26.2.2020

WORKING DOCUMENT

on ECA Special Report 23/2019 (Discharge 2019): Farmers’ income stabilisation: comprehensive set of tools, but low uptake of instruments and overcompensation need to be tackled

Committee on Budgetary Control

Rapporteur: Luke Ming Flanagan
**Introduction**

Risk is inherent in the agricultural sector, and farmers need to develop strategies to address production losses (for example resulting from climate events or plant and animal diseases) and price volatility. The common agricultural policy (CAP) includes instruments to support risk management by farmers and respond to crises. An ambition of the recent CAP reform proposals is to increase the focus on risk management.

**Audit scope, objective and approach**

The Court looked at the risks and crisis management instruments in place aiming to contribute to the better use of EU support for improving farmers’ risk management capacity.

The Court of Auditors examined the completeness and coherence of the EU toolbox to prevent and manage risks and crises, and looked at whether risk and crisis management tools had been efficiently implemented and were delivering results. The focus was put on EU support for insurance premiums, on the use of exceptional measures in the fruit and vegetable sector following the “Russian ban”. The Court did not examine the exceptional measures triggered for the meat and milk sectors.

The main audit question was “Did the EU measures managing risks and dealing with crises meet their objective in an efficient way?” Three sub-questions helped to answer this question:

- Is the EU toolbox offered to prevent and manage risks and crises complete and coherent?
- Have EU risk management instruments met their objectives in an efficient way?
- Have EU exceptional measures for the fruit and vegetable sector met their objectives in an efficient way?

The ECA audit covered action in the period 2014 to 2018. The Court collected audit evidence through

- reviews of data and documents and/or interviews with staff from three Commission directorates general (AGRI, SANTE, ESTAT); and with specialist staff of the OECD;
- visits to four Member States selected to cover the use of support for insurance (Italy, France and Germany) and exceptional measures (Poland, Italy and France). In these Member States, the Court met national authorities, insurance companies, insurance federations, reinsurance companies, farmers’ associations and unions and charities;
- examination of 80 beneficiary files (sent by national authorities) covering risk management tools and exceptional measures, and visits to 16 beneficiaries on the spot (in France, Poland, Germany, Italy, and Greece). Greece was added to the sample because of a transaction reviewed in the context of the ECA legality and regularity audit (annual report).
• interviews with 105 farmers from 17 Member States about their risk management strategy

• a survey completed by national authorities in all Member States on their national agricultural risk and crisis management strategies.

Court's findings and observations

1. The Court found that EU agricultural risk management measures partially met their objectives, but with low uptake, and that there were cases of overcompensation for the crisis measures.

There are a number of EU measures increasing farmers’ resilience to price volatility and production losses resulting from climate events or plant and animal diseases. These include direct payments, which allow many small farmers to bear risks at farm level and tend to reduce their need to insure. Although the CAP can promote preventive measures, notably through good agricultural and environmental conditionality, there is currently limited evidence that these significantly impact farmers’ behaviour. In the future, stricter obligations on good agricultural and environmental conditions (including crop rotation), could be a powerful instrument with which to boost farmers’ resilience and improve the environmental impact of the CAP.

Preventive measures are important and reduce risk exposure. Insured farmers may have less incentive to apply a more resilient business strategy or adapt to new climate conditions but insurance companies may require that their clients take steps to reduce risk. The Court found that EU support in the area of sanitary risks, especially animal disease, prioritised prevention/monitoring measures.

2. The uptake of EU support for risk management tools is low and uneven. Most Member States do not use it. EU support, concentrated on insurance, reaches only a fraction of farmers. Most farmers who are insured do so without EU support. EU funds, through the choices made by Member States making the most use of insurance support, are concentrated on supporting wine producers. Such support is associated with a risk of deadweight.

The Court concluded that there is currently limited evidence of the EU added value of this support;

The Court found that the Commission does not collect some relevant information to monitor the complex application of the risk management tools; although information is available in the Member States making most use of the measure.

3. The Commission took measures to address the threat of market disturbance in the wake of the Russian ban but did not set specific criteria to trigger the use of exceptional measures. The level of support did not take into account alternative outlets. The

---

1 As an example, one beneficiary selected for desk review by the ECA is a worldwide player in the wine sector, with vineyards across the world, estimated wine assets of €600 million and an estimated annual turnover of €50 million. Given the amount invested, the financial capacity and the risk profile of some beneficiaries, it is likely that they would have insured their production without subsidies, creating a deadweight effect.
Commission granted compensation to apple producers (61% of EU support) while exported quantities were growing, and the overall value of exports remained relatively constant. Structural surpluses also affected peach and nectarine production supported under these measures.

The way that ex-post measures have been used to respond to climate risks may not be aligned with the strategy to support greater use of instruments such as insurance.

4. The Court found that the support paid for the free distribution of apples has frequently exceeded market prices, and thus allowed overcompensation. The provisions allowing fresh products to be processed under free distribution carry the risk that the level of support is too high and that processors retain a substantial share of the withdrawn products to cover their processing costs.

Replies of the Commission

The Commission fully accepts recommendations 1 and 4 b, partially accepts recommendations 2 b, 3 a) 3 and 4 and does not accept recommendation 2 a) 3 b) and 4 a.

Draftsman's recommendations for possible inclusion in the annual discharge report

1. The European Parliament recommends that:

   (a) in the context of climate change, the Commission link EU support to agricultural practices that reduce risk exposure (such as crop rotation) and mitigate damage (such as the use of more resistant crops).

   (b) the Commission to continue to closely monitor ongoing trade agreements with third countries with respect to the application of food safety, environmental and animal welfare standards, as complying with these places EU producers at competitive disadvantage and can increase price volatility.

   (c) asks the Commission to make sure that there is a strong sustainability chapter in all trade agreements and that trade partners comply fully with those requirements;

Timeframe: 2021 (implementing regulations of CAP post-2020)

2. The Commission:

   (a) assess whether, in the light of the low take-up of support for insurance and its concentration on certain sectors and larger producers, the support represents EU added value;

   (b) monitor spending through pertinent output indicators (such as area and capital insured, which are already used at Member State level) and result indicators.

Timeframe: 2021 (implementing regulations of CAP post-2020)

3. The Commission clarify the scope of intervention of exceptional measures by:
(a) defining objective market and economic parameters and criteria for deciding when a sufficient basis exists for considering the use of exceptional measures. These parameters should take account of overall returns to producers, including the impact that a decrease of product placed on the market and the subsequent price rise of the product, can have on the financial returns to the primary producer

(b) focusing the use of exceptional measures for extreme weather events on farmers who had made appropriate use of prevention and risk management tools where these are sufficiently developed and available to farmers.

Timeframe: 2021

4. In order to avoid overcompensation, the Commission:

   (a) ensure that support for withdrawal operations does not exceed the pre-crisis average market price in the producer’s Member State;

   (b) assess the practicality of setting aid rates below 100 % and requiring significant co-financing when Member States play a large role in defining key elements of support schemes.