3.2 The Committee regrets however that a number of Member States have not yet allocated the appropriate resources or established mechanisms of their own and asks the Commission to urge them to accelerate that process.

3.3 The EESC is concerned that, given the current difficulties in reaching an agreement on the Community budget, the funds ultimately provided might be lower than those set out in the proposed budget. The decision by Member States to give the Agency additional competences implies the need to ensure the necessary funding to enable it to achieve its goals in the field of maritime pollution prevention. It is essential that maritime pollution prevention and response are accorded the necessary importance at Community level too, and that they are not viewed purely from an economic perspective.

3.4 The Agency’s role in promoting cooperation and coordination of Member States’ resources and activities is fundamental for the establishment of a rational and cost effective strategy.

Brussels, 26 October 2005.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND

Opinion of the European Economic and Social Committee on the ‘Communication from the Commission to the Council on risk and crisis management in agriculture’

(COM(2005) 74 final)

(2006/C 28/04)

On 20 April 2005 the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the Communication from the Commission to the Council on risk and crisis management in agriculture.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 7 October 2005. The rapporteur was Mr Bros.

At its 421st plenary session, held on 26 and 27 October 2005 (meeting of 26 October 2005), the European Economic and Social Committee adopted the following opinion by 122 votes to 1 with 3 abstentions.

1. Introduction

1.1 This communication from the European Commission follows on from the considerable amount of work already conducted at European level, including: the Commission Report on risk management in January 2001, the Council discussions under the Swedish Presidency in Spring 2001, the Spanish Memorandum and the International Conference on Agricultural insurance and income guarantees in Madrid at the beginning of 2002, the Greek Memorandum and the Seminar on natural disasters in Thessaloniki in 2003, and the Conference organised by the Dutch Presidency in December 2004 on Material and immaterial costs of eradication of animal diseases.

1.2 More specifically, the communication has been drawn up to fulfil a commitment made by the Commission, in the form of a declaration issued in Luxembourg, in the context of the June 2003 CAP reform:

‘The Commission will examine specific measures to address risks, crises and national disasters in Agriculture. A report accompanied by appropriate proposals will be presented to the Council before the end of 2004. The Commission will analyse in particular the financing of these measures through the one percentage point of modulation directly re-distributed to Member States as well as the inclusion, in each common market organisation, of an article empowering the Commission to act, in the case of a Community-wide crisis, along the lines established for such cases in the common market organisation for beef’.

1.3 The communication also responds to the Conclusions of the December 2003 Council which called for the discussion to be continued; for an updated inventory of the risk management tools available to be provided; for the different risk management options to be considered; for possible new measures (common market organisation, financial support, competition rules) to be taken into account; and lastly for the guidelines on state aid in the agriculture sector to be assessed and adaptations suggested.

1.4 In the past, the CAP offered protection by means of its market and price support policies. Since the last reform, however, farmers are exposed more directly to a whole series
of risks. The Commission therefore wishes to try out new instruments, in the context of the CAP, so as to help farmers improve their ability to manage risks and crises.

1.5 In its working documents, the Commission has drawn up an inventory of the current risks in agriculture: human or personal risk; asset risk (buildings etc.); financial risk; liability risk (genetically modified organisms); production risk (weather conditions); and price risk. It has also drawn up an inventory of the risk management tools currently available: indebtedness and investment (tax exempt savings); adaptation of production techniques; diversification; marketing techniques (contracts, integration); futures; mutual funds; and insurance.

1.6 In order to meet expectations more effectively and limit the damage caused by crises in the agriculture sector, this extremely broad analysis needs to be taken further.

2. The Commission proposal

2.1 In the first three pages of the communication, the Commission contextualises the problems relating to risk and crisis management. The working documents accompanying the communication address a large number of ideas. In the proposals which follow, the Commission goes on to respond to the explicit requests made in the Council Conclusions, i.e. extension of a safety net and financing of risk and crisis management measures through modulation using three options: insurance against natural disasters, supporting mutual funds and providing basic coverage against income crises.

2.2 Using modulation funds would mean using instruments based on rural development measures. Consequently, these new measures would have to improve the competitiveness of agricultural holdings (priority axis 1), respect the principle of annuality, comply with the rules on state aid and be compatible with the green box criteria established by the WTO.

2.3 The first option is insurance against natural disasters. In the Commission's view, this can help to reduce the ad hoc compensation payments paid out by Member States. A financial contribution of 50 % could be made towards producers' insurance premiums. Compensation would be paid out where losses exceeded 30 % of the average agricultural production in the preceding three-year period, or a three-year average based on the preceding five-year period (excluding the years of highest and lowest production). Compensation could not exceed 100 % of the income loss. The payment could not specify the type or quantity of future production. Another alternative to subsidising insurance premiums would be reinsurance by private insurance companies.

