



European Commission  
Agriculture and Rural Development



## *“The instruments for risk management in the CAP”*

*“Gruppo 2013”, Rome, March 3, 2009*

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## *Risk Management – why an issue?*

- ***Background***
  - Continuous calls from stakeholders/MS to introduce RM in CAP
  - 2005 Commission report and discussions in Council
  - Heterogeneous risks/crises facing EU
- ***Increasingly unstable situation for farmers***
  - Decoupling of aid increased market orientation
  - Climate change → farmers increasingly exposed to risks
  - Public support instrumental in provision and uptake of RM tools



## ***Context: available Risk Management tools in the CAP***

- Price risks: intervention, disturbance clauses, SFP
- Production risks: Veterinary Fund, Rural Development, Private/Public insurances, State aid *ad hoc* measures and insurance subsidies
- ***Objectives with introducing further tools in the Health Check***
  - Further contribute to stability of farm income, without excessive budgetary costs
  - Administrative burden weighted against benefits



## *Risk Management – recent developments*

- ***Communication on the Health Check, Nov 2007***
  - ***How to manage risks?***
    - Price-related risks best addressed by existing 1<sup>st</sup> pillar measures
    - Production-related risks (weather, animal disease) need more targeted approach
- ***Health Check legal proposals, May 20, 2008***
- ***Political agreement on presidency compromise, November 20, 2008***



## *Health Check proposal on Risk Management – MS flexibility*

- ***Enhanced role of RM in existing CAP instruments***
  - Introducing more flexibility in ‘Art. 68’ by allowing MS to subsidize insurance premiums or mutual funds
  - Financing to come from MS direct payment envelopes
- **allows targeted action for problems that are often regional because risks are heterogeneous in the EU**
- **budget neutral with respect to overall CAP budget**
- **meets objective of contributing to income stability of agricultural community**



## *Political agreement, November 20, 2008*

- ***Member States may choose to use 10 % of direct payment envelopes for “Article 68” measures***
- ***Article 68 measures include:***
  - 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***



## *Article 70: Crop, animal and plant insurance*

- ***Member States may grant financial contributions to premiums for insurance against economic losses caused by:***
  - Adverse climatic events
  - Animal or plant diseases
  - Pest infestation
- ***Financial contribution for loss which destroys more than 30 % of average annual production of the farmer***  
(preceding 3 years, or “olympic average” 3 years out of last 5 years)
- ***Formal recognition of occurrence by competent MS authority required***
- ***MS shall ensure no over-lapping with other payments from other animal/plant health or veterinary measures***



## *Article 71: Mutual funds for animal & plant diseases and environmental incidents*

- ***Mutual fund = scheme accredited by MS for affiliated farmers to limit damage caused by economic losses due to:***
  - Animal or plant diseases
  - Environmental incidents
- ***As for insurance – no over-lapping with other payments***
- ***Source of financial compensation:***
  - Capital stock contributed by affiliated farmers
  - Loans taken out by the fund
  - Potential financial contributions contributed by 3<sup>rd</sup> party
- ***Financial contributions may relate to:***
  - Administrative costs of setting up the mutual fund
  - Amounts paid by the mutual fund from its capital stock to compensate farmers
  - Repayment of capital and interest on loans taken out by the mutual fund for paying compensation to farmers



## *Why not an EU-wide income insurance scheme?*

### ■ ***Income insurance***

- Would imply high and varying budgetary costs
- affects stability rather than level of income
- fairness between sectors questionable
- may prevent farmers from using on-farm risk management techniques
- requires a common definition of income throughout EU-27
- high administrative burden
- but high transfer efficiency – efficient for achieving income stability

**Hence, “one-size-fits-all” not best solution since risks/crises heterogeneous between regions and sectors**



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Thank you for your attention! Questions?

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