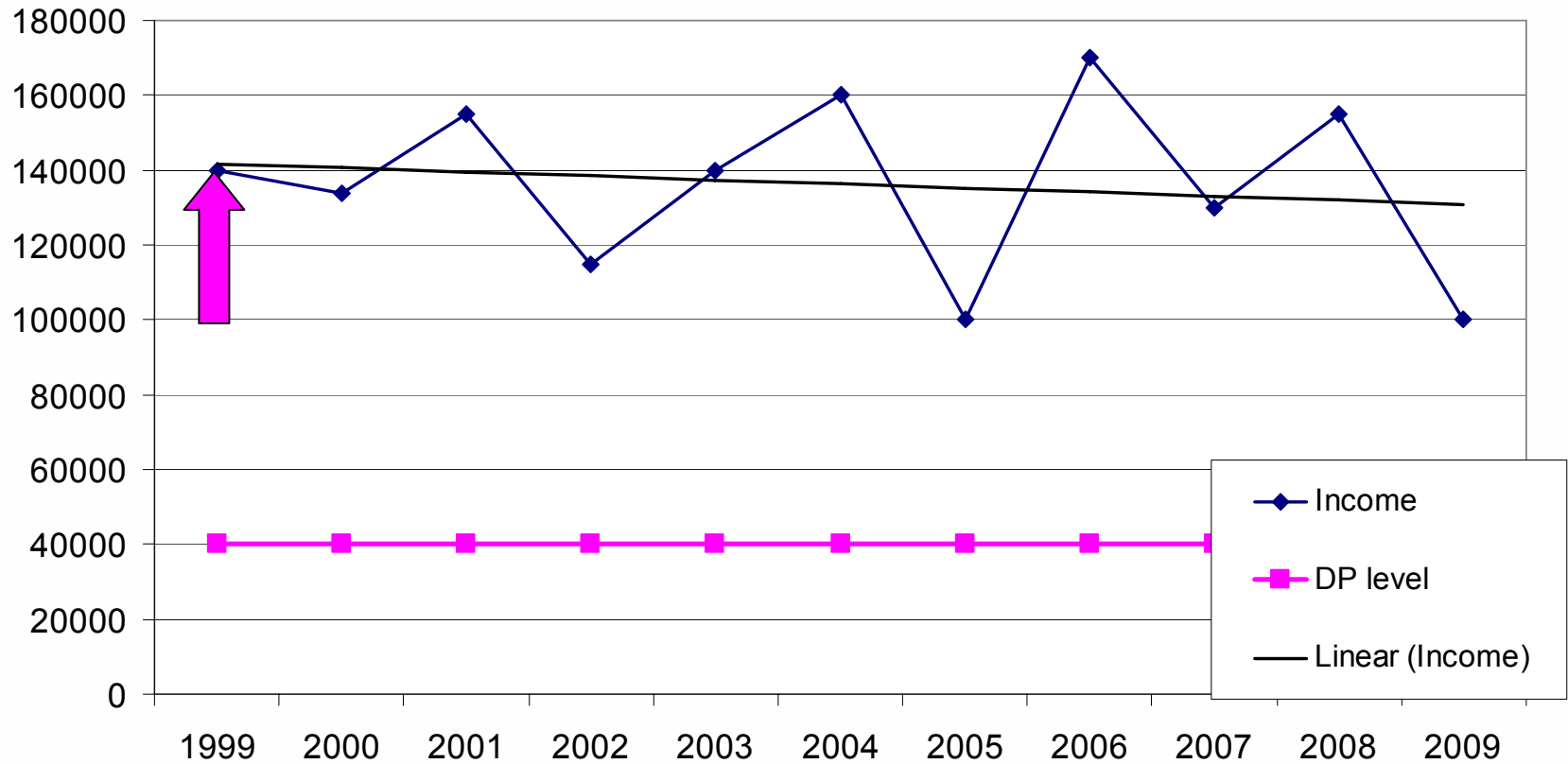
Stable trend





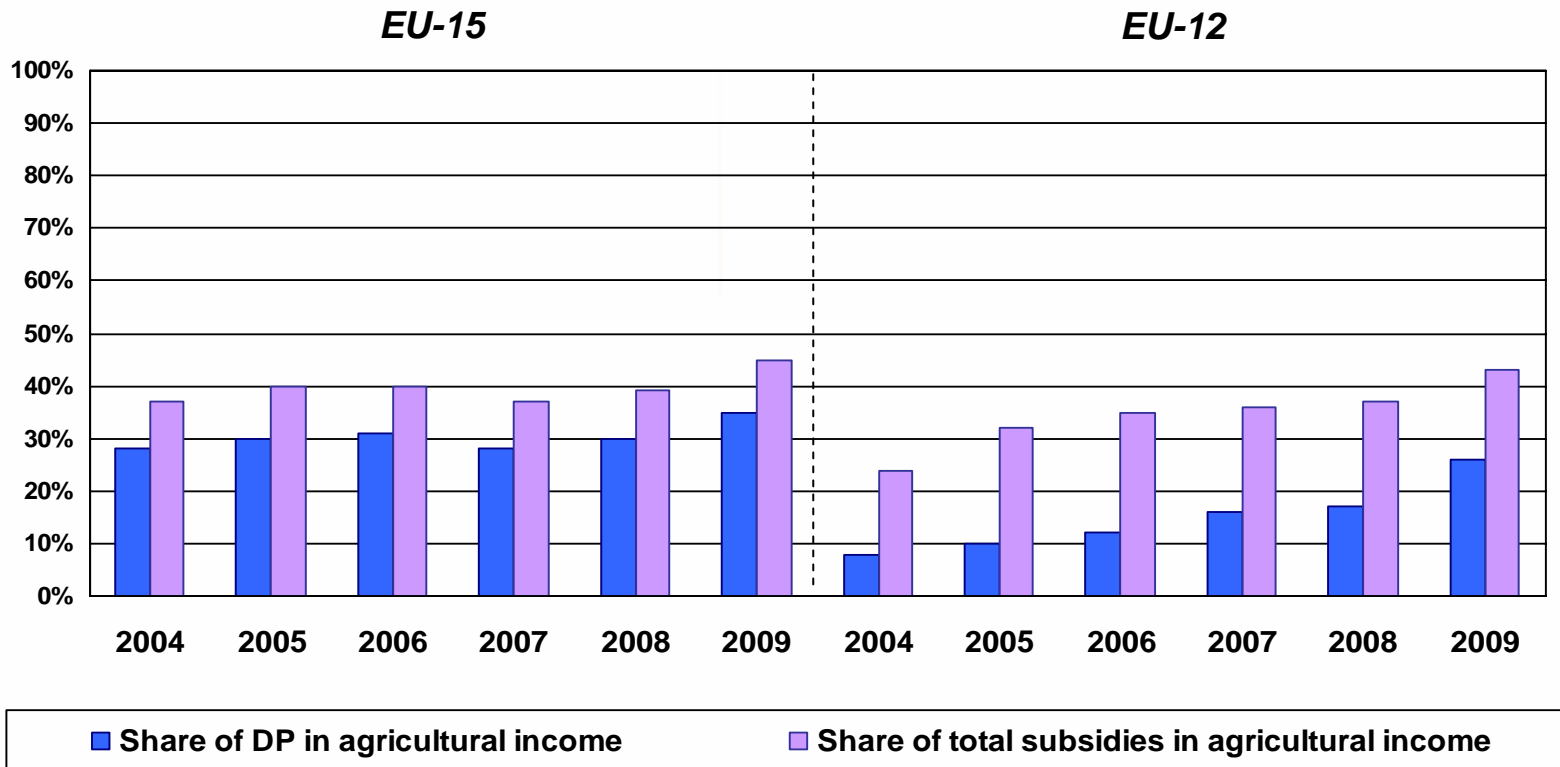
Role of direct payments

Stable trend





Share of DP and total subsidies in agricultural factor income



Source: European Commission - DG Agriculture and Rural Development

Context: available Risk Management tools



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Insurance subsidies: State aids

- Member States may subsidize insurance premia
 - i) for damage caused by natural disasters or exceptional occurrences
 - ii) for losses caused by adverse weather conditions
 - iii) to combat animal and plant diseases

- Has to be notified to and approved by the Commission

- The aid levels vary a lot between MS, \approx 400 meuros notified for year 2008 for insurance subsidies



Insurance subsidies: Community measures

- Member States may choose to use up to 10 % of direct payment envelopes for risk management measures (Art 68)
 - Contributions to insurance or mutual funds

- Premia subsidy for: crop, animal and/or plant insurance against:
 - Adverse climatic events
 - Animal or plant diseases
 - Pest infestation

- Requirements for coverage:
 - loss of more than 30 % of average annual production of the farmer
 - formal recognition of occurrence by competent MS authority

- Premia subsidy limited to 65 %, EU co-financing limited to 75 % of this

≈330 meuros notified for year 2010 for insurance subsidies



Comparing insurance premia subsidy notifications through the state aid scheme and through Art 68