2.4 The second option is mutual funds, which are a way of risk sharing among groups of producers. Under this option, temporary and regressive support could be granted to cover administrative costs. It would be calculated according to the number of farmers participating. The funds must be formally recognised by the Member State. Compatibility with the WTO's green box would have to be assessed on a case-by-case basis.

2.5 The third option is to provide basic income coverage. This is based on the Canadian model and the requirements of the green box. The purpose is to increase the total liquid funds available in the event of crises (support for incomes). The system would be open to all agricultural producers. Compensation would be paid if the loss exceeded 30 % in the reference period (as for option 1). An income indicator is to be determined. Compensation must be less than 70 % of the income loss and must not relate to the type or volume of future production.

3. General comments

3.1 The Committee welcomes the Commission proposal, which launches the debate on a subject that is vital for the future of agriculture. The Commission has produced the communication in response to specific demands within a binding framework. The Committee considers this to be only a preliminary analysis, which will need to be expanded on in order to respond to the risks and crises listed in the introduction.

3.2 In chapters 1 (introduction) and 2 (background) of its communication, the Commission gives a brief outline of the new situation following the 2003 CAP reform (introduction of the single payment scheme) and lists the various measures that have been taken and the tasks that the Council has assigned with regard to risk and crisis management in agriculture. Neither the Commission's communication nor the working document from DG Agriculture explicitly mention the changes which have occurred regarding the risks to which European agriculture is exposed.

3.3 The Committee notes that the reform of June 2003 is making agricultural prices much more volatile. This, combined with the volatility of farm input prices, is increasing the likelihood of economic crises affecting agricultural holdings. Moreover, many scientists believe that climatic instability is also increasing. When economic crises occur, farmers are always the weakest links in the various production and distribution chains. They therefore need effective tools to help them to respond to crises and risks. The Committee therefore wishes to comment on a number of the points raised by the Commission.

3.4 The Commission has taken the positive step of proposing three schemes. These would be optional as far as the Member States are concerned, and complementary. They are interesting in themselves and none should be rejected automatically. However, each option needs to be analysed in more depth.
3.5 The Commission has considered using one percentage point of modulation to fund these schemes. However, it should first have assessed the cost of the proposed measures. While emphasising that the Commission's proposal is neutral in budgetary terms, the Committee wonders whether the envisaged funding will be commensurate with needs.

3.6 Funding under the first pillar helps to stabilise incomes and markets, and this role has been guaranteed until 2013. Such funding is vital for the survival of many farms, and modulation of direct aid should not be increased.

3.7 The sums produced by modulation vary widely between the Member States, and are non-existent for the new Member States. The Committee therefore proposes that as an alternative to the one percentage point of modulation, each Member State could assign part of its EAFRD allocation to risk and crisis management, up to a maximum of 0.1 % of its National Agricultural Product.

3.8 Because of the use of modulation funds, the Commission has worked within a rural development framework. The Committee believes that a broader approach should be taken and that other means of action should also be considered, including common market organisations (CMOs), competition policy, trade etc.

3.9 Whilst it is essential to analyse a certain number of risks and crises, their management is not always the responsibility of the Common Agricultural Policy. The risks connected with natural disasters, which cannot be forecast and therefore cannot be insured against, and epidemics such as foot and mouth disease, cannot fall within the remit of the CAP. Other existing instruments such as the veterinary fund or the solidarity fund should be available for these specific situations. In addition, an EU system for responding to natural disasters is currently being considered (1), and this system should cover risks in agriculture.

3.10 The Committee stresses that all these measures can only be effective if they are used to complement existing market management mechanisms within the CMOs, which include highly efficient tools tailored specifically to the various sectors. Similarly, in relation to trade, it is absolutely vital that the EU safeguard the Community preference within the Doha round.

3.11 Comments on the Commission's proposal in connection with rural development

3.11.1 Agricultural insurance

3.11.1.1 The Committee draws attention to its opinion on a common system of agricultural insurance (2): a number of the requests made in this opinion remain valid. Agricultural insurance is a useful tool for covering certain specific risks, but it cannot replace the public authorities when it comes to managing exceptional risks.

