Since the financial and food price crises of 2007, market instability has been a topic of major concern to agricultural economists and policy professionals. This volume provides an overview of the key issues surrounding food prices volatility, focusing primarily on drivers, long-term implications of volatility and its impacts on food chains and consumers.

The book explores which factors and drivers are volatility-increasing and which others are price level-increasing, and whether these two distinctive effects can be identified and measured. It considers the extent to which increasing instability affects agents in the value chain, as well as the actual impacts on the most vulnerable households in the EU and in selected developing countries. It also analyses which policies are more effective to avert and mitigate the effects of instability.

Developed from the work of the European-based ULYSSES project, the book synthesises the most recent literature on the topic and presents the views of practitioners, businesses, NGOs and farmers’ organisations. It draws policy responses and recommendations for policy makers at both European and international levels.

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Chapter 10
Mitigating the effects of agricultural price volatility
A European cereal grower’s point of view

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1 Overview

As elsewhere in the world, European cereal growers strive to earn their living from sales once all costs have been paid. In this search for competitiveness, since the common agricultural policy (CAP) was implemented in 1962, the growers used to focus on yields and the cost of production. This was due to the fact that the European Union cereal market was protected by tariffs, export subsidies and public storage, leading to high and stable prices for farm products. However, the recent CAP reforms have opened the EU market, leading to price instability. Facing global volatile prices as of the 2000s, EU farmers have been forced to adapt and mitigate the impact of market volatility.

Focusing on the example of French cereal growers, this chapter provides an empirical analysis of three categories of instruments farmers can use to manage their price risks and cope with volatility: price hedging, farm insurance and reserve schemes. Finally such tools are put in perspective and possible lines of thought are addressed on how these could be used as policy instruments in the future CAP.

Price hedging is a service traditionally offered by grain collectors, these being cooperatives or merchants, through various grain-marketing schemes. These range from ‘pool pricing’, in which the collector bears the full price responsibility, to increasingly popular ‘fixed price’ contracts, which allow growers to decide on the day and price of the deal. Selling can be disconnected from physical storage and delivery. Surging price volatility in Europe has also led to a growing use by farmers of price hedging contracts, which are generally backed on futures markets.

Farm insurance is not very well developed in Europe; this is for several reasons, including a relatively stable climate (and formerly, prices) and the fact that EU subsidies are focused on direct income support. However besides nonsubsidized hail and other single-hazard insurance which is widespread in grain production across Europe, subsidized multi-hazard climatic insurance has developed to cover over 70% of Spanish cereals supported by national subsidies, as well as 35% of French cereals as a result of the introduction of EU subsidies.
In the case of France, insurance penetration growth is likely to level off due to public budget limitations.

Deposit schemes are national policy instruments that are widely used in Canada and Australia and to a limited extent in France. Farmers are incentivized, either through delayed taxation or through direct subsidization, to deposit cash in a dedicated savings account in good years and withdraw funds in lean years.

The above instruments, which are ineffective against consistently low prices, display different time scopes (seasonal vs. interannual volatility) and types of risk addressed (price vs. climate, minor vs. major amplitude). Due to their countercyclical natures, subsidized farm insurance as well as savings accounts may be seen as promising policy instruments in the volatile, long-term future. However, in the framework of the CAP post 2020, these raise new legal, institutional, and political challenges in Europe: national competence hence potential competitive distortions, budget variability, lower price signals, ‘moral hazard’, efficacy/cost ratio, or compatibility with decoupled farm payments.

2 The new context and the menu of options

2.1 The emergence of cereal price volatility

In the three decades following its launch in 1962, the CAP was based on the so-called préférence communautaire, protecting the European market for farm products by the combined effects of variable import duties, variable export subsidies and a minimum, domestic ‘intervention price’ enforced through public storage. This provided relatively high and stable prices to European producers of cereals and other products. Such incentives to production allowed Europe to gain food self-sufficiency as intended. However, in the 1970s, this led to an exportable surplus in grains, which increased the costs of operating the CAP and eventually triggered major policy changes. From 1992 to 1996, successive CAP reforms gradually decreased import duties and intervention prices, introducing direct farm subsidies designed to compensate for lower prices. Cereal prices dropped dramatically, as in the example of milling wheat (Figure 10.1), where the minimum price almost halved from €194 to €100 per tonne, a level consistently below international prices, hence no longer effective as a floor price.

