RISK MANAGEMENT:
EMPOWERING OUR FARMERS WITH EFFECTIVE TOOLS TO MANAGE RISKS POST-2020

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Introduction

The EU farming sector is facing **increasing market (prices) and production (environment) risks**, which is a result of increased price volatility on global markets, its transfer to the EU single market and the impact of climate change. This creates uncertainty about farmers' income and competitiveness, makes long-term planning difficult and hampers incentives to make investments. There is also direct link between market and production risks – in addition to traditional weather, plant and animal health risks, climate change is expressed through more frequent and intense adverse climate events, having an impact on supply and demand.

The issue of risk management in agriculture and the CAP was more prominently raised for the first time in 2001 when the European Commission analysed its particular instruments. The work resulted in drafting the **Communication from the Commission on Risk and Crisis Management in Agriculture** (*COM [2005] 74, 9 March 2005*). The Commission proposed three types of risk management instruments. The first type related to insurance against natural disasters, including adverse climatic conditions and animal diseases. Another group of instruments included mutual funds, which were supposed to enable risk division among the producers who wanted to take responsibility for risk management. The last option was connected with providing basic insurance coverage against income crises. All mentioned instruments were designed to compensate for the consequences of the CAP reform and to replace simultaneously applied extraordinary ad hoc measures. Most of these instruments have been introduced to the CAP with the 2008 CAP Health Check and 2013 CAP reform.

In the 2017 **Reflection Paper on the Future of EU Finances** the European Commission has stated, that: "Developments over recent years showed that the EU budget has had to provide recurrently ad-hoc emergency support to react to specific developments such as the fall in dairy prices or the Russian ban on imports of certain agricultural products. There is hence a need to explore the right balance of instruments in the future common agricultural policy between policy measures and financial envelopes, grants and financial instruments, risk-management tools and other market arrangements to cope with risk and unexpected adverse events in the agricultural sector" (https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf).

Definition of risk

Definition

In economics, a distinction is commonly made between financial and business risk. While financial risk in general simply involves the ability of an enterprise to meet its obligations, business risk is perhaps more relevant in the context of agricultural risk management. In a broad sense, business risks in agriculture can be divided into two categories, i.e. risks that are related to **production** (output volume and value) and those arising from changes in **market** (especially prices). Since demand (price) and supply (production) are associated, these two main types of risks are also related and often compensating for each other (e.g., when production decreases, price normally increases).

Some risks directly affect only production:

- natural phenomena (e.g. weather/climate, pests and diseases);
- human/personal risk;
- asset risk.

Other risks additionally have a direct influence on outputs:

- prices of inputs;
- prices of outputs (volatility risk);
- institutional and legal risks.

Role of public sector policies vs responsibility of farmer

The Organisation for Economic Co-operation and Development (OECD) analysis of risk management in agriculture has identified three layers of risks which require different responses:

- **Normal** variations in production, prices and weather do not require any specific policy response. These can be directly managed by farmers as part of normal business strategy, via the diversification of production or the use of production technologies which make yields less variable. Income-smoothing through tax instruments for businesses is also part of normal risk management.
- At the other extreme, infrequent but **catastrophic** events that affect many or all farmers over a wide area will usually be beyond farmers' or markets' capacity to cope. A severe and widespread drought is one example. The outbreak and spread of a highly contagious and damaging disease is another. Governments may need to intervene in such cases. This may also be the case for extreme market and trade distortions.

- In between the normal and the catastrophic risk layers lies a **marketable** risk layer that can be handled through market tools, such as insurance and futures markets, or through co-operative arrangements between farmers. Examples of marketable risks include hail damage and some variations in market prices.

