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The Briefing Note  
in the third part of the workshop  
„Market regulation vs. Risk management: how to cope with the instability on the  
agricultural markets”?

Answers on The Questionnaire of the speakers at the public hearing on 9 June 2008 in  
Europarl

a) Single Farm Payment rules (Regulation 1782/2003)

1. For risk management, the Commission wants to limit the scope of the measures to crop  
insurance systems for natural disasters and mutual funds for animal diseases. What is your  
opinion about this? Would it be wise to enlarge the scope of this system to the price  
fluctuations in the market?

There is a need for agricultural insurance co-financed from the public financial means  
in case of the losses in crops caused by natural disasters and animal diseases causing the drove  
death. It is justified provided that the insurance is obligatory and a part of the insurance  
premium is covered from the public means. Financial support must be on such a level that the  
farmers can participate in their part of the insurance premium. For that purpose the member  
States must intend the means of 10% national specific support. If the farmers who received the  
subsidies in the SPS system subjected to the crops insurance obligation it would guarantee a  
significantly low insurance premium. In case of voluntary insurance there is a risk that too few  
farmers would decide to participate in the system and the means destined for such support will  
not be fully used. However, I do not see a clear need to limit the range of insurance instruments  
against natural risks in plant production. Globalisation processes along with the climate change  
risks and the enlarged area of land used for non-agricultural purposes considerably increase the  
range of natural risks in farming.

Whereas an issue of public financial means involvement in the support of insurance  
against prices fluctuation remains open. If we treat incomes insurance as an alternative for the  
market intervention it does not necessarily have to mean the enhancement of public, budgetary  
financial means engagement. There should be incentives or stimulus which would make  
farmers themselves to care for the incomes insurance, also in case of prices fluctuation.  
However, the insurance should remain voluntary but there could be some incentives  
implemented such as: insurance premium tax deduction or including it in income gaining costs,  
finally the tax exemption from insurance disbursement.

Summing up, the crops insurance in case of natural disasters and the insurance of  
animals diseases risk should be common and obligatory along with the adequate co-  
participation of public financial means. However, the prices fluctuation insurance should  
remain voluntary but also supported by the state.

2. What is your opinion on the Commission's proposals for the new Article 58 - 60 on  
specific support (crop insurance and mutual funds for animal diseases)?Does the new  
scheme lead to distortions of competition between Member States?

In face of the weather anomalies which have been intensifying for several years and  
reduction of the market intervention, I appreciate the creation of support instruments by the  
Commission. The compensation cannot be higher than the total cost of damage cover while  
stating the losses limit from which the indemnity will be paid on the level of 30% is in my
opinion justified. Appointing a competent “authority” to evaluate the results of unfavourable climate circumstances is convincing. However, it is unknown whether to implement the lower and higher limit of area to which the state should add its share in the insurance premium.

The idea of mutual insurance due to its bigger number of advantages than disadvantages is highly promising. It allows for covering the losses of the wide variety of risks, eliminates the problem of „adverse selection” and allows for easy subsiding. The system in which farmers mutually insure one another creates a bigger responsibility. However, it must be settled if and which production limits entitle to receive the public means support.

The disadvantage of mutual insurance is the unbalance of production competitiveness. In practice the support would consider the animal breeding in conditions of very high and extremely high production concentration. So the support system would include the farmers producing on a big scale and in the breeding systems which of their nature are more risky. Therefore it would not be a common system. What is more, for those countries which have a higher level of national payments established historically also the mentioned 10% limit will be higher. Consequently, they receive a higher reimbursement from the EU means. However the advantages outweigh prevail disadvantages of mutual insurances. I also think that collective associations and producers groups should be the first to be included in the insurance.

3. **What is your opinion with regard to the suggested level of public funding (should be no more than 60% of the farmer's contribution/ 40% EU funded)?**

The system should be cheap because of its commonness. For Poland and other Member States with a scattered agriculture 60% of own share is definitely too much. It should not exceed 50%. Moreover it ought to be differentiated concerning the difference in the financial support rated per capita. In countries where farmers due to the historical conditions receive bigger support, the own contribution should be higher, while in new accepted countries lower. After some time those shares would equal.

Furthermore, the co-financing level should be differentiated between arable crops and animal production. The results of animal production are more vulnerable to management and plant production are more susceptible to random factors. Hence insurance agencies find incomes insurance of plant production more attractive and apply lower insurance premium. In this case the farmer’s share of plant production premium can be higher than in case of animals production.

4. **What is your opinion on the American and Canadian experiment with regard to insurance? Could a similar scheme be applied in Europe, if yes how and if not, why not?**

In the USA and Canada there are many new agricultural insurance instruments regarding production and incomes which the EU could adapt. I mean, the incentives to insure the crops and animals production, incomes or to insure the whole farm basing on the financial means of the farmers involved. Those would be commercial insurances in insurance agencies with only some public support of the insurance premium or combined public-private systems.

