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Risk management in agriculture

– existing tools and potential developments in the future

Maciej Krzysztofowicz
DG for Agriculture and Rural Development
European Commission

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Risk Management in the EU

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

Risk Management – why an issue for the Commission?

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- ***Continuous calls from stakeholders ⟶ 2003 reform conclusions:***
  - Council mandates the Commission *"to examine specific measures to address risks, crises and natural disasters in agriculture."*
- ***2005 Commission Communication***
  "Risk and Crisis Management in EU Agriculture"
- ***EU-wide options:***
  - Crop insurance premia subsidy
  - Development of mutual funds
  - Income stabilisation scheme

  but
  - No Council preference for any of the options
  - Must not undermine the instruments already existing at national level
  - Must comply with the WTO "green box" criteria
  - Joint responsibility vital
  - Source of funding

Risk Management – why an issue?

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

- ***Experience learned from others:***
  - public support instrumental in provision and uptake of Risk Management tools

- ***Heterogeneous risks/crises facing EU***

⟶ Question on the table again for the Health Check of the CAP in 2008

Context: available Risk Management tools before the Health Check

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- Price risks:
  - Intervention **(pillar I)**
  - Disturbance clauses **(pillar I)**
  - SPS **(pillar I)**

- Production risks:
  - Rural Development measures **(pillar II)**
  - Veterinary Fund **(SANCO)**
  - State aid *ad hoc* measures and insurance subsidies (**MS competency**, approved by the Commission)

- Sector specific solutions: Fruit and vegetables; wine

Risk Management – Health Check

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- ***Member States may choose to use up to 10 % of direct payment envelopes for risk management measures (Art 68)***
  - Contributions to crop, animal and plant insurance
  - Contributions to mutual funds for animal diseases, plant diseases and environmental incidents (cap of 3.5 % of Direct Payments)

- ***The intensity of aid will be limited to 65 %, EU co-financing will be limited to 75 % of this***
- ***Currently: notifications for 2010 have been received***

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

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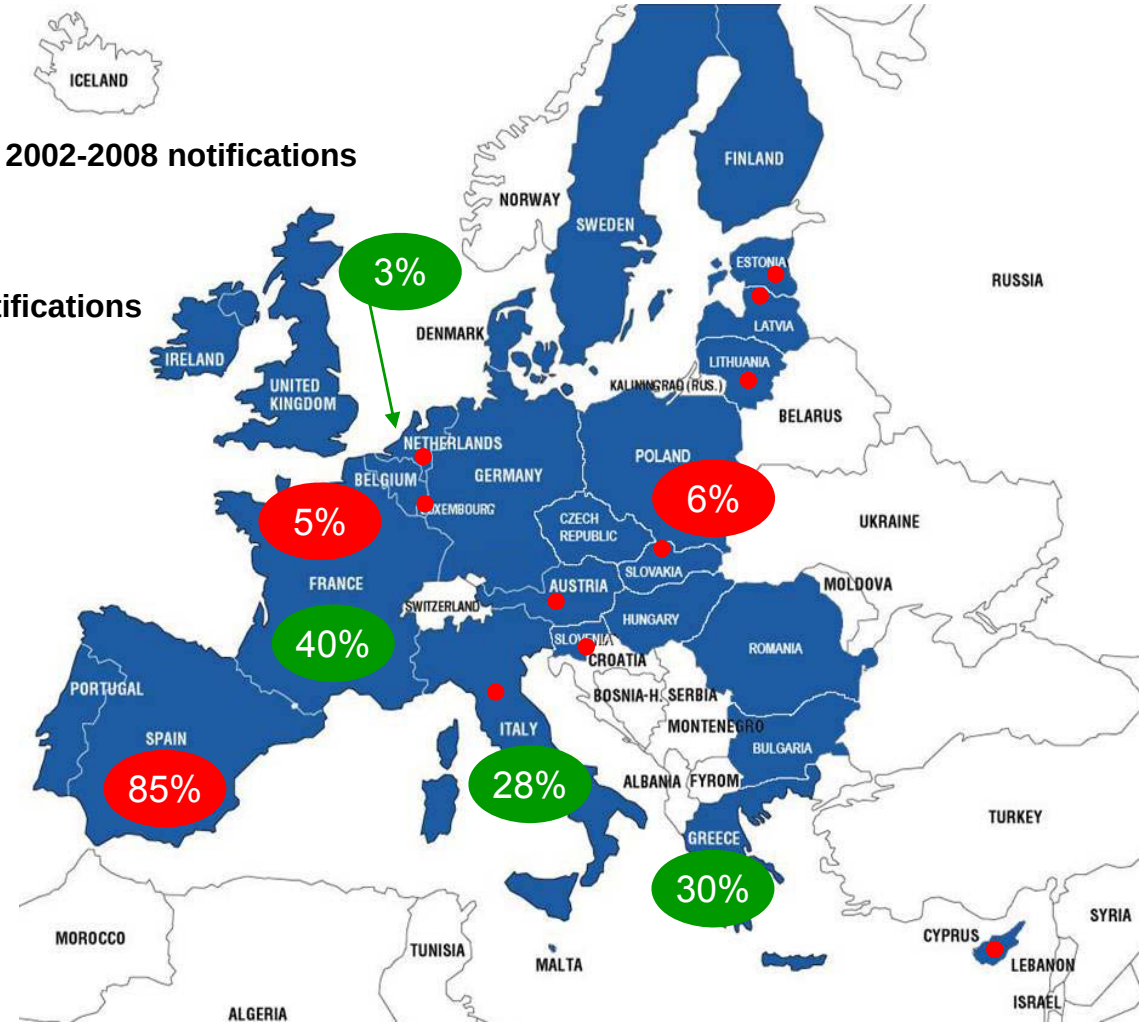
State Aid — **Average 2002-2008 notifications**