Policies should not provide support for the management of "normal" risk. This should be the preserve of farmers themselves. Minimum intervention prices or payments that are triggered when prices or returns are low may actually be counter-productive, as they tend to induce more risky farming practices. Normal variations in production, prices and weather do not require any specific policy response. These can be directly managed by farmers as part of normal business strategy, via the diversification of production or the use of production technologies which make yields less variable (*OECD (2017). Evaluation of the EU common agricultural policy (CAP) 2014-2020*). As prices are signal from the market, which enable producers to react, designing of any instruments should mainly focus on income variability. Measures that induce farmers to apply less resilient business systems and therefore crowd out risk prevention from farmers' business strategy, should be avoided.

Figure 1. Risk management strategies

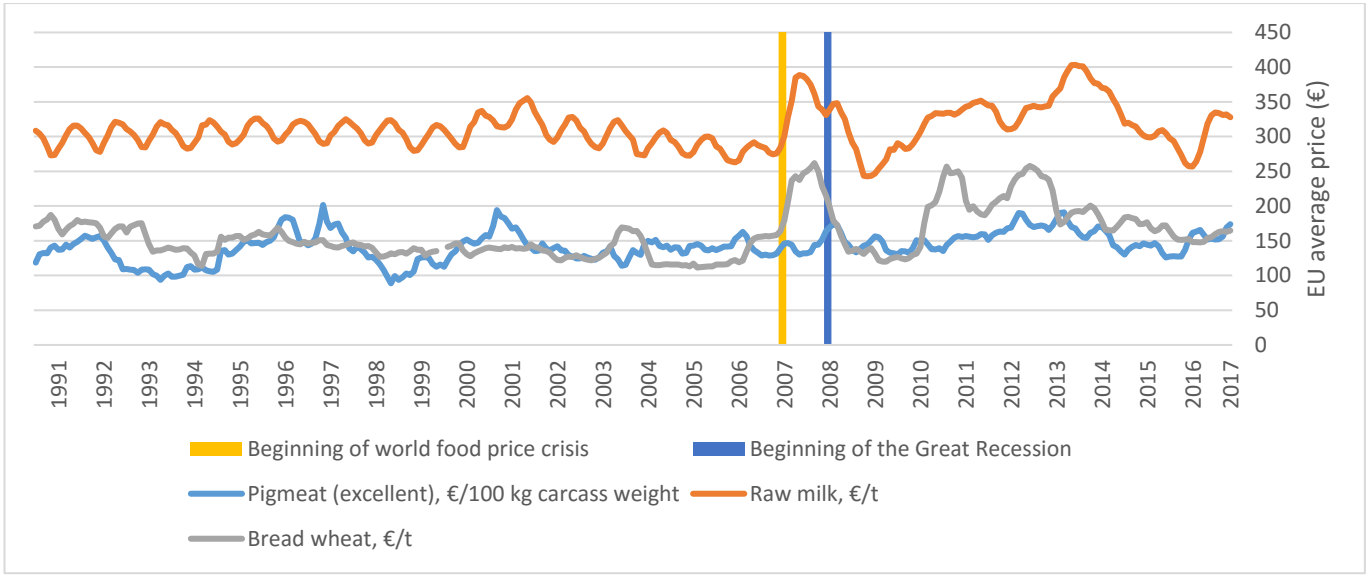
Source: OECD (2011), Managing Risk in Agriculture: Policy Assessment and Design

Market situation, production risks and role of the CAP

The CAP has undergone a series of reforms that have been directed for farmers to make their production decisions based on market signals. However, these **reforms were based on the presumption that prices remain stable and a demand for food is increasing**, without taking into account potential crises and frequency and intensity in the occurrence of different risks. Over the past few years the EU agricultural sector has experienced significant market tension. Although we have witnessed positive price developments in most of the main agricultural sectors since the end of last year, the recovery is fragile and we have to keep close eye on the market developments. While different measures taken (exceptional measures, market intervention, finding new markets, etc.) have been of great help in time of squeezing income, we have witnessed the shortcomings of the current CAP.

