Policy paper

A NEW EUROPEAN AGRICULTURE CRISIS FUND

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The CAP has a few provisions that aim at tackling the crisis that all too often plague the agriculture sector.

It can be argued that direct payments provide a welcome first layer of income stabilization, but they are not designed to respond to sudden crisis, climatic or market driven.

The CAP also offers some support to climatic insurance and to income stabilization tools, but it has to be recognized that their implementation has been far too modest and uneven in the EU. Between 2014 and 2017 only a token 380 million euros per year were disbursed to support risk management tools, less than 1% of the CAP budget.

The current severe drought affecting large parts of Europe has shown again how weak and unprepared the sector is to cope with these extreme climatic events. There are too few private insurance schemes, and farmers are therefore at the mercy of events and of the disposition of national governments to disburse aid.

Although a number of improvements were introduced by the Omnibus package recently, the prospects for the current CAP and the proposals of the Commission for the future are not expected to drastically improve the current situation of widespread lack of risk management tools in the EU.

The remaining public intervention provisions are also too limited to tackle large market crisis. Neither the provisions on private storage nor the triggering levels for public buying-in have provided the level of response demanded by the latest string of market crisis – the 2009 and 2016 dairy crisis, the 2011 fruit and vegetable crisis, or the Russian embargo.

The CAP also opens up the possibility for some ad-hoc crisis interventions, which have been used in the latest dairy crisis for instance. But there is a lack of structure, no guarantees and little transparency on how the EU is supposed to act. The crisis reserve misses a clear mission and lacks adequate funding.

The CAP is thus like a big building that lacks a proper roof. The foundations, the aisles and rooms are built with great care, but when crisis strike the building leaks through the roof endangering its own foundations.

This is hardly a new finding, as many in the European Parliament and Member States have pointed out that the EU is deprived of proper risk management tools and resources, unlike the US who happens to be her main competitor amongst developed countries.

The time has come to change that, and provide the CAP with a proper roof. The discussion on the new CAP provides us with a unique opportunity to complete our building.

A new European Agriculture Crisis Fund should be created with a number of well-defined missions:

- To provide under very clear terms re-insurance to private climatic insurance, thereby reducing insurance premium and increasing the insurance offer to all farmers
- To provide also compensation on large income losses occurred by income stabilization tools, like sectoral mutual funds, that would not otherwise be in a position to survive deep market crisis
- To create a framework for rapid crisis interventions with a view to minimize its effects, swiftly acting to rebalance market conditions

The Fund should gradually built up till reaching 1.7 billion euros, a level that should adequately finance its missions. It should be said at this stage that this level compares favourably with the 2.8 billion euros that the EU spent to tackle the 2009 and 2016 dairy crisis alone, if the Fund would be operational the expenditure would have been much lower.

The Fund should be built with 4 years of contributions of the crisis reserve at the current level, which instead of remaining unused would be added-up to create a real operational Crisis Fund.

The studies that were made show that climatic re-insurance is needed for events that happen at least every 60 years and that it would cost 150 million euros per year (to cover 70% of the total EU agriculture with individual farm losses over 20%).

The cost of re-insuring income stabilization tools for dairy would cost 135 million euros per year (to cover market crisis that happen once every 12 years, covering 100% of the total EU milk production). There should also be room in the Fund to re-insure other sectors than dairy, for instance the sugar sector that has shown a particular interest.

Finally the Fund should promptly mobilize resources to intervene swiftly in market crisis as they unfold, as it was successfully done in the latest dairy crisis (unfortunately after wasting valuable resources in un-guided support). Acting to rebalance offer and demand in the market would reduce the overall costs of tackling market crisis and eventually reduce the amounts needed to re-insure income stabilization tools.

The sector is facing great uncertainty, in particular due to Brexit and to international trade conditions and agreements, and to climate change. Instead of reacting late at great cost and pain, the EU should now establish the mechanisms and devote the resources to anticipate and weather the crisis to come.