

Special Report

**Farmers' income stabilisation:
comprehensive set of tools, but
low uptake of instruments and
overcompensation need to be
tackled**



EUROPEAN
COURT
OF AUDITORS

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Executive summary

I As the European Commission has noted, 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.

II We examined the completeness and coherence of the EU instruments offered to prevent and manage risks and crises. We looked at whether risk and crisis management tools had been efficiently implemented and were delivering results. We focused on how farmers used EU support for insurance and the exceptional measures triggered for the fruit and vegetable sector following the 2014 ban by the Government of the Russian Federation on some imports from the EU (the “Russian ban”). Overall, we found that EU agricultural risk management instruments and crisis measures partially met their objectives, although not always in an efficient way.

III We found that the CAP offers a comprehensive range of instruments to increase farmers’ resilience. Direct payments (€41 billion a year) have a significant impact on income stabilisation for certain farmers. The CAP includes preventive instruments to help farmers boost their resilience, but evidence indicates that the impact of these on farmers’ behaviour is limited.

IV The way in which ex-post measures have been used to respond to some extreme climate risks may not be aligned with the strategy of supporting greater use of instruments such as insurance. There are some overlaps between different EU instruments supporting harvest insurance.

V The use of EU support for insurance remains low and has benefitted only a fraction of farmers. Most farmers who insure do so without EU support, which raises questions about the added value of EU support. We found that the Commission does not collect relevant information to monitor the use of risk management instruments. A high proportion of EU support for insurance is used in the wine sector in the two Member States using this support the most. It is associated with a risk of deadweight. Insured farmers may have less incentive to apply a more resilient business strategy or adapt to new climate conditions.

VI Regarding the exceptional measures triggered following the Russian ban, we found that no specific criteria were used to consider the use of this measure and that the level of support was mainly based on the loss of the Russian market, without taking into account the existence of alternative outlets until the third year of the ban. These measures lasted four years and were also used to address underlying problems of structural surplus for some fruits, rather than being justified by the exceptional circumstances stated in the regulation.

VII We found that EU support for the apple market exceeded relevant average market prices. Withdrawing peaches and nectarines for processing them was costly for the EU and most of the juice ended up with processing industries as a contribution in kind. Finally we could not confirm that products withdrawn from the market were actually removed either because of a lack of traceability or because these products came back onto the market in a different form, for example processed into juice.

VIII Our recommendations to the Commission cover: encouraging farmers to better prepare for crisis, the design and monitoring of support for insurance, the criteria for recourse to exceptional measures and compensation for withdrawal operations.

Introduction

Risk is inherent in agriculture

01 As the European Commission has noted, 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 (for example resulting from geopolitical risks). The common agricultural policy (CAP) includes mechanisms 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.

02 Agricultural activities have a strong link with climate. Weather conditions can either boost or hinder production. According to the European Environment Agency, crop losses in the EU as a result of extreme weather conditions are in danger of increasing¹. [Figure 1](#) shows the extreme weather events, such as surplus rain, heat waves and droughts, that hit the EU the summer of 2018. The ECA has recently reported on the risks of both flooding² and desertification³.

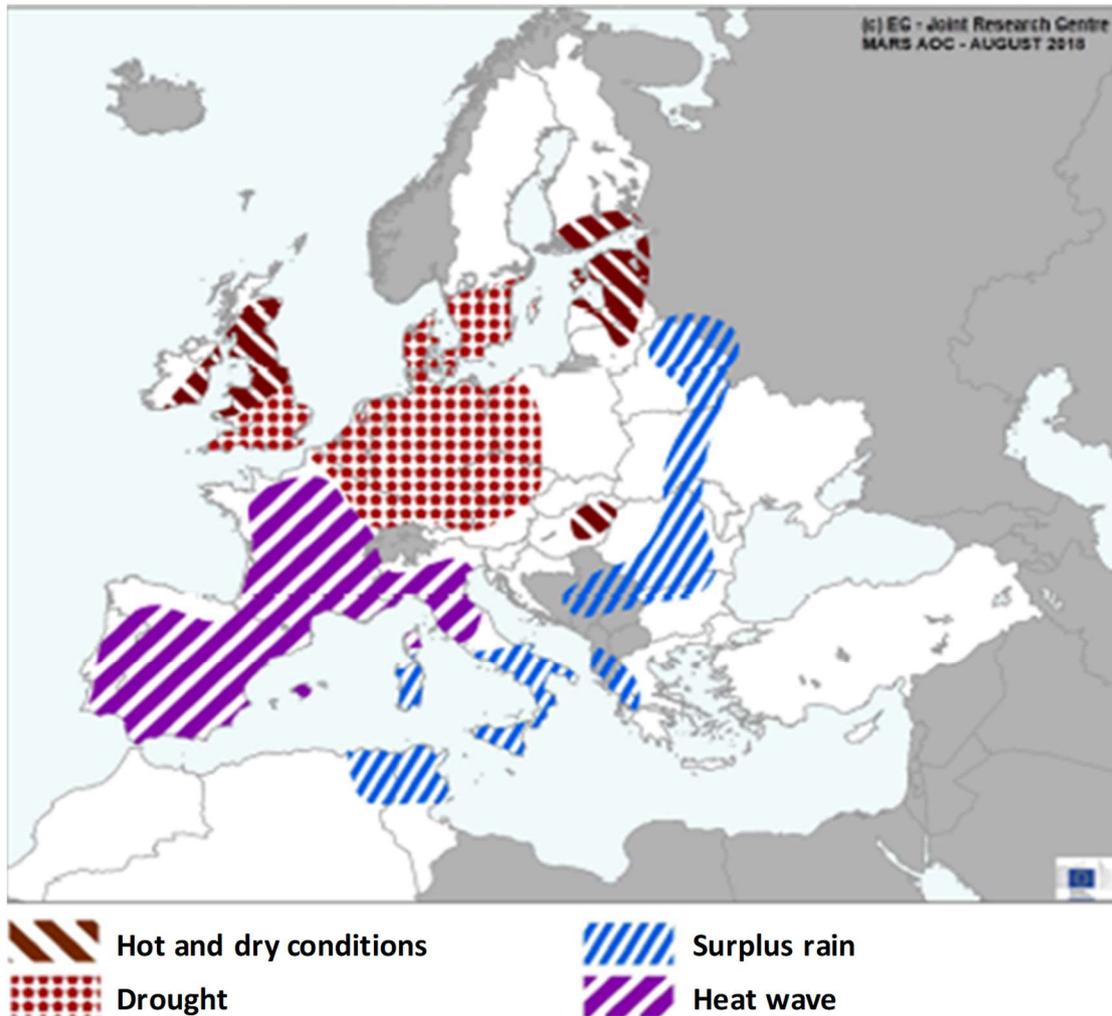
¹ EEA - Report Climate change impacts and vulnerability in Europe, 2016 - Chapter 5.3 Agriculture.

² ECA [special report 25/2018](#) "Floods Directive: progress in assessing risks, while planning and implementation need to improve".

³ ECA [special report 33/2018](#) "Combating desertification in the EU: a growing threat in need of more action".

Figure 1 – Areas of concern: extreme weather events

Based on weather data from 1 July until 1 September 2018



Source: JRC MARS Bulletin, August 2018.

03 Other major risk factors that affect agricultural production are the consequences of plant and animal diseases. Outbreaks of these have been frequent in recent years, partly as a result of increased trade and human movement (both leading to an increased risk of new pathogens).

04 How risks such as production losses and price volatility are addressed depends on their frequency and impact. In its analysis, the Commission refers to a risk classification developed by the organisation for economic co-operation and development (OECD), setting out where risks should be faced by farmers alone, by means of for example, insurance mechanisms, and where they should be addressed through public intervention (see [Figure 2](#)).

Figure 2 – Different categories of risks faced by farms and related instruments

Normal risks: events that occur frequently, locally and generally with low damage

Managed at farm level: crop rotation, more resistant/adapted species/varieties, savings, sanitary and phytosanitary measures, production diversification (including off-farm work), prevention investments (e.g. sustainable irrigation systems, hail protection)

Ex-ante public support (EU/MS): subsidised prevention investment, preventing measures and monitoring of diseases, advisory, training and awareness services, EU direct payments



Marketable risks: less frequent events, but more difficult for farmers to manage on their own

Managed through market tools: private market instruments (insurance, forward and future contracts) or shared with other farmers (mutual funds) or cooperatives or producer organisations

Ex-ante public support (EU/MS): EU/MS subsidised insurance and mutual funds, CAP market measures



Catastrophic risks: Event that occur rarely but are systemic and cause large-scale damage

Managed through public interventions

Ex-post public support (EU/MS): CAP exceptional measures, other EU funds, ad-hoc aid



Fluid borders because instruments addressing different risk categories influence each others':
Good "on farm" strategy reduces exposure to marketable and catastrophic risk
Expectations of strong ex-post public intervention reduce the incentive to develop farm strategy or market tools.

Note: the allocation of the instruments to different risk layers is indicative as they can play also a role to other layers

Source: ECA based on DG AGRI information and OECD classification of risks.

05 At farm level, farmers can use different strategies to reduce their exposure to risks. Most of these strategies can be considered preventive. Farmers can diversify their agricultural production or sources of income to spread the risk of loss in one of their agricultural activities. They can also adopt on-farm practices such as the use of more resilient crops/animals, reinforced sanitary measures, locally adapted agricultural practices and appropriate preventive investments (for example, anti-hail nets or sustainable irrigation). They may complement these with the use of private/public tools, such as insurance and mutual funds.

Using the CAP to foster a resilient agricultural sector

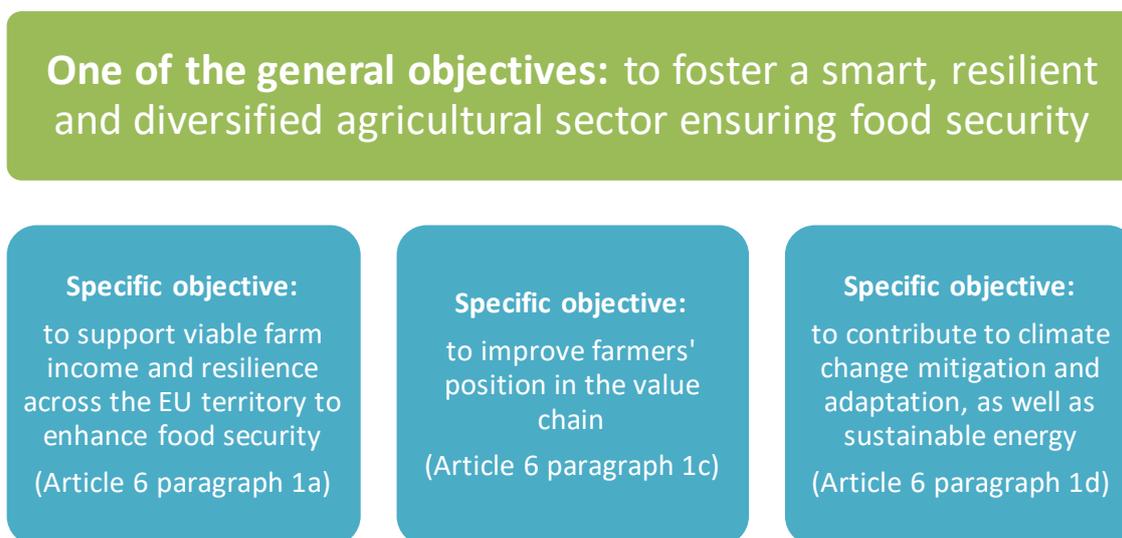
06 Support from the EU budget for agriculture in the EU is managed under the CAP. In its communication on “The future of food and farming” (2017)⁴, the Commission stated its ambition “to further develop an integrated and coherent approach to risk prevention, management and resilience, which combines, in a complementary way, EU-level interventions with Member States' strategies and private sector instruments which address income stability as well as climate risks”.

07 The current CAP and the legislative proposals for the post-2020 CAP seek to make European agriculture more resilient (see examples in [Figure 3](#)) chiefly by reinforcing robustness (the capacity of farmers to resist external disturbances and maintain existing levels of functionality) and, to a lesser extent by reinforcing adaptability (the capacity to respond to changing external circumstances)⁵.

⁴ <https://ec.europa.eu/eip/agriculture/en/news/future-food-and-farming>

⁵ Assessing how policies enable or constrain the resilience of farming system in the European Union: case study results, 2019.

Figure 3 – New CAP objectives related to reinforcing farmers’ resilience



Source: ECA based on New CAP proposal (COM(2018) 392).

08 Under the CAP, the EU provides support to instruments under each category of risk. **Table 1** shows EU support for risk management tools (support for insurance premiums and mutual funds) and exceptional measures, and how they are financed from the EU budget. This table does not include generalised support such as direct payments to farmers, which also plays an important role in how risk is managed at farm level.

09 Support from the CAP is funded under two pillars. Under Pillar I, the EU finances market measures, risk management and crisis prevention measures for some sectors (wine, fruit and vegetables) and exceptional measures. Under Pillar II, the EU gives Member States the possibility of supporting three risk management instruments (M17): insurance (M17.1), mutual fund (M17.2) and income stabilisation tools (M17.3). On 7 August 2014, the Russian Government banned imports of products, including fruit and vegetables, from a number of countries, including EU Member States. Exceptional measures against market disturbances were triggered for the livestock sector (including milk and dairy products) and for the fruit and vegetable sector following the Russian ban. Exceptional measures were activated in the wake of the African Swine Fever, and avian flu outbreaks and to resolve specific problems such as flooding in the Baltic countries.

Table 1 – EU expenditure on risk management instruments and exceptional measures covered by this audit

	Pillar II		Pillar I		
	Risk management tools		Exceptional measures		
Measures	Support for risk management tools (M17) 2015-2018	Support for insurance premium (wine and fruit and vegetable sector) 2015-2018	Measures against market disturbance 2014-2018	Market support measures related to animal diseases due to public, animal or plant health risks 2014-2018	Measures to resolve specific problems 2017-2018
EU expenditure (in million euros)	682	174	1 454	51	24

Source: Commission data.

10 At national level, the Member States have devised different strategies for risk and crisis management in agriculture. Seven Member States finance their own national insurance support systems (Austria, Bulgaria, Czech Republic, Spain, Luxembourg Poland and Slovenia). All Member States provide ex-post support in the wake of catastrophic events. For example, in response to the 2018 drought, Germany, France, Poland and Sweden compensated their farmers from national funds.

Audit scope and approach

11 In view of the 2017 statement by the Commission regarding its ambition to increase the risk management capacity of farmers, we looked at the risks and crisis management instruments in place. Against a background of increasing risks of crises due to extreme weather and animal and plant disease and price volatility, our analysis aims to contribute to the better use of EU support for improving farmers' risk management capacity.

12 We 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. In examining risk management tools, we focused on EU support for insurance premiums. We also focused on the use of exceptional measures in the fruit and vegetable sector following the "Russian ban". We did not examine the exceptional measures triggered for the meat and milk sectors.

13 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?

14 Our audit covered action in the period 2014 to 2018. We 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, we 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 our sample because of a transaction reviewed in the context of our legality and regularity audit (annual report).
- interviews with 105 farmers from 17 Member States about their risk management strategy (see [Annex](#));
- a survey completed by national authorities in all Member States on their national agricultural risk and crisis management strategies.

Observations

The EU supports a wide range of measures to improve farmers' resilience

15 This section assesses whether the EU toolbox to prevent and manage risks and crises forms a complete and coherent package. We examined whether the overall design of the system helps to effectively increase farmers' resilience to risks and crises they may face.

EU instruments address all types of risks faced by farmers, with an important role played by direct payments

16 The CAP contains many mechanisms addressing risks affecting farmers (although not all are available to all farmers). Direct payments reduce income variation for most farmers, but cannot easily be mapped against the OECD classification of risks (see [Figure 2](#)). Instruments that are more easily mapped against the risk layers include those in [Table 2](#).

17 [Table 2](#) shows that two groups of instruments explicitly address risks and crises and thus contribute to increasing farmers' resilience:

- **risk management tools** such as insurance and mutual funds, designed to compensate farmers in the event of certain defined risks;
- **exceptional measures** aimed at stabilising the market when serious disturbance occurs⁶.

⁶ See Regulation (EU) No 1308/2013: Article 219 on exceptional measures against market disturbance, Article 220 on animal diseases and loss of consumer confidence, and Article 221 on specific problems.

