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EU Agricultural Risk Management post-2020

Rome, 28 November 2019

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Study on risk management in EU agriculture (Oct 2017) (web link)

Findings:

- European farmers are increasingly exposed to a wide range of risks while

- the availability of risk management instruments lags behind.

- Insurance remains the most commonly used instrument, while both

- availability and uptake of other instruments such as mutual funds and contractual price agreements (including futures) is more limited.

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Communication on The Future of Food and Farming

(Nov 2017 web link)

Main messages regarding risk management in agriculture:

- Risk management to be a key priority in the future policy
- Attention needed to increased risk exposure due to the market orientation of the CAP (price and other market risks) and climate change with associated increased frequency of extreme weather events
- CAP role to enhance agricultural resilience, while keeping farmers responsible to design own on-farm strategies and crowd-in private initiatives
- Importance to increase knowledge transfer to farmers regarding the existence and understanding of risk management instruments
- need to be further adjusted and improved the currently available policy tools, e.g. use of index insurance, reinsurance
- Need to improve synergies of preventive, management and mitigation actions at EU, national and private level; tailored to regional specificities
- Explore potential of financial instruments to stimulate inflow of private capital

Impact Assessment SWD (June 2018 web link)

The Impact assessment confirmed the messages from the Communication on the future of food and farming.

The assessment highlighted that:

- farmers' capacities to deal with risks need to be strengthened
- the potential for market-based risk management tools needs to be improved
- risk sharing along the food chain should be encouraged
- Risk management tools compensating for losses should be a complement to the main mechanism of income support
- the CAP has to remain market oriented, i.e. farmers decisions need to take into account market signals and be exposed to the normal agricultural risks
- Due to the differentiated risk environment across the EU and agricultural sectors, MS need flexibility in designing risk management strategies and schemes.

CAP Approach to Risk Management

Layered approach to allow for risk mitigation, loss limitation, adaptation to new risk environments and transformation to more resilient systems:

- Encouragement for private risk management: contracting, future contracts and options for price risks, on-farm resilience and non-subsidised insurances for production risks
- Savings and access to credit
- Direct payments and coupled support
- Market measures: private storage aid (specific products), intervention safety net (specific products) and crisis reserve; market withdrawal for fruit and vegetables sectors
- Support for knowledge transfer, advice, cooperation and innovation
- **Loss compensation schemes under RD (insurance + mutual funds)**
- Investment support for risk prevention and restauration of damages

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CAP Approach to Risk Management (web link)

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EU Agricultural Markets *Briefs*

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Risk management schemes in EU agriculture

Dealing with risk and volatility

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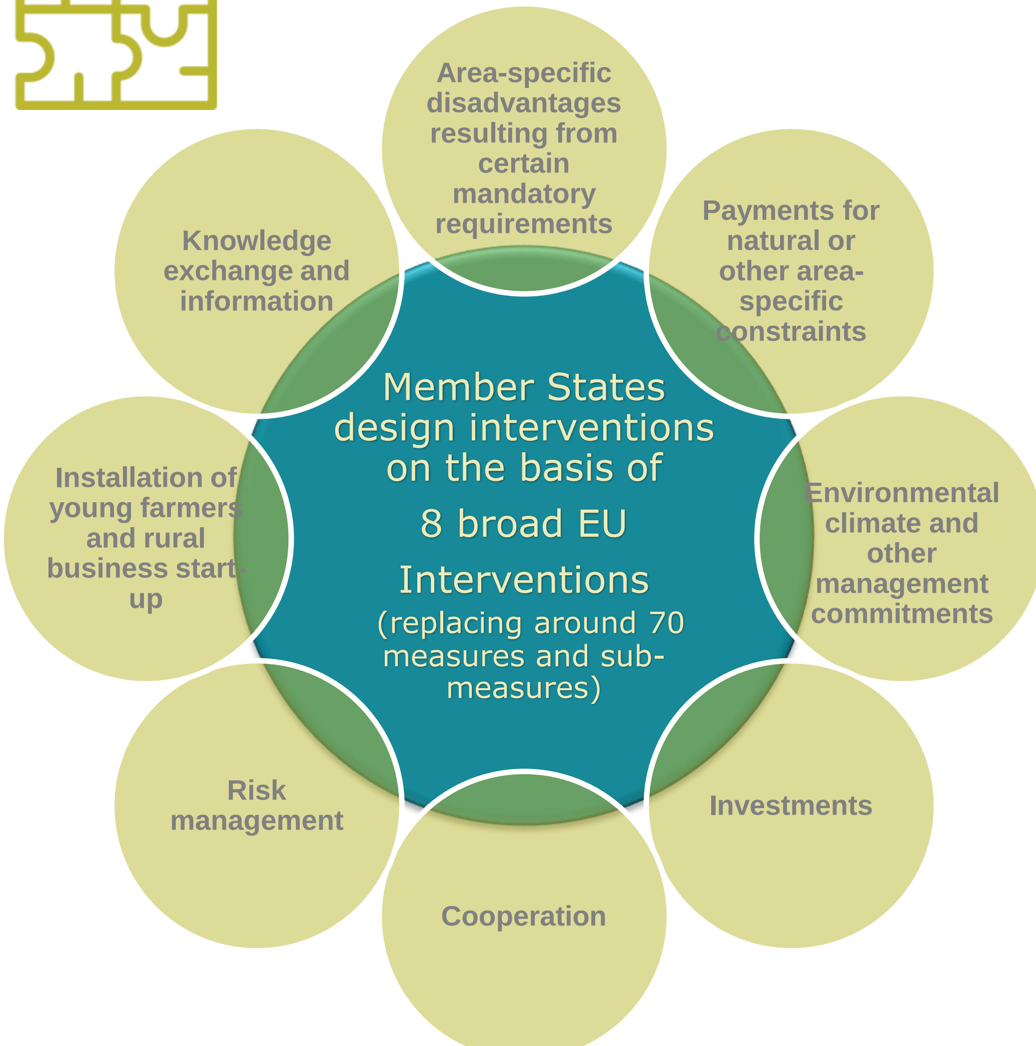
Risk is inherent in the agricultural sector, and farmers have to develop strategies to address higher price volatility, increasing pressure on income and risks stemming from climate change. Greater market orientation of the Common Agricultural Policy (CAP) led to more exposure to market risks and expectations that risk management should become more important in the CAP.