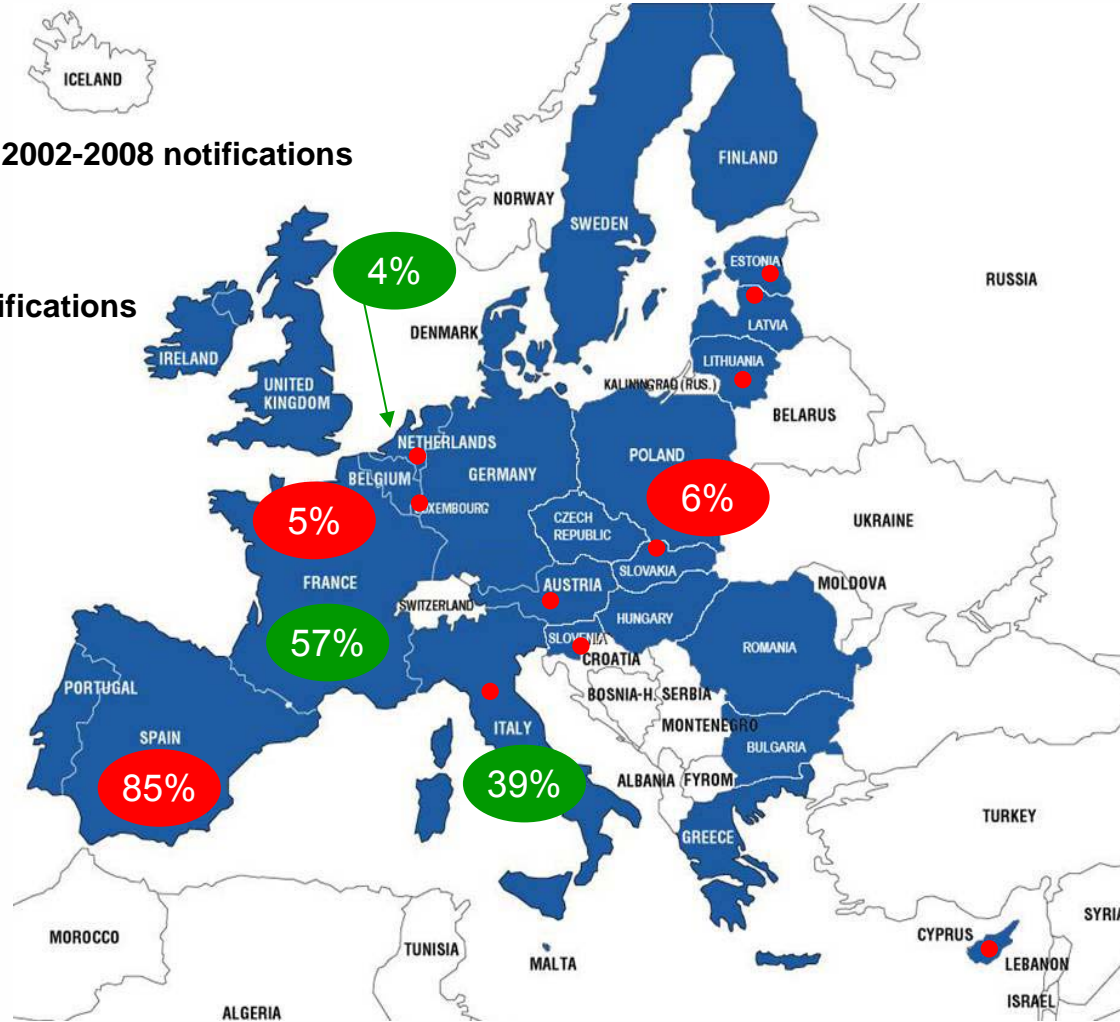
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State Aid

Average 2002-2008 notifications

Art. 68

2010 notifications





The future of Risk Management in the CAP?

- Price risks and production risks
- Production risks – could improve coverage and efficiency, but framework is there?
- Price risks – is there a need for something else to deal with market crises?
- Stabilisation schemes: compensate farmers when their income drop below a certain level (compared to average income)