Table 2 – CAP prevention, risk and crisis management instruments

	Risk layer addressed	Pillar	Instruments
	Normal	I	Direct payments
Prevention and risk management instruments <i>Ex ante measures</i>	Marketable	I	Support for fruit and vegetable producer organisations, including support for harvest insurance premiums and mutual funds
	Marketable		Support for harvest insurance premium and mutual funds in the wine sector
	Marketable	II	Risk management tools: Support for insurance premium Support for mutual funds (includes income stabilisation tool)
	Normal		Support for prevention and restoration investment
	Normal		Support for investment in physical assets
	Normal		Advisory services - ie farm advisory services
	Normal		Knowledge transfer and information actions
	Marketable	Support when setting up producer groups and organisations; support to promote cooperation	
Exceptional measures <i>Ex post measures</i>	Catastrophic	I	Public intervention and aid for private storage
	Catastrophic		Measures against market disturbance
	Catastrophic		Measures related to animal diseases and loss of consumer confidence due to public, animal or plant health risks
	Catastrophic		Measures to resolve specific problems

Note: the allocation of the instruments to different risk layers is indicative as they can play also a role to other layers

Source: ECA based on EU regulations 1305/2013, 1307/2013 and 1308/2013.

18 Increasing support for farmers' income may shift some marketable risks to the normal category since, as farmers receive more income protection, their ability to manage risks on the farm will increase (see paragraphs below)⁷. Conversely, the provision of this income buffer may lead farmers to farm in a less risk-averse manner (for example, concentrating on a single crop).

⁷ "Managing risks in agriculture: a holistic approach"- 2009, OECD.

19 Direct payments (representing an annual cost of more than €41 billion) form a stable element of farmers' income, and thus increase resilience. Direct payments act as a buffer, allowing farmers to cope with falling prices or lower production. Decoupled payments (89 % of direct payments) are not tied to production. The remaining 11 % of direct payments are linked to production. This additional income represents, according to the Commission, around 26 % of farmers' income⁸. **Figure 4** illustrates the share of direct decoupled payments alone in farmers' agricultural income. The share of decoupled payment in farmers' agricultural income represents frequently more than 20 %.

20 In 2017, direct payments reached 6.4 million EU farmers⁹. Our survey of all Member States showed that nine Member States consider direct payments to be an important part of farms' risk management strategy (i.e. direct payments act as a "safety net" and assure "income protection").

21 **Figure 4** shows that the share that direct payments make up of agricultural income for farmers grouped by economic size varies from less than 20 % to more than 30 %. **Figure 5** shows that the bigger the economic size of the farm the higher the probability of taking out farm insurance. The share of direct payments in agricultural income and the use of insurance are negatively correlated. This result is also reflected in the farmers' questionnaire (see **Annex - Figure 24**). As direct payments offer a buffer to absorb production losses, the need to take out insurance is reduced as the risk could be borne at farm level¹⁰. There are however other factors which can influence a farmer's decision to take out insurance. A significant share of farmers in receipt of EU support are part-time, and this is particularly true of smaller farmers¹¹. This reduces the risk exposure of their farms, as other activities offer a source of income independent of weather conditions and product prices.

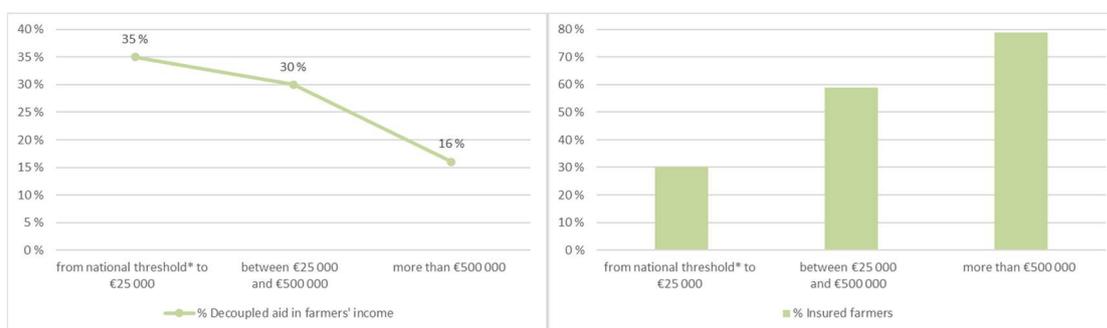
⁸ Commission document on the CAP post-2013, Graph 5. The Commission estimates that total public support amounts to 38 % of farmers' income.

⁹ <https://agridata.ec.europa.eu/extensions/DashboardIndicators/FarmIncome.html>

¹⁰ An Ecorys study on risk management found a neutral/negative correlation between direct payments and risk management tools (table 5.6).

¹¹ According to the FSS data base, more than 30 % of farmers with less than 5 ha have another gainful activity.

Figure 4 and 5 – Share of decoupled aid in the income of EU farmers and % of insured farmers by farm economic size



* In 2015 this minimum varied between Member States from €2 000/year to €25 000/year

Note: Farm economic size is represented by the average annual marketed production expressed in euros.

Farmers' income is represented by the Farm Net Value Added.

The FADN farm population is 4.7 million farms of which 2.9 million (63 %) have an annual marketed production of less than €25 000, 1.7 million (35 %) are between €25 000 and €500 000 and 0.1 million (2 %) are above €500 000.

2.1 million farms receiving direct payments are too small by economic size to be included in the FADN population

Source: Farm Accountancy Data Network (FADN) data for 2016.

22 Farms with a greater economic size, have a higher share of agricultural income in their overall income. The higher the share of agriculture in total income (above an area of 20 hectares a majority of farmers are full-time¹²), the greater the use of insurance (see [Annex - Figure 24](#)).

The CAP increasingly promotes preventive measures

23 Preventive measures (see paragraph 05) can increase farmers' resilience by reducing their exposure to risks and adapting production to new risks. Prevention and adaptation strategies can facilitate continuing production in the face of, for example, a climate event.

¹² Briefing paper - "Future of the CAP", March 2018.

Effective prevention measures can limit production losses

24 Given the impact of climate change, measures encouraging resilience including long-term preparedness (adaptation to new conditions) are important. **Box 1** illustrates the change in the perception of drought risks in Australia.

Box 1 - From emergency response toward preparedness and risk management

In Australia, as drought has become more frequent, public authorities no longer consider it to be an exceptional event. A recent official report concluded that it is important to “shift away from an emergency response paradigm of drought assistance and eligibility, towards measures encouraging preparedness and risk management”¹³.

The New National Drought Agreement¹⁴ recognises the need to support farming businesses and farming communities to manage and prepare for climate change and variability. It focuses measures across all jurisdictions on bolstering risk management practices and enhancing long-term preparedness and resilience.

25 Crop rotation, use of adapted/more resistant crops and savings were the three most frequent preventive measures considered by the farmers we interviewed (see **Annex - Figure 22**). Crop rotation is part of good agricultural practice as it has a positive impact on soil fertility and helps to control weeds, diseases and pests.

26 Currently, direct payments to larger farmers include a crop diversification requirement (through greening payments, a new type of direct payment introduced in 2013 to enhance the environmental performance of the CAP). In the new CAP proposals, direct payments could boost crop rotation and indirectly increase farm resilience provided that:

- the national standards set by the Member States are sufficiently ambitious¹⁵;
- farmers follow the requirements of good agricultural and environmental conditions;

¹³ Review of the inter-governmental agreement on national drought programme reform.

¹⁴ 12 December 2018.

¹⁵ See **ECA opinion 7/2018** : “concerning Commission proposal for regulations relating to the Common Agricultural Policy for the post-2020 period”, paragraphs 55-58, Box 6.

- real changes in behaviour are achieved.

We have reported in the past that greening often does not lead to changes in behaviour¹⁶.

27 Sanitary risks are an area where successful prevention limits the need for ex-post intervention. Public authorities (EU and Member States) are heavily involved in addressing animal disease risks, using ex-ante measures such as prevention (including eradication), monitoring and risk management tools. Significant efforts are made ex-ante to avoid the potentially high costs and negative consequences of ex-post measures (for example, the bovine spongiform encephalopathy crisis experience which cost the EU more than 5 billion ECU in 1996-1998). Although these efforts have had a significant positive impact, independent studies have estimated that public expenditure on compensation for animal and plant diseases cost EU Member States half a billion euros annually in the period 2010 to 2014¹⁷.

The extent to which the new tools available increase farmers' resilience to prices risks cannot yet be evaluated

28 The Commission considers¹⁸ forward contracts and futures markets as tools to address price risks. Contractualisation (use of forward contracts) was the fourth most frequently mentioned preventive measure by the farmers we interviewed (see [Annex - Figure 22](#)).

¹⁶ ECA [special report 21/2017](#) "Greening: a more complex income support scheme, not yet environmentally effective", paragraphs 26-57

¹⁷ Estimates by Bardaji and Garrido (2016) presented in the EU Agricultural Markets Brief, table 2, September 2017.

¹⁸ Risk management schemes in EU agriculture, September 2017.

29 Under the EU legal framework, the Member States can require either the use of mandatory contracts or a written offer for a contract from the first purchaser to the producer¹⁹. The agricultural part of the Omnibus Regulation²⁰ introduced changes in the legislative framework. It now gives the producer the right to require a written contract between the parties and/or a written offer of a contract from buyers. In April 2019 a directive entered into force to ban some unfair trading practices in the food chain (i.e. unilateral contract changes by the buyer)²¹. It is still too early to assess the impact of these recent changes.

30 Pillar II of the CAP can support income stabilisation tools offering compensation to farmers for a “severe drop” in income. The Omnibus Regulation reduced the threshold for compensation through insurance from 30 % production losses to 20 % and allowed for the possibility of a sectorial income stabilisation tool (for example an income stabilisation tool specific to cereals). However, no EU supported income stabilisation tools are currently operational.

31 In the event of significant price volatility, direct payments, market intervention and exceptional measures against market disturbances remain the most important EU tools supporting farmers.

There are some overlaps between EU instruments

32 EU support schemes for insurance exist under both Pillars I and II. They overlap for the wine and fruit and vegetable sectors. Support for mutual funds is only complementary with support for insurance when different risks are covered. Exceptional measures triggered to address specific problems caused by extreme events may not be aligned with the strategy to support greater use of risk management tools such as insurance.

¹⁹ See article 148 in the milk sector, article 168 of Regulation (EC) No 1308/2013 for other sectors with the exception of sugar.

²⁰ Regulation (EU) No 2393/2017 of the European Parliament and of the Council.

²¹ Directive No 633/2019 on unfair trading practices in business-to-business relationships in the food supply chain.

Complementarity between insurance and mutual fund only exists when different risks are covered

33 Under the first Pillar of the CAP, support for mutual funds has been eligible for financing in the operational programmes (OP) for fruit and vegetables and the national wine programmes since 2009, but there has been no uptake of this financing. Under Pillar II, there has been little use of financing available for mutual funds (see paragraph 43).

34 The low uptake of mutual funds is partly explained by the higher complexity of this tool. It is necessary for a sufficient number of farmers to take part for it to function. For example, in Italy the minimum number of farmers joining a mutual fund is 700. This complexity may “incite farmers to turn to other available risk management tools, in particular insurance”²². Only when mutual funds cover risks not covered by insurance, are these two instruments complementary. In France, EU support for insurance is restricted to “harvest insurance” covering only climate risks for crops, whereas the national Mutual Fund, which receives EU support, covers animal and plant diseases and pollution incidents.

Inappropriate use of exceptional measures may reduce incentives to use risk management tools

35 Uncertainty about the circumstances which may trigger crisis measures has an impact on farmers’ perceptions as to where the boundaries of their own risk management responsibilities lie. The more frequently public aid is offered during or after a “crisis”, the lower the incentive for farmers to mitigate risk through the use of risk management tools such as insurance²³.

36 For example, in 2018, the Commission approved an implementing regulation, financing a CAP measure to support farmers affected by floods and heavy rainfall at the end of 2017 in certain areas of Lithuania, Latvia, Estonia and Finland. Farmers were eligible if they had lost at least 30 % of their winter sowing area and did not benefit, for the same loss, from any kind of national aid or insurance (Commission implementing Regulation No 108/2018 - €15 million was allocated and broken down

²² EU Agricultural Markets Brief, September 2017.

²³ According to the OECD, public ex-post intervention is “part of the risk management system which farmers take into account when planning their own decisions and strategies”. See “Managing risks in agriculture: a holistic approach”, 2009. See also “Risks management schemes in EU agriculture”, section 3, September 2017.

according to the numbers affected, as follows: €9.12 million for Lithuania, €3.46 for Latvia, €1.34 for Estonia and €1.08 for Finland). Farmers who had insured against this risk were therefore not eligible for compensation for their production losses. Such criteria may discourage farmers from insuring in the future.

37 On the other hand, the Commission's involvement in the 2018 drought crisis was in line with its strategy of developing risk management tools. The Commission did not put in place additional (ex-post) measures but rather used the flexibility of pre-existing instruments. Notably, this involved derogations from greening and environmental rules allowing farmers to cut grass or graze cattle on areas that would otherwise lie fallow. This is in line with several national strategies aiming to shift public expenditure from ex-post to ex-ante measures (prevention and support for risk management tools) in seven Member States (Austria, Italy, France, Greece, Netherlands, Spain and Slovenia).

Commission proposals for the reform of the CAP seek to boost support for risk management tools for which national support is already available

38 For the current period, 17 Member States decided not to implement risk management tools under Pillar II (support for insurance and mutual funds). Eight of them consider their current risk management tools to be satisfactory. Seven of the Member States which have not implemented risk management tools under Pillar II (see paragraph 10) have national support for insurance premiums and two have a compulsory national insurance scheme ²⁴.

39 In its new CAP proposals, the Commission proposes obliging Member States to make EU support available for risk management tools²⁵. Our survey of Member States shows that eleven disagree with this proposal. Several justify using their own national support system on the basis of the EU subsidiarity principle.

²⁴ Greece and Cyprus.

²⁵ Cf. COM(2018) 392, article 70.

For the risk management tools, most EU support goes on insurance, but uptake is low and uneven

40 Since EU support is concentrated on insurance (see [Table 3](#)), we focused on this, under both pillars of the CAP. We reviewed the management of the EU's support for insurance and assessed the use of insurance by farmers.

41 More than a third of farmers use insurance. Among those insured, around 8 % are supported by the EU under Pillar II (mainly through harvest insurance). More farmers pay for insurance out of their own funds and national funds than do so with EU funds.

Uptake of EU risk management tools has been low and uneven

42 As discussed in paragraph [39](#), interest among Member States in using EU funding for risk management tools is limited. Seventeen Member States do not intend to apply for support for risk management tools under Pillar II.

43 [Table 3](#) presents the three EU risk management tools and shows that for the eleven participating Member States, most support goes for insurance. Only three Member States (France, Italy and Portugal) offer EU support for mutual funds and two (Italy and Hungary) for income stabilisation mutual funds. For the 2014-2020 period, 91 % of the planned spending on risk management tools relates to insurance.