The rising instability of food prices implies the relevance of risk management measures. During the last decade, prices of some typical agricultural products have significantly fluctuated in the EU single market (Figure 2). This is in contrast to the period before the world food price crisis in 2007 and the recession in 2008, when the average prices of raw milk and bread wheat stayed relatively stable. Only the price of meat does not indicate an increase in volatility to such extent. Removal of product support through market price support and decoupling of direct payments nevertheless means that income of food producers in EU is now more dependent on world markets and prone to sudden changes. The negative effects of these changes can be reduced by various risk management measures.

Figure 2. EU average price of wheat, milk and meat in years 1991-2017



Source: European Commission

Agriculture is vulnerable to most climate change impacts, such as changing levels of rainfall, rising temperatures, variability and seasonality, extreme events, heatwaves, droughts, storms and floods across the EU. A number of steps have been taken to address climate change in CAP. A substantial amount of the €104 billion or 25% of the 2014-2020 CAP allocation is estimated to be related to climate; in addition Horizon 2020, our research and innovation efforts in food, agriculture, forestry and marine is reaching €3.6 billion for the 2014-2020 period (https://ec.europa.eu/agriculture/sites/agriculture/files/climate-change/pdf/cop21-what-eu-agricultural-policy-does-for-climate_en.pdf). As the number of climate- and environment-related events is increasing and natural resources are limited, a complex solution is needed by the CAP, increasing the synergies between cross-compliance, greening, agri-environmental measures, training, advisory services, innovation and knowledge transfer.

Existing instruments

Direct payments and risk management

Direct payments, which account for 75% of the CAP 2014-2020 expenditure, are granted directly to farmers to ensure them a safety net. They are mainly granted in the form of a basic income support, decoupled from production, stabilising their income stemming from sales on the markets, which are subject to volatility. Direct payments also contribute, through greening (30% of direct payments) to providing basic public goods.

(https://ec.europa.eu/agriculture/direct-support_en).

The historical references have generated differences in the distribution of payment levels per hectare in and among Member States. The income stabilising role of direct payments increases as the share of direct payments in total farm receipts increases. As these payments are disbursed per hectare of eligible land, their benefits are likely to be mostly captured by land-endowed holdings. Direct payments do not distinguish between different types of production, some of which are more vulnerable to production and price risks than others. However, direct payments (mostly) decoupled from production are not directly correlated with changes in farm income. Direct payments are part of income and its importance increases in times of crisis. **In order for direct payments to have a bigger risk management and income stabilising effect, efforts to harmonise the level of direct payments must be continued**. As the definition of farming activity and keeping land in good agricultural and environmental conditions are applied alike across the EU, there is no reasoning for such a variation in the levels of direct payments.

A crisis reserve funded through the financial correction mechanism linked to direct payments was introduced in the 2013 CAP reform. Each year, €400 million (in 2011 prices) is withheld from the overall direct payments envelope and maintained as a crisis reserve. This reserve can be called upon to finance emergency payments to farmers. This crisis reserve has limited use as it is of relatively modest size and cannot grow over time (*CAP: Thinking out of the Box. Further modernisation of the CAP – why, what and how? RISE Foundation, 2017*).

At the same time area-based direct payments aren't well designed to deal with variations in income over time as payments are made to farmers when prices are low, but also when prices are high (*CAP: Thinking out of the Box. Further modernisation of the CAP – why, what and how? RISE Foundation, 2017*). "Farmers do not consider direct payments as a 'risk cover' although direct payments were originally introduced to make up for – as a quid pro quo – decreasing intervention prices (the latter having aimed at stabilising markets). In situations of market crises producers ask for exceptional (market) measures; the existence of direct payments is not considered a crisis response. The latest milk crisis is a case in point: two solidarity packages, together worth EUR 1 billion, have been adopted notwithstanding the existence of direct payments" (*Agricultural Markets Task Force, 2017*).

It has also noted that direct payments available to all farmers makes farmers less likely to adopt other risk management strategies and may even encourage them to increase the amount of risk that they take on (for example, the cushion of direct payment may encourage greater specialisation particularly on larger farms, which may also have adverse environmental consequences). The safety-net function of direct payments could be provided using payments that are much more targeted (*CAP: Thinking out of the Box. Further*

modernisation of the CAP – why, what and how? RISE Foundation, 2017).

