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(05.087713)

Executive summary

Written Wageningen Economic Research and Ecorys
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Objectives

Climate change is affecting the risk profile of the EU agricultural sector. The increased market orientation of the CAP, and the greater complexity of value chains in a globalised environment, introduce new challenges to actors in the food chain. In this evolving context, economic operators in the agricultural sector and public authorities (regional, national and EU) need to ensure that they are equipped with the appropriate tools to handle crises (events of high adverse impact but of low probability). The pilot project – 'Improving Crisis Prevention and Management Criteria and Strategies in the Agricultural Sector' – was carried out by a consortium consisting of Wageningen Economic Research and Ecorys. It provides a review of the aspects of crises affecting the agricultural sector, and recommendations on how to better focus the CAP policy and improve its effectiveness. This is done through the following themes:

1) What constitutes a 'crisis'?

2) What are the needs/expectations of different actors in the supply chain in times of 'crisis'?

3) How are the needs of different supply chains actors currently addressed?

4) Are there remaining gaps/challenges?

Methodology, scope and limitations

The method underpinning this report employs a combination of interviews and background research. A large amount of information was structured within a series of six case studies. These case studies explore the nature of and policy responses to a selection of recent crises in the EU agriculture sector, including:

- the Avian Influenza outbreaks in the French and Belgian poultry sectors;
- Xylella fastidiosa in Italian olive trees;
- severe market disturbance in the EU dairy sector;
- severe market disturbances in the pig meat market;
- the oversupply of peaches and nectarines in Spain and Italy;
- the outbreak of E. Coli in vegetables.

The main sources of primary information on each crisis were semi-structured interviews and focus groups with key stakeholders such as producers, supply chain actors, financing organisations, insurers and government officials. Key needs and expectations on crisis prevention and crisis management were identified in this stakeholder consultation. Additional information regarding the extent to which these needs are addressed was also collected and examined against the backdrop of a literature and data review, as well as an analysis of regulatory and policy documents. Together, these steps allowed an assessment of the extent to which needs were perceived as being addressed, and the identification of gaps. This analysis led to a series of findings and conclusions regarding crisis prevention and management in the EU agricultural sector. The main findings of the Pilot Project were discussed in a final workshop, the outcomes of which informed and contributed to developing the Project's conclusions.

Crises in the agricultural sector affects many dimensions including economic, social, health, environmental and financial outcomes. The scope of our exploration is therefore circumscribed, and guided by the four research themes introduced above. This report is subject to limitations that stem from the constraint on the number of consultations that could be conducted within the study period, and from the partial information available on the implementation of different crisis coping measures. The assessment of needs and expectations from different actors is based on the sample of semi-structured interviews and focus groups. Discussions on the effectiveness of different instruments are kept at a general level. This study did not seek to establish causality between instruments and outcomes.

Defining a crisis: an unforeseen, rare and severe market disturbance

A precise delimitation of what constitutes a crisis is not straightforward. Several characteristics of crisis events emerge from the literature review and stakeholder consultations. Two obvious and consensual characteristics are rarity and severity. A crisis can be understood in terms of a low probability, catastrophic event that leads to major, and typically irreversible, losses. In addition, a crisis usually occurs suddenly, and may be further characterised by an adverse event that was largely unforeseeable and usually unexpected, and for which the concrete potential for harm or loss is not fully known. Crises mainly stem from three different types of perils:

1. Unidentified novel forms of a known hazard(s);
2. poorly characterised hazards;
3. a well-known hazard emerging in previously unaffected locations, or re-emerging in locations already affected in the past (outbreaks of contagious livestock diseases, for example).

In summary, what may constitute a crisis is **an unforeseen, rare and severe market disturbance caused by a sudden disequilibrium in supply and demand, resulting in price or income drops.**

A distinction should be made between an idiosyncratic (localised) and a systemic market disturbance. A localised market disturbance is caused by a disruption in market access, or supply that affects only specific farms/operators or specific regions. Management measures only have to focus on these specific actors or regions. In the event of a (phyto)sanitary outbreak, for example, additional movement control measures and/or export bans can be implemented for the affected regions. A systemic market disturbance occurs at a wider geographical level, caused by demand shortfalls in domestic or international markets, or by oversupply (geopolitical disruption, for example).

Supply disruptions are, among other things, driven by biosecurity hazards, climatic anomalies and other natural disasters or input market disturbances.

Oversupply can arise from sudden increases in yields, lifting of production restrictions, a gradual build-up of production capacity that reaches a tipping point (assuming constant demand) or new trade deals enhancing foreign competition. Lagged supply responses and instances of supply temporarily overshooting demand are not uncommon in agriculture, because of the inherent length of production cycles, which range from several months (from sowing crops to harvest) to multi-year for some production investments (from planting trees to yearly harvests).

