Comparative analysis of risk management tools supported by the 2014 US Farm Bill and the CAP 2014-2020

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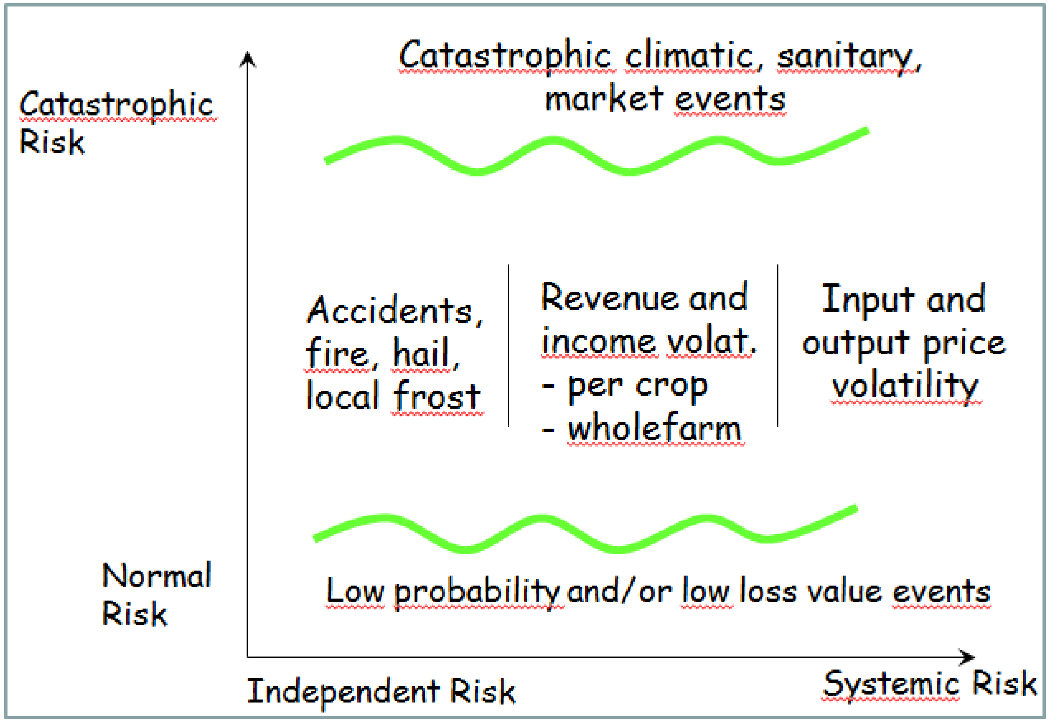
Structure of the Presentation

1. Mapping Risks and Management Tools
2. Illustration with the US Case
3. Illustration with the EU Case
4. The EU and US: Orthogonal Policies
5. Recommendations for Improving the European Farm Risk Management Policy

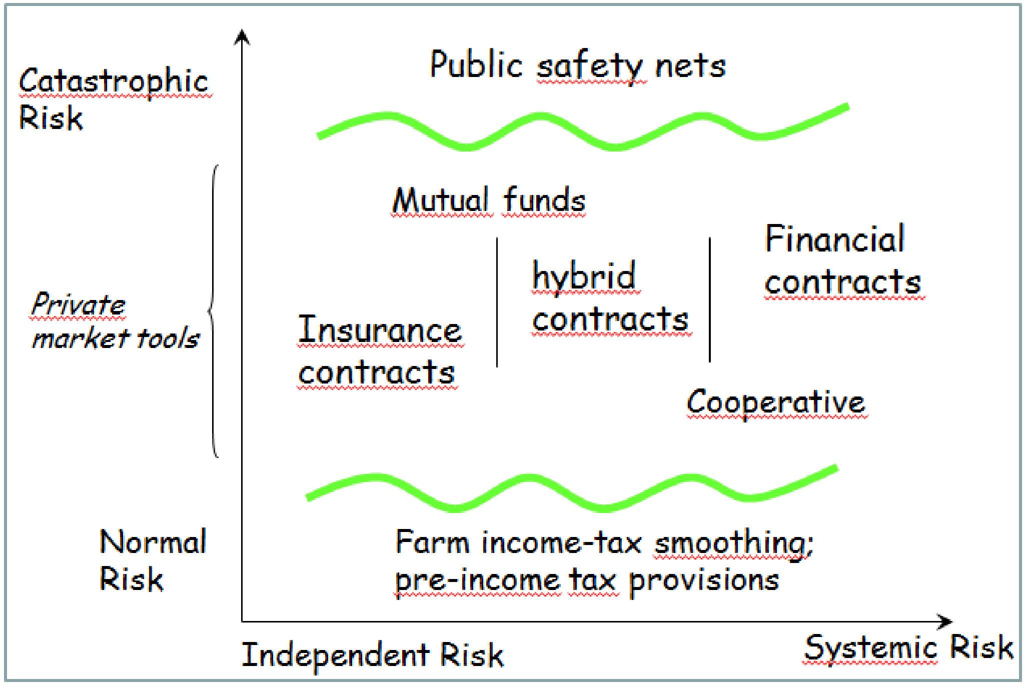
1. Mapping risk and management tools

Mapping of Specific Agricultural Risks:



Source: adapted from Cordier et al. 2004

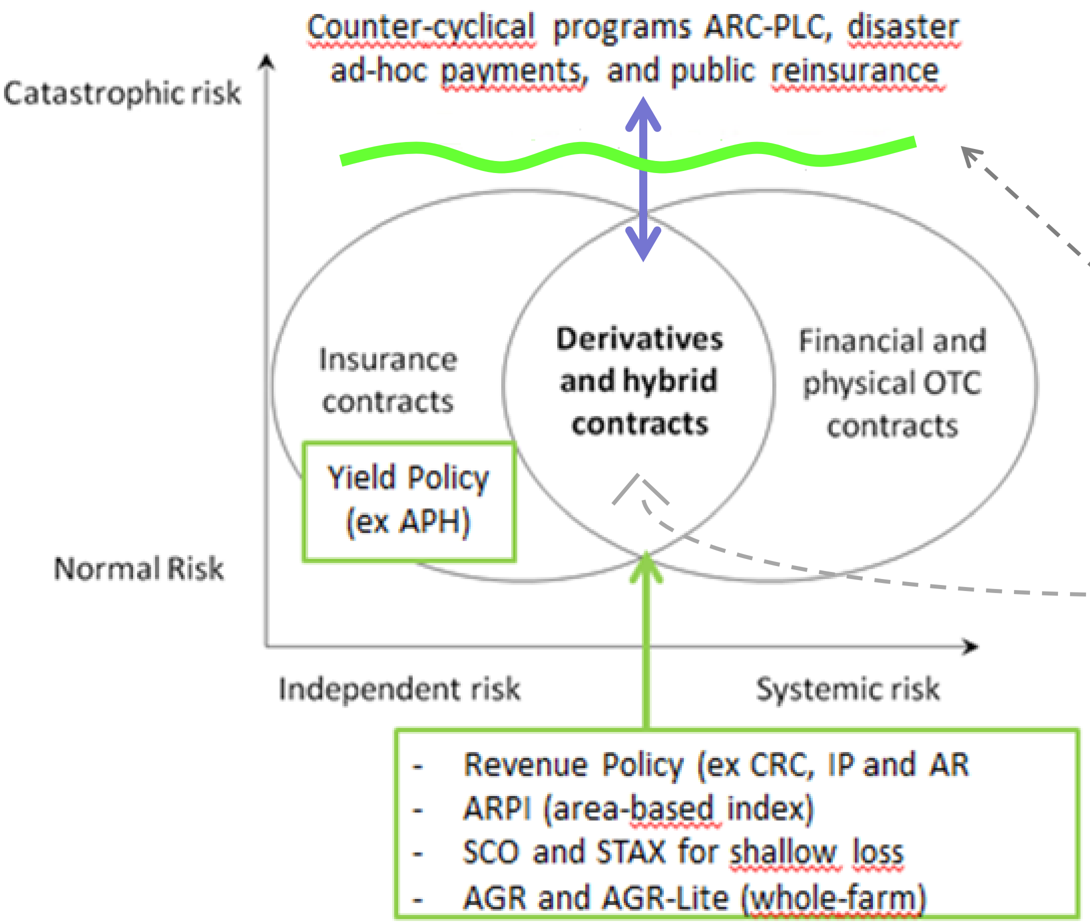
Mapping of Risk Management Instruments:



Source: adapted from Cordier et al. 2004

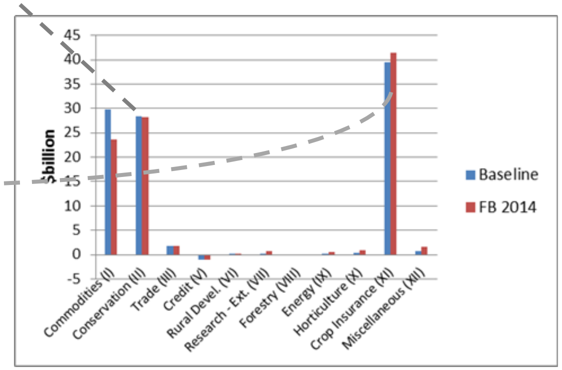
- Instruments are risk specific
- Instruments are complementary
- Individual instrument efficiency requires vertical coordination

2. Illustration with the US case



Instruments:

- complete
- coordinated
- dynamic



2014 Farm Bill spending (est.)
(except Title IV – Nutrition)

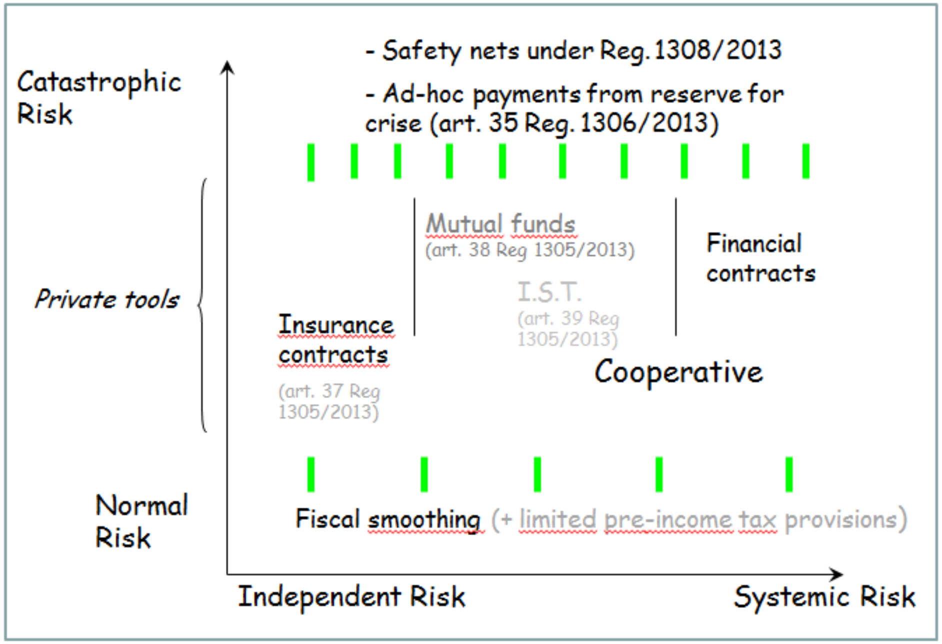
3. Illustration with the EU Case

Characteristics:

- Two pillars [Regulation (EU) No 1305 and 1308/2013]
- No technical rules for safety nets in Pillar 1 (1308) (see 2014 Russian embargo)
- State of limbo for instruments in Pillar 2 (1305): support for (i) insurance, (ii) mutual funds on production risks and (iii) income stabilisation tool. No real move since 2005
- Regulation under very rigid interpretation (constraint) of WTO (example: “production loss”)
- Heterogeneity in using instruments between Northern and Southern Europe => no unique scheme

3. Illustration with the EU case

As a consequence



Germany - UK

France - Italy

Spain - Austria

Romania - …

…

4. EU and US: Orthogonal Policies

Main differences:

- Relative weight of interest and budget

"length" of regulation

	US	EU
Risk management support	60%	1%
Safety nets	40%	39%
Income support	0%	60%

"budgeted"

	US	EU
Risk management support	47%	1%
Safety nets	23%	5%
Income support	0%	72%

- US vertical coordination versus EU segregation (two pillars)

Main strenghs (+) and weaknesses (-):

- **US +** : data bases and learning curve => industry of the future
- **US -** : local "excessive" subsidies => shift to the "Cadillac" Revenue Protection contract

- **EU +** : Principles of art. 37 + 38 + 39 but strict interpretation of WTO and EU rules (embedded umbrellas = Commission, Member State MADR)
- **EU -** : . CAP cul-de-sac with static direct payments
  . no real vision of risk management under two pillars (incomplete, uncoordinated) after 10 years of studies
  . no budget flexibility

5. Ten Recommendations for Improving European Farm Risk Management Policy

Group 1: a full range of instruments

Group 2: field tests as real options for the future CAP

Group 3: adequate human and (flexible) financial resources

Group 4: adequate EU organization

Group 1: A Full Range of Instruments

R1: Build on common parameters for safety nets and private instruments for coordination

R2: Fill the gap between financial and insurance markets (hybrid and IST contracts)

R3: Integrate a pre-income tax provision program keeping the national fiscal "gift" as a co-financing measure (within the IST)

Group 2: "No-holds-barred" Field Tests as Real Options for the Future CAP

R4: Support "bottom-up" pilot programs through a screening process

R5: Capitalize on tests (concepts, databases, local organizations)

R6: Remove (relax) rigid constraints for that could be adjusted for after tests

Group 3: Adequate Human and (Flexible) Financial Resources

R7: Create long term collaborative networks of European Universities (add science to wise ground ideas + extension activity)

R8: Create EU reserves in diverting a percentage of direct payments (10% ?). Reserves would be used to fund re-insurance

Group 4: Adequate EU Organization

R9: Restructure Pillar 1 (or create a new Pillar 3) under a Risk Management Agency (RMA) for developing and monitoring the CAP risk management policy.
=> requirement of RMA: strict independence

R10: Establish RMA short-term goals:

- **monitoring preliminary field tests portfolio**
- **initiating an experience curve**
- **minimizing set-up and management costs**
- **links with public goods (environmental and climate change)**

Thank you for your attention