As of 2001, actual EU prices have been on par with world prices. Since the mid 2000s, global cereal price volatility has also been much higher than the previous decades. As a result, a cereal price risk has emerged and surged in the 2000s, forcing European farmers, as do others in the world, to manage their price risk.

2.2 Grain-marketing schemes and price hedging

In France and in many EU countries, cereal growers generally do not sell their products directly to users. Agricultural collectors, these being cooperatives or private merchants, are market operators who purchase cereals from (and often
sell farm inputs to farmers. Collectors store the grains in their silos and resell them to processors and exporters.

The traditional marketing scheme in France is referred to as ‘pool pricing’, whereby the collector takes the grain at harvest against a front payment, stores it, resells it and pays a balance to farmers at the end of the marketing season based on the average selling price (Table 10.1). The management of the price risk is transferred to collectors, who generally split their sales (e.g. committing one tenth every month) and/or hedge their price commitments using futures and derivatives markets. Through pool pricing, collectors smooth out farm prices, acting as shields for farmers against seasonal price volatility. Farmers delegate marketing (and often storage) and, for a given quality and logistics, are all paid the same price.

As price volatility rose, however, producers increasingly turned to alternative marketing schemes, primarily ‘fixed’ price contracts. These include spot price contracts and fixed price forwards, both widely offered by collectors besides pool pricing. The price is fixed at the contracting date, allowing farmers to decide upon their selling date and price. Unlike pool pricing, such contracts imply a commitment by farmers to deliver a given volume of a specific quality at a given date, the price being either based on the cash market price of the day for immediate delivery or based on the futures market price for future delivery (including pre-harvest selling). This allows for disconnecting selling (chosen day) from physical delivery, storage being either on a farm or a service specifically charged for by collectors (Table 10.1).

In the particular case of pre-harvest selling, fixed price forwards are price hedging tools that give farmers the opportunity to set their price and crop acreage accordingly, based on the futures prices of the various crops as listed at sowing time for delivery at (or after) harvest.

Figure 10.1 Evolution of global and EU cash market prices for milling wheat. Source: Data compiled by Association Générale des Producteurs de Blé et autres céréales (AGPB).
<table>
<thead>
<tr>
<th>Types of marketing contracts</th>
<th>Principle for price determination</th>
<th>Contracting date</th>
<th>Price</th>
<th>Delivery date</th>
<th>Payment date</th>
<th>Storage</th>
<th>Volume commitment</th>
<th>Other specifications</th>
<th>Complements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pool price contract</strong></td>
<td>Season average collector selling price Season average cash market price Season average collector fixed price</td>
<td>Before or at harvest</td>
<td>Set by collector at end of season</td>
<td>Harvest (generally) or set dates</td>
<td>Account at delivery, balance at season end</td>
<td>Generally Collector</td>
<td>No</td>
<td>Price hedging option</td>
<td></td>
</tr>
<tr>
<td><strong>Spot price contract</strong></td>
<td>Daily price as proposed by collector, cash market based Daily price as proposed by collector, with reference to futures markets</td>
<td>Mainly after harvest</td>
<td>Fixed in contract</td>
<td>Before or at price fixing</td>
<td>Often account at delivery</td>
<td>Farmer or collector</td>
<td>Yes</td>
<td>Quality</td>
<td>Price hedging; Collector storage</td>
</tr>
<tr>
<td><strong>Forward contract</strong></td>
<td>Fixed price determined at contract time, often according to futures markets Price determination defined in contract according to futures/a specific formula</td>
<td>Mainly before harvest</td>
<td>Fixed in contract</td>
<td>Set in contract</td>
<td>Full at delivery</td>
<td>Farmer or collector</td>
<td>Yes</td>
<td>Quality</td>
<td>Price hedging; Collector storage</td>
</tr>
<tr>
<td><strong>Specific outlet contract</strong></td>
<td>Determined in contract, either fixed or with reference to futures markets</td>
<td>Before harvest</td>
<td>Defined in contract</td>
<td>Set in contract</td>
<td>Full at delivery</td>
<td>Farmer or collector</td>
<td>Yes</td>
<td>Variety, quality</td>
<td></td>
</tr>
</tbody>
</table>

*Source: AGPB.*
Under fixed pricing, unlike pool pricing, producers manage their own price risk. Once a fixed price contract has been signed, the price risk \textit{stricto sensu} has disappeared. However, other risks still remain, including a risk on the quantities and qualities to be actually harvested (in the case of pre-harvest selling), a margin risk (when the cost of production is not fully known), as well as a risk of foregone income (if prices are to rise thereafter).