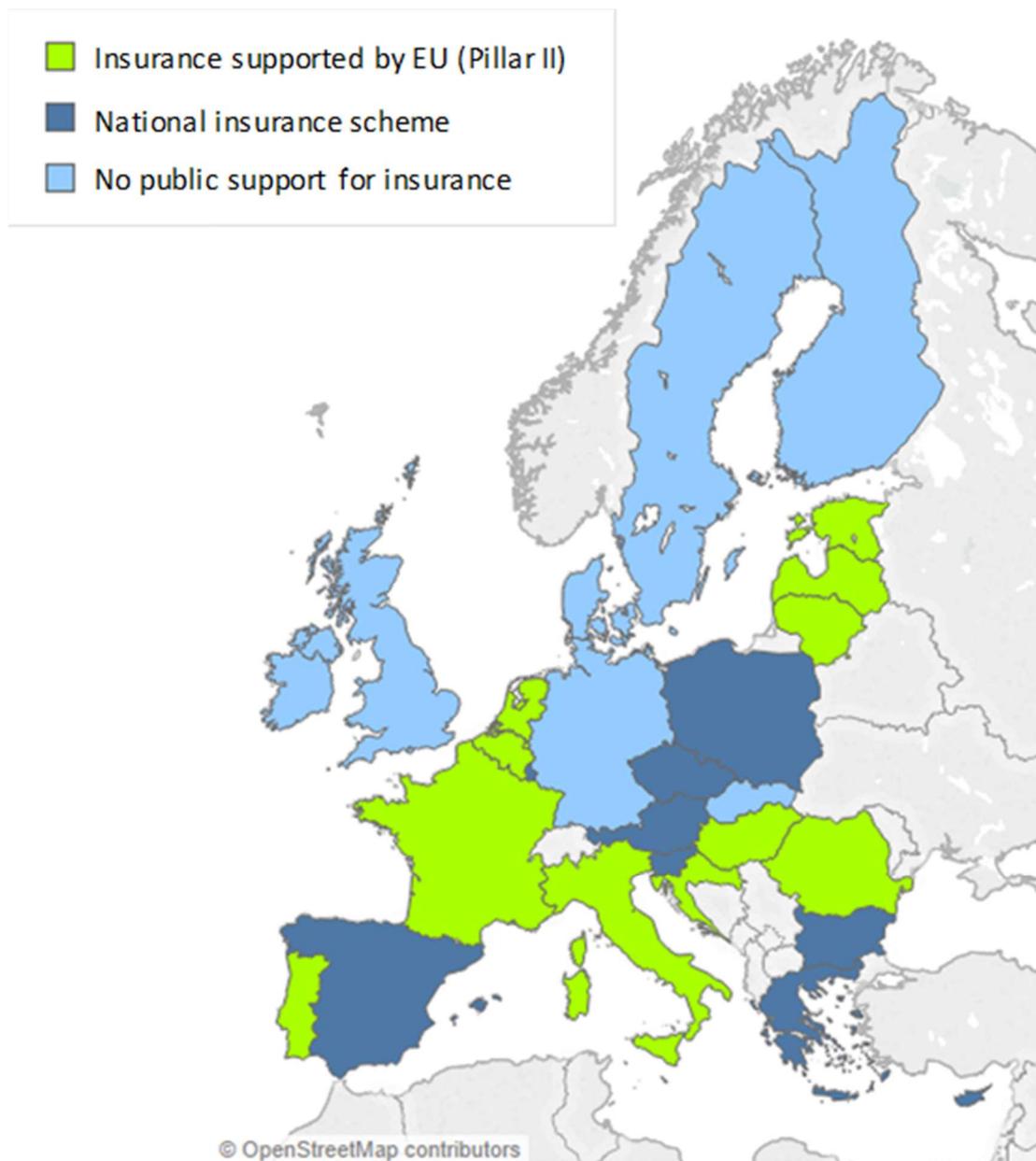
Table 3 – Risk management tools under Pillar II

	Tool	Risk coverage	Threshold to trigger compensation	Public contribution	Planned public expenditure 2014-2020 (in million euros)
M17.1	Insurance	adverse climatic events, animal or plant diseases, pest infestation, or an environmental incident	> 20 % losses in production	up to 70 % of the insurance premium	2 317
M17.2	Mutual fund		> 30 % losses in production	up to 70 % of ▶ the administrative costs of setting up the mutual fund and of interest on commercial loans taken out by the mutual fund.	125
M17.3 Income stabilisation tool	Mutual fund sectoral	severe drop in farmers' income	> 20 % drop in income	▶ the compensation paid by the mutual fund	116
	Mutual fund non-sectoral		> 30 % drop in income	▶ supplementing annual payments into the fund ▶ the initial capital stock of the fund	

Source: ECA based on legislation and Commission's data, March 2019.

44 **Figure 6** shows which Member States offer support for insurance.

Figure 6 – Map of support for insurance in the EU



Note: Little EU support for insurance exists under Pillar I for Germany, Cyprus and Slovakia.

Data Source: ECA.

45 *Table 4* shows that even in Member States proposing the EU scheme, the uptake is low. France, Hungary, Latvia and Italy have the highest proportion of farmers insured with EU support.

Table 4 – Public expenditure and number of farmers insured under EU scheme (Pillar II) in 2017

Member State	Public expenditure (in million euros)	Number of farmers insured with EU support	% of insured farms with EU support
France	100	57 996	19 
Hungary	25	15 708	15 
Latvia	5	2 300	9 
Italy	110	41 076	8 
Netherlands	27	2 012	4 
Portugal	26	3 793	4 
Croatia	4	1 953	2 
Lithuania	2	402	1 
Total EU	299	125 240	3 

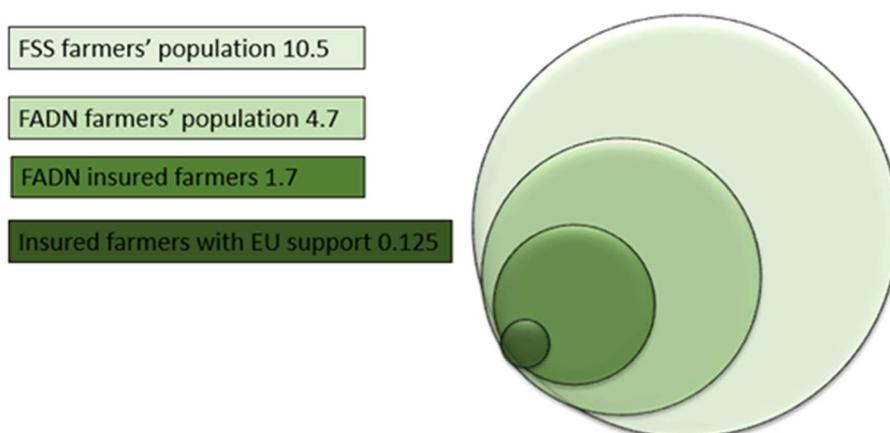
Note: Belgium, Estonia and Romania have still not incurred expenditure.

Source: ECA based on Member States' data notified to the Commission and FADN data, March 2019.

46 *Figure 7* shows that:

- EU support reaches a very small share of EU farmers;
- more than 90 % of farmers who insure do so without EU support.

Figure 7 – Farmers supported with EU funds compared to different farm populations, in millions



Note: The FADN farm population represents only farms above a certain economic size. In contrast, the Farm Structure Survey (FSS) aims to cover all farms, including the very small ones. The circles do not fully overlap as farm populations are different. We consider that, as FSS farmers excluded from the FADN are small, they tend to insure less, and that most insured farmers with EU support belong to the insured FADN farm population.

Source: ECA based on FADN Data, December 2018.

47 Mono-risk insurance, mainly against the risk of hail has existed since the nineteenth century and is the form most widely used. More recently introduced, multi-risk insurance (18 risks in France and up to 11 risks in Italy) is less widespread and has been developed mainly with public support. The Commission leaves it up to Member States to decide which kind of insurance to support (mono- and/or multi-risk).

48 We found that in France (2017), 5.2 million hectares were insured against hail (mainly without support) and 4.7 million hectares were covered by EU supported multi-risk insurance, meaning that 36 % of the utilised agricultural area was insured. In Germany, around 8 million hectares (48 % of the utilised agricultural area) were insured against hail²⁶, mainly without public support²⁷.

²⁶ Landwirtschaftliche Mehrgefahrenversicherung für Deutschland, Gesamtverband der Deutschen Versicherungswirtschaft, November 2016.

²⁷ Pillar I supports insurance for the fruit and vegetable (€2.6 million /year) and wine sectors (€0.164 million /year).

49 European added value is the value that an EU action adds through EU policy, regulation, legal instruments and spending, over and above that created by Member States acting alone. The low up-take of support for insurance under Pillar II and the large number of farmers choosing to pay for mono-risk insurance rather than subsidised multi-risk insurance raises questions about the added value of EU support for insurance.

The Commission does not collect relevant information on the use of risk management schemes

50 The Commission has set only one overall result indicator for risk management schemes: “percentage of farms participating in risk management schemes”. This relates to two measures under Pillar II: measure 17 and measure 5. Measure 17 covers support for insurance, mutual funds and income stabilisation tools, and measure 5 covers support in restoring agricultural production potential and preventive actions. As the indicator covers multiple activities, it cannot reflect them properly.

51 In France, for example, this indicator covers more than 99 % of farms, reflecting the compulsory membership of the national mutual fund. This therefore obscures the much lower share of farmers who take up EU-supported insurance, belong to an income stabilisation mutual fund or restore agricultural production potential. The same indicator’s coverage in Italy is below 5 % and mainly reflects the share of farmers taking out EU-supported insurance.

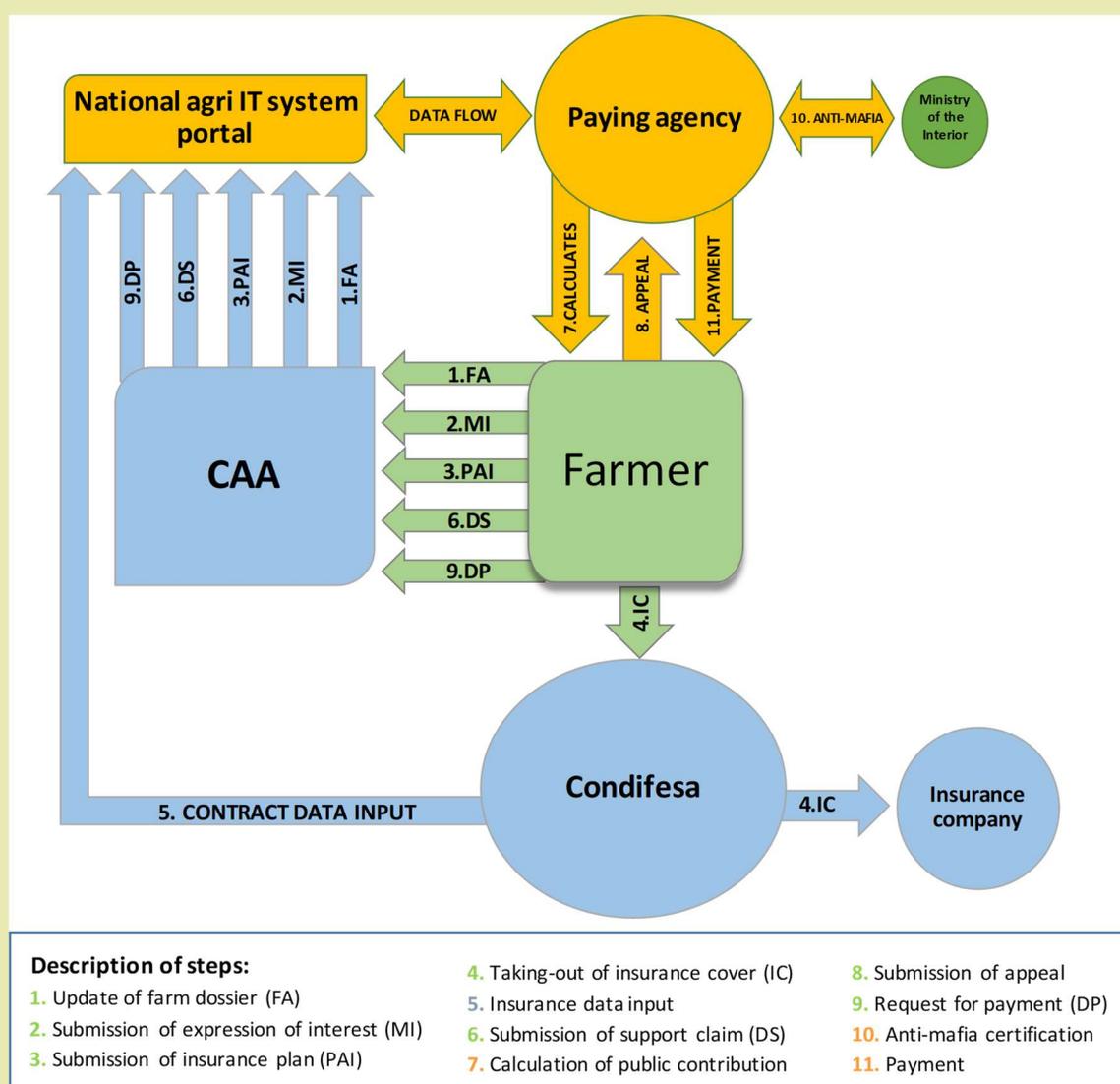
52 France and Italy also have national indicators for the number of hectares and capital value insured. These provide a more telling insight into the extent to which the agricultural sector employs risk management tools (i.e. they measure outputs). A meaningful result indicator would measure the impact of insurance on income stability.

Supporting insurance requires complex management systems

53 The systems and processes established by the national authorities for managing the provision of public support for insurance (Pillars I and II) are complex. Although insurance coverage is provided to a relatively small number of farmers, the number of insurance contracts to be managed each year is appreciable (140 000 in Italy and 70 000 in France). One farmer can have several insurance contracts. The total number of contracts is therefore higher than the number of farmers insured. **Box 2** illustrates Italy’s system for managing support for insurance; it involves two intermediaries

(Condifesa and CAA) to help farmers. Although membership of these intermediaries is not compulsory, the complexity of the system is such that more than 95 % of farmers join and pay for the services they provide. We estimate the costs specifically linked to this measure that Italian farmers pay to private entities facilitating access to support to be at least €2.8 million per year.

Box 2 - Italian administrative process for insurance support



Source: ECA based on information from Italian authorities'.

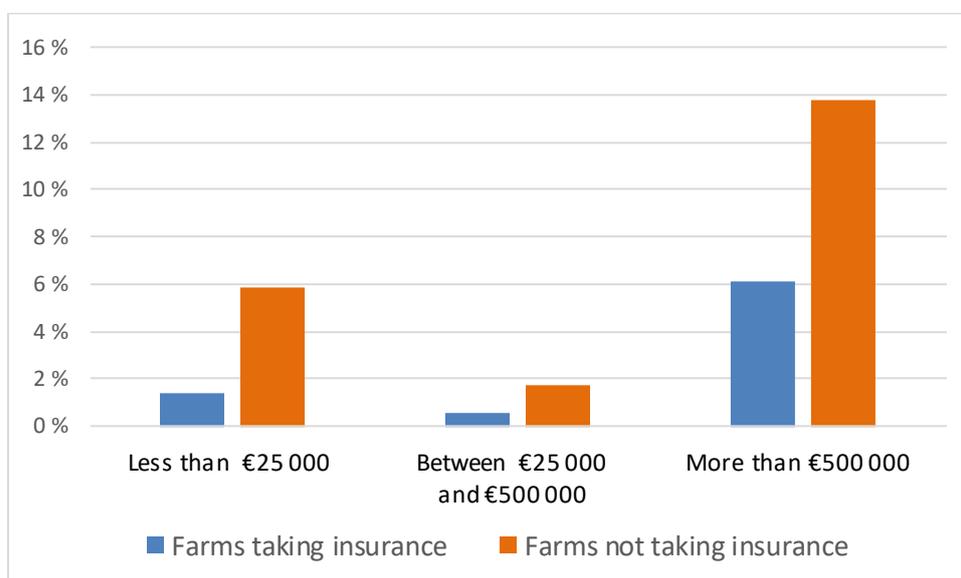
54 Our survey of the Member States showed that, of the 17 that did not apply measure 17, five decided not to support insurance because of the costs and administrative burden involved.

Insurance has a positive impact on income stability, but the impact of the EU support scheme for insurance is less clear

Insured farmers have greater income stability and are likely to receive compensation earlier

55 We compared the evolution in farm income from 2014 to 2016 for insured versus uninsured farmers, regardless of whether they had received EU funds or not. To evaluate the variation of the income (represented by the Farm Net Value Added) over this period, we used the standard deviation (dispersion of the income between years). The lower the standard deviation, the more stable the income is. *Figure 8* shows that, across all farm types, insured farmers' incomes vary less than those of their uninsured counterparts.

Figure 8 – Income variation (in %) of EU farms by the farms' economic size (2014 to 2016)



Source: ECA's analysis based on FADN data.

56 In France and Italy, compensation payments from insurance companies occur within the year of the climate event. In Italy, insurance contracts bind insurers to pay compensation before the end of the year. This helps farmers manage their cash flow and facilitates continued operation. We found that the delivery of compensation for 2018 events through ex-post measures by public authorities has taken longer and will only be completed during 2019.

EU support for insurance is focused on the wine sector

57 In the two Member States making most use of EU support for insurance, we observed a concentration of EU support in the wine sector. In Italy, the wine sector has two possible channels through which to receive support for insurance (see paragraph 32). In 2015, this sector benefited from almost one third of total public insurance support. In France, the vineyard area insured with EU support has grown; it exceeded one quarter of the total vineyard area in 2017. Insured capital in the wine sector can reach €115 000/ha, while the average insured capital per hectare for the agricultural sector in France was €1 649/ha in 2017²⁸. The higher the insured capital, the higher the premium and the higher the level of public support.

58 Member States channeling EU support for insurance to their farmers are not required to be selective²⁹. As an example, one beneficiary we selected for desk review 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. We have previously noted deadweight in EU support for insurance³⁰.

²⁸ Calculation based on figures from the French Ministry of Agriculture.