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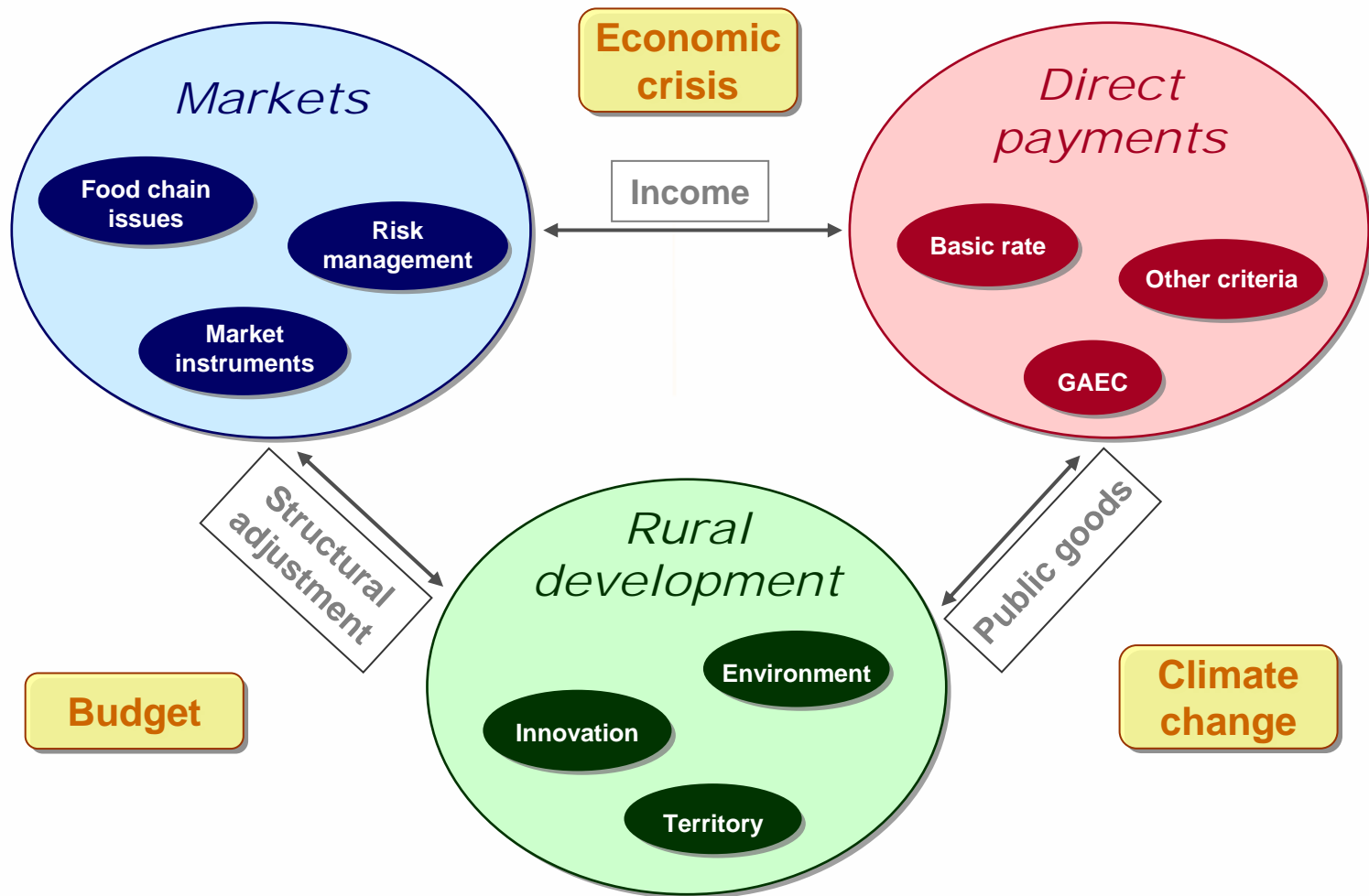
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The CAP debate at a glance