3.11.1.2 Currently, under the guidelines for state aid in the agriculture sector, aid is authorised up to a ceiling of 80 % of the insurance premiums against losses due to natural disasters, such as earthquakes and other extraordinary events. Losses resulting from adverse weather conditions or animal and plant diseases are classed as natural disasters only if the losses reach a given threshold, currently set at 20 % of normal production in disadvantaged regions and 30 % elsewhere.

3.11.1.3 State aid of up to 50 % of insurance premiums is also permitted, when agricultural insurance covers losses beneath these thresholds, resulting both from natural disasters and from adverse weather conditions or animal and plant diseases.

3.11.1.4 The Commission's proposals on this aspect therefore represent a step backwards compared with the measures currently authorised under state aid. In order to provide a real incentive for the maximum number of farmers to make use of these instruments, it is necessary to introduce a system that is more attractive to the beneficiaries.

3.11.1.5 In some areas of risk prevention (such as multi-risk insurance), tried and tested mechanisms already exist in some Member States. The Committee supports the Commission's idea of establishing a new supplementary agricultural insurance instrument, bearing in mind that the introduction of new measures at EU level must not threaten existing systems which have already proved effective at national level.

3.11.1.6 Although the agricultural insurance system is a cross-cutting element in rural development, it must also allow for sectoral implementation, in order to meet the specific needs of the different regions of the European Union.

3.11.1.7 A considerable amount of unpublished work has been conducted on the issue of re-insurance. Mutual associations and private insurance companies could join forces to set up a re-insurance fund. The establishment of EU-level re-insurance could bring real Community added value.

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(1) See the EESC opinion currently being drafted on the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Improving the Community Civil Protection Mechanism (rapporteur: Ms Sánchez Miguel).

(2) C 313 of 30.11.1992, p. 25.
3.11.2 Mutual funds

3.11.2.1 The support proposed by the Commission does not provide a strong enough incentive. As a minimum, a capital investment should be provided at the launch of these funds to support their operation during the initial period. For it to be workable, this option would need the backing of producers’ organisations.

3.11.2.2 The Council’s failure to reach an agreement on the establishment of a fund for the pig meat sector shows what a difficult exercise this is. When a sector faces a serious crisis, farmers’ contributions are not sufficient. In many cases, however, mutual funds enable economically viable farms to weather a crisis.

3.11.2.3 One strong incentive for agricultural producers and the other players in the production and distribution chains to come together would be direct management of mutual funds’ market operations, including marketing, processing, storage and sales to non-EU countries. This would not only develop a sense of accountability in all the various players, who would play a greater role in market operations, but also bring the situation into line with the 2003 reform. Moreover, when instruments are implemented at a level close to the economic operators rather than by the authorities, they often work more effectively.

3.11.2.4 The new instrument should benefit and not pose a threat to existing mutual funds.

3.11.3 Basic coverage against income crises

3.11.3.1 This option needs to be tested, and further work is needed on the subject. The income support provided in the EU for many sectors takes the form of direct aid, and under no circumstances should the system now being proposed replace direct payments to farmers. However, this does not mean that the Commission cannot explore other avenues for the longer term.

Analysis of the implementation of a system of this type in Canada (3) shows that such schemes could provide a useful tool for the EU in the medium to long term. They have been important for some of our trade partners, e.g. the United States and Canada. However, the Canadian mechanism is one of the main planks in their agricultural income support policy, and requires a large public budget which is not currently available to the EU.

3.11.4 Information on existing risk and crisis management measures

3.11.4.1 The Committee endorses the Commission’s view that it is necessary to promote the development of market-based risk management tools (such as insurance, the futures market and contract farming).

3.11.4.2 The Committee highlights its opinion on rural development (4) and calls for training and information initiatives to be financed by the European Social Fund rather than coming under rural development, which has other objectives.

3.11.5 Harmonised provisions

3.11.5.1 Under the subsidiarity principle, rural development policy is implemented by the Member States. As a consequence, only the agri-environmental measures are binding. The Committee acknowledges that this approach is useful from the point of view of ensuring that policy is tailored to the actual needs of the EU’s different regions. However, the probability of risks and crises occurring has increased throughout the EU. A degree of harmonisation is therefore essential, so that all farmers across the Union are treated fairly and have access to risk and crisis management schemes.

3.12 Proposals in connection with Common Market Organisations

Alongside the three options put forward by the Commission, the Committee would like to offer some other proposals. With a view to efficiency and lower cost, the Commission must provide for early means of intervention at the appropriate level (e.g. promotion, private storage, production cuts), so as to tackle crises rapidly.

In many sectors, market analysis tools can now predict the onset of a cyclical crisis. These crises are often caused by a momentary imbalance between supply and demand at regional level. Rapid action, perhaps at regional level, could help to prevent crises becoming embedded and spreading to a wider geographical area.