Art. 68 — **2010 notifications**



The future of Risk Management in the CAP?

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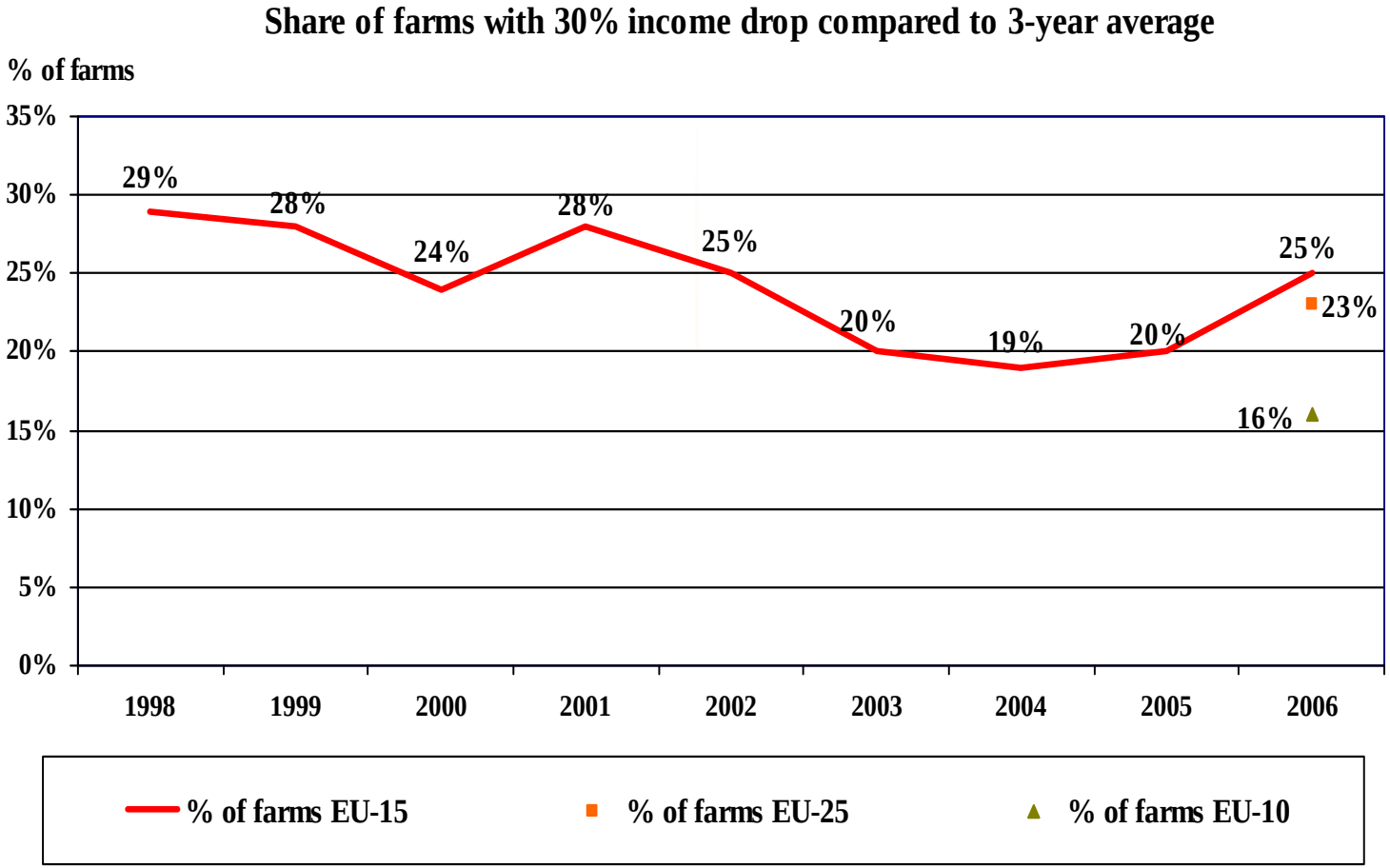
- Price risks and production risks
- Production risks – could improve coverage and efficiency, but framework is there
- Price risks – is there a need for something else to deal with market crises?
- Price, revenue, or income variation
  - What is the real worry for farmers? What is the responsibility of the public?
- What instruments would be available?
  - Price: intervention, CCP
  - Revenue and income: stabilisation schemes/insurances