Market measures and risk management

The Common Market Organisation (CMO) is a set of rules which regulates agricultural markets in the European Union. It builds on the rules for the common market in goods and services with specific policy tools that help improve the functioning of agricultural markets. The CMO sets out the parameters for intervening on agricultural markets (https://ec.europa.eu/agriculture/markets_en). CAP developments have seen the impact of CMO to decrease over time.

As developments in agricultural income have become more complex to forecast, price support, the main tool of the CAP in the preceding decades, has less of a role to play in the current CAP. In today's CAP, intervention systems represent a targeted product safety net. Intervention prices are set at levels that ensure they are used only in times of real price crisis and when there is a risk of market disruption.

Crisis prevention and management (CPM) measures can also be granted to producer organisations under the CMO in the fruit and vegetables and wine sector. During the 2007-2013 period, CPM measures included market withdrawals, green harvesting or non-harvesting of fruit and vegetables, promotion and communication, training measures, harvest insurance and support for administrative costs of setting up mutual funds – shifting the responsibility for risk management to the private sector.

Although public intervention for some sectors may have almost become redundant or irrelevant, the recent dairy crisis show that intervention still has a role to play when there is a real crisis. The purchase of public stocks provided a necessary buffer to mitigate the downward path of prices, although their accumulation could delay the pace of price recovery to some extent. In addition, some market measures, for example exceptional measures, are applied too late (*CAP: Thinking out of the Box. Further modernisation of the CAP – why, what and how? RISE Foundation, 2017*).

The milk price and, consequently, the sales revenue of milk, decreased in Member States in 2015 in total 6.99 billion euros (calculatory, FADN data). **Although exceptional aid** for milk and other livestock sectors due to the Russian ban on import of Union products, global supply-demand imbalance in 2014 (39.4 million euros), 2015 (420 million euros) and 2016 (500 million euros) **helped to alleviate the pressure on income, it is an ex-post measure and covers only a small proportion of the actual income loss, making it case for ex-ante measures**.

Rural development policy and risk management

In 2008, the Health Check reform of the CAP extended the possibility to support risk management

instruments for all sectors through the use of up to 10% of national ceilings devoted to the single payment scheme in Pillar 1. This amount could be allocated to contributions to insurance premiums for crop and animal insurance or by way of mutual funds for animal and plant diseases and environmental incidents. In the 2013 CAP reform these arrangements were moved from Pillar 1 to become part of the risk management toolkit in Pillar 2, while a new income stabilisation tool was added (to insurance and mutual funds) given the concerns about increasing farm income volatility after 2013 CAP reform.

For the programming period 2014–2020 the risk management toolkit under rural development has three tools:

- financial contributions to premiums for crop, animal and plant insurance against economic losses to farmers caused by adverse climatic events, animal or plant diseases, pest infestation, or an environmental incident (**crop, animal and plant insurance**);
- financial contributions to mutual funds to pay financial compensations to farmers, for economic losses caused by adverse climatic events or by the outbreak of an animal or plant disease or pest infestation or an environmental incident (**mutual funds**);
- an income stabilisation tool, in the form of financial contributions to mutual funds, providing compensation to farmers for a severe drop in their income (**income stabilisation tool**).

The use of risk management schemes under the rural development policy is optional for Member States and/or regions. Altogether twelve Member States plan to implement risk management measures during the 2014–2020 programming period, nine at the national level and three Member States regionally. Both mutual funds and income stabilisation tools are under-used for rural development.

Italy and France have the biggest planned expenditures (EUR 1591 million and EUR 600 million, respectively) followed by Romania (EUR 200 million), Hungary, Portugal, Croatia and the Netherlands (all of them with the expenditure between EUR 95 and 54 million). France took the opportunity to transfer credits associated to risk management from Pillar 1 to Pillar 2.