²⁹ See Article 49 Regulation (EU) 1305/2013.

³⁰ ECA [special report 10/2013](#) "Common Agricultural Policy: Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?", paragraph 44.

Compensation may affect the behaviour of farmers

59 As shown in [Box 3](#), insured farmers may have less incentive to apply more resilient business systems. When farmers know they will receive an insurance payout if their crop fails, they may find it less important to invest in growing resistant crops and have fewer incentives to diversify. Insurance companies frequently require some mitigation activities from their clients, and so can reduce this hazard. The legal provision for Pillar I makes reference to this practice, but no provision exists for Pillar II to reduce risk exposure.

Box 3 - Insured farmers are less adaptable to extreme conditions

In the United States, where harvest insurance is widespread and also supported by public funds, a study has demonstrated that insured corn and soybeans are significantly more sensitive to extreme heat than uninsured crops (lower yield).

The study concluded that the sensitivity of insured crops demonstrates the lower capacity/incentive of insured farmers to adapt to extreme conditions, because they rely on insurance payouts³¹.

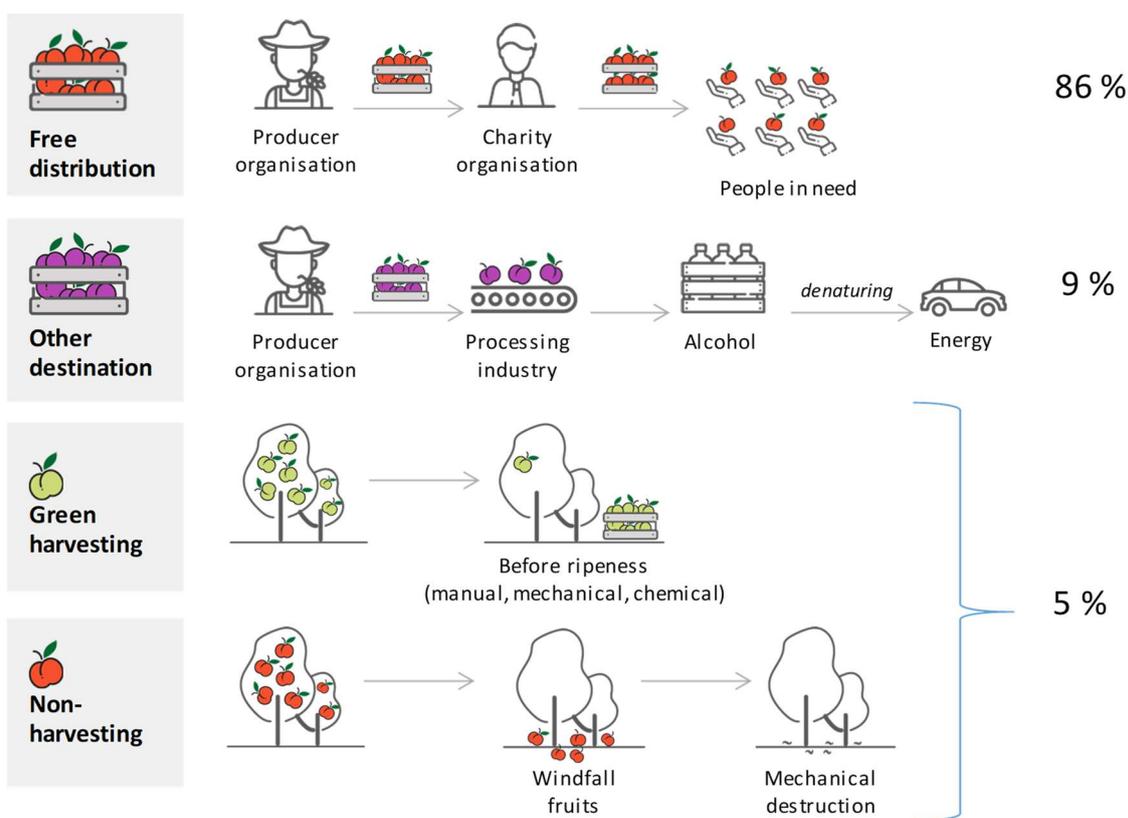
Insufficient control over some exceptional measures

60 Article 219 of Regulation (EU) 1308/2013 allows the Commission to take exceptional measures to address “threats of market disturbance caused by significant price rises or falls on internal or external markets or other events and circumstances significantly disturbing or threatening to disturb the market”. We examined whether the exceptional measures addressing significant market disturbance for the fruit and vegetable sector were appropriately targeted and whether withdrawal operations had operated efficiently. We focused upon action taken in the fruit and vegetable markets in the wake of the “Russian ban” (see paragraph [09](#)).

³¹ Francis Annan and Wolfram Schlenker “Federal Crop Insurance and the disincentive to adapt to extreme heat”, 2015.

61 In the wake of that ban, considered as a threat to the market, the Commission established exceptional measures for the fruit and vegetable sector. Expenditure on these exceptional measures in 2014-2018 amounted to €513 million, corresponding to 1.8 million tonnes of withdrawn products. The measures involved withdrawing fruit and vegetables affected by the Russian ban from the market through different options (see [Figure 9](#)). Free distribution was the main withdrawal option (representing 60 % of the quantities withdrawn and more than 86 % of the amount paid).

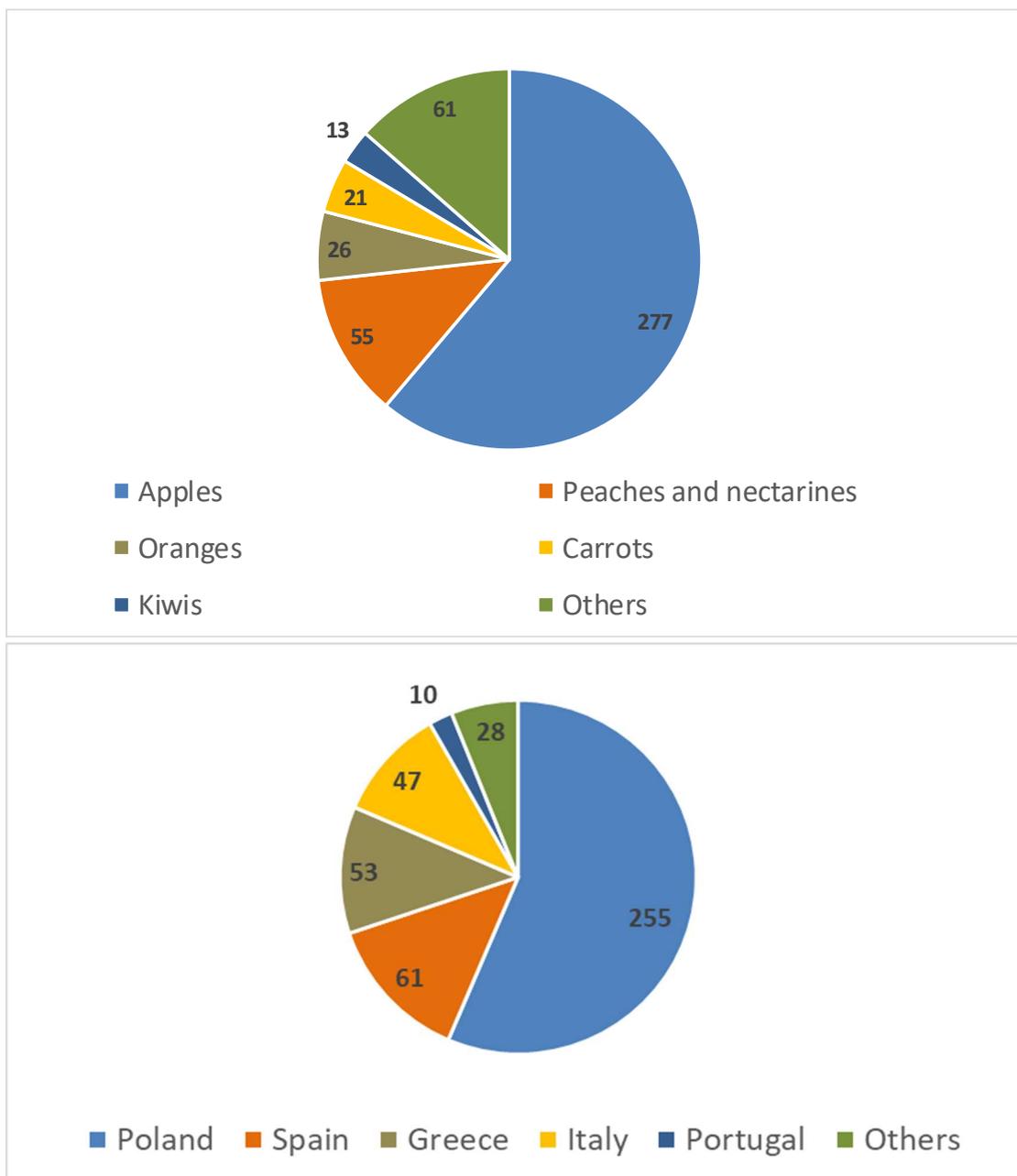
Figure 9 – Withdrawal options and their respective share of the EU support



Source: ECA.

62 *Figures 10 and 11* show the main products withdrawn and the geographical spread of free distribution.

Figures 10 and 11 – Amounts supported under free distribution schemes, by product and Member State (million euros)



Source: DG AGRI, October 2018.

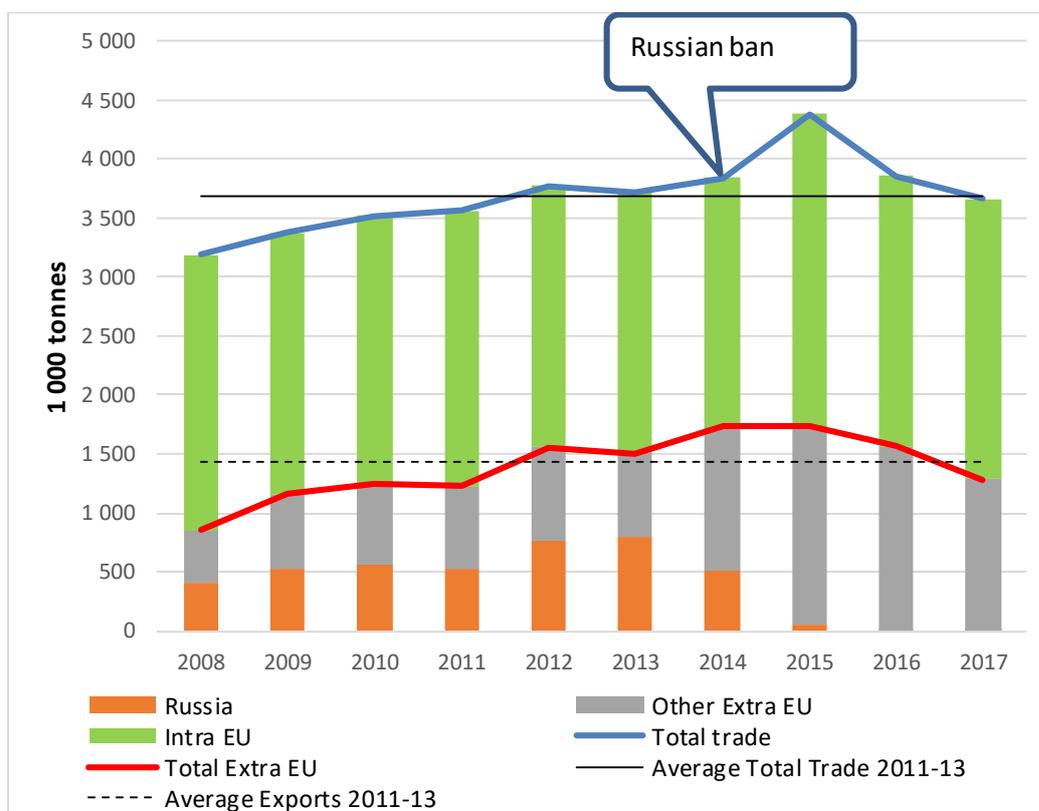
The EU has not established objective parameters for consideration of the use of exceptional measures

63 The concept of market disturbance is quite general and is not further developed in the EU legislation. The absence of specific criteria gives a large margin of discretion as to when to consider using exceptional measures. In the context of the Russian ban, the Commission triggered exceptional measures through seven delegated regulations that make reference to the risk of market disturbances (913/2014; 932/2014, 1031/2014, 1371/2014, 1369/2015, 921/2016 and 1165/2017). Nevertheless, the continuation of the measures was not based on an assessment that losses exceeded a defined threshold.

64 When establishing the level of EU support, the Commission took into consideration production and export data in the three years preceding the Russian ban (2011-2013). The Commission did not take into account alternative outlets, such as other external or intra-EU markets until the third year of the ban.

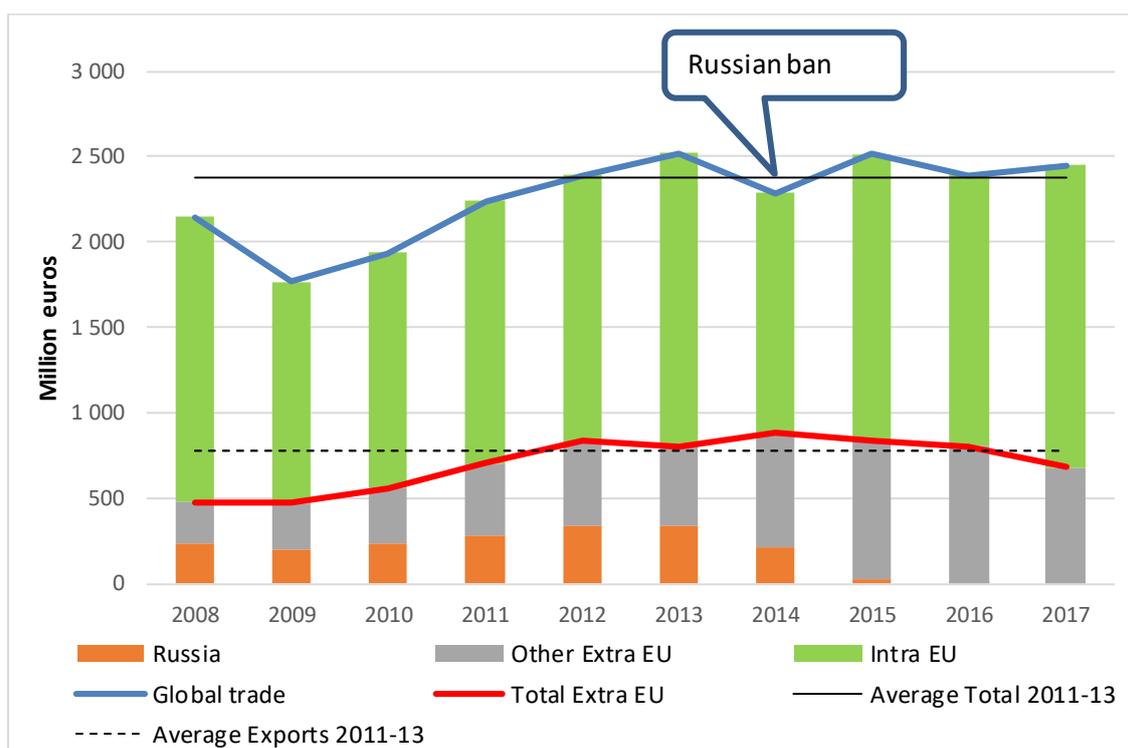
65 Apples accounted for more than half of EU support by both value and withdrawn quantities. *Figure 12* shows that, during the Russian ban, intra- and extra-EU exports increased in 2014 and 2015 and in total remained above the average before the ban. Other extra-EU markets have compensated for the loss of the Russian market. As a result, *Figure 13* shows that the intra- and extra-EU export value apple trading remained mostly stable, with only a slight decrease in 2014 (-4 % compared to the 2011-2013 average). The drop in the value of the total exports in 2014 was lower than that of 2009, when no emergency measures were put in place.

Figure 12 – Evolution of EU apple exports in volume



Source: ECA based on Eurostat data – International trade in goods, January 2019.

Figure 13 – Evolution of EU apple exports in value



Source: ECA based on Eurostat data – International trade in goods, January 2019.

66 This indicates that, for the EU as a whole, the “market disturbance” due to the Russian ban on the apple market was limited and did not last four years (as the exceptional measures did). The decline in direct exports to Russia was offset by increases in exports to other destinations.

