Commom agricultural policy CAP: risk and crisis management

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PURPOSE: To launch a debate on risks and crisis management in agriculture.

CONTENT: This document has been presented by the Commission in the wake of a far reaching overhaul in the Common Agricultural Policy. For many years the objective of CAP has been to secure farm incomes through a series of market and price stabilisation measures. Successive reforms, however, have gradually switched support from market and price management to direct payments, which from 2005 will be largely decoupled. Breaking the link between direct payments and the type and volume of production will allow farmers to better adjust their production decisions in line with economic and agronomic criteria. In other words, farmers will be able to act in a more market-orientated manner, while benefiting from an enhanced, targeted income support scheme. At the same time, however, the reforms imply that farmers will have to take responsibility for managing the kind of risks that were formerly absorbed by market and price support policies.

Nevertheless, as in the past, farming will remain vulnerable to specific risks and crises which are often beyond the farmer's control. Thus, whilst calculated risk-taking may bring positive results, it is appropriate to offer farmers protection from events such as natural disasters and other unpredictable occurrences. The purpose of this Communication, therefore, is to examine what additional measures CAP could introduce to support farmers from risk and to offer farmers crisis management support. In launching this debate, the Commission is responding to the conclusions of the December 2003 Agricultural Council, in which the Commission was invited to present a number of options re: the risks associated with CAP reform and how to offer crisis management support. Having examined the risks the Commission proposes three options. They are:

Option 1: Insurance against natural disasters – Financial participation in farmers' premium payments:

Insurance provides an alternative to public ex-post compensation payments for losses caused by natural disasters at EU and national or regional level. A new measure, eligible under the rural development Regulation, could therefore provide a financial contribution towards the premiums paid by farmers for insurance against income loss as a result of natural disaster or disease. As an alternative to supporting insurance premiums, the encouragement of national reinsurance schemes could also be examined.

Option 2: Supporting mutual funds:

Mutual funds represent a way of sharing risk among groups of producers who want to take their own responsibility for risk management. The fund's capital can be called on by members in the event of sever income losses to be specified by predefined rules. With this in mind the Community could envisage providing support for the development of mutual funds in the agricultural sector. Under this option, temporary and digressive support for the administrative operation could be granted per farmer participating in funds formally recognised by the Member State's competent authority.

Option 3: Providing basic coverage against income crises:

Under this heading, the Commission is proposing a more generalised approach to income crises rather than any sector-specific approach. A more general coverage against crises that result in sever income losses would allow existing safety net provisions to be further simplified and improve the balance between different agricultural sectors. This measure would require agreement on a precise, accounting definition of income and for Member States to establish a system of reference income at farm level.

Finally, the Communication is accompanied by a Staff Working Paper which describes the risk and crisis management tools already available to EU agriculture. Further, the Commission points out that none of the options proposed would entail any additional expenditure.