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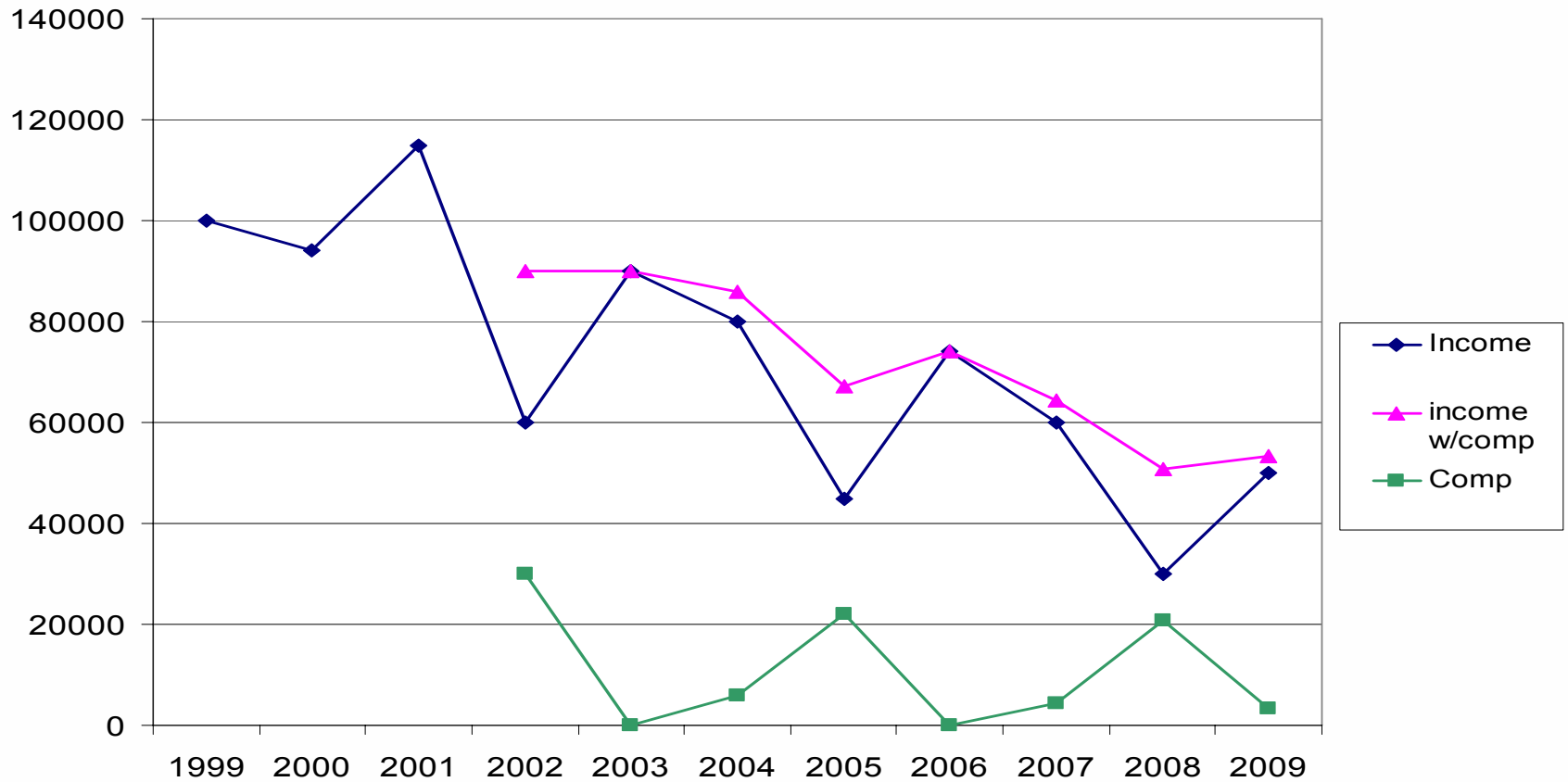
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Income stabilisation tool: individual farmer