In the USA there are risk insurances for particular productions, e.g. crops. Protection level was set on 50-85% of incomes and those are defined on the basis of terminal transactions quotation on the Commodity Exchange in Chicago in November and December of the previous year. The farmer pays only 25% of the insurance premium. The subsidies cover also a part of reassurance costs which will be borne by the insurance agencies due to income insurance of the rural households. The subsidy is paid with regard to sold and correctly serviced insurance packages. In the USA about 80% of crops are insured and the federal government spends about 2,7 billion USD annually for the subsidies of insurance premiums. In the USA there is also a high demand for insurance indexed regarding the crops level (Group Rise Crop), where the compensation levels are set according to the crops levels.
In turn, in Canada a Net Income Stabilization Account (NISA) is common, in which the farmer deposits definite amounts on a special bank account and the government adds an identical amount of money. That money can be withdrawn in defined random situations which influence the incomes that fall below a threshold. This solution is supported by the Agricultural Income Disaster Assistance Account (AIDA), which pays the indemnity in case of an income drop below the marginal one as a result of random situations and natural disasters. These proposals can be implemented in the EU by:

- directing public means which co-finance the compensations to the farmers who insured a fixed incomes level which they did not reach due to the independent reasons, also because of the market fluctuations,
- the budgetary means support only of those farmers who and only then when their incomes fall by a definite percentage or number in relation to the insurance level (in Poland it would be especially useful in pork market),
- providing the insurance reassurance and participation in irregular indemnities which changes the costs for the farmer.

However, it must be solved whose financial means – national or the EU or both – will be a base for this support.

A Canadian long-term idea which considers the stabilising accounts programme in plants and animals production is worth mentioning. The essence of the stabilising accounts programme is in a common saving of definite amounts in the insurance (stabilising) accounts by an agricultural producer and a state (the EU?) institution and then their implementation in case of rural households’ income drop below a strictly settled level no matter the reasons. In its assumption it should be a voluntary programme realising the co-participation rule of farming producers in insuring their incomes. Also and Australian Programme of Deposits Management is interesting. Farming producers in times of good economy deposit a part of their incomes without paying the income tax and moving the income to a lower tax threshold. Withdrawals from that fund take place in times of incomes’ drops below indices stated in this programme and they are tax exempted. This system also serve financing the investments which increase the production stability.

b) Single CMO (Regulation 1234/2007)

5. The Commission wishes to simplify and streamline its market management instruments by dismantling and abolishing a range of existing instruments. Do you consider this as the best way forward too, or would an alternative approach be better?

In support system simplifications the unfavourable or so far sporadically used intervention instruments might be eliminated. I do agree with that. However, the premise to dismantle the existing farming support system cannot be the prices growth on international markets. It must be noticed that market mechanisms (customs, export subsidies, interventional purchase) work the same way – they are inactive in case of high prices. De facto they serve the function of safety net in case of a worse economy in farming market. A total abolishment of support systems would be irreversible and would expose to the risk of farming producers’ incomes drop. The biggest EU producers competitors: the USA, Canada, Australia also use a wide range of intervention and the same the EU support liquidation would threaten the competitiveness loss.

6. Should the CAP retain public intervention as an instrument?

The support realised by the CAP should be set on public intervention and it cannot be considered only in financial dimension. The superior aim is to create the conditions in which farming will be multifunctional, market balanced and will be able to support rural areas, protect the environment and significantly contribute into a vitality of rural lifestyle. It requires to
ensure a decent incomes along with environment protection and biological variety and the
cultural landscape value. However, it must be remembered that:

- the EU farming competitiveness will significantly weaken on the international
markets if it will be deprived of the public support instruments. The UE competitors
farming derives its advantages from more favourable soil and climate conditions so
naturally it is cheaper,
- public support is also a form of a compensation for lost incomes and borne costs to
realise numerous new agricultural functions connected with the effect on environment
and its wealth.

7. How could you update the existing scheme into the changing market conditions?

I reckon (think) that CAP instruments updating should lead to an absolute detachment of
subsidies from the production magnitude, bigger self-reliance of Member States within
establishing the conditions, scales as well as the support beneficiaries. It is also about a more
distinct aiming of the support instrument to definite farming development models (ecological,
industrial, socially balanced) and the growth of significance of insurance interventionism in
farming. An abolishment of land laid wasted programme should be considered as well as an
increase of milk quotas. CAP should also consider the rural areas in a wider range. It concerns
mostly “the old” Member States where there was until now a visible discrepancy in this scope
between the declarations and a real support structure. A special attention also should be paid to
a bigger subsidiary system between the EU members and convergence processes within the EU
farming.