Share of farms with 30% income drop compared to 3-year average
% of farms
35%
30%
25%
20%
15%
10%
5%
0%
29%
28%
24%
28%
25%
20%
19%
20%
25%
23%
16%
1998
1999
2000
2001
2002
2003
2004
2005
2006
% of farms EU-15
% of farms EU-25
% of farms EU-10

Revenue or income stabilisation scheme

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

- Considerations:
  - EU-wide scheme: budget? variability?
  - EU-wide scheme: distribution between MS and sectors
  - EU-wide scheme: pros and cons compared to existing tools?
  - Optional for MS: distortion of competition?
  - Feasibility of implementation?
  - Administrative burden
  - Efficiency if also complying with ‘green box’?
  - Interaction with other CAP-support?

Income stabilisation scheme, EU-25

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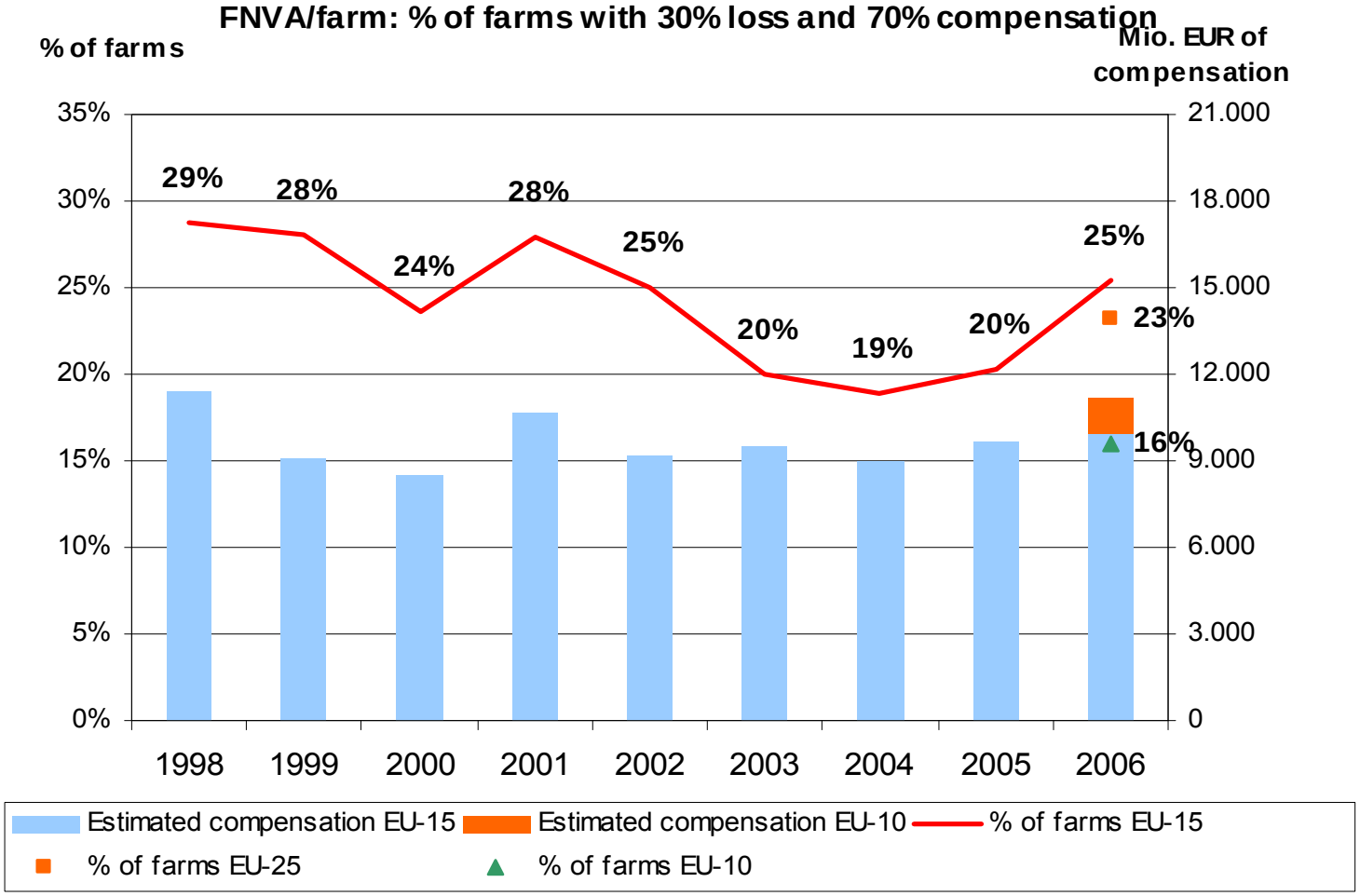

In a nutshell, CAP policy questions...