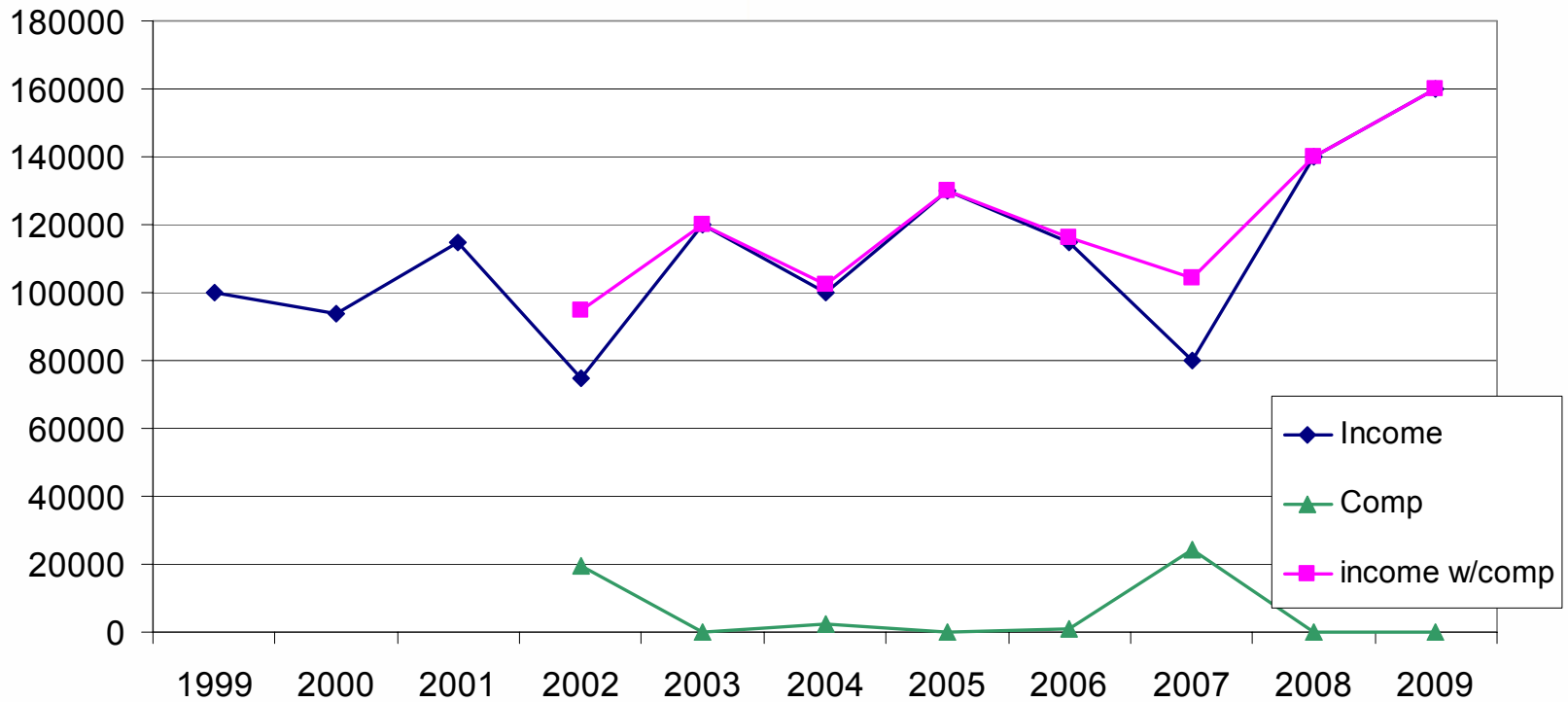
Decreasing income



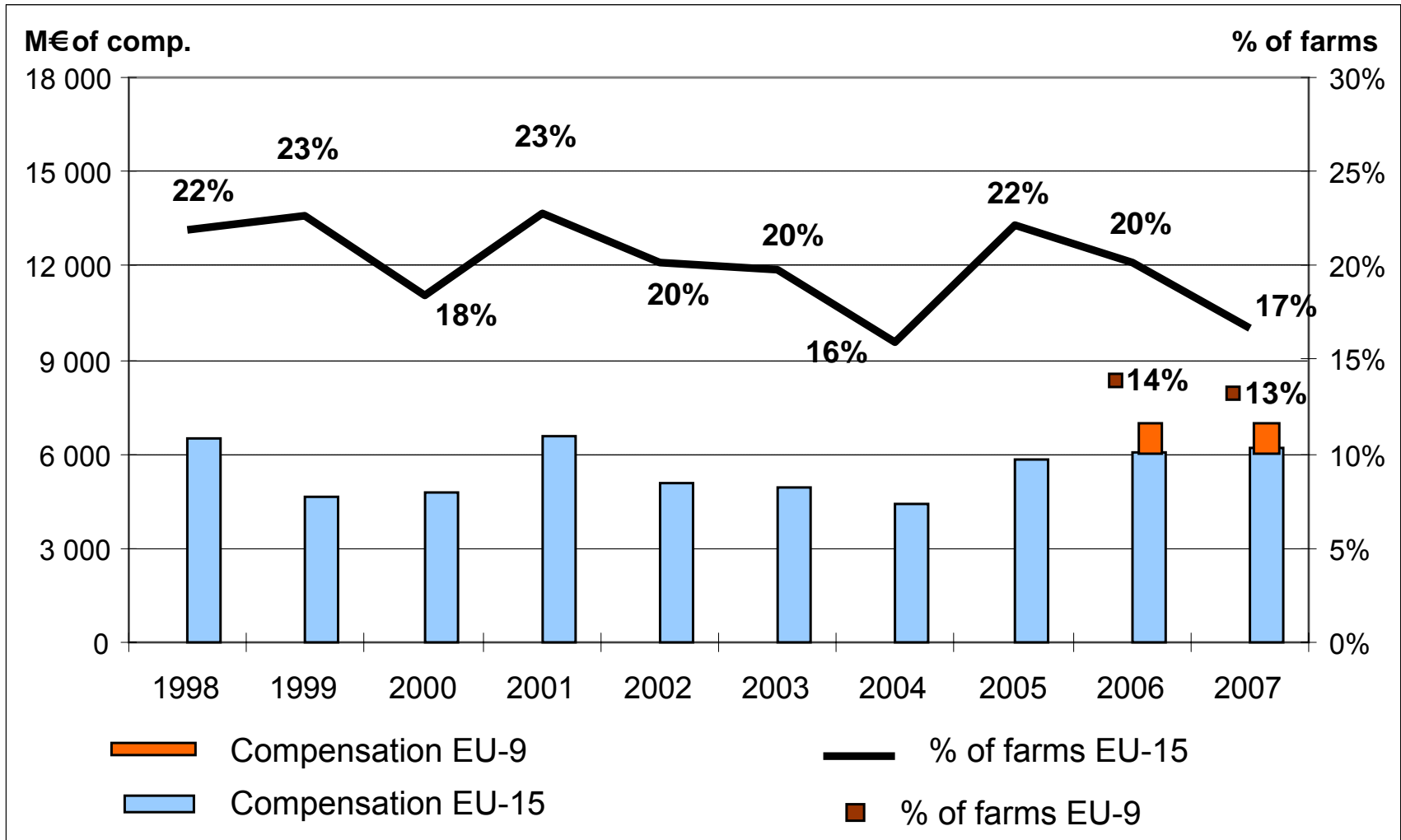


Income stabilisation tool: individual farmer

Increasing trend



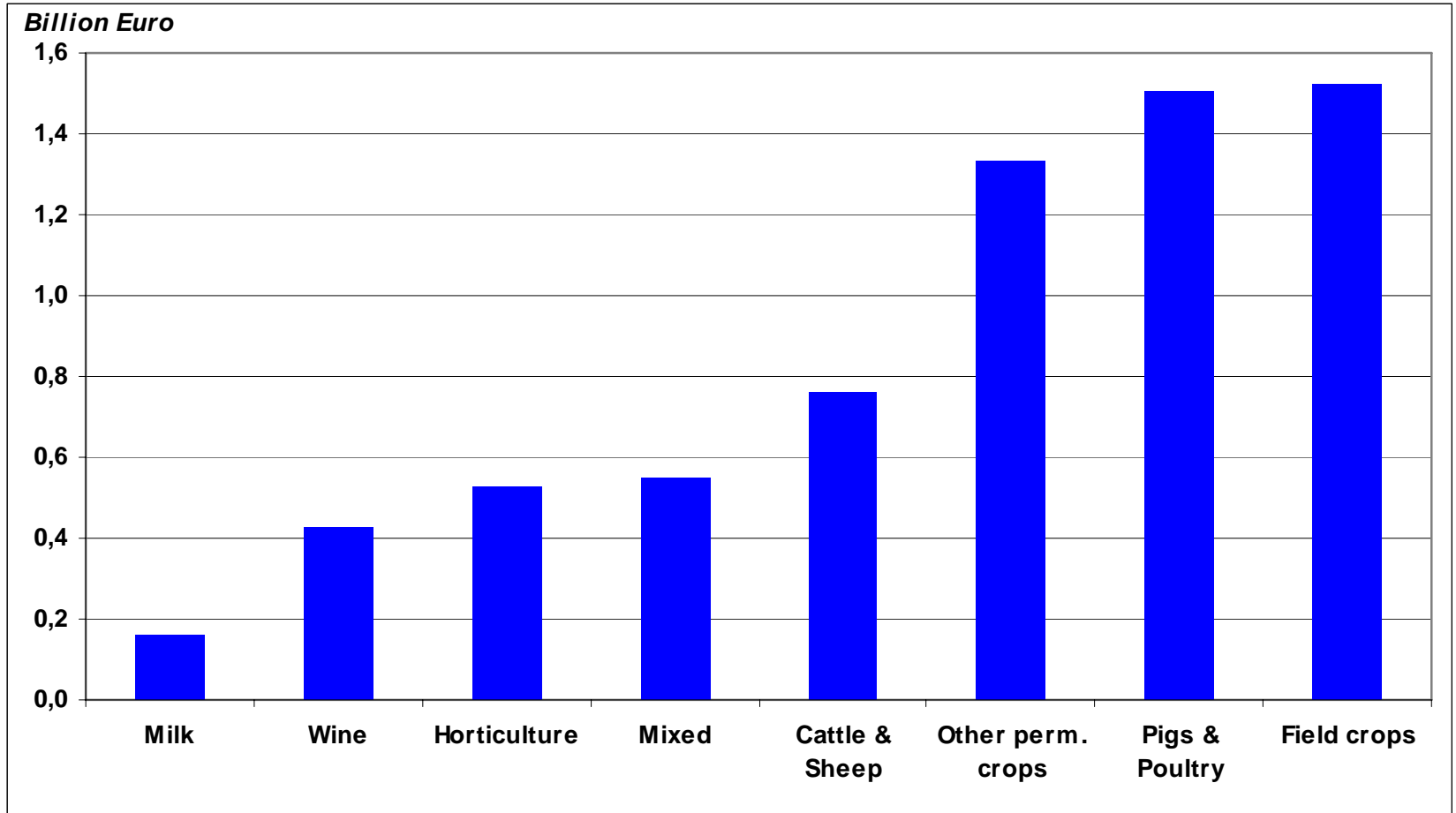
Income stabilisation scheme, EU-24



Note: Gross Farm Income used as income indicator; Average yearly compensation for EU-15 for 1998-2007, for EU-9 average 2006-07
 Source: DG AGRI L3 - EU FADN (no data for Malta, Bulgaria, Romania)



