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The new instruments of risk management in agriculture in the European Union

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Abstract

The specific character of farming was perceived since the beginning of the creation of the European Community. Initiation and systematic evolution of Common Agricultural Policy aim at harmonious development farmstead. Any negative events, especially catastrophic, don't allow to execute plans and it can be a cause of abandonment of farms by farmers. This can upset the situation on food market. European Community, in its regulations, allows and even recommends the use of various support instruments. In response to Commission Regulation (EC) No 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products, subsidized crop and animal insurance were introduced in Poland. Much larger opportunities are offered by solution which are financed by assets derived from the mechanism of modulation and defined by Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers. That can be wider range of subsidized crop, animal and plant insurance or mutual funds. Mutual fund is a mechanism that allows affiliated farmers pay compensation for economic losses incurred as a result of animal and plant diseases and environmental incidents. This regulation defines the financial rules of the fund and the possible use of this mechanism in the public and the EU. At the same time, there are many concerns about the practical implementation of this solution. Mutual fund can be a complementary tool for the protection of risks, which cannot be accepted by the insurance market. Experiences of Member States with regard to its use are small, but the examples of countries in which it operates (in this article indicates the Italian example) suggest that it may be a simple in its design but highly effective tool. And it will allow for more complete protection of agricultural production

The paper tries to identify the organizational and financial solutions to the mutual fund concept and proposed the establishment of specific solutions for this mechanism in Poland. This paper will present a discussion of the benefits from the introduction of this solution on the Polish and European market for agricultural insurance.

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1. Introduction

One of the key objectives of the Common Agricultural Policy is the stabilization of agricultural market. As a result, continuous works and considerations on risk management in agricultural holdings and agricultural income stabilization are in progress in the Union. The result of these works is the Council Regulation (EC) No. 73/2009 which establishes new tools for the implementation of insurance coverage supported (co-financed) by public and EU funds. Currently, works on the new shape of the regulation are underway, to adapt them to the objectives of the CAP assumptions after 2013. One of the instruments developed in this regulation is mutual fund. The concept of the fund is a mechanism that allows affiliated farmers to get a payment of compensations for economic losses incurred as a result of animal and plant diseases and the so called environmental incidents. This regulation defines financial principles of the fund functioning and the possibilities of using public and EU funds in this mechanism. At the same time, there are many concerns regarding practical implementation of this solution.

This article is an attempt to indicate organizational and financial solutions of a mutual fund concept. Since the experiences of Member States relating to the use of this instrument are extremely scarce, the article presents a concept of mutual fund currently existing in Italy and created in groups of agricultural producers. This article will also present a discussion on the benefits of the introduction of such a solution into the market of agricultural insurances.

2. Risks and risk management in agriculture

Agriculture is very strongly linked to natural conditions and the environment in which farming activity takes place. So besides universal, common to most types of business risks, such as operational risk, credit risk and market risk, agricultural holdings are exposed to risks due to the nature of agricultural activity itself, which are highly related to environmental conditions over which a man has no control Kłoczko-Gajewska&Sulewski (2009). Due to the length of the production cycle and thus slow circulation of the capital engaged in technology it is particularly susceptible to both productivity and economic risk.

In reference books the risk of agricultural production is classified in multiple ways. A. Miller and co-authors suggest that the risk was classified into: production risk (caused by weather fluctuations, crop and animal diseases and pests), price risk (caused by price volatility), disaster risk (floods, droughts, hurricanes, etc.) and technological risk (resulting from continuous development and adaptation of new techniques and methods in production) Miller et al. (2004). Another view on risk can be found in the study of the European Commission where the authors base the classification on the following risks: personal (such as loss of health, life by people working on the farm), institutional (political, trade regulations), financial (access to loans and the stability of crediting conditions, etc.), production (causes of the phenomena are due to climate conditions, pests, diseases, thefts, fires) and price (unfavourable changes in prices on agricultural products market and production factors) Agicultural (2006)

Understanding the origin and specificity of particular types of risk should lead to a risk management strategy. In the case of agricultural production, the objective of risk management should be to improve or maintain the income from an agricultural holding and its financial and organizational stability.

Within the traditionally distinguished stages of risk management (identification, assessment and response to risk) due to the subject of the work, the last one, in which there is a decision on the choice of risk management instruments, seems to be of key importance. It is worth indicating, however, that in this type of production agricultural risk management instruments may be related to both the decisions at the level of agricultural holdings as well as the State policy (Table 1).

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