

To: Agricultural Risks KN

From: Sandrine Noël

Meeting date: 24 November 2009

Reference: NLI-AGR-09-021

Subject: Joint Research Centre's report on risk management

| Objective

For discussion

| Comments

- The Commission's Joint Research Centre (JRC) recently published a reference report on "Risk management and agricultural insurance schemes in Europe" (see enclosed document with reference NLI-AGR-09-009). This report is a summary review of several related studies, among which the one to which the CEA contributed in 2005¹. It provides a description of existing risk management tools and a rough estimation of the potential cost of index insurance, identifying in which cases a specific type of insurance is more suitable.
- This study constitutes a basis with which to analyse strategies to integrate risk management tools within the Common Agricultural Policy (CAP).
- Only two members explicitly agreed with the CEA Secretariat's proposal to comment on this JRC report in view of the discussions on the new CAP's financial framework (2014-2020), which are already being prepared by the Commission.

| Input requested

Participants will be invited to inform to discuss

- whether they agree with the CEA Secretariat's proposal to comment on this JRC report in
- the comments on the JRC report that they would like the CEA to share with the Commission.

(see below extracts of the JRC report selected by the CEA Secretariat and, enclosed as NLI-AGR-09-009, the full JRC report)

| Next steps

Around late summer or autumn 2010, the Commission intends to bring out a communication which – among other things - will set out ideas for the post-2013 CAP.

¹ JRC - "Agricultural Insurance Schemes" - Administrative arrangement n°AGRI—2005-0321 between DG Agriculture and DG Joint Research Centre – Final report – 1 November 2006

| Annex - Relevant extracts

■ Policy framework – WTO agreement:

- Up to now most of the subsidies to crop insurances have been notified within the Amber Box. One of the main reasons is that [...] a formal recognition by government authorities of the natural disaster [required within the Green Box] is not operational in the current insurance model managed by private companies. (p.8)

■ Crop risk management systems – public aid

- Agricultural insurances are fostered in countries where the law forbids that ad hoc measures or disaster funds compensate for damages that could have been insured (p.12)
- This means that it is possible to reduce ad hoc aid through fostering insurance. However, this **does not necessarily mean that in this way public expenditure becomes more or less efficient**. (p.6 of the [executive summary](#))

■ Crop risk management systems – Insurance

- Natural disasters or epizootic diseases [systemic risks] cause special problems for insurance. This means that comprehensive agricultural insurance schemes need strong support from the public sector. (p.10)
- In EU yield insurances, it is necessary to ascertain which risks caused the loss [not in the USA...]. The EU system has higher loss-adjustment costs, but it helps to avoid moral hazard, one of the big problems for the US insurance system. (p. 14)
- [...] in most countries there are few market players [...]. This suggests that there is a **need to promote competitiveness** in the sector. (p.14)
- Revenue insurance would be more expensive but more effective as an income stabilizer, while indirect index insurance would be cheaper and easier to manage but usually less correlated with farmers' income. (p.18)

■ Technical feasibility of a EU index for risk management

- **Index are useful for systemic risk, at the aggregate level**, so they are more adapted to re-insurance and catastrophic risks (p.19)
- Given the heterogeneity in Europe the efficiency of index products will be probably lower than in the US (p.19)
- Meteorological index could have a good explanation capacity at a more disaggregated level (p.21)
- At present the results raise major doubts on the application of index insurances based on agrometeorological indicators in the EU (p.22)
- Correlation between the indicators derived from Normalised Difference Vegetation Index (NVDI) and yield is dependent on the regions (p.22)
- The observed risk reduction capacity of area yield insurance is not very high for the example analysed. [...] however, there are some regions where the risk can be reduced up to 68 %. (p.23)