Exceptional measures have been applied to goods that are in structural surplus

67 The EU has also applied exceptional measures to support the withdrawal of peaches and nectarines. The cost of withdrawal of peaches and nectarines represented 34 % of the total withdrawn operations for Spain and 45 % for Greece. The first delegated regulations refer to the Russian ban and also to an imbalance between supply and demand. “The seasonally high supply levels in peaches and nectarines and the slowdown in consumption due to adverse weather conditions at the peak of the harvest created a difficult market situation”³². “The exceptional measures were taken mostly to address the specific situation to the peaches and nectarines sectors”³³.

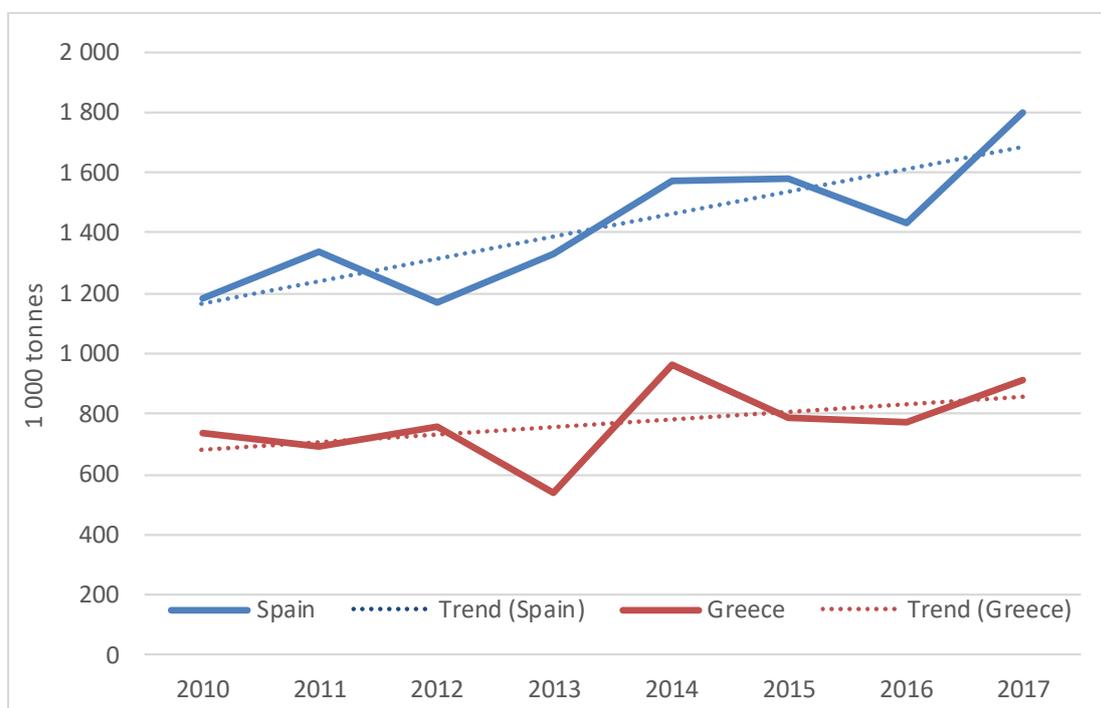
68 *Figure 14* shows that peach and nectarine production is growing in Spain and Greece. The production potential of these countries is also increasing, as their planted area increased by respectively 6 % and 20 % between 2006 and 2016. Italy, which was the largest peach and nectarine producer until 2012 (when it was overtaken by Spain), has decreased its planted area by 30 %³⁴ and progressively reduced production.

³² Delegated regulation 913/2014 preamble, paragraph 1)

³³ Delegated regulation 932/2014 preamble, paragraph 22)

³⁴ Data source DG AGRI Dash board, 2017.

Figure 14 – Evolution of the production of peaches and nectarines in Spain and Greece



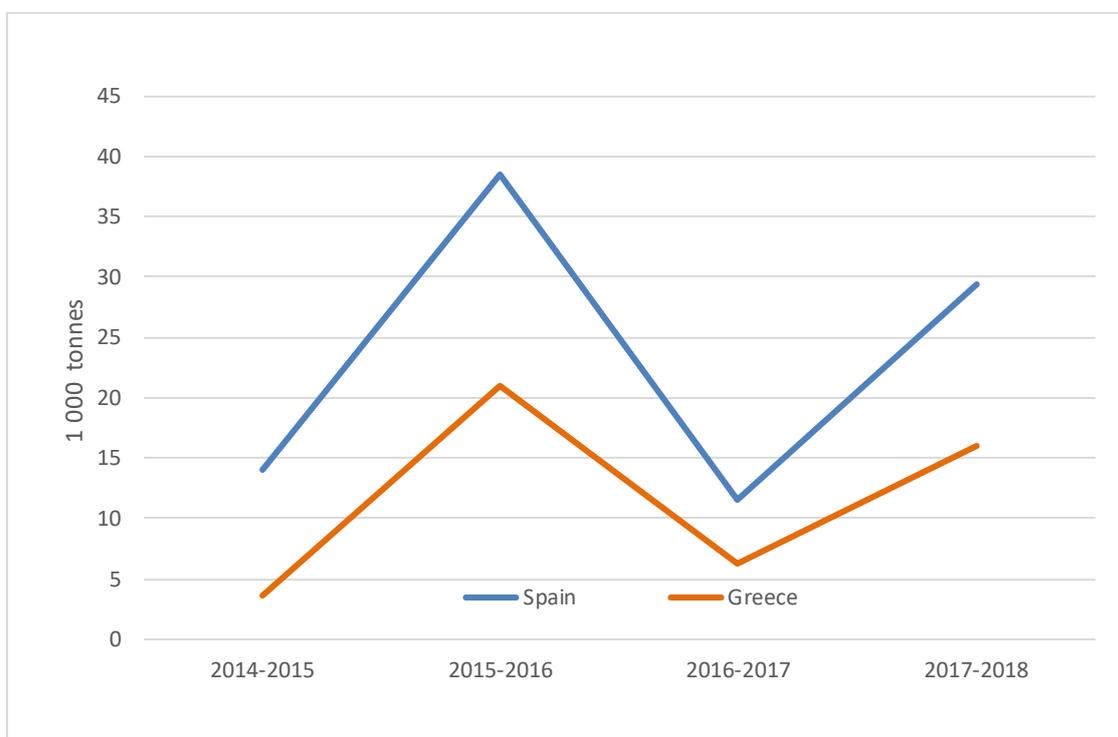
Source: DG AGRI Dash board data.

69 If production rises without a corresponding increase in internal consumption or exports, this leads to structural overproduction: orchards produce more than can be absorbed through consumption and export. In Spain, a steady decline in domestic peach consumption has not been offset by increased exports³⁵.

70 *Figure 15* shows that, during the four years of withdrawal operations in Spain and Greece, the withdrawal rate was not reduced progressively (as a way of phasing out the measure) but rather mirrored levels of production.

³⁵ “Fruta de hueso: análisis de campaña 2018”, Ministerio de agricultura, pesca y alimentación.

Figure 15 – Evolution of peach and nectarine quantities allocated for withdrawal



Source: Commission and delegated regulations.

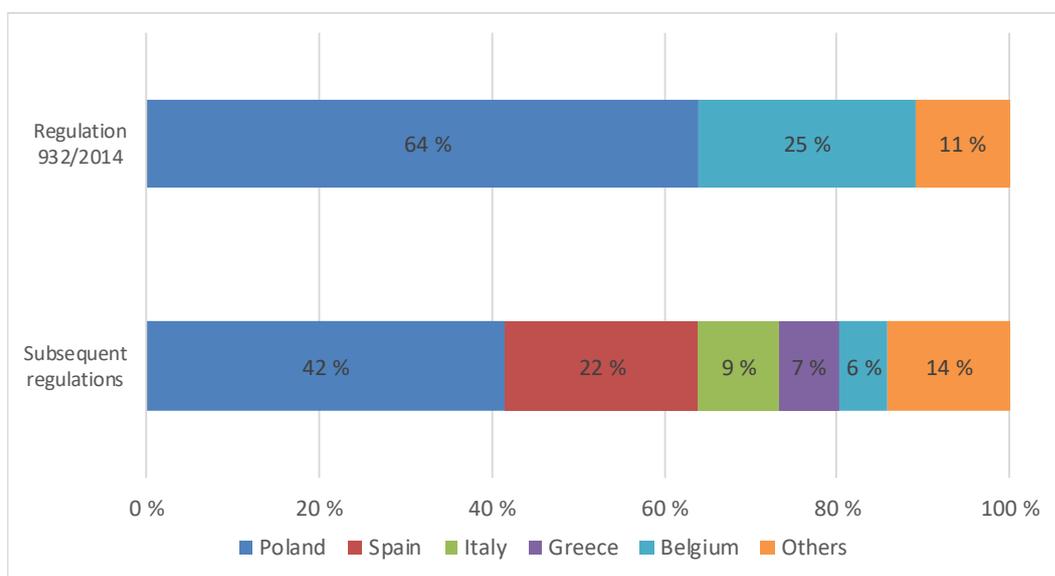
71 We conclude that, at least in part, exceptional measures were triggered by a structural problem of overproduction of peaches/nectarines in Spain. The objective of exceptional measures is not to address structural overproduction but rather to address market disturbance.

The first-come first-served principle has encouraged swift implementation at the expense of adequate targeting

72 Following the 2014 delegated regulation³⁶ more than 85 % of support (by value and volume) was used by Poland and Belgium on a first-come-first-served basis. In subsequent regulations, withdrawal quantities were allocated for each Member State. *Figure 16* suggests that fixing ceilings for each Member State, instead of applying the first-come-first-served principle, allowed more Member States to access support in line with their forecast needs.

³⁶ Delegated regulation 932/2014.

Figure 16 – Breakdown by Member State of volume of products withdrawn under different regulations³⁷



Source: DG AGRI implementation data on exceptional measures, October 2018.

EU support for withdrawing products for free distribution is costly

EU support for the apple market has exceeded relevant average market prices in previous years

73 Support for withdrawals intended for free distribution comprises two components: the maximum contribution per type of product, and ancillary costs to compensate for sorting, packaging and transport expenses.

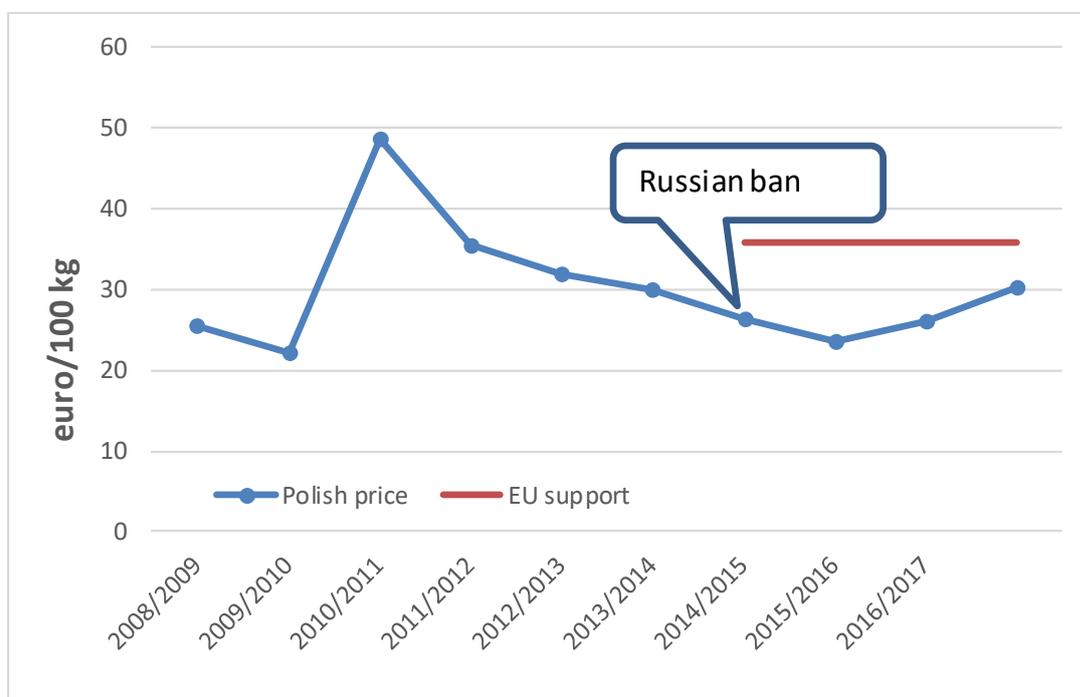
74 Apples were the product most supported through free distribution, as shown in [Figure 10](#). Poland was the biggest beneficiary of EU support, both by volume and in monetary terms.

75 [Figure 17](#) compares the free distribution aid (covering both product price €16.98/100 kg and sorting/packaging €18.77/100 kg) against the Polish market price for the sorted and packaged product³⁸. The “olympic average” market price of apples for the last five years preceding the Russian ban in Poland was 10 % lower than the level of EU support provided, meaning that apple producers were overcompensated.

³⁷ Delegated Regulations 1031/2014, 2016/921 and 2017/1165.

³⁸ Article 98(1) of Regulation 543/2011.

Figure 17 – Comparison of free distribution support for apples with Polish market prices



Source: DG AGRI.

76 During the first three marketing years³⁹ (2014/2015, 2015/2016 and 2016/2017) the EU paid Polish apple producers compensation worth €200 million for 559 448 tonnes of apple freely distributed (estimates of transport costs have been excluded), whereas average market prices for this volume of apples amounted to €182 million⁴⁰.

Disproportionately high cost borne by the EU for processing peaches and nectarines

77 The cost of the emergency measures for the free distribution of peaches and nectarines amounted to €55 million. For peaches and nectarines, costs of sorting and packaging represent around 37 % and transport costs 13 %, so the value of the withdrawn products themselves is only around 50 % of the total costs. Some €48 million (87 %) went to producers in Spain and Greece.

³⁹ The marketing year is a period of one year designated for reporting an analysis of production, marketing and use of an agricultural product. Campaign year of apples production starts in august year n and end in July n+1.

⁴⁰ Olympic average 2009/2010-2013/2014 PL market price apple: €32.54/100 kg.

78 The cost borne by the fund per litre of juice destined for consumption by people in need was up to €4.25 by litre: around four times the cost of a litre of juice in a supermarket. This cost was made up of payments of the value of the withdrawn peaches and nectarines, sorting and packaging costs, transport costs and payments for contributions in kind to juice processors.

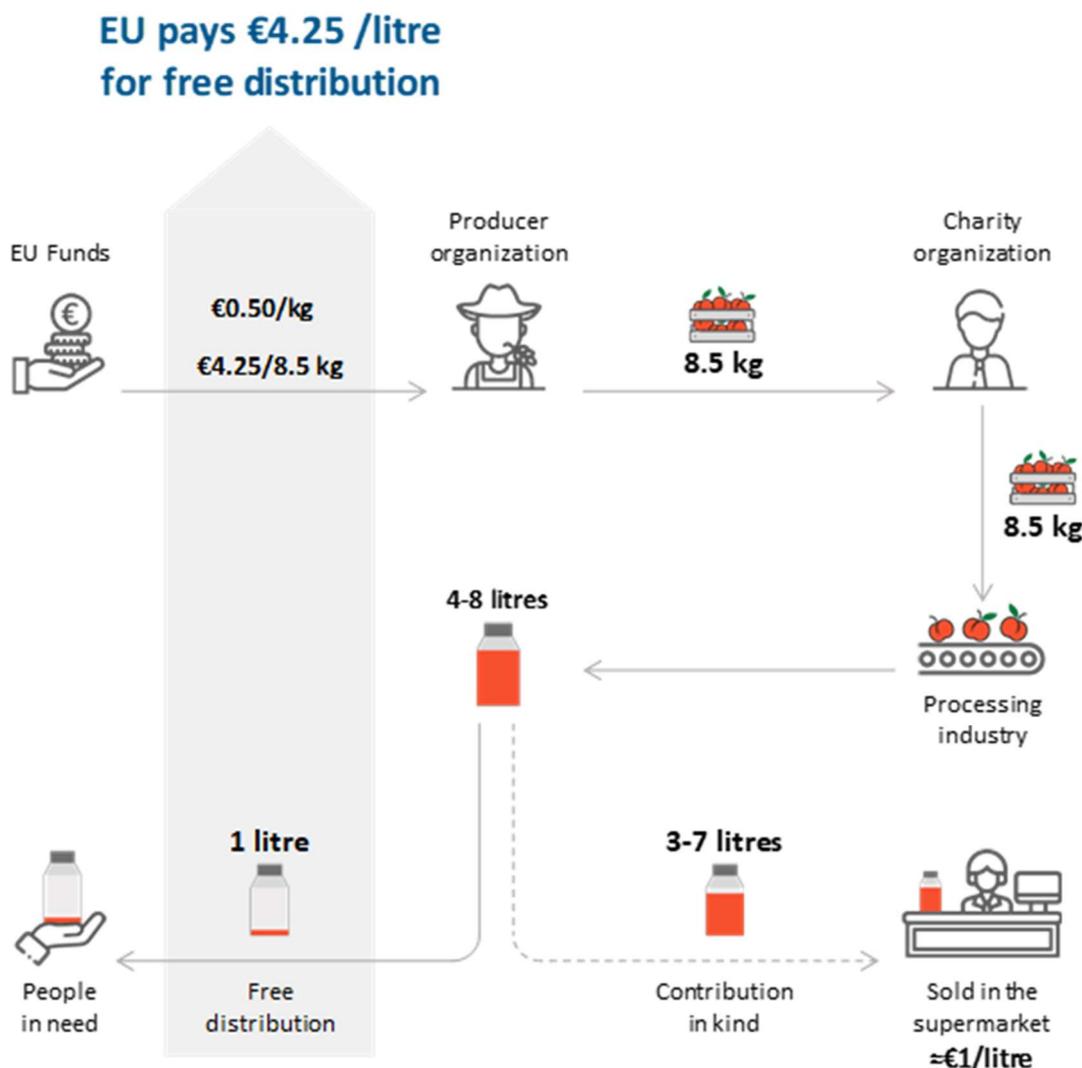
There is not enough evidence that the products withdrawn are actually removed from the market

79 Owing to their perishable nature, peaches and nectarines withdrawn for free distribution may be processed under certain conditions. The processed product (juice/nectar) is given free of charge to people in need. Spain and Greece together held over 94 % of the peaches and nectarines supported for free distribution. Out of 132 000 tonnes withdrawn under free distribution in Spain and Greece, 99 000 tonnes were processed into nectar/juice.

