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Why a European Crisis Management Fund for Agriculture ?

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Why a European Crisis Management Fund for Agriculture ?

by Jean Cordier, Professor Agrocampus Ovest
Meeting at the European Parliament on 29 November 2018

1. Instruments to perfect (insurance and mutual funds)
=> **a European experience curve to organize**
2. A CAP budget to support their development
=> **a national budget planning**
3. A European keystone for extreme situations
=> **a European crisis fund** taking over risk management tools

1/. Instruments to perfect

The report = instruments little or not implemented

- Very few insurance schemes in the EU (except Spain ...)
- Only 1 mutual fund for production risk (Art. 38 EU Reg. 1305/2013) in the EU
- To date, no Income Stabilization Instrument (IST – Art. 39 EU Reg. 1305/2013) in the EU

Why?

Why?

- Brakes
 - Design problems
 - Problems of implementation
- Unshared knowledge
 - Insurance = many possible optimizations (index contracts, group, quality, etc.)
 - Mutual Fund Art. 38: Romania (adaptation to the territory, method of assessing climatic losses)
 - IST = France (index and franchise design)

What to do?

- **Design work, sharing of implementation experience**
- **Need a platform for exchange on European studies and experiences (see Commission Comm - COM (2017) 713)**

"A permanent European risk management platform will soon be created to provide farmers, public authorities and industry stakeholders with a forum for sharing their experiences and best practices with the aim of improving the application of the current instruments and guide future policy developments. "

2/. An adequate CAP budget

- The development of the instruments requires CAP aids in order to develop the pooling and limit the anti-selection
 - Insurance aid has a positive macroeconomic impact in the United States (Gohin 2017)
- An overall estimate of the budgetary need is necessary

However

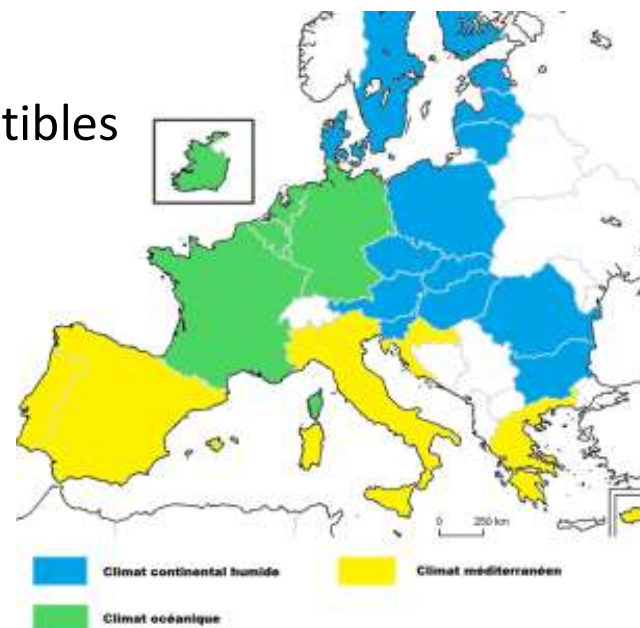
- Prudence on results as multiple assumptions about climate, plant and animal diseases and markets
- Assumptions also on the individual functioning of the instruments (franchise example on the IST) and on their coordination by level of risk

Elements of the answer ...

Estimated budgetary need post-2020 CAP Cordier J. (2018)

Method:

- EU climate insurance premiums
 - Premium rate according to deductibles 30% and 20% (Omnibus)
 - EU climate change impact (thesis in progress)
- Contributions IST
 - 2 parameters: gross margin rate and margin volatility
 - budget estimate on value of each type of production



Budgetary need for insurance in France

- Assumptions:
 - 20 % of diffusion rate in fruits / vegetables / horticulture
 - 50 % of diffusion rate in "meadows"
 - 50 % of farmers in deductible 30 % and 50 % of farmers in 20 %
- ⇒ **Insurances = 491 M€, namely 5 % of the budget (EAGF + EAFRD)**

Result France: "extreme" budget of insurance and mutual funds

IST in France by sector (€ million) - Threshold 20%

Insurances

Diffusion rate 70%	Total premium	Producer contribution (30%)	Public contribution (70%)
Cereals	336	101	235
Industrial plants	117	35	82
Fruits, vegetables and horticultural prod.	545	163	381
Potato	80	24	56
Vine	161	48	113
Others (including meadows)	311	93	218
Total	1551	465	1085