Table 1. Programmed expenditure on risk management measures under 2014–2020 rural development programmes

Member State / region / programme	M 17.1 Insurance	M 17.2 Mutual Funds	M 17.3 Income Stabilisation Tool	Total (€ Million)	Share of total budget of the RDP (%)
Belgium (Flanders)	5.1	0	0	**6.1**	**0.6**
Croatia	57.0	0	0	**57.0**	**2.4**

France (national)	540.7	60.0	0	**600.7**	**3.5 ***
Hungary	76.3	0	19.0	**95.3**	**2.3**
Italy (national)	1 396.8	97.0	97.0	**1 590.8**	**7.6 ***
Latvia	10.0	0	0	**10.0**	**0.6**
Lithuania	17.0	0	0	**17.0**	**0.8**
Malta	2.5	0	0	**2.5**	**1.9**
Netherlands	54.0	0	0	**54.0**	**3.3**
Portugal (Azores)	2.4	0	0	**2.4**	**0.7**
Portugal (Madeira)	0.8	0	0	**0.8**	**0.4**
Portugal (Mainland)	50.0	0	0	**50.0**	**1.2**
Romania	0	200.0	0	**200.0**	**2.1**
Spain (Castile and León)	0	0	14.0	**14.0**	**0.9**
Total	**2 212.6**	**357.0**	**130.0**	**2 699.6**	

* out of all rural development programmes of the MS

Source: European Commission, Directorate General for Agriculture and Rural Development

Total public spending committed for the three tools is EUR 2699.6 million, with over EUR 1700.7 million (63%) coming from the EU (CAP Pillar 2) budget. These EUR 1700.7 million represent less than 2% of the Pillar 2 funds and only 0.4% of the total 2014–2020 CAP budget, which means that CAP support to agricultural risk management continues to be very low.

The following may have had impact on the **low level of interest towards risk management schemes under rural development** – availability of other public safety net instruments (direct payments, schemes for fruit and vegetable and wine sectors under Pillar 1, state aid schemes with more favourable conditions in some cases, ad hoc crisis management aid, fiscal and tax measures, etc.) and difficulties in setting up mutual funds (administrative requirements, (possible) lack of trust among farmers, need for reserves and/or reinsurance). It could also be the case that as some of the instruments represent a new concept for the Member States, this might explain the relatively low level of programming of mutual funds and income stabilisation tools, compared to insurance schemes.

The amounts programmed under measure 17 "Risk management" however, do not represent the total amount dedicated to risk management during the 2014–2020 programming period. One of the rural development focus areas for the current period is supporting farm risk prevention and management (focus area 3B). Twenty-one Member States out of 28 have targeted focus area 3B in their rural development programmes. In

addition to measure 17, five additional measures have been selected to target risk prevention and management in agriculture: measure 1 “Knowledge transfer and information actions”, measure 2 “Advisory services, farm management and farm relief services”, measure 4 “Investments in physical assets”, measure 5 “Restoring agricultural production potential damaged by natural disasters and catastrophic events and introduction of appropriate prevention actions” and measure 16 “Co-operation”. Also, under measure 8 “Investments in forest area development and improvement of the viability of forests” it is possible to target risk prevention and management in forestry. The following table gives an overview of the selection of measures to prevent and manage risks by Member States and funds allocated to them.

Table 2. Selection of measures targeting risk prevention and management and programmed expenditure under 2014–2020 rural development programmes