In the last few years, French grain growers have been increasingly using hedging tools in combination with physical sale contracts, and cooperatives and private merchants have developed a growing range of such contracts. This is the case with those forward contracts in which the price is not fixed but to be determined at delivery time with reference to financial markets. For example a forward sale contract associated with ‘call’ options allows farmers to participate in the eventual price increase between selling and delivery, so that only the risk of price decrease is eliminated (see Box 10.1). To a lesser extent, some farmers also buy derivatives offered by financial institutions, including futures and options listed on regulated markets, and ‘over-the-counter’ (OTC), unregulated contracts mimicking the former that are often used for crops not listed on futures markets. All these services aim at transferring a price risk from a farmer to a counterpart against fees plus, in the case of listed derivatives, deposits and margin calls.

\begin{boxedtext}
\textbf{Box 10.1 Simple hedging strategies using call or put option contracts}

Suppose you are a farmer. You have two ways of setting your price early, say at sowing time (say November 2014), fixing your price as the futures price for harvest delivery (say August 2015) as quoted in November 2014, while benefitting from an eventual price increase between November 2014 and August 2015. In simple terms, and disregarding the otherwise relevant transaction and basis costs, the options would be:

1. Either you ‘sell forward’ now (November 2014) at a fixed price, i.e. the current (November 2014) price of the August 2015 futures contract. The forward contract specifies that the price is firm and delivery takes place only later (at harvest). In parallel, you buy now an August 2015 \textit{call} (i.e. a buying option). When August 2015 comes, if the futures price has decreased, you benefit from the higher, November 2014 price and do not exercise your \textit{call}. If the futures price has increased, you exercise your \textit{call}, i.e. you use the call to buy an August 2015 futures contract at the initially agreed (lower) price, and you immediately resell it at the (higher) August 2015 price.

(Continued)
The psychological aspects of marketing strategies and price hedging are noteworthy, although rarely addressed in the literature. Farmers opting for schemes other than pool pricing are often looking for a better price than the pool price or their fellow producers’, this either by selling early when they expect the market to fall or delaying sales when they see an upward trend. Interestingly, results from a survey by Coop de France Métiers du grain suggest producers are more sensitive to the latter. During periods of rising prices, such as 2006–2007 and 2009–2010, French wheat producers have turned to significantly less pool pricing and more fixed price marketing than in the previous seasons, possibly with the idea of delaying sales to get better than pool prices (Figure 10.2). However, in the absence of reliable data from statistics or surveys, many market players and experts express doubts about whether, based on the average over several years, farmers in fixed price contracts consistently succeed in ‘beating’ pool prices.

Finally, while mitigating the effects of cereal price volatility to farmers, price hedging instruments display limitations linked to the financial markets on which they are backed. Some of these are:

- No protection against low prices: even though it can buffer price volatility over one or a few seasons, price hedging has no effect against consistently low prices over a long-term period;
- Their cost, typically €5 to €20 per tonne of cereals for options, is the price to pay to financial intermediates and counterparts to whom the price risk is transferred;

Box 10.1 Continued

2 Or you do not want to sell now (November 2014) and decide to wait and see until August 15. However, you now (November 2014) hedge your price on the futures market by buying an August 2015 put (selling option). When August 2015 comes, you sell your grain at the spot or nearby futures price. If the futures price has increased, you benefit from the price increase and do not exercise your put. If the futures price has decreased, you have sold your grain at a lower price but you exercise your put, i.e. you buy an August 2015 futures contract at the current (lower) price, and you immediately resell it under the put at the initially agreed (higher) price.

