The CAP
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Report on the workshop:
'Risk management in EU agriculture'

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#FutureofCAP
Motivation for EC Workshop on RM (18-19 May, Brussels)

Risks affecting agriculture in the EU today

- **Markets**: price volatility, uncertainty
- **Production**: events with adverse outcomes (weather-related, diseases, accidents)
- **General context**: regulatory uncertainty

Risk management (RM) in the CAP framework (2014-20)

- Optional (mainly CAP Pillar 2), **various instruments, flexible arrangements**
  - Implemented by 12 Member States, types and extent of applied risk management instruments vary
  - Low uptake (~2% of CAP Pillar 2 expenditure, or ~0.4% of total CAP budget)
- Most of the EU MS continue to use of **State aids** in risk and crisis management
- Several **instruments with an income-focus** which play a role for RM (direct payments, safety net, some RD measures)
Scope of the EC workshop on RM

- What role for public and private?
  - Finding ways to empower the role of the farming community

- If public, what approach to risk management?
  - Insights into different country experiences

- Why are certain tools used/efficient and others not?
  - Implementation of the current CAP risk management instruments (exchange of experiences)
  - Insight on the private solutions (good practices, also pitfalls; potential for further development)
Setting the scene: Breakdown of risks in agriculture, coping strategies

Key findings:

(1) Farmers' own capacities to deal with risks need to be strengthened

- Awareness-raising, education, access to training → improved skills in RM
- Encouraging farm-level strategies (preventive measures, diversification, adding-value) and collective actions (mutualisation)
- Favourable regulatory environment (eg. tax and savings policies for precautionary savings accounts) only a few common principles (dedicated account, freedom of withdrawal)

- **CAP - challenge:**
  - to strengthen RM aspects of CAP instruments dealing with HR (eg advisory service, training, EIP, producer organisations)
Key findings:

(2) The potential for market-based RM instruments should be explored / improved

- Currently: very few mature and liquid markets → limited potential for hedging risks through the futures and forward markets

- **CAP – challenge:**
  - Provide framework for increased **transparency** (information sharing) and **trust** along value chains
  - further improve and make good use of the **market information system** (CMO and special tasks)
Key findings:

(3) Encourage risk sharing along the supply chains

- Farmers and other agents need to recognise that RM is of mutual interest
  - Qualitative leap in supply chain management: from risk mitigation/coping to **risk-sharing**
  - Empathy along the supply-chain can yield in successful RM strategies (eg. fixed prices, contracting, advance payments)

- **CAP – challenge:**
  - to establish favourable conditions for risk sharing (market information system, also RD measures – stimulating contracting and vertical chain integration in a balanced way)
Key findings:

(4) Future common RM arrangements can not be discussed in isolation with other CAP instruments

- Strong risk management character of the current CAP instruments (direct payments, CMO)
- Inter-connectedness between CAP instruments: fundamental changes would create spill-overs on risk-taking behaviour (both positive and negative!)
- Possible negative consequences of significant public support for RM (US): budgetary costs, efficiency losses, complexity, equity, possible adverse impacts (productivity, environment)

**CAP – challenge:**
- coherent and holistic integration of RM instruments within the whole frame of future CAP
Key findings:

(5) CAP RM toolkit after 2020: common framework, but keep it flexible

- Addressing diversity and complexity of risks across the EU
- Uneasy balance between public support and private initiative
  - no fully-commercial multi-risk farm insurance has been identified and stable
  - differing perceptions of normal / marketable / catastrophic risks → 'WTO (30-70) threshold' is perceived as limitation
  - …but covering minor losses may cause crowding out individual efforts and market instruments
- Ways to minimize adverse selection and moral hazard: mutualization, building of trust

- CAP – challenge:
  - Multi-layered, flexible, simple and responsive instruments
Key findings:

(6) Income risks: more questions than answers
- Whole enterprise approaches might be more appropriate than commodity-related
  - focus: variability of income, heavy income losses
- Index-based schemes more feasible than measures based on individual documented losses
  - but: risks of moral hazard, crowding out, massive bureaucracy
- Challenge of providing the critical mass
  - consider making schemes compulsory (eg. for catastrophic risks)

- CAP – challenge:
  - to combine direct payments and IST in a rational way
  - to help fostering the Member States‘ capacity to implement IST
Thank you for your attention!

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