8. Should the priority of the CAP be to adapt the instruments of the Single CMO to the
new market realities in order to respond to greater market volatility?

Certainly, it should. A higher variation of situation on food world markets and the
demand increase which results from an increase food demand outside the EU (China, India,
Pakistan) causes that the EU should use it as its chance. It might appear to be necessary to go
back to farming production growth stimulation although along with fulfilling the
environmental standards. The adjustment of single CMO instruments to new market realities
should also consist in implementing market and quasi-market insurance mechanisms against
economic risks. It is also important to create a food production system (also financial system)
of high quality so that to achieve comparative advantages in the trade with countries outside
the EU.

9. Does the deregulation level have to be the same for the arable crops and for the animal
products?

Regulation should consider the crop market as well as the animal products. Nevertheless the deregulation level should be higher on animal products markets on account of
consumption pattern changes – the demand shift to animal calories. Thanks to it the price
flexibility of demand and supply on this markets will grow. In turn the supply shocks on plants
markets have a big influence on animal markets instability so there must be kept a higher
production level. The animal products market already is highly deregulated, especially with
respect to swine and poultry. In view of the above an existing interventional purchase system
should be kept (alternatively for one crop – wheat). The price could be a support within the
safety net, simultaneously allowing the other crops to find their natural price level.

10. Would a safety net be possible? If so, in which form and at which level?
On account of a farming discrimination mechanism of an economic surplus transfer from the processing agent to the consumer and the need of a retransfer to the farmer the safety net of agri-food producers is possible and necessary. However nowadays it must look differently than it used to, it means to stabilise the sell price in various ways. It must be more market-orientated, protect the producers against losses, taking into account risk management. This system should be based on the households’ income support instead of the support of particular production branches. The priority should be to provide such instruments which would create a stable and environment friendly agricultural production. The responsibility should largely shouldered on the producers themselves and branch organisations. Therefore it is possible to sustain the price stability by forward contractual system development, commodity exchange etc. The public authorities’ role, including the EU is in this domain to create adequate rules and regulations which allow such institutions to develop.

11. What do you think of the idea of a bottom price for cereals and oilseeds which would be related to the energy price?

Theoretically keeping bottom prices for cereals and oilseeds is to guarantee the profitability of their production. On the other hand it does not allow to lower the costs of bio-energy production, dwarfing this sector development. However, practically such dependency does not exist. The prices of cereals and oilseeds have long ago exceeded the bottom prices so the bottom prices do not matter in bio-fuels production costs. Moreover in the nearest future the bio-fuel sector will stimulate the cereals prices. Hence the abolishment of bottom prices only theoretically could positively influence the bio-fuel production development, lowering the costs of their production. In present market conditions such a decision would not have its reflection in bio-fuels sector development but it could threaten cereals producers interests. In turn, administratively the link between the bottom prices of cereals and oilseeds with the bio-fuel prices could start an inflation spiral.

12. For the regulation of the markets, some recommend a stronger intervention of the interbranch organisations. What is your opinion on this and what could be the best format?

My opinion is positive according to this idea. The role of interbranch organisations in stabilising the situation on the agricultural market should be increasingly bigger and bigger. The farmers should co-operate with one another within the unions and associations which are responsible for the coordination of farming production processes starting with the farmer to the products’ distribution on the market. The tasks of those institutions supported with the public financial means would include:

- forming the ways of implementing the EU support for collective insurance and the methods of sharing the risks in different forms of contractual integration,
- running the marketing activities by the promotion of products nationally and internationally,
- supporting producers groups creation and the vertical coordination system development,
- creating advisory centres in domain of labour management, production results analysis financing and creating economic reports.

13. Developing countries face now dramatic situation because of the high cost of the foodstuffs. What do you think of the idea to introduce temporarily a tax on cereal exports in order to finance within the single CMO a fund for food aid?

Such a tax will have its reflection in higher crops prices which will cause a contradictory effect than the assumed ones. There can be a drop in export which will even more deteriorate the situation of developing countries. Secondly, there can be the EU farmers’ protests who will demand compensation for an additional burden. There also remains an issue
of new fund management and money transfer. All in all the food support fund creation for the countries threatened with starvation is a good idea but it should not be realised with the export tax help. A better solution is to obtain the financial means from the Fund by preferential credits guaranteed by the international organisations and granted by the countries exporting the crops to the countries threatened by starvation. The cost of the price increase should be born by the international support organisations (e.g. FAO), hence the countries receiving the foodstuff should pay the remaining (basic) part of the preferential credit. A separate problem is a proper distribution of food support in the starving countries.