80 To cover processing costs, juice processors retained most of the processed product as a contribution in kind as allowed for under the EU rules⁴¹. For example, the Commission's files show that Spain authorised an exchange ratio of up to 11 kilogrammes of peaches delivered to juice processors in exchange for one litre of peach nectar and Greece had an exchange ratio of up to 8.5 kilogrammes of peaches per litre of peach nectar. See [Figure 18](#) for an example of withdrawal operation. In the end, most of the withdrawn products were put back on the market as juice, while only a fraction reached people in need. Allowing processors to retain most of the withdrawn quantities paid for by the fund as if destined for fresh consumption runs counter to the final objective of free distribution.

⁴¹ Pursuant to article 80(2) of Regulation 543/2011.

Figure 18 – Circuit of withdrawn peaches and nectarines processed for free juice distribution in Greece



Source: ECA.

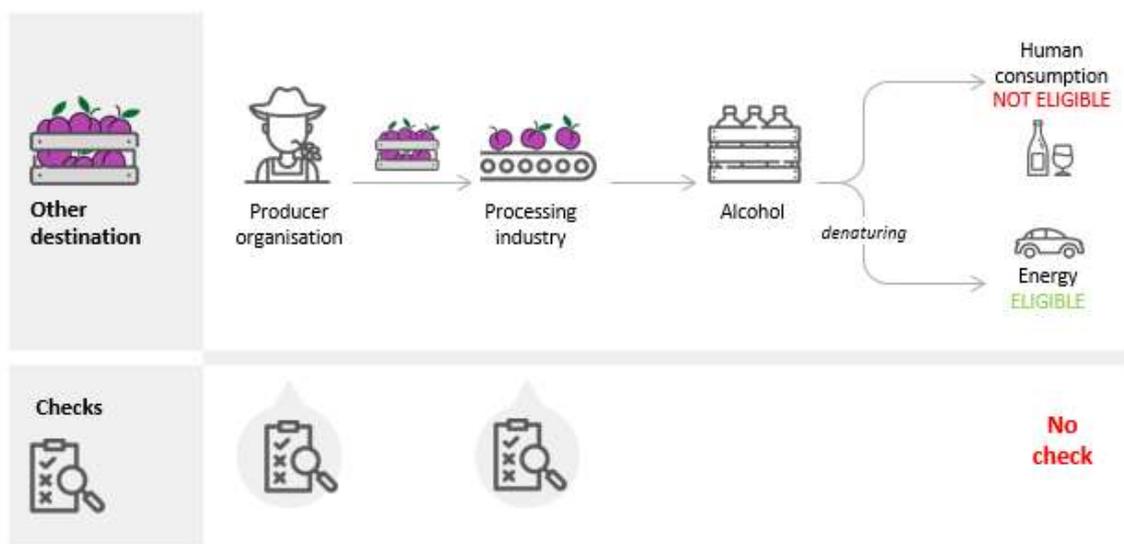
81 We estimate that the quantities of peaches and nectarines used as a contribution in kind in Greece and Spain represent a cost to the EU budget of €34 million. Free distribution's effectiveness and efficiency is compromised, as 62 % of costs covered this contribution in kind, allowing products to return to the juice market, and only 38 % served to give people in need free juice and fresh fruit.

82 We also estimated that peaches and nectarines retained by processors as a contribution in kind represented between 20 % and 25 % of the supply of peaches and nectarines during the 2014-2018 period to process juice. Juice processors received almost one quarter of their raw product as contribution in kind rather than through purchase.

Incomplete traceability of some withdrawn products

83 Aid for “other destinations” is conditional upon delivering distilled products for energy purposes only. In Italy, we found that supervisors tracking withdrawn products forwarded to “other destinations” for distillation for industrial or energy purposes ceased their checks before the alcohol had been denatured for energy purposes (see [Figure 19](#)).

Figure 19 – Incomplete checks in Italy on products for other destination



Source: ECA.

Conclusions and recommendations

84 We examined the completeness and coherence of the EU toolbox available for preventing and managing risks and crises in the agricultural sector. We looked at whether risk and crisis management tools had been efficiently implemented and were delivering results. Overall, we 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.

85 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 (paragraphs [16-23](#)). 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 (paragraphs [24-26](#)).

86 Preventive measures are important and reduce risk exposure (paragraphs [23-26](#)). Insured farmers may have less incentive to apply a more resilient business strategy or adapt to new climate conditions (paragraph [59](#)), but insurance companies may require that their clients take steps to reduce risk. We found that EU support in the area of sanitary risks, especially animal disease, prioritised prevention/monitoring measures (paragraph [27](#)).

Recommendation 1 – Encourage farmers to prepare better for crises

In the context of climate change, public support should favour prevention/adaptation measures, encouraging farmers to boost their preparedness and their resilience. The Commission should 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).

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

87 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. We conclude that there is currently limited evidence of the EU added value of this support (paragraphs [42-49](#) and [57-58](#)).

88 We 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 (paragraphs [50-52](#)).

Recommendation 2– Better design and monitoring of support for insurance

The Commission should:

- (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)

89 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 (paragraphs [63-66](#)). The 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 (paragraphs [68-71](#)).

90 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 (paragraphs [24](#) and [35-37](#)).

Recommendation 3 – Clarify the criteria for triggering and ending exceptional measures and their combination with other instruments

The Commission should 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 of direct payments and increases in output;
- (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

91 Our audit showed that the support paid for the free distribution of apples has frequently exceeded market prices, and thus allowed overcompensation (paragraphs [73-76](#)). 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 (paragraphs [77-82](#)).

Recommendation 4 – Adjust compensation for withdrawal operations

In order to avoid overcompensation, the Commission should:

- (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.

Timeframe: 2021

This Report was adopted by Chamber I, headed by Mr Nikolaos Milionis, Member of the Court of Auditors, in Luxembourg at its meeting of 16 October 2019.

For the Court of Auditors

Klaus-Heiner Lehne
President

Annex

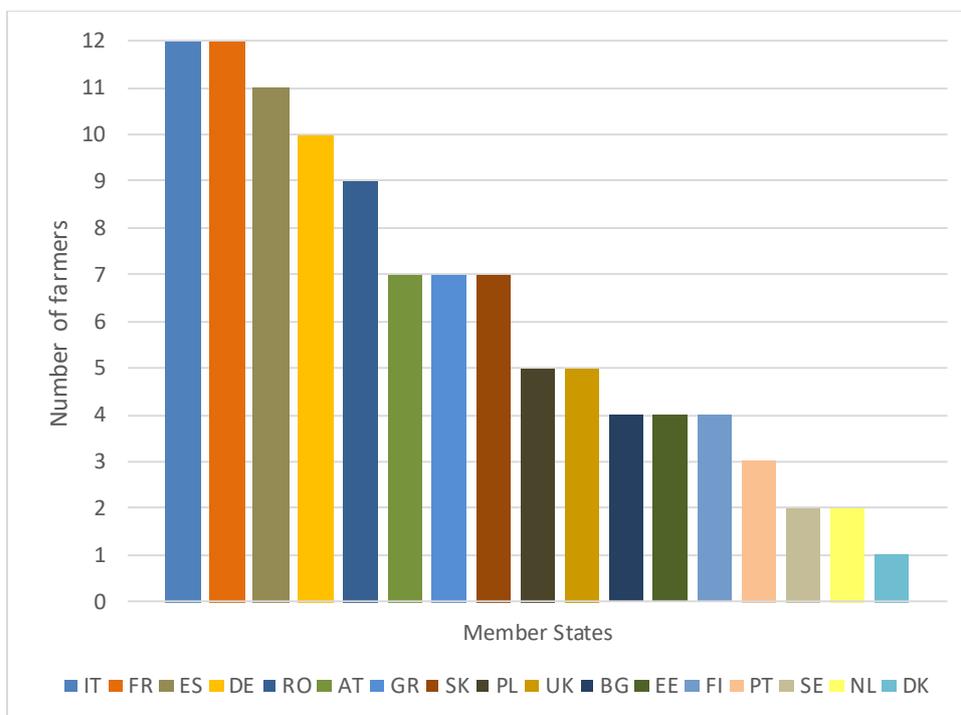
Farmers questionnaires

Introductory notes

We discussed risk management with 105 farmers visited within the Statement of Assurance exercise in 2018, in 17 Member States. This sample was based on the size of the subsidy received, and thus focused on larger farms.

Our questions relate to risks and risk management strategies at farm level.

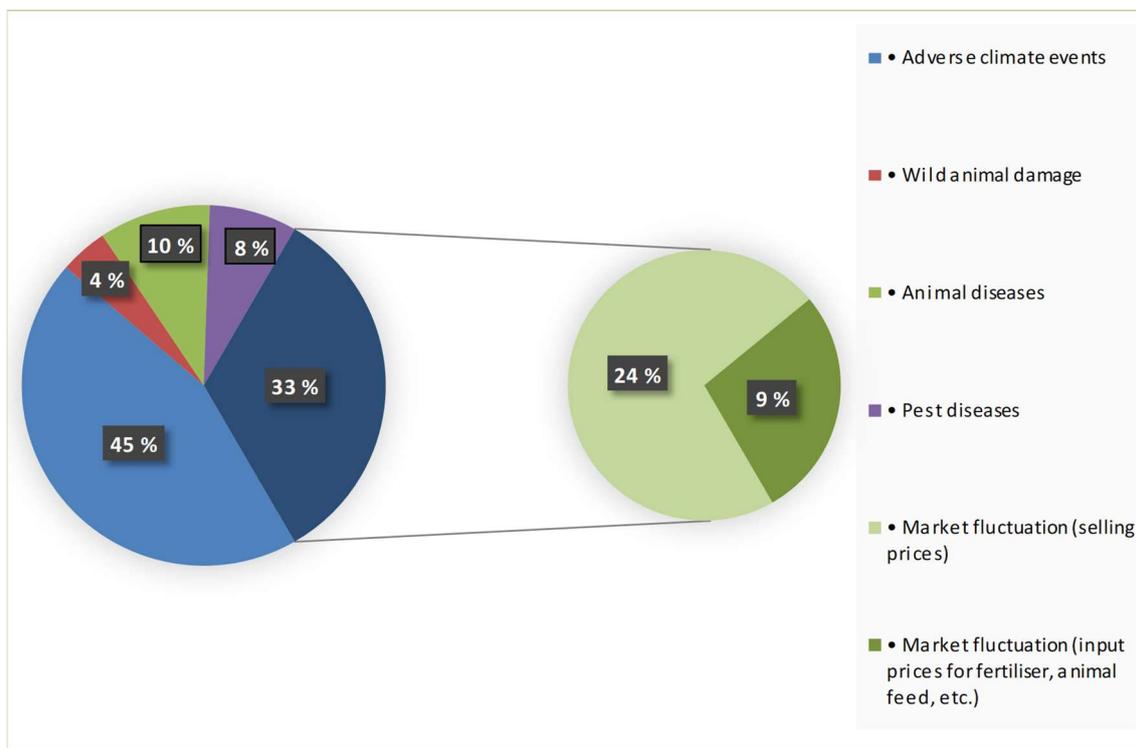
Figure 20 – Distribution of questionnaires by Member State



Note: The graph shows that the countries with the highest number of farmers interviewed were Italy and France (12 interviews), Spain (11) and Germany (10).

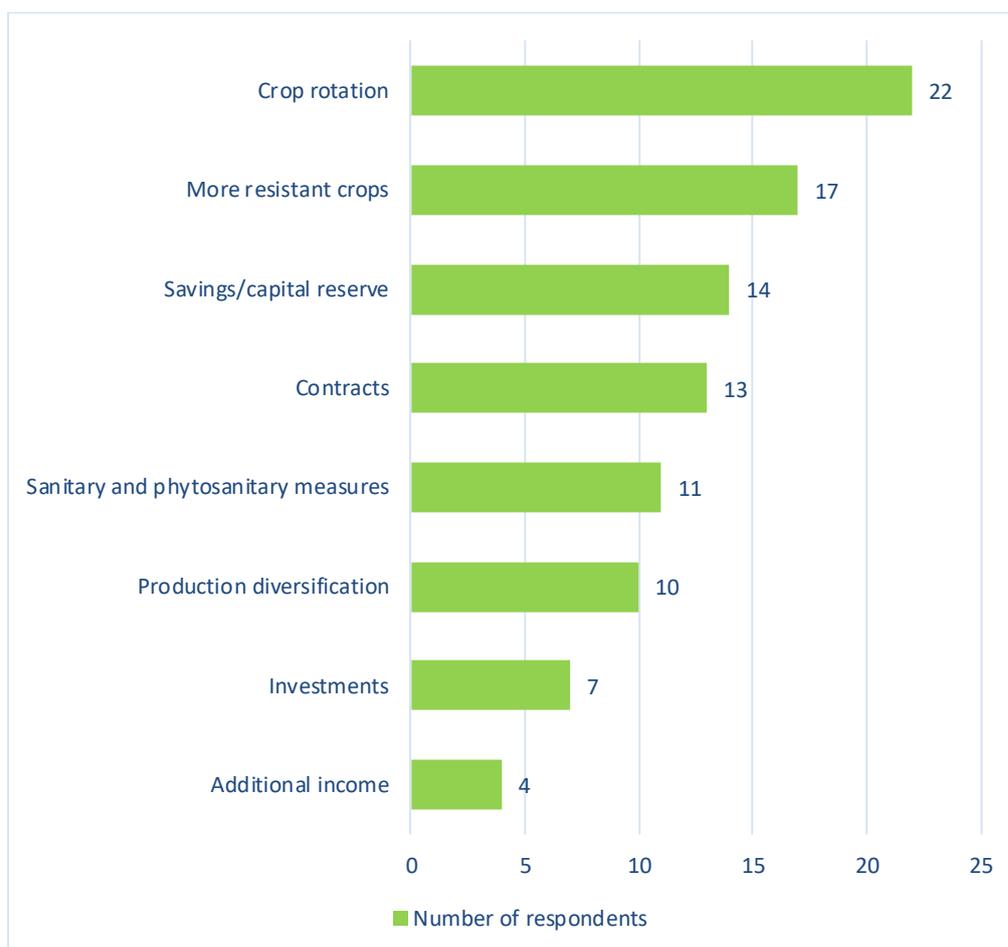
Source: ECA.

Figure 21 – Causes of substantial production losses (%)



Note: In this question farmers could indicate more than one cause of losses. The major causes of losses, as perceived by farmers, were adverse climate events, followed by market price fluctuations.