Note that this is all disconnected from storage and physical delivery. If this is harvest time and you have to make a decision, then in both strategies you have either to store on farm or to buy storage capacity from your collector. Otherwise you are forced to deliver and sell now, and either you sell at harvest at spot (often low) or pool price, or you sign some OTC contract from your collector, whereby he will buy and store now, the price being either fixed now or set later.
• The limited scope of futures markets for grains, both in terms of products and geography. For example, Euronext Paris derivatives for milling wheat and rapeseed provide French and other north European growers with representative quotations and delivery points (respectively Rouen/Dunkerque and Moselle/Mittellandkanal/Wurzburg/Ghent). This is not the case for other grains where European futures markets do not exist or lack liquidity, and hence representativeness; nor is this the case in many European areas located far away from listed delivery places. In these cases, the ‘basis risk’ can be excessive, i.e. the difference between the reference futures market and the actual cash market (including transport cost and eventually price deviation between the target crop and the listed, reference crop).

Given these limits, it is important in the future that EU authorities allow financial markets to develop in agricultural commodities, maintain their integrity and convergence and expand their product range. EU financial regulations should also avoid measures that limit market liquidity and generate bureaucratic burdens on farmers and other commercial players.

2.3 Farm insurance

Unlike other regions, farm insurance is poorly developed in Europe due to the continent’s relatively favourable and stable climate (and formerly prices),
but also to limitations in public subsidies as a result of the CAP, whose support mechanisms are concentrated on direct payments to farmers.

Until the CAP reform of 2009 (the ‘health check’), no CAP funds were available to fund farmer insurance, and only single hazard insurance, primarily hail (but also drought, frost, etc.), was significantly developed in Europe, this either with (Italy, Poland, Greece, Austria) or without premium subsidies from national budgets. The only noticeable exception was Spain, where about 70% of the grain crop acreage was covered with multi-hazard yield insurance involving an approximately 50% national subsidy.

Since 2010, EU member states were given the possibility to use CAP funds to subsidize premiums for crop (as well as animal) insurance policies, covering adverse climatic events, plant disease and pest infestation. As a result, multi-hazard climatic insurance has significantly developed in four member states beside Spain: France, Italy, Austria and Poland. Moreover, CAP-funded climatic insurance schemes have also been launched in the Netherlands and Hungary (Figure 10.3). Multi-hazard climatic insurance in France has grown from 25% of the arable crop area in 2005 to 32% in 2013, when 43% had hail insurance only and 25% had no insurance.

However, insurance development in arable crops is likely to level off in France for several reasons: financial losses for insurance companies due to adverse weather events in 2011 and 2013, limitations of EU funds to be channeled to insurance and political willingness to share subsidies among all agricultural productions, implying lower indemnity rate for production losses.

Gross margin risk coverage has been introduced in the CAP legislation as of 2015 in the form of public subsidies to mutual funds providing for an ‘income stabilization tool’. However, this, as well as farm insurance providing

<table>
<thead>
<tr>
<th>Public funding</th>
<th>Scheme</th>
<th>GB</th>
<th>DE</th>
<th>FR</th>
<th>ES</th>
<th>IT</th>
<th>PL</th>
<th>HU</th>
<th>NL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nat'l budget</td>
<td>Ad hoc ex-post disaster funds</td>
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<tr>
<td>No public subsidies</td>
<td>Hail &amp; other single hazard insurance</td>
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<td></td>
<td>Multi-hazard climatic insurance</td>
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<td>Public subsidies</td>
<td>Hail &amp; other single hazard insurance</td>
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<td>Multi-hazard climatic insurance</td>
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<tr>
<td>Nat'l budget</td>
<td>Public reinsurance</td>
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</table>

Development level: : Significant : Low

Figure 10.3 Crop insurance development in EU member states.
CAP = CAP subsidies (2010–2014: Articles 68d and 70 of EU Regulation 73/2009); SA = State aid
Source: AGPB.
price risk coverage (revenue, gross margin or income) will most probably not emerge in Europe until the end of the current CAP in 2020. Private insurance companies are not eligible for subsidized premiums and are reluctant, due to the systemic risk involved (price risk) and the absence of public reinsurance in most countries.

More generally, the CAP design, based on fixed, decoupled supports (which can also be seen as a buffer against farm income volatility), is clearly not appropriate for the development of (subsidized) farm insurance, being either climatic or even more so with price risk coverage: inflexible budgets, insufficient amounts funded by tapping into direct payments and a strict application of WTO rules (loss above 30% of five year average, and, for revenue/income insurance, maximum coverage 70% of loss).

