EMB position

Insurances can't prevent crises

High cost