Member State	M1	M2	M4	M5	M8	M16	M17	Total
Austria	1 410 500	210 000	0	0	0	300 000	0	**1 920 500**
Belgium	0	0	0	0	0		5 142 949	**5 142 949**
Bulgaria	200 000	150 000	0	0	0	0	0	**350 000**
Croatia	0	0	0	118 117 647	0	0	56 673 374	**174 791 021**
Estonia	700 000	100 000	0	1 000 000	0	0	0	**1 800 000**
France	5 342 033	2 453 146	0	16 179 152	0	4 890 612	600 750 000	**629 614 943**
Germany	175 000	0	0	1 226 925 477	0	0	0	**1 227 100 477**
Greece	0	0	0	51 922 335	0	0	0	**51 922 335**
Hungary	0	0	0	21 021 332	0	0	95 312 975	**116 334 307**
Ireland	25 000 000	6 000 000	25 000 000	0	0	1 000 000	0	**57 000 000**
Italy	5 809 931	7 854 059	0	228 976 330	24 960 630	14 487 265	1 590 800 000	**1 872 888 215**
Latvia	0	0	0	5 000 000	0	0	10 000 000	**15 000 000**
Lithuania	0	0	0	0	0	0	17 460 285	**17 460 285**
Malta	0	0	0	0	0	0	2 500 000	**2 500 000**
Netherlands	0	0	0	0	0	0	54 000 000	**54 000 000**
Poland	2 899 959	0	0	414 981 968	0	0	0	**417 881 927**
Portugal	0	1 331 728	0	25 646 685	0	0	52 898 234	**79 876 647**
Romania	3 000 000	0	0	0	0	0	200 000 000	**203 000 000**
Slovakia	500 000	85 000	0	70 000 000	0	0	0	**70 585 000**
Spain	974 122	526 812	0	20 279 383	0	3 346 333	14 000 000	**39 126 650**
UK	1 616 167	3 075 000	0	0	0	7 860 000	0	**12 551 167**
Total	**47 627 712**	**21 785 745**	**25 000 000**	**2 200 050 309**	**24 960 630**	**31 884 210**	**2 699 537 817**	**5 050 846 423**

Source: European Commission, Directorate General for Agriculture and Rural Development

More than 5 billion EUR is programmed to target risk prevention and management. The amounts allocated to measures 1, 2, 4, 5 and 16 in total (2.3 billion) are comparable to the funds allocated to "specialized" risk management measure (measure 17) (2.7 billion).

Knowledge transfer and risk management

One of the prerequisites for a risk-resilient agricultural sector is a farmer who is informed and knows how to use information. The availability of systematic and reliable information, as well as ongoing training for people engaged in agriculture, is important. The evolution of the CAP over recent decades (orientation to an increasingly volatile and changing market) requires farmers to be well positioned both in technology choices and market demand, but increasingly in processing and marketing. It is important to understand all aspects of risk management – to identify the risk, make decisions, and plan and organize future activities together with risk management. **The most important is knowledge-based prevention of risks**.

Informed and knowledgeable production decisions and, through this, risk mitigation must become a cross-cutting goal of the measures of the CAP. To this end, it is necessary to contribute to the development of the use of the relevant information systems and big data, and the development of the corresponding infrastructure must have significantly higher priority within the CAP than before. It is also important to take advantage of the respective support structures, in particular the cross-sectoral public information-producing structures. For example, if the strength of the public sector is to hold information through different databases, private sector stakeholders are more effective in producing practical and user-friendly solutions. There is a need to extensively implement public-private partnerships. Risk management also requires further development of the current advisory system to help farmers orientate in an ever-growing inflow of information and make informed choices.

So far, the focus has been on digitalisation of controlling different schemes, but in terms of the competitiveness of the sector, digital solutions across the entire production chain and the smart use of digital solutions for risk mitigation and risk prevention is more important.

Risk management post-2020

Lessons learnt

We need risk management instruments that provide **holistic solutions to managing risks**, including

prevention, response and planning. One of the lessons learnt is that we cannot only rely on reactive measures. The agricultural sector has to become more resilient and take responsibility in addressing risks. CAP has a role to play, providing instruments and incentives for that. Introducing a risk management toolkit under the second pillar of the CAP has been a positive step. It allows Member States flexibility in choosing appropriate instruments, enables the combination of risk management with other rural development measures and through the co-financing character of second pillar increases the responsibility of the private sector in managing risks.