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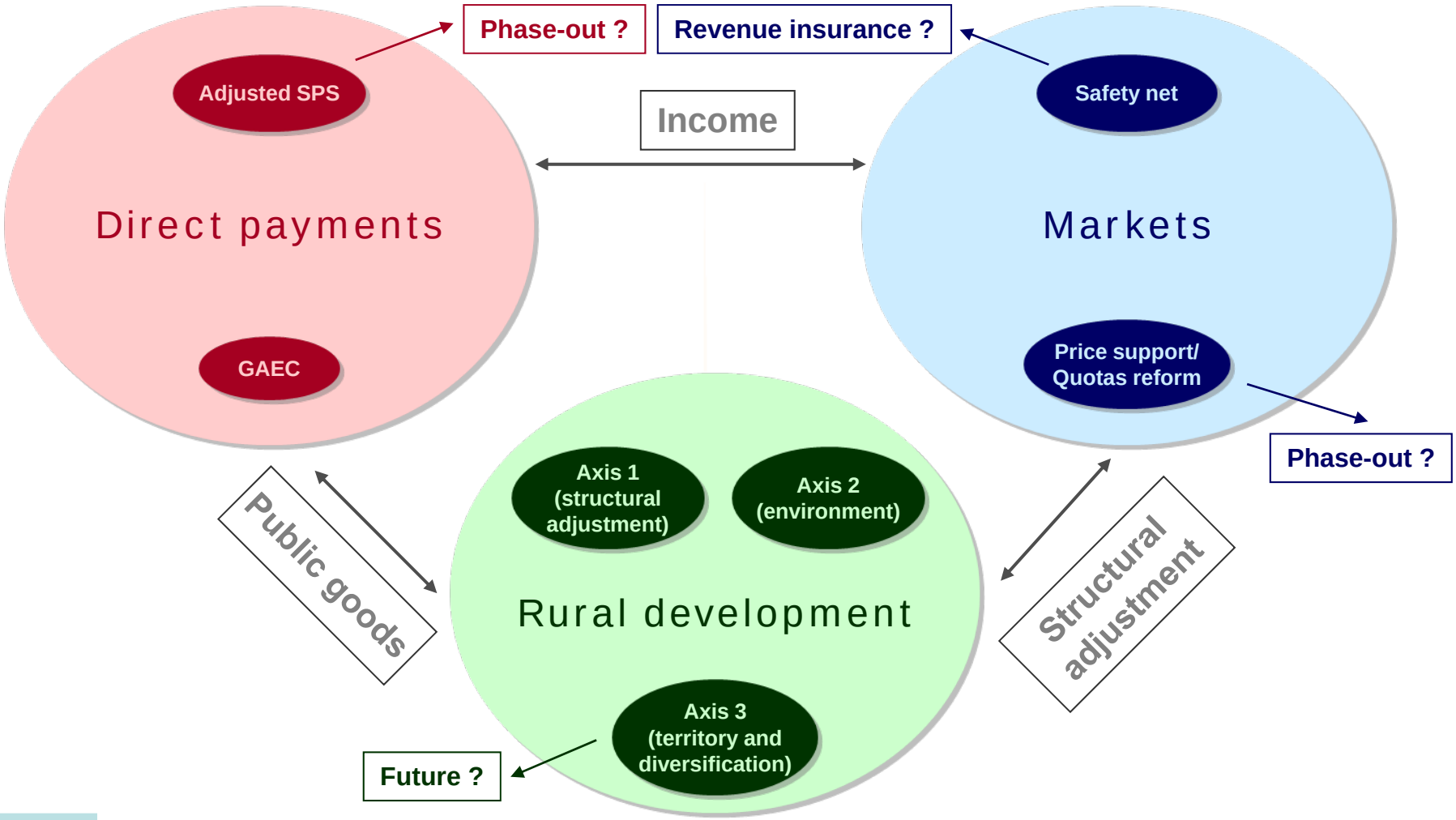

For further information

- 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

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Thank you for your attention! Questions?

maciej.krzysztofowicz@ec.europa.eu