However, farm insurance may have a future in the longer term as a major instrument in Europe’s farm policy, following the examples of the United States and Canada.

2.4 Farm savings accounts

Another principle, as old as humankind, for farmers to cope with price volatility is the building of reserves whenever they are thriving to be used in years of low returns. The modern version uses money instead of food, and the first step is avoiding farm income taxation, usually based on the profit made the year before, which jeopardizes the business in a lean, high tax year following a high profit year. Unlike agricultural policy, farm taxation is of national competence in Europe and therefore widely varies among member states. Income averaging schemes, which even out farm taxes over several years, exist in a number of European countries, including France, the Netherlands and the UK.

Another step is providing incentives for farmers to set aside money in high income years to build up a cash reserve to draw upon in years of low income, enhancing farmers’ self-reliance. Public support can be either through direct subsidies, as in the Canadian case, or as deferred income tax in the example of Australia.

Under the AgriInves scheme in force since 1991, Canadian producers can establish savings accounts for risk management (Agriculture and Agri-Food Canada, undated). Annual deposits are taxed the same year and are subsidized with matching government contributions that are taxed upon withdrawal and are limited to 1% of net annual sales and C$15,000 per year. The account balance is capped at 25% of the average net annual sales in the last three years. Such schemes involving direct subsidization do not exist in Europe.

Australia’s Farm Management Deposits scheme (FMD), launched in 1999, allows farmers to set aside income tax–deductible savings, which are later taxed when the funds are withdrawn from the dedicated savings account (Department of Agriculture, undated). The only conditions are the maximum amount on deposit (A$300,000) and an off-farm annual income that should not exceed A$100,000.
Even though such tools are under consideration in several countries (Germany, UK, US, etc.), France seems to be the only EU member state operating a scheme similar to Australia’s FMD, named Déduction Pour Aléas (DPA). Annual savings are limited to €27,000 per year for a seven-year maximum, and balance amounts are capped at €150,000. The French DPA is not a success so far, as strict, cumbersome justifications of actual climatic or economic hazards are required if savings are to be withdrawn without paying a penalty fee.

The use of savings accounts, which can be supported either by deferred taxation or by direct, matching subsidies, is clearly a powerful ‘self-insurance’ tool for farmers to mitigate their interannual risk of price as well as adverse climatic conditions. In terms of farm management and public policy, they display obvious limits (e.g. they need several years of good income to become effective) while their advantages are as follows:

- Farm-specific timing and magnitude for risk management;
- Optimized farm expenditures by avoiding poorly timed investments and input purchases (as often the case in high income years for taxation purposes);
- Lower moral hazard and higher efficiency/cost ratio for public money than subsidized farm insurance;
- Modest cost for public budgets as exemplified in Canada and Australia.

3 Policy implications

From a policy viewpoint, limiting farm price volatility itself should be logically considered before supporting farmers in managing the consequences of volatility.

Agricultural market volatility is primarily about fundamentals, namely supply, demand and stocks. Volatility is a consequence of relative changes between these indicators, which themselves result from climate and human factors. As a traditional trader’s saying puts it, ‘high prices are the best measure against high prices’. In other words, in a well-functioning market where price changes are transmitted all the way to farmers and farmers are allowed to adapt, volatility is the best tool to limit volatility, as farmers will react to price fluctuations and adjust production accordingly.

Therefore key drivers to limit volatility include market functioning and transparency allowing fair price signals, low or no barriers allowing price signal transmission from global market to farm gate, and an agricultural environment enabling producers to respond. This includes input availability, sufficient grain storage capacity and regulations providing flexible land management and input rates. In the long-term context of increasing food demand as expected until 2050 with a largely stable global cropped area, agronomic progress (plant genetics, irrigation, precision farming, etc.) resulting in further yield growth is
Agricultural market volatility is useful, allowing for cash and financial markets to function smoothly. According to most political and economic analysts, agricultural market volatility is here to stay globally and in Europe. Therefore, price risk management is and will continue to be needed. On the downside, one should mention that this is time consuming, diverting farmers from what would be their sole focus in absence of volatility: agricultural production. The respective risks addressed and time scopes for various instruments to cope with market volatility are summarized in Figure 10.4.