We have also seen that that **direct payments as income support are of great importance** for the farming sector. During times of crisis direct payments provided farmers with critical income to overcome decrease in revenue from the market. At the same time we **need to consider integrating stronger risk management elements to direct payments to be able to respond to market developments more effectively**. As we are operating on a single market and are open to price volatility on global level, it is hard to see any justification for division of direct payments based on the historical references.

Crises in the agricultural sector have also shown shortcomings in the functioning of the food supply chain. The level of concentration varies among the actors, resulting in different bargaining power. In times of crisis we have seen that downstream participants tend to transmit the risks towards the more vulnerable and weaker link, which is the farmers. Concentration in the form of mergers and acquisitions has been one of the global trends for years, but the nature of agricultural production favours a "hands-on" approach from the owners compared to the financial management of an entity. **Supporting the organization of farmers is part of the strategy for improving the position of farmers in the supply chain**. Promoting vertical cooperation can also be a way to better manage the market risks.

The way forward

Today's CAP is not ready for crises and is unable to effectively and adequately respond to them. **Farmers need more effective tools in the framework of the CAP**. The solution is not to return to previous instruments, but to continue with the market orientation and with the direction of more equal conditions for competition, while providing farmers with measures which, on the one hand, ensure preparedness for crises and, on the other hand, contribute to enhancing the competitiveness in the open market.

Over the last decade, **agricultural and food-related research and development spending has increased but has not yet reached a sufficient level to offer sustainable long-term competitive research and development support to Europe's food sector**. We must also bear in mind that, in the global market, the European food industry must compete with exporters who use a number of non-authorized or substantially restricted

production methods in Europe (such as GMOs, cloning, wider use of growth regulators, etc.). The targeted and innovation-oriented R&D in the medium and long term is key to reducing the realisation of the risks in the agricultural sector. R&D is particularly important in increasing the adaptability of the agricultural sector to changing climatic conditions and coping with the spread of plant and animal diseases. In this light, more attention needs to be paid to the well-coordinated development of scientific support for agriculture. Therefore, it is necessary to increase synergies between different policies and instruments that help to implement the actions and policies effectively. In addition, research and innovation activities play a key role in competing on globalising and volatile markets while ensuring environmentally sustainable but also economically competitive production. It is essential to encourage R&D and innovation cooperation between the agro-food sector and research institutions. It should ensure mutual interest and the rapid practical implementation of new solutions. The European Innovation Partnership (EIP) has proven to be a useful means to bridge the gap between research and practice, with the additional potential of promotion and application on the ground of suitable practices fostering resilience, adaptation and risk prevention. Creating and implementing new technologies, processes and business models is critical, encouraging further investment in their future use. Economic analysis models must be integrated with risk management (risk management tools). Innovative solutions to meet multifaceted global risks and challenges should be offered. In order to substantially improve the development R&D and innovation in EU agriculture, it is necessary to implement much more flexible and simpler co-financing mechanisms in the framework of Pillar 2 of the CAP. In view of the fact that research and innovation in the upstream industry often precedes the introduction of innovation in the agricultural sector, consideration should be given to encouraging, under certain conditions, such innovation within the framework of the CAP. The development of basic science and high-level research, which is a prerequisite for advanced applied sciences and successful product development, must also be considered important. It is therefore important to contribute to the respective research both through research networks across Europe and within the Member States.

If we want farmers to react wisely to market events, we need to offer them **better information on how prices develop not just at the producer level, but also at the processing, wholesale and retail stages**. Such data should be operative and comparable among Member States because only then it allows pre-emptive moves to adapt production, revise investments or change tactics for price negotiations. This should be on our agendas today, when the lessons learnt from previous crises is still freshly remembered.