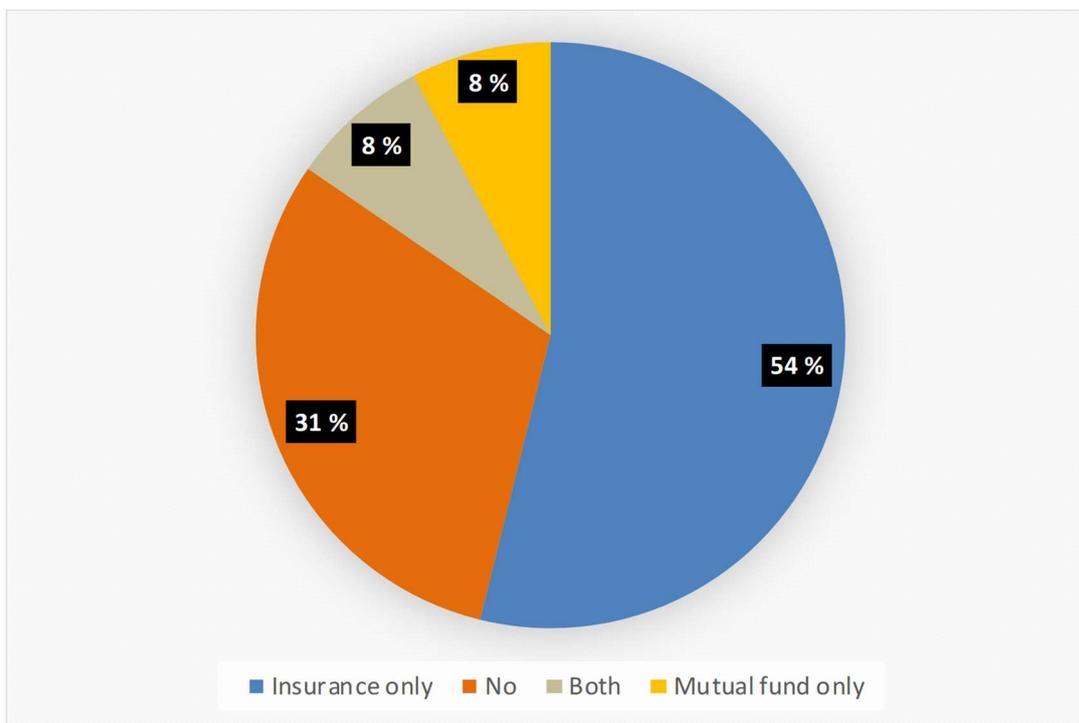
Source: ECA.

Figure 22 – Preventive measures at farm level

Note: Preventive measures do not include farmers with insurance contracts or belonging to a mutual fund. Ten farmers said that they did not have any preventive measure in place at farm level.

Source: ECA.

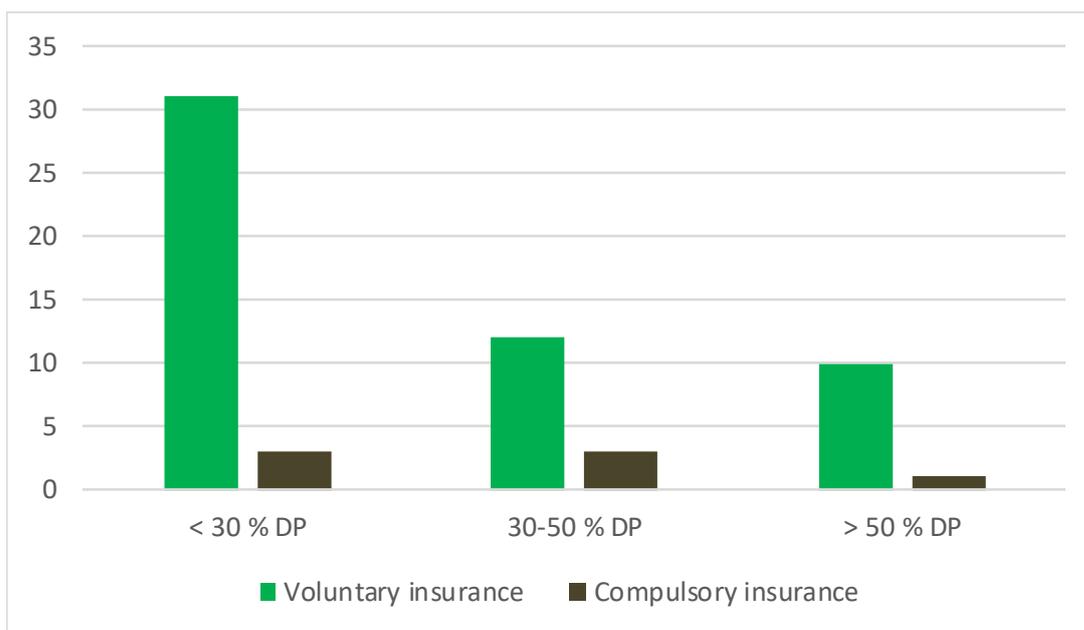
Figure 23 – Percentage of farmers currently insured or belonging to a mutual fund



Note: Most farmers have insurance or belong to a mutual fund. A majority of farmers (57) have Insurance on a voluntary basis. 33 have neither insurance nor mutual fund.

Source: ECA.

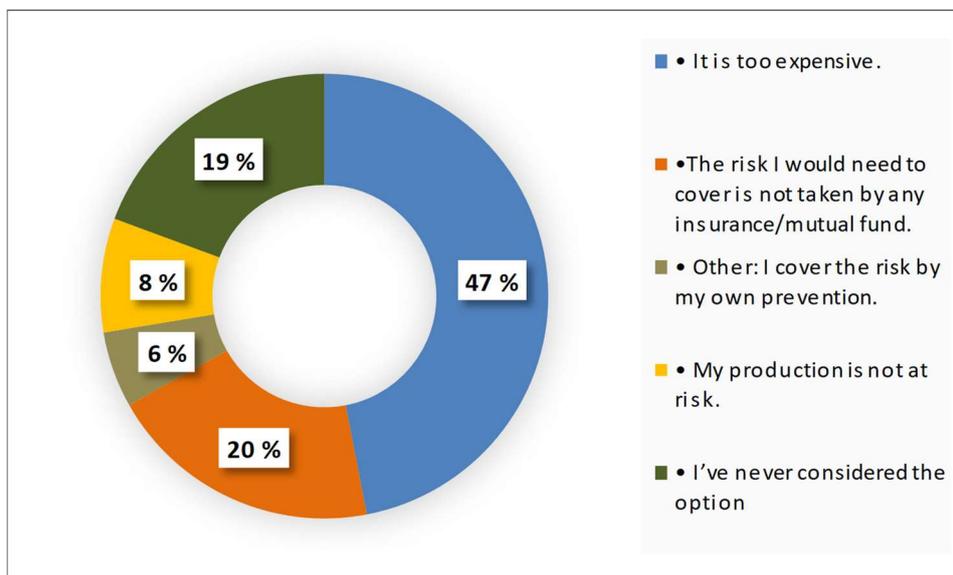
Figure 24 – Insurance cover by share of direct payments in relation to total agricultural income



Note: The higher the share of direct payments in relation to the agricultural income, the lower the use of insurance.

Source: ECA.

Figure 25 – Main reasons given by farmers for not having insurance or not belonging to a mutual fund



Source: ECA.

Acronyms and abbreviations

CAA: Centri di Assistenza Agricola - authorised farmers' assistance centres

CAP: Common agricultural policy

CPM: Crisis prevention and management (measure)

ESTAT: Eurostat

FADN: Farm Accountancy Data Network

FNVA: Farm Net Value added

FSS: Farm Structure Survey

OECD: Organisation for Economic Co-operation and Development

Glossary

Adaptability: The capacity of a system to adjust internal elements and processes in response to changing external circumstances and so to continue along the same trajectory while maintaining all important functions (Folke et al., 2010).

Condifesa: An Italian regional farmers' associations for insuring against climate risks.

Deadweight: A situation where public money is used to fund an activity that would have gone ahead without public support.

Farm Net Value added (FNVA): An indicator in the Farm Accountancy Data Network, to describe the total production value of an agricultural holding, plus subsidies minus intermediate consumption (value of the goods and services consumed in the course of a production process) and depreciation.

First-come first-served principle: A selection criterion rewarding solely the rapidity to react.

Green harvesting: The harvesting of unripe non-marketable products across a given area. The products concerned must not have been damaged in any way beforehand.

Income: The sum of revenues a farmer receives from the market, plus any additional public support, minus input costs.

Marketing year: The reference period, determined by harvest times, for analysing and reporting crop production and fixing prices.

Non-harvesting: The termination of a production cycle on an area where the product is well developed and of sound, fair and marketable quality.

Olympic average: The average of a range after removing the highest and lowest values.

Resilience: The capacity of farmers to withstand shocks and continue with their activity. It has three components; robustness, adaptability and transformability.

Robustness: The capacity of a system to resist external perturbations and to maintain previous levels of functionality without major changes to its internal elements (Urruty et al., 2016).

Russian ban: On 7 August 2014, the Government of the Russian Federation banned imports of a list of products from a number of countries, including EU Member States.

Subsidiarity principle: The rule which states that the EU does not take action unless it can be more effective than action at national, regional or local level).

Transformability: The capacity of a system to develop or incorporate new elements and processes, to a degree that changes its operational logic in order to maintain important functions when structural changes in the ecological, economic, or social environment render it untenable or dysfunctional.

REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS

“FARMERS’ INCOME STABILISATION: COMPREHENSIVE SET OF TOOLS, BUT LOW UPTAKE OF INSTRUMENTS AND OVERCOMPENSATION NEED TO BE TACKLED”

EXECUTIVE SUMMARY

I While there is a general need to enhance the awareness and focus on risk management, action within the CAP post-2020 has also to be seen in the context of the performance-orientated implementing mechanism proposed for the future policy. This requires, among others, that interventions financed by the CAP are in line with Member States’ needs which are to be identified on the grounds of evidence.

IV Harvest insurance is made available under both CAP pillars but double funding is excluded.

V One of the objectives of EU support is to provide Member States with a level playing field. Member States may decide to implement EU supported insurances based on the SWOT analysis and a needs assessment.

The added value of an EU policy should not be measured only by participation and spending measured over a short time span, especially if the tools are new. For instance, insurances in rural development are new instruments, and, as such, they require time to be implemented. The Commission collects data from Member States on crisis and management measures including exceptional measures and receives information on the level of sub-measures on risk management under Pillar II in Member States Annual Implementation Reports.

As far as risk management tools instruments under Pillar II are concerned, Member States may avoid the eventual risk of deadweight by limiting the eligible amount of support by using the provisions of Article 37(4) of Regulation (EU) No 1305/2013.

VI The loss of the Russian market that was physically closed at once was the criterion considered (by products, in volume and in value compared to other third markets and internal market). Alternative outlets at the scale of the Russian market were not available when the Russian ban was put in place.

VII Checks are performed by Member States’ competent authorities. In this context, ‘traceability’ must be understood as control.

VIII Please see the Commission’s replies to paragraphs 84 to 92.

The Commission accepts the recommendations to some extent, notably with regard to encouraging farmers to better prepare for crisis, the design and monitoring of support for insurance (partially), the criteria for recourse to exceptional measures (partially) and compensation for withdrawal operations (partially).

INTRODUCTION

01 Please see the Commission's reply to paragraph I.

03 The EU sanitary policy implemented for decades has prevented the plant and animal diseases to increase with the same proportion as the increase of trade and human movement.

06 The 2017 Commission Communication has fed into the 2018 CAP proposals. These require Member States, among others, to include in their CAP plans an explanation as to which interventions will contribute to ensure a coherent and integrated approach to risk management (Art. 97 of the proposed Strategic Plan Regulation COM(2018) 392).

07 The Commission would like to point out the following:

For the CAP post-2020 it proposed three general objectives and nine specific objectives as set out in Art. 5 and 6 of the proposed Strategic Plan Regulation COM(2018) 392. From a conceptual perspective, the three general objectives - one economic, one environmental/climate and one territorial/societal one - are further broken down into three specific objectives respectively. In the examples presented in Figure 3 the economic general objective is linked to two out of three economic specific objectives and to one out of three environmental/climate specific objectives.

See also Commission's reply to paragraph 16.

09 Under Pillar II, the EU gives Member States the possibility of supporting farmers via Measure 5 for restoring agricultural production potential and preventive actions (not analysed by this audit), and three risk management instruments (Measure 17): insurance (M17.1), mutual funds (M17.2) and income stabilisation tools (M17.3).

AUDIT SCOPE AND APPROACH

11 The Commission points out that addressing risk and crisis are two different (yet complementary) aspects. In line with Figure 2, the CAP provides tools for normal, marketable and catastrophic risks at the same time.

OBSERVATIONS

16 While Direct Payments are not specifically designed as a risk management instrument and, subsequently, cannot be easily mapped according to the classification of risks, they do provide a safety net for farmers that is independent from market fluctuations. They thus have an income stabilisation effect in acting as a buffer against income volatility.

18 Direct payments allow farmers to improve their preparedness to risks – something that would be in many cases impossible without the support.

As regards Pillar II risk management tools, two mechanisms are in place, which ensure that the farmer remains risk-sensitive: (1) the tools provide compensation only for losses exceeding a minimum threshold, and (2) the loss triggering the compensation is calculated vis-à-vis the average production or income of the previous 3 or 5 years. Thus, this average is updated annually.

21 Common Commission reply to paragraphs 21 and 22:

Correlation does per se not indicate/explain an underlying causality, namely that because of higher share of direct payments in income, the uptake of insurance is lower. Beyond other factors influencing farmers'

decisions (e.g. availability of insurances), the results could be influenced by the relative weight of certain sectors in the categories (<30% direct payments, 30-50%, >50% direct payments) as the share of direct payments in income heavily depends on the sector.

26 Second indent: The fact that crop rotation will be part of conditionality requirements will raise awareness of farmers on that practice. Crop rotation will contribute to addressing the objective of soil protection quality and indirectly increase the farm resilience, which will also be achieved in combination with other practices.

Enhanced conditionality will set a minimum level of agricultural practices for farmers allowing those who already meet the requirements to continue to do so and requiring additional efforts from others. On top of it, in the future CAP, voluntary measures to accompany farmers towards the adoption of other more sustainable farm practices are set to be enhanced.

27 The Commission considers that its current framework of preventative measures has ensured that Europe enjoys the highest standards of food safety and animal and plant health in the world. This has ensured a very high level of health protection and has worked to the benefit of the internal market and EU food exports. The cost of half a billion euro needs to be seen in the context of overall agri-food production of €408 billion.

Without effective ex ante measures implemented for decades at EU level, ex post measures would have reached much higher levels in costs.

30 Given the novelty of the income stabilisation tools, it takes time to implement such an instruments. However, a few Member States are currently well placed in order to start the implementation of such a tool soon (e.g. Italy, Hungary).

32 The CAP provides a toolbox of different tools. The fact that the wine and fruit and vegetables sector can benefit from insurance schemes under both pillars should not be seen as a potential overlap, but as an option provided to Member States, the producer organisations and individual farmers to choose the best tool to deal with a given risk.

For CMO, mutual funds can be activated in case of adverse market conditions, whereas insurance can be activated in case of natural disasters, climatic event, diseases or pest infections.

Rural development measures relate to insurance schemes for production losses and mutual funds for production and income losses. The simultaneous programming of insurances and mutual funds for production losses is possible and, in accordance to Member State's and beneficiaries needs, can make sense. In this way, the two risks management tools would complement each other. Furthermore, as a general provision, double funding of the same measure is not allowed (Art. 30 of Regulation (EU) No 1306/2013).

Exceptional measures are activated in case of political or other types of events where preventive risk management measures cannot cope anymore.

33 Under Pillar I, until now, the support to mutual funds is limited to administrative costs for the setting up of the mutual fund and to its replenishment. This explains the lack of interest from producer organisations. In the post 2020 CAP, the Commission proposes to remove this limitation and to provide EU funding for the mutual fund for crisis measures. This should favour the use of this measure.

As regards the use of mutual funds under Pillar II, please see the Commission's replies to paragraphs 43 to 45.

34 The Commission proposes in the post-2020 CAP to further improve the attractiveness of mutual funds for producer organisation.

Although the setup of mutual funds is more complex than signing an insurance contract, mutual funds provide farmers with a series of advantages, such as the ownership of the tool, monetary savings in the long run and possibility to cover risks that are not covered by the market.

The French approach is one possible solution. However, Member States can provide farmers with more options to choose the instrument more suitable to their needs. Therefore, as long as double funding is avoided, also instruments covering the same risk can be complementary.