Demand shortfalls generally arise from the sudden loss of market outlets (domestically or in third countries' markets). This may arise from a loss of consumer confidence in the internal market (assuming constant supply), or from trade restrictions imposed on EU exports by third countries as a response to crises or geopolitical tensions.

Crisis drivers might be understood as sources of sudden supply or demand imbalance, leading to severe price movements. They can threaten future production capacity because of their adverse impact on farm profitability and ripple effects on other value chain actors. A crisis can arise due to a compounding of multiple causes. Initial (adverse) supply responses (or lack thereof) and emergency actions can further escalate the disequilibrium.

Main findings on crisis prevention

Information needs can be addressed by private sector services, or public information systems. These can provide essential inputs to early preventive actions. Monitoring of climatic events, and their impact, helps to inform producers on weather related risks. Monitoring of sanitary status helps producers to remain alert on emerging animal or plant health risks. Market observatories and intelligence help the EU agriculture sector to better interpret and anticipate market developments, including market reactions to supply or demand disruptions. Farm advisory services can contribute through extension services that provide farmers with information to improve the resilience of their farm.

The coordination of rules and actions can be tackled through crisis preparedness plans. These plans contribute to preparedness for coping with crises and offer a set of early actions, which provide guidelines at each value chain level on how to act in the event of a crisis. The implementation of general preparedness plans for non-SPS related crises and systemic crises can contribute to their effective management. Effective communication channels are also instruments for crisis prevention, as they can reduce information asymmetry and accelerate recovery by complementing, and reinforcing crisis management actions.

Coping with risk is made possible by risk management instruments, such as insurance or mutual funds, which are often mentioned as contributing to the resilience of stakeholders by increasing their capacity to cope with the effects of a crisis. Policy intervention from public authorities can complement commercial risk management tools when they cannot cover extreme events. The resulting wider scope of risk management instruments can prevent an adverse event from developing into a crisis by rapidly addressing its consequences.

Access to new markets through product and market diversification, including high value-added products, makes a substantial contribution to the resilience of the agricultural sector. In addition, access to new third country markets provides alternative outlets and reduces the dependency on a few export markets, thereby limiting the impact of an unforeseen export ban in one destination.

Across all categories of crisis prevention and management needs, producer organisations (POs), their associations (APOs) and interbranch organisations (IBOs) can play a significant role in crisis prevention through disseminating information, as well as contributing to the early identification of problems in the sector by aggregating information from members and informing relevant public institutions on time. These organisations can contribute to crisis prevention through supporting the uptake of risk management tools and assessing new market opportunities.

Identified challenges

- Timeliness and accuracy of market data collection and dissemination.
- Awareness and access to information and farm advisory services.
- Harmonisation of biosecurity monitoring practices and contingency planning.
- Crisis preparedness plans for non-SPS-related crises, aimed at better addressing such crises in a fast and coordinated way.
- Low uptake of risk management instruments across the EU.

Main findings on crisis management

Information needs surfaced multiple times during stakeholder consultations. During a crisis, there is a high need for real time information (provided by market observatories, for example), an optimal response to crises and for restoring normality. Moreover, communication channels are needed between Member States and the Commission to allow the circulation of updated information on the development of the crisis. Communication to the wider public on how the crisis is handled is also essential to restore consumer confidence, as well as farmers' trust.

Coordination of Member States and value chain actors takes place through committees at EU and national levels, and POs, APOs and IBOs. Interactions between these platforms ensure the coordination, balancing and tailoring of actions and measures.

Market stabilisation is a core need of crisis response and recovery. Available instruments and tools to restore market stability revolve around strategies to shape supply, and demand, in order to restore price levels to viable activity ranges. Tools affecting demand are mainly related to the opening of new market outlets. Examples are promotion activities, domestically and in third countries, as well as product and market diversification. Tools affecting supply are strategies related to market stabilisation. These strategies for market stabilisation mainly include market withdrawal, non-harvesting and green harvesting, as well as other incentives for supply reduction through, for example, farm conversion/exit, or measures for (voluntary) production planning. For a number of specific products, public intervention and private storage aid can temporarily take them out of the market. The range of available market stabilisation instruments allows deploying at least one of these in the event of a crisis.

Farmer liquidity, income and continuity is concerned with providing relief to cash strapped producers in exceptional circumstances to ensure continuity in supply. Exceptional market support measures are also available to address serious market disturbance, caused by significant price variations or other events and circumstances. The Commission may approve advance payments (direct payments and/or rural development payments) to support producers during a crisis. Similarly, derogations from specific greening requirements, such as crop diversification and ecological focus area rules on land lying fallow, can allow land to be used exceptionally to produce animal feed. National provisions complying with State Aid are flexible measures, varying from guarantee funds, subsidies or tax provisions and can provide an initial and rapid liquidity financial support.