Joint activities by the farmers should be seen as an opportunity for the competition environment. Economies of scale are important everywhere in the supply chain, and offering larger quantities together will both strengthen farmers' ability to negotiate and widen the choice of the buyers. **Co-operation works as a risk management tool**, helping farmers to optimise costs in buying inputs, using technologies, etc, but also in

facing price pressures in unstable market situations. But the uptake by the farming sector in establishing co-operation has been unsatisfactory and should be made more attractive. When the policy design is moving towards the shift in the responsibilities between different actors and **giving farmers greater responsibility in managing risks**, different formats of cooperation should be trusted implementing measures, e.g. collective environmental commitments, long-term loans.

The European Union's agro-food export reached a new record level of 130.7 billion euros in 2016. That is 29% higher than in 2011. It confirms that the EU focus in foreign trade on removing third country trade barriers and on promotion has been a success. Finding new markets means improving trade agreements by the EU, taking product-specific interests into account. But the efforts in opening new markets should be taken even further. The utmost goal should be to achieve more efficient and swifter market access for all Member States. Trade policy with third countries should pursue **increased recognition by third countries of the EU as a single entity given that all Member States produce and export under the same EU standards for food safety and quality**. This could be done by introducing more initiatives aimed at explaining to our partners the uniform nature of, and high standards embedded in our/the EU's regulatory regime. This should ensure that one day every individual Member State no longer has to go through time- and money-consuming procedures with the same third country markets. **New ways to support exports should also be found**, starting by analysing opportunities for implementing different instruments.

Direct payments make a significant contribution to farmers' incomes and definitely help to stabilise these as they are a much less variable part of incomes compared to market incomes. Analyses based on FADN data show that some types of farms are more support dependent than others so direct payments act as a main source of income, but direct payments should act more as a safety net. However, **for direct payments to contribute to stabilising the farmers' incomes, the equalization of direct payments should continue in order to better meet the safety net objective and avoid competition distortions**. The consequences of last market crisis has also shown the need for farmers to start using other risk management measures as the exceptional adjustment aid is not enough to stabilize the income loss. This could be achieved through targeting a certain part of direct payments for risk management measures in order to better meet the income stabilisation objective. For example the total market loss in the dairy sector in 2015 was approximately 6.99 billion euros. At the same time the crises reserve (400 million euros) makes roughly 1% of direct payments. If **the crises reserve was modified in a way that the amounts accumulate to the reserve from year to year and the share** was increased to [2%], then during the 5-year period the total accumulated amount of the reserve could be 2 to [4] billion euros. In that case, exceptional market crises could be more effectively managed, as for example the losses of the dairy sector could have been covered from 1/3 to 2/3.

We should continue in **strengthening risk management tools in Pillar 2**. One possible way would be making its **implementation mandatory in rural development programmes**. This presumes that implementation of risk management tools is made more flexible in its regulation and financial management. One factor that may influence the use risk management measures under Pillar 2 is the mechanism of the clearance of funds. Under Pillar 2 funds are programmed multi-annually but de-committed if not used by the year n+3. At the same time, harmful events targeted by risk management schemes may not occur during the programming period in predicted volumes or at all. This may create a situation where Member States or regions are eventually unable to transfer unspent funds from risk management measures to other rural development measures in due time before the end of the programming period in order to avoid losing them. One solution would be to modify the rules according to which expenditure is deemed to be realized/considered eligible expenditure at closure of programmes and **to establish that in the case of the expenditure of risk management measures and specifically mutual funds and income stabilisation tool the amounts actually paid to the funds are considered as realized and eligible at closure**.

Questions for discussion

In the Informal AGRIFISH Council we invite agricultural minister to discuss on the following questions:

1. One of the main messages of the 2003 CAP reform was “freedom to farm”. Have our farmers recognized their responsibility in managing the risks and has CAP provided them with efficient tools to do that?
2. Should the amount of crisis reserve be increased and should this amount be accumulated over the years to have a real impact in addressing market crises? Should this amount be accumulated on the EU or Member State level?
3. Do you consider direct payments as a risk management tool? Do you agree that further harmonisation of support levels is needed for direct payments to work as a real risk cover? Should a certain part of direct payments be directed to the risk management fund and should it be voluntary or mandatory for farmers?