Historically, the CAP was based on high, stable prices decoupled from the global market. Even though this offered clear advantages (production focus, technical progress), heading back to such a system seems unrealistic considering its high cost for European consumers and taxpayers, negative impacts on external markets, Europe’s WTO commitments and the general trend for market globalization.

The current CAP involves a poorly protected internal market (low external barriers and public intervention), the bulk of public resources being devoted to stable, per hectare direct payments to farmers. Even though fixed supports are not risk management tools per se (Cordier, 2014), this economically sensible policy both allows price volatility to reach farmers and helps farmers to cope with it. Indeed, fixed payments can be channeled by producers to fund instruments such as price hedging, insurance and savings accounts. Government-supported savings accounts and climatic insurance can be seen as making fixed farm payments more flexible and turning them to countercyclical resources available whenever they are most needed.

As discussed above, there is room to develop such schemes in Europe in the years to come. However, given that they act as buffers of price variations over one or a few years, these can address only short- and medium-term volatility.

On the other hand, there is no effective instrument in the current CAP to limit or cope with long-term price volatility and in particular the risk of seasonal price volatility. Interannual weather volatility can be partially managed by insurance and savings accounts, but interannual price volatility and long-term price volatility cannot be addressed by these instruments.

Figure 10.4 Summary of tools to mitigate price volatility at farm level.

Source: AGPB.
consistently low prices. Countercyclical support measures are not available in the CAP. And even though the principle of price safety nets exists in the legislation, the actual floor prices are too far below the costs of production to be effective.

In the longer run, i.e. as of 2021, the next CAP reform may be a major one, given three current challenges:

1. Budget size: total public spending is set to be reduced;
2. Renationalization: current farm payments are diverging between sectors and regions across member states as a result of their national allocation largely at member state discretion as of 2015. Such farm policy is difficult to ‘read’ and will generate competitive distortions within Europe;
3. Legitimacy: citizens are aware of market volatility and have doubts about why farm payments are stable when needs for economic support vary greatly from year to year. This sets the trend of having payments more and more dependent upon what citizens can see, e.g. public goods, and particularly benefits delivered to the environment, as partly implemented through CAP ‘greening’ as of 2015.

What could the future CAP look like? In order to give food for thought, an interesting approach is considering how price volatility may be addressed in the future. As represented in Figure 10.5, tools to mitigate volatility suggest two possible avenues for the next CAP.

![Figure 10.5](image)

*Figure 10.5 The common agricultural policy and market volatility. Source: AGPB.*
Shifting significant CAP resources to subsidizing farm revenue/income insurance would open the possibility of de facto countercyclical public support, hence increased public legitimacy. However, there are downsides and questions that are under debate with reference to the United States, where such evolution has taken place in the last decade: variable funding requirements challenging current EU budgetary rules; compatibility with significant fixed farm supports within tight budgets; efficiency/cost ratio of public money given the administrative cost of insurance companies and the need for public reinsurance; possible competitive distortions depending on allocations of funds between regions and productions; blurring of market signals that can enhance and export volatility; and the risk of moral hazard, given an effective farm insurance policy can lead farmers to change behaviours such as crop choice and cultivation practices.

Another option could be complementing fixed payments with incentives to channel supports and other resources into savings accounts. This could involve either deposit matching subsidies, as in Canada, or tax incentives, as in Australia. In turning direct supports into tools for market risk management, this would improve their efficiency as well as legitimacy. As experienced in Australia, benefits would also be found in overall farm management (timeliness of farm expenditures). However, this would also raise a number of difficulties regarding adoption by farmers as well as EU governance: budget variability, competence on fiscal policy, commonality. Work would be needed to test, evaluate and define rules, including eventual limits to yearly amounts set aside, account balances and origin of the funds; how to deal with the entry point when farmers cannot afford to build up savings; and how to treat deposits when producers retire or sell their businesses.

4 Conclusion

Even though not addressing the long-term low-price risk, subsidized farm insurance as well as savings accounts are instruments to cope with market volatility that are worth further investigation and debate. Given their countercyclical natures, these, alone or in combination, could play an increasing role in Europe’s farm policy in the volatile, long-term future. However, in the framework of the CAP post 2020, these tools raise novel challenges in the legal, institutional and political fields: national competence leading to potential competitive distortions, budget variability, blurring of price signals and, in the case of insurance, moral hazard, efficacy/cost ratio and compatibility with decoupled farm payments.

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