"Animals" IST

France (70%)			
Premium SRI (in million euros) Treshold 20%, charge 15%, grant			
	Premium charged	Producer contribution (30%)	Public contribution (70%)
Bovine	104	31	73
Pork	160	48	112
Poultry	132	39	92
Dairy	155	47	109
Eggs	29	9	21
Others	45	13	31
Total	625	188	438

Source: Cordier (2018)

Extreme budget estimate of IST insurance and mutual funds in the EU (27) (€ million) - Threshold 20%

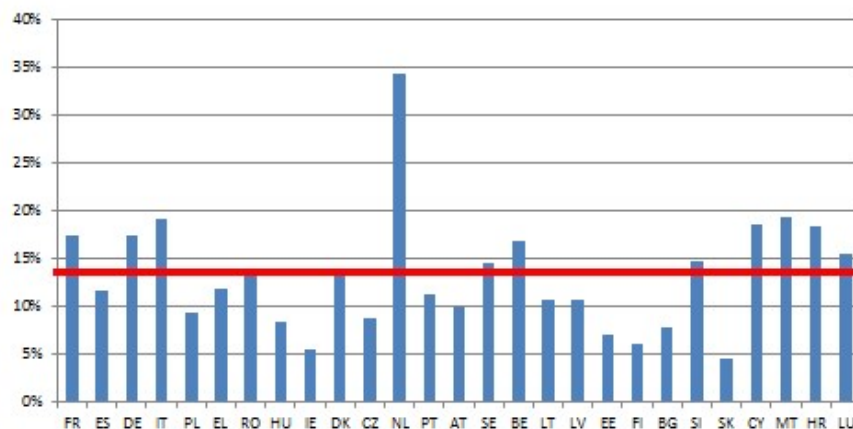
Diffusion rate EU 70%	Premium charged	Producer contribution (30%)	Public contribution (70%)
Insurances	7164	2149	5015
IST on crop production	8252	2476	5776
IST on animal production	4095	1229	2867

Source: Cordier (2018)

To cover 70 % of all EU agri productions:

- Insurances' budget (5 015/51 963 bn€) = 10 % of the budget (F + F)
- Crops budget's IST (5 776 /51 963 bn€) = 11 % of the budget (F + F)
- Animal budget's IST (2 867 /51 963 M€) = 5 % of the budget (F + F)

Insurance's budget rate
by Member State:



Expensive?

- Extreme settings conditions
- Static vision: from 0% to 100%
- Many technical means of reducing pure premiums (therefore of budgetary need)
 - technical design of instruments (insurances and IST mutual funds)
 - choice of settings

A necessary political awareness

- ... for indispensable instruments

Farm risk management = a growing problem
Solutions to be implemented according to national specificities
and with a European keystone

3/. A European keystone

- Basic instruments need a **relay takeover for "extreme" cases** of disasters (V-shaped crises) or U-shaped crises
- Private reinsurance is "cautious" about systemic risks and U-shaped crises related to market risk
- The crisis reserve version for the CAP 2014-2020 must be "empowered" to respond to the need
- A transformation into a "**European reinsurance fund** »
 - a fund **used on objective criteria in relation to private instruments**
 - a fund of an **adequate level**
 - a private reinsurance partner fund
- A place of European competence (advice then validation of the basic actuarial models)
- A place of **coherence of the post-2020 CAP** on a major issue

The European reinsurance fund for the post-2020 CAP

Multiple possible modes of operation

- Standard terms for insurances (proportional or not, i.e. stop loss)
- Original modalities for IST (U-shaped crises)
- **Which financial level?**
 - According to climate, health and market risks to come
 - According to the diffusion rate of private instruments
 - According to selected reinsurance terms
 - For a total pure premium of € 10 billion (insurance and integrated IST) on constant risks, **a fund of € 1 to 2 billion would have a useful impact on the cohesion of the risk management system**
 - A favorable impact also on its resilience if climate change or increased market volatility

Conclusion

- In long term to develop a **coherent system**
- In the **short term**, its necessary to create:
 - a **keystone** that pools national approaches
 - an **exchange platform** for European collaborations (see COM (2017) 713)
 - a **European regulatory environment** that facilitates national experimentation

So in need of a **strong political vision at European level**

Thank you for your attention