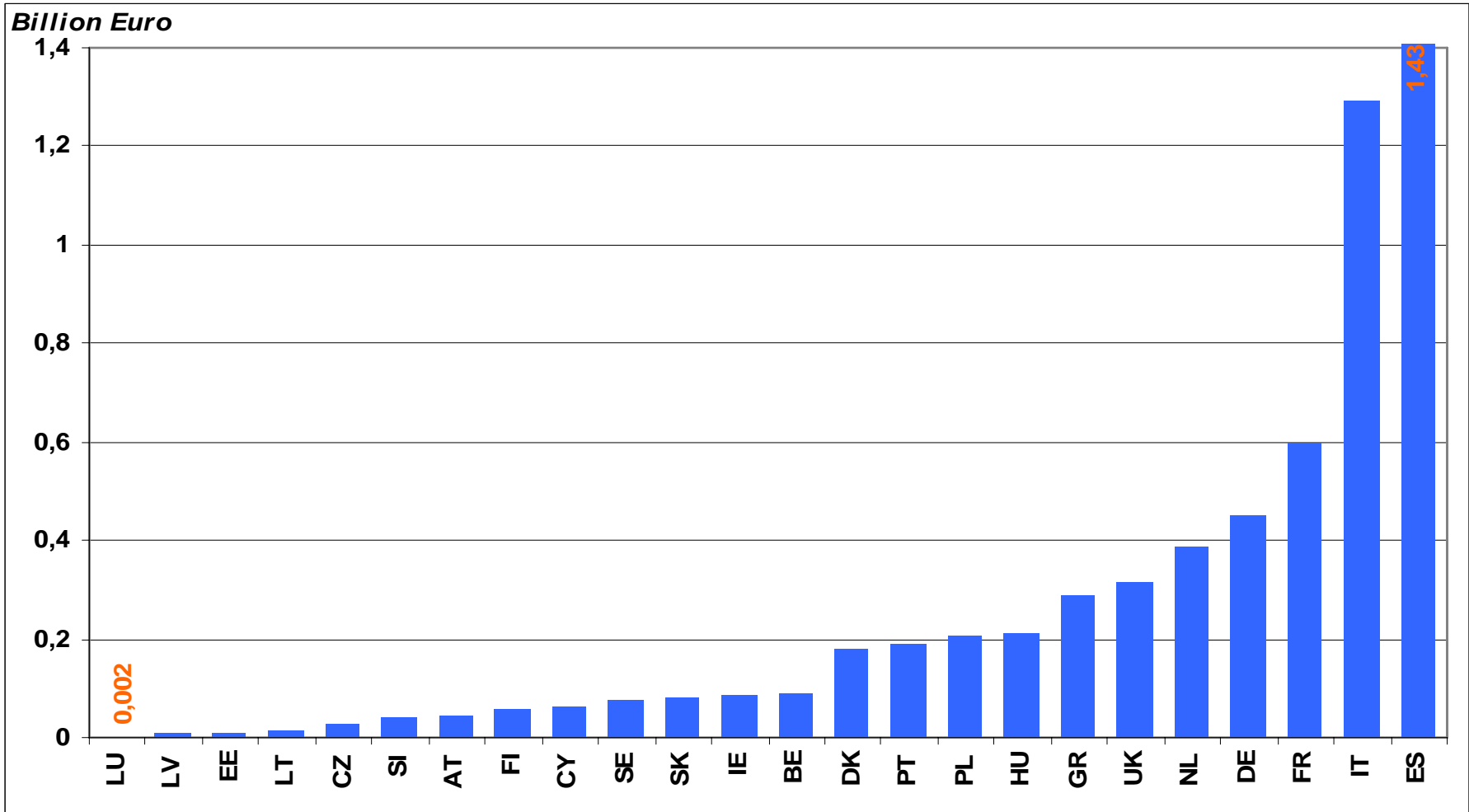
Compensation required by type of farming, 2007



Note: Gross Farm Income income indicator; 2007 compensation compared to average income 2004-2006
Source: DG AGRI L3 - EU FADN (no data for Malta, Bulgaria, Romania)



Compensation required by Member State Average 1998-2007



Note: Gross Farm Income used as income indicator; Average yearly compensation for EU-15 for 1998-2007, for EU-9 average 2006-07
Source: DG AGRI L3 - EU FADN (no data for Malta, Bulgaria, Romania)



Revenue or income stabilisation scheme

- Improved status quo with safety net intervention and production risk tools?
Or introduce income stabilisation tool?

- Obligatory EU-wide instrument? Or continue on the path 'optional for MS'?

- Considerations:
 - Budget? variability?
 - Distribution between MS and sectors
 - Pros and cons compared to existing tools?
 - Feasibility of implementation?
 - Administrative burden
 - Interaction with other CAP-support?



Summing up

- Risk Management for farmers increasingly important
- Many tools available to deal with risks – how to increase coverage and efficiency? What role for the public vs. private sector?
- Are new tools needed to help farmers deal with income risks?



Thank you for your attention! Questions?



For further information

- CAP Health Check

http://ec.europa.eu/agriculture/healthcheck/index_en.htm

- EU agriculture and CAP reform

http://ec.europa.eu/agriculture/index_en.htm

- Economic Analysis and Evaluation

http://ec.europa.eu/agriculture/analysis/index_en.htm

- Agricultural Policy Analysis and Perspectives

http://ec.europa.eu/agriculture/analysis/perspec/index_en.htm