Structural adjustment may render a sector more resilient and better able to cope with future challenges. Addressing structural issues is however beyond the scope of this report.

Identified challenges

- Timely instrument implementation: early intervention often limits the magnitude and severity of a crisis.
- Streamlined procedures for aid application.
- Efficient and timely information flows between producers, authorities and consumers.
- Short run impact and accumulating cost of supply and demand management measures over time.
- Release of stored commodities back to the market.
- Reducing the administrative burden of the implementation of exceptional support measures.
- An adequate crisis response requires a package of various interventions and a balancing of crisis management measures with risk management tools and measures related to structural change.
- Appropriate design of measures for crisis prevention and crisis management to avoid providing incentives for risk-prone behaviour or delaying needed structural change.

Concluding remarks on crisis prevention and management strategies

Crisis prevention and management systems need to be flexible to cope with a wide variety of crises cases and have to be integrated across farm, national and European levels. Effective coordination across all levels is essential for both crisis prevention and management.

Intervention at farm and sub-sectoral levels is essential for effective crisis prevention and management, as they offer the most possibilities for improving the resilience of value chain actors, notably through the actions of cooperatives, PO's and APO's as well as farm advisory systems. They can address the needs related to information, coordination and market access and stabilisation. There is a large array of possible actions, including market and weather data collection, disease monitoring and detection, advisory services, coordination of actors around best practices, product diversification and promotion measures for accessing new markets. This makes it difficult to establish a systematic strategy across the EU agricultural sector. This pilot project, however, has developed detailed intervention logic that may be used as a tool to construct strategies, accounting for the diversity of producers' needs and measures of crisis prevention and management.

A large part of the crisis prevention and management mechanism also relies on the national level. Generally, national measures following natural disasters and catastrophic events include State Aid, contingency plans and eradication protocols for the prevention and management of sanitary risk, and risk management instruments. Crisis management often requires interactions at EU level, but national actors are key in implementing crisis management actions. Crisis prevention and preparation for plant health and animal disease related crises is well developed in most national contexts. This pilot project found that early action plans proved effective in preventing animal health crises in several cases in the EU. Risk management is an integral part of crisis prevention. Risk management strategies in Member States CAP strategic plans, as laid out in the current CAP proposal, would be an important building block to further strengthen crisis prevention in the EU. Depending on Member States' ambitions and strategies, and in addition to standard risk management, a description of the strategy for crisis prevention and the management of extreme risks could be included in their strategic plans.

Crisis management at EU level operates, through a set of instruments and practices that are flexible enough to address a wide variety of needs arising from unforeseen extreme events. These tools can be found mainly in regulatory provisions for exceptional market support measures, market withdrawal, non-harvesting and green harvesting, as well as public interventions, private storage aid and incentives to supply reduction. European Union institutions also play a significant role in crisis prevention and management through their coordination action, and the production of public goods. Public goods include information services and exchange platforms. This pilot project found that, in most cases, the existing EU level crisis management instruments are effective in addressing stakeholders' needs to cope with crises. In addition, risk management tools constitute the first line of defence during a crisis. They provide the necessary liquidity support to affected producers and reduce the need for ad-hoc public aid. The slow uptake of insurance, mutual funds and income stabilisation tools across the sector is identified as a potential gap in effective crisis management responses. Risk management tools are key elements in an overall strategy to cope with extreme events, but are challenging to implement.

Increased market-orientation and globalisation may have rendered some crisis management instruments less efficient. Derived from a long CAP history, measures for supply and demand management are still central to the crisis response strategy. In an open environment integrated within global markets, recourse to these measures comes at a high cost. Crisis management by the EU indirectly benefits third country competitors, particularly for products for which the EU is highly competitive on world markets. Efficiency and effectiveness gains could be achieved by exploring new instruments and/or improving the implementation of existing ones. Crisis loans and flexible financial products could provide emergency liquidity and relief, and could complement or substitute volume management measures. In addition, well-targeted structural changes may help to make fragile subsectors more resilient and better able to cope with a global environment.

Effective communication is a key dimension of crisis management. Availability and dissemination of strategic information is essential to addressing information asymmetries and restoring normality across the value chain, as well as consumer trust in products. Producers' organisations (PO), their associations (APO) and interbranch organisations (IBO) can make a key contribution to the information and communication dimensions of crisis response. Established communication channels and strategies can reduce the length of time required to bring full resolution of a crisis. In particular, market stabilisation requires timely and accurate production data notification from Member States (bottom up), as well as effective market observatories (top down).

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