3.12.1 Promoting agricultural products

3.12.1.1 At EU level, promotion measures may be financed using various tools: rural development, internal market or non-EU country market. As mentioned above, early promotion measures are an extremely effective way of preventing a crisis from worsening. In the various regulations, the Commission should simplify the implementation of these measures so as to enable action to be taken swiftly.


(*) For further details, see: http://www.agr.gc.ca/pesra/main.html.
3.12.2 Supporting product storage

3.12.2.1 During sectoral crises, measures to support storage have already proved effective in a certain number of CMOs. By spreading product sales over a longer period, such measures can help prevent crises resulting from over-production. The EU should authorise producers’ organisations to introduce this tool under the mutual funds. It would also be an attractive means of encouraging farmers to set up producers’ organisations.

3.12.3 Extending the ‘safety net’ in the event of market crises

3.12.3.1 In the event of major Community crises in the beef CMO, the Commission may act on the legal basis of Article 38(5) of the regulation on the common market organisation for beef which states ‘When a substantial rise or fall in prices is recorded on the Community market and this situation is likely to continue, thereby disturbing or threatening to disturb the market, the necessary measures may be taken’.

3.12.3.2 The Committee regrets that the Commission has not seen fit to extend such a clause to other CMOs. The Council of Ministers has endorsed the line taken by the Commission.

3.12.3.3 The Committee points out that the situation has changed since the 2003 reform and that some CMOs have no safety net. If the pig meat or poultry sector were to face a consumer-confidence crisis leading to a sharp drop in consumption, many farms would go out of business.

3.12.3.4 Given that it would only mean providing the Commission with the legal basis to take action, if it considered such action to be warranted, the Committee calls for the general introduction of a ‘safety net’ clause for all CMOs, in order to ensure a level playing field for all sectors. It therefore asks the Commission and the Council to review their position.

3.12.4 Support for processing

3.12.4.1 In sectors where products can be consumed either fresh or processed, measures to support processing can help to prevent crises in the fresh products sector by temporarily permitting a production surplus in the processed products sector, where the market is less volatile and therefore less sensitive to fluctuations in the volume of production. These measures could be taken either by Member States or producers’ organisations.

3.12.5 Supporting voluntary decreases in production

3.12.5.1 Measures aimed at reducing production are amongst the most effective available. If market expectations suggest that supply may outstrip demand, voluntary or compulsory measures to reduce production before harvest can avert a crisis. These measures could be taken either by Member States or by producers’ organisations.

4. Specific remarks

4.1 The need to define crises in agriculture

4.1.1 The Commission defines a crisis as ‘an unforeseen situation that endangers the viability of agricultural holdings, either at a localised level or across a whole sector of production’ (6). The Committee thinks that a clear distinction should be made between economic and other crises, and that economic crises should be defined using objective, transparent criteria.

4.1.2 In the case of economic crises, the Commission needs to define precisely what constitutes a ‘regional crisis’, ‘national crisis’ and ‘Community crisis’. The definitions should be based on a sound knowledge of the various markets, so as to determine the average price over the previous three or five years (in the latter case, excluding the best year and the worst year). A market crisis would be declared if there was an x % drop in the price of a particular product over a period of y days. The variables x and y should be defined according to sector and Member State, and possibly also according to production region. The dates on which the crisis is deemed to begin and end could then be decided by the public authorities.

4.1.3 For other types of crisis, each Member State has sufficient definitions to handle existing situations in their own particular context.

4.2 The need to adapt competition rules in the event of crisis

4.2.1 During crises, the lower prices paid to producers are not always passed on to consumers (7) and this prevents the market from functioning at optimum levels. The Council should review the 1962 regulation on the application of certain rules of competition to agricultural production and trade (8) and broaden the tasks of DG Competition, so as to oblige it to ensure that the market functions properly in the event of crisis by derogating from the usual principles.

(7) OJ C 255 of 14.10.2005, p. 44.
4.2.2 Specific tools can be introduced for this purpose, particularly in the fruit and vegetable sectors. This government intervention in market operations must be accepted by the Commission in the context of the exemption regulations that exist in sectors such as insurance. This derogation from the competition rules would be temporary and would be overseen by the public authorities for the duration of the crisis.

4.2.3 One option here would be inter-business price agreements, such as those that could be reached by enterprises covering the whole production and distribution chain or by distributors, via central purchasing bodies.

4.2.4 In the case of unprocessed products, the difference between the price paid to the producer and the consumer price could be limited.