The aim of this market brief is to describe the current state of risk management in EU agriculture. Different drivers of agricultural risk are explained and perceptions, attitudes and responses of farmers towards risk and how risks can be managed on farm are discussed.

The different private or public-private instruments that can be used by farmers to prevent, mitigate or cope with agricultural risks are reviewed subsequently, followed by a discussion of risk management instruments that are present in the CAP to mitigate catastrophic risks. This brief explains how these instruments work, describes the extent to which they are currently used by farmers, and identifies obstacles in the uptake of the instruments in the EU.

RURAL DEVELOPMENT

Key Features



Ring-fencing of **total EAFRD** contribution:

- **30%** for interventions addressing the 3 environmental/ climate objectives
- **5%** for LEADER

Mandatory risk management tools and Risk Management Strategy

Simplified implementation of **LEADER**

Higher support rates for investment

Digital strategies to be included in CAP Strategic Plans

Possibilities for combining **Financial Instruments** and grants

Increase of the **maximum amount of aid for the installation of young farmers** (up to EUR 100.000)

Simpler way of ensuring coherence with other EU funds: CAP Plan instead of Partnership Agreement

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Intervention logic Risk management CAP post-2020

CAP specific objective	Support viable farm income and resilience across the Union to enhance food security
Result indicator	R.5 Risk management: Share of farms with CAP risk management tools
Output indicator	O.8 Number of farmers covered by supported risk management instruments

Article 70 of the CAP Strategic Plan Regulation proposal

Risk management tools

- Mandatory type of intervention for Member States (not for beneficiaries)
- Financial contributions, in particular,
  - ✓ to premiums for insurance schemes
  - ✓ to mutual funds

  to cover farmers' uncontrollable **losses** of **at least 20%** of the three year average or five year olympic average annual **production or income**
- Member States shall establish
  - ✓ types and coverage of eligible insurance schemes and mutual funds
  - ✓ The methodology for the calculation of losses and triggering factors for compensation
  - ✓ the rules for the constitution and management of the mutual funds
- Maximum support rate: 70%

Article 3(e) of the CAP Strategic Plan Regulation proposal

Definition of a mutual fund

mutual fund' means

- a scheme accredited by the Member State
- in accordance with its national law
- for affiliated farmers to insure themselves,
- whereby compensation payments are made to affiliated farmers who experience economic losses.

Risk management tools
(comparison with current period)

- ✓ Covers insurance schemes, mutual funds (including IST)
- ✓ Applicable to active/genuine farmers
- ✕ Limited scope for insurance (production risks; no income risks)
- ✓ Definition of 'mutual funds'
- ✕ Definition of income
- ✕ Different sets of rules for different types of risk
- ✓ Definition of thresholds for losses and calculation methods
- ✕ Formal recognition of risk events in relation to production
- ✕ Predefined list of production risks (weather, diseases, etc.)
- ✕ Constraints concerning duration of loans for Mutual funds
- ✕ Reinsurance for mutual funds not eligible
- ✓ Overcompensation from different schemes to be avoided
- ✓ Predefined maximum rates of support

✓ Retained rules
✕ Abolished rules

New State Aid exemption

Article 133

National fiscal measures

Articles 107, 108 and 109 TFEU shall not apply to national fiscal measures whereby Member States decide to deviate from general tax rules by allowing for the income tax base applied to farmers to be calculated on the basis of a multiannual period.

WTO Greenbox Rules for Risk Management

Production insurances (point 8 of Annex 2 of AoA):

- To cover only losses due to natural risk events formally recognised by government authorities
- Min loss threshold 30% in reference to annual average of the preceding 3 years or Olympic average of preceding 5 years
- Support shall not require or specify the type or quantity of future production

WTO Greenbox Rules for Risk Management

Income insurances (point 7 of Annex 2 of AoA):

- Subject is income derived from agriculture
- Accessible to for all producers (no sectoral targeting)
- Min loss threshold 30% in reference to annual average of the preceding 3 years or Olympic average of preceding 5 years
- Reason for income loss irrelevant
- Compensation payments limited to a max of 70% of income loss

Thank you