35 Mutual funds and insurance are under the direct responsibility of producers through producer organisations, whereas exceptional measures are a response to specific events generally affecting markets (such as the Russian ban).

36 The CAP measure to support farmers affected by floods and heavy rainfall was granted due to unprecedented exceptional weather conditions over a prolonged period that occurred in the concerned Member States.

Because of the exceptional use of Article 221, farmers cannot rely on compensation for weather related damages and still face considerable risk of income losses if not mitigated through regular risk management tools, eg insurances.

38 Under shared management, it is up to the Member State to choose the appropriate tools offered by the EAFRD based on the SWOT analysis and the respective needs assessment. For the programming period 2014-2020; it is though for the Member State to decide whether the implementation of the risk management tools offered under the Rural Development Regulation is appropriate.

39 The Commission proposals do not imply that Member States discontinue their national systems. Instead, in line with the subsidiarity principle, Member States benefit from more flexibility to design respective tools based on a sound SWOT analysis and needs assessment. Member States that already provide national support for risk management should take the opportunity to use rural development support for innovative schemes which complement existing ones in a coherent way.

41 The objective of EU support is not to replace national systems, whether these are public or private insurance schemes. The objective is to provide Member States with tools to tackle situations of need, e.g. where there is a lack of other tools to encourage participation of farmers to risk management.

42 Please see the Commission's reply to paragraph 38.

43 Common Commission reply to paragraphs 43 to 45:

The preponderant support given so far to insurances is mainly due to the fact that this tool is the most known and used by farmers, with or without EU support. The mutual funds both for production and income losses are, in general, less known and used.

The implementation of new instruments takes time, because the capacity building of the Member States administrations is necessary as much as awareness and involvement of farmers. Already now, there are Rural Development Programmes in which targets of uptake have almost been reached or even exceeded.

Furthermore, the significance of the uptake needs to be seen in relation to identified needs and rural priorities when programming rural development measures: e.g. providing risk management support to almost 20% of the farmers, as indicated in table 4 in the case of France, may well be considered as a significant uptake.

Please see also Commission's reply to paragraph 38.

46 Please see the Commission's replies to paragraphs 41 and 45.

49 The EU value added of the CAP support for insurances, embedded in the overall CAP risk management toolkit, derives from the need to reply to risk management as common challenge in form of a common set of rules at EU level which – in line with the subsidiarity principle – allows for choices and adaptations by Member States according to their needs.

Concerning the uptake of insurances the Commission would like to refer to its reply to paragraph 43 to 45. Moreover, it would like to point out that the uptake of a certain insurance scheme is driven by many factors (e.g. administrative capacity for designing an attractive and efficient scheme) and might also be subject to changes over time.

50 Common Commission reply to paragraphs 50 and 51:

In the Common Monitoring and Evaluation Framework (CMEF), the scope of a result indicator is to quantify and monitor the implementation of Rural Development Programmes at the level of focus areas, not at the level of the single measures/sub-measures. The result indicator “percentage of farms participating in risk management schemes” is linked to focus area 3b “supporting farm risk prevention and management” and captures the cumulative effect of all relevant measures/sub-measures towards the objectives of that focus area. As regards Measure 17, a more detailed breakdown about the implementation of the individual tools can be obtained via the output indicators defined for each sub-measure, the Indicator Plan of each Rural Development Programme and the information in the Annual Implementation Reports submitted by the Member States each year.

52 The legal framework provides Member States with the possibility to define additional programme-specific indicators covering their specific needs.

Result indicators do not measure the impact of the policy, which can only be assessed by evaluation, for which indicators provide some but not all information needed.

Nevertheless, there are several factors affecting income (market developments, income support, risk management...) and netting-out the role of insurance in stabilising income requires an evaluation.

53 In line with the principle of the subsidiarity, the setup of the delivery mechanism and implementing procedures for the different schemes are a responsibility of the Member States.

The system of insurances is by nature complex, as contracts have to be adapted on a regular basis. For the implementation of EU support measures, Member States are encouraged to avoid creating additional “red tape”. Furthermore, in many Member States voluntary support services to farmers exist in order to help them apply for support under the different CAP schemes. This is not unique to the implementation of risk management tools.

54 The initial implementation of a new rural development measure in a Member States implies the involvement of several types of resources – monetary, administrative and human – independently from the measure. Hence, Measure 17 is not excluded by this course. Depending on the capacity of the Member State, in the beginning this can be discouraging.

55 As highlighted in the Commission’s reply to paragraph 52, income is affected by several factors other than the participation to insurance schemes, such as market developments, income support. Netting-out the role of insurances in stabilising income requires an evaluation.

56 The different objectives, triggering causes and delivery mechanisms are at the basis of, inter alia, the difference in the timing of payments between insurances and ex-post measures. In fact, insurances and ex-post exceptional measures respond to different risks and by nature follow a different timeline.

58 Member States have the possibility to use Article 37(4) of Regulation (EU) No 1305/2013 to limit the amount of the premium that is eligible for support by applying appropriate ceilings.

59 Farmers are entrepreneurs: it is in their best interest to implement mitigation activities in order to reduce risk exposure and obtain the highest possible revenue from their crops, whether or not they sign an insurance policy. Farmers may receive EAFRD support for the stipulation of an insurance policy, which, however, cannot be higher than 70% of the premium paid. Furthermore, there are thresholds and franchises to be taken into account. Therefore, it is in their best interest for this money not to be wasted.

Insurances are to be considered as an economic safeguard for the farmers against the risks associated to the farming activity. They help stabilising farmers’ income and may promote diversification and investments which in turn may increase the resilience of the holding.

63 The economic losses and disturbance expected was not compared to a defined threshold because the co-legislators have not set such a defined threshold. The wording of Article 219 considers disturbances caused by “price rises or falls on external or internal markets or other events or circumstances significantly disturbing or threatening to disturb the market”. The Commission did carry out a thorough analysis of market disturbance and economic damages expected leading to the conclusion that the conditions for triggering exceptional measures pursuant to article 219 were met.

With such a wide range of situations, it is virtually impossible to establish objective parameters for the triggering. It would even be contradictory with the exceptional character of the measure to lay down thresholds for the triggering of such measure. It would also prevent to react in urgency and to tailor the reaction to the characteristics of each market disturbance. This explains why even in the academic debate there is no consensus on what could constitute an objective threshold or parameter for such purpose.

64 At the beginning of the Russian ban, the level of EU Fruit and Vegetable exports to Russia was an objective existing criterion, whereas alternative EU and third countries markets would have been pure assumption.

65 The representation by marketing year rather than by calendar year is more adapted to a proper market analysis.

The use of intra EU data lead to a possible double counting of flows. This occurs every time apples are transiting via another Member State where the export customs declaration is lodged before being dispatched to the non-EU country.

During the Russian ban, the total extra EU exported volume increased in 2014/15 but started to decrease as from 2015/16 onwards, reflecting a change of trend.

Within the period of increases, other extra-EU markets have partially and temporarily compensated for the loss of the Russian market. At the beginning of the Russian embargo in 2014/15, the Russian market remained accessible and then became accessible in 2015/16 and 2016/17 only via Belorussia with extra transaction costs. In parallel, part of EU exports was reoriented to North Africa, but later on, Algeria closed its borders. Meanwhile, EU apple prices decreased, which demonstrated a real market disturbance.

66 The combination of a three year long significant decrease of producer prices and of a clear change of trend (from positive to negative) in extra EU exports as from the Russian ban resulting, not immediately thanks to redirection through Belorussia and some partial compensation in other markets (with the transaction/redirection costs this implies for traders), in decreasing exports, was a disturbance for a sector based on orchards where investment decisions taken by operators are for the next 10 years.

67 The limited storage possibility for those perishable fruits does not allow for a rapid improvement in such a situation. Furthermore, the ban announced by Russia on imports of fruits and vegetables from the Union to Russia risks to aggravate the situation in the peach and nectarine markets. Accordingly, a situation has arisen on the market which the normal measures available under Regulation (EU) No 1308/2013 appear to be insufficient to address.

75 Common Commission reply to paragraphs 75 and 76:

Transport, packaging and sorting costs are determined at EU level. The support applies to all Member States. These costs were revised in 2013. They reflect the average costs in question within the EU.

On average for apples, the costs in question amount at 40 €/100 kg.

78 Common Commission reply to paragraphs 78 to 80:

Member States can enable free distribution withdrawals to processors of fruit and vegetables (for juice and/or nectar production), must decide on the conversion ratio of peaches withdrawn and juice/nectar obtained and ensure that payments made to processors only compensates for processing costs. Conversion ratios may vary depending on the products concerned (class II in any case), their characteristics and quality.

In case of free distribution withdrawals, the EU funds also transport costs and sorting and packaging costs under a flat-rate amount system that was last revised in 2013. Since the highest flat rated amounts are around respectively 10cts/kg for transport and 20cts/kg for sorting and packaging (or both in average around 39cts/kg), these amounts play a rather limited role in the total cost borne by the EU for the juice/nectar produced.

Under free distribution, the withdrawal price is strictly capped, at a level not exceeding 40% of the average market prices for the previous 5 years but high conversion ratios of peaches processed in juice/nectars, whether justified or not, may lead indeed to a high cost borne by the EU fund for the operation. This needs to be evaluated by the Commission services.

83 According to EU law, checks are performed by Member States' competent authorities.

CONCLUSIONS AND RECOMMENDATIONS

84 There is low uptake for withdrawals under operational programmes (less than 1% of EU Fruit and Vegetables budget), while the uptake was significant in the context of the Russian ban exceptional measures.

85 In its proposal for a future CAP, the Commission has strengthened the requirements in the compulsory layer of the CAP under conditionality. This includes a requirement for crop rotation. For more consideration on the link between direct payments and farmers' decision to take out insurance please see Commission's reply to paragraph 21.

86 As to the incentive effects, please see Commission's reply to the paragraph 59.

Recommendation 1 – Encourage farmers to prepare better for crises

The Commission accepts the recommendation and would like to point out that the efforts within the context of the future CAP go into this direction including

- For an enhanced climate and environmental ambition: Strengthened requirements in the compulsory layer of the CAP under conditionality (such as crop rotation, protection of carbon-rich soils, maintenance of soil organic matter) to be complemented by voluntary commitments (new eco-schemes under Pillar I and rural development interventions under Pillar II) and supporting instruments (such as advisory services) financed by the CAP. Moreover, mandatory budgetary ring-fencing for environmental and climate action under operational programmes for fruit and vegetables and for rural development interventions as well as opportunities under coupled direct payments (e.g. target the support to an extensive livestock production) also play a role in this context.
- For a more integrated risk management approach: Mandatory offer to farmers of risk management tools under rural development and requirement to set out an integrated approach in the CAP strategic plans.

Member States will benefit from enhanced flexibility to better target their interventions to their needs, and will have to base them on identified needs in line with the new performance-based approach proposed.

With regard to the proposed timeframe, the Commission would like to emphasise that the proposals for the CAP post-2020 are currently under negotiation by the Council and the European Parliament as co-legislators; the actual date of the legislative framework for the CAP post-2020 (including implementing acts) is therefore not known at this stage.

87 The Commission refers to its replies to paragraphs 30, 33, 34, 35, 41, 43, 49 and 58.

88 The information collected for the risk management tools under Pillar II (measure 17) provides a breakdown per sub-measure in terms of number of participating farms and total public expenditure. In addition, more information is provided by Member States in the Annual Implementation Reports for the Rural Development Programmes. Furthermore, Member States have the possibility to define programme-specific indicators covering their specific needs.

In the fruit and vegetables sector, the Commission gathers a lot of market information, from Member States and stakeholders through various channels (annual reports on the operational programmes implementation, expert groups and civil dialogue groups with stakeholders, dashboards, outlook and from now market observatories).

Recommendation 2– Better design and monitoring of support for insurance

a) The Commission does not accept the recommendation.

Doing the analysis on such a subject at this time of the policy cycle might not be optimal, given the recent and planned evaluation work i.e.: study on risk management of 2017, crisis management study to be finalised in 2019 and the ex-post evaluations to be issued for end 2024.

Concerning the EU added value the Commission also refers to its replies to paragraphs 49 and 87.

b) The Commission partially accepts the recommendation.

It will seek to monitor spending through pertinent output and result indicators, but it does not accept to collect information on the specific indicators mentioned by the ECA (area and capital insured).

According to the proposal for the future CAP, the number of farmers covered by risk management instruments will be collected for the performance clearance. Further information will be collected through evaluations, keeping in mind the strong call for simplification. Therefore, we cannot accept the part of the recommendation referring to the area and capital insured.

The result indicator (share of farms with CAP risk management tools) is unchanged and will allow Member States to fix a target on the number of farms covered by risk management tools. The Commission will use this indicator to follow Member States progress in the implementation.

With regard to the proposed timeframe, the Commission would like to emphasise that the proposals for the CAP post-2020 are currently under negotiation by the Council and the European Parliament as co-legislators; the actual date of the legislative framework for the CAP post-2020 (including implementing acts) is therefore not known at this stage.

89 See Commission replies to paragraphs 62 to 71.

90 The ex-post measure underlined by the ECA was used only once due to unprecedented exceptional weather conditions. Since then and despite the 2018 and 2019 droughts that affected large parts of Europe, the Commission did not repeat similar compensation under article 221 of Regulation (EC) n° 1308/2013.

Recommendation 3 – Clarify the criteria for triggering and ending exceptional measures and their combination with other instruments

a) The Commission partially accepts the recommendation.

The Commission agrees that market conditions and overall returns to producers including the impact of direct payments and increases in output should be taken into account in the analysis leading the Commission to propose the triggering or the ending of exceptional measures.

However, setting objective market parameters and criteria ex ante would contradict the essence of the measure by impairing its aim: addressing catastrophic risks, usually sudden and unforeseeable, that cannot be addressed by farmers and public authorities in the scope of risk management strategies.

Moreover, the absence of objective criteria does not imply that the triggering of such exceptional measures is not based on analysis. Such type of measure imply in each case a careful assessment of the market situation and possible threats by the Commission, analysis discussed with co-legislators, stakeholders, the press, etc.

b) The Commission does not accept the recommendation.

While the Commission accepts this is an important and relevant consideration, each extreme event is unique and thus requires a case-by-case approach.

Recommendation 4 – Adjust compensation for withdrawal operations

a) The Commission does not accept the recommendation.

While the Commission has some consideration for the objectives of this recommendation it considers that it would restrict its ability to deal with crises on a case by case basis. The withdrawal prices are set systematically well below the prevailing market prices in the single market. Market price in the producer's Member State are not the unique criterion to assess the appropriate level of withdrawal support.

b) The Commission accepts the recommendation.

The Commission will assess the situation on packaging, sorting and transport but all options should remain open. Secondary EU legislation requires involvement of Member States, the European Parliament and stakeholders. The Commission will in particular assess the free distribution withdrawals to processors of fruit and vegetables (for juice and/or nectar production), the issue of the conversion ratio of peaches withdrawn and juice/nectar obtained and ensure that payments made to processors only compensates for processing costs.

Audit team

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This performance audit was carried out by Audit Chamber I, headed by ECA Member Nikolaos Milionis. The audit was led by ECA Member Samo Jereb, supported by Kate Henderson, Head of Private Office and Jerneja Vrabič, Private Office Attaché; Helder Faria Viegas, Principal Manager; Céline Ollier, Head of Task; Paulo Oliveira, Deputy Head of Task, Antonella Stasia, Jan Huth, Michela Lanzutti, Mateusz Minich and Maciej Szymura, Auditors, Murielle Siffert, Secretarial assistant.



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Timeline

Event	Date
Adoption of Audit Planning Memorandum (APM)/Start of audit	18.4.2018
Official sending of draft report to Commission (or other auditee)	29.7.2019
Adoption of the final report after the adversarial procedure	16.10.2019
Commission's (or other auditee's) official replies received in all languages	21.11.2019

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Risk is inherent in the agricultural sector therefore farmers need to develop strategies to address losses following 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. The recent CAP reform proposals aim to increase the focus on risk management. We found that the CAP offers a comprehensive range of preventive instruments to increase farmers' resilience, but that the impact of these on farmers' behaviour is limited. The use of EU support for insurance remains low and has benefitted only a fraction of farmers. No specific criteria were used to consider the use of exceptional measures following the Russian ban. We also found that the EU support for withdrawing products for free-distribution was costly leading to some overcompensation cases. We make recommendations to the Commission, aimed at encouraging farmers to better prepare for crises, designing and monitoring of support for insurance, clarifying the criteria for triggering and ending exceptional measures, and adjusting compensation for withdrawal operations.

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