4.3 The need for better management of trade flows

4.3.1 As part of the August 2004 framework agreement on the liberalisation of trade in agricultural products at the WTO, it was agreed to completely abolish all forms of export subsidies, provided all other existing instruments were eliminated in parallel. The date and speed at which they are to be abolished has yet to be decided.

4.3.2 However, the opening-up of the EU market will make producers more vulnerable to crises. During the current negotiations, Community preference must thus be preserved. The EU’s social, pricing and ecological standards must not be undermined by social and ecological dumping of cheap imports. Food-sovereignty criteria must be taken into account. For these reasons, a system of qualified external protection or market access should be set up and further developed.

4.3.3 In times of crisis, the EU should limit imports and should use all the room for manoeuvre available to facilitate exports when the time comes to implement the future WTO agreements.

4.3.4 The Commission could envisage maintaining a share of the rights notified at Geneva so as to create a new tool for managing trade flows.

4.3.5 This right maintained at the WTO would not be used for sectoral subsidies, but, for example as a joint mechanism with third countries (like the one already set up with Egypt), used in the event of crises within the Community in order to facilitate the supply of external markets without exporting the crisis elsewhere.

4.3.6 Cooperation with the relevant authorities in third countries would make it possible to establish a price for the beneficiary country that would not disrupt its own market. European aid could focus on transport costs, administrative costs or (in the case of food aid) the cost of the merchandise.

4.4 The need to move away from the annuality of the budget

4.4.1 In the current budget framework, which is based on the EU’s own resources and annual expenditure, it is impossible to avoid this principle. However, the principle has serious consequences and should ultimately be reviewed in order to improve the functioning of the EU.

4.4.2 In the shorter term, it is possible to avoid this constraint. One solution could be to classify sums invested in stabilisation funds as expenditure. These funds would only be used if necessary in years when crises occurred.

4.5 The need to make more use of producers’ organisations

4.5.1 One effective tool for managing trade risk is to enable producers to organise so that they can exert a genuine influence in trade negotiations. The Commission must continue to press forward in this direction and should, by means of incentives, encourage farmers to set up producers’ organisations.

4.5.2 With regard to crisis management, the Committee would like to see organisations of producers and of the other actors involved in the various production and distribution chains come together at an appropriate level for the tasks which could be assigned to them.

5. Conclusions

5.1 In terms of responding to the problems of risk and crisis management, the Commission’s proposals are a step in the right direction, but only a first step.

5.2 The proposals are only an adjunct to the management of agricultural markets conducted at European level via the CMOs and trade regulation. These provisions, which have demonstrated their effectiveness, must under no circumstances be brought into question.

5.3 The EU already possesses instruments that can usefully be deployed in the event of certain types of risk or crisis, and these should be coordinated. The veterinary fund and the EU solidarity fund should thus be retained and fine-tuned to enable them to respond to risks and crises in the agriculture sector, in tandem with the proposals outlined in the present opinion.
5.4 The 2003 CAP reform and the increasingly unstable climate conditions will have considerable implications for the management of farm holdings, which will be increasingly vulnerable to risks and crises. Consequently, it is vital that the ongoing liberalisation of trade in the Doha Round should safeguard the Community preference.

5.5 The three options proposed by the Commission need to be explored in more depth and implemented in the short or medium term. Nevertheless, these proposals are not an adequate response to the situation that will probably arise over the coming years. Work must therefore be pursued on this issue both at sectoral level during the forthcoming reforms of the CMOs and through a cross-sectoral regulation.

5.6 As far as finances are concerned, committing one percentage point of modulation is certainly a positive move, but it is vital to ensure fair treatment of all EU farmers, for example by committing 0.1% of the National Agricultural Product. In future, other sources of financing will have to be found.

Brussels, 26 October 2005.

5.7 The Committee calls for ex-ante and ex-post evaluations in order (a) to assess new levels of risk in agriculture and budgetary needs, inter alia following the CAP reform, the increasing vagaries of the weather, and the WTO negotiations, and (b) to analyse the appropriateness of the solutions proposed to address these situations.

5.8 Organising producers and production and distribution chains represents one potential way forward for European agriculture. The Commission should step up its work to promote this kind of organisation.

5.9 The Commission has taken the positive step of proposing three schemes. The aim should not be to decide definitively between them, but to make sure that they are all available for the future and to explore them in more depth.

5.10 Risk and crisis management is a key topic for the Committee. On the basis of the work carried out in this field, the Commission should, in the near future, table a legislative proposal for putting the various provisions into practice. The Committee wishes to be consulted on this.

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND