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

Jean Cordier

To cite this version:


HAL Id: hal-01209047
https://hal.archives-ouvertes.fr/hal-01209047
Submitted on 5 Jun 2020

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L’archive ouverte pluridisciplinaire HAL, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d’enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.
Comparative analysis of risk management tools supported by the 2014 US Farm Bill and the CAP 2014-2020

Jean Cordier, Professor
UMR SMART-LERECO, Agrocampus Ouest - INRA
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:

- Catastrophic climatic, sanitary, market events
- Accidents, fire, hail, local frost
- Revenue and income volatility
- Input and output price volatility
- Low probability and/or low loss value events

Source: adapted from Cordier et al. 2004
Mapping of Risk Management Instruments:

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

Source: adapted from Cordier et al. 2004
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

- Safety nets under Reg. 1308/2013
- Ad-hoc payments from reserve for crisis (art. 35 Reg. 1306/2013)
- Mutual funds (art. 38 Reg 1305/2013)
- I.S.T. (art. 39 Reg 1305/2013)
- Financial contracts
- Cooperative
- Fiscal smoothing (+ limited pre-income tax provisions)

Germany - UK
France - Italy
Spain - Austria
Romania - ...

...
4. EU and US: Orthogonal Policies

Main differences:

- Relative weight of interest and budget
  - "length" of regulation
  - "budgeted"

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management support</td>
<td>60%</td>
<td>1%</td>
</tr>
<tr>
<td>Safety nets</td>
<td>40%</td>
<td>39%</td>
</tr>
<tr>
<td>Income support</td>
<td>0%</td>
<td>60%</td>
</tr>
</tbody>
</table>

- US vertical coordination versus EU segregation (two pillars)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management support</td>
<td>47%</td>
<td>1%</td>
</tr>
<tr>
<td>Safety nets</td>
<td>23%</td>
<td>5%</td>
</tr>
<tr>
<td>Income support</td>
<td>0%</td>
<td>72%</td>
</tr>
</tbody>
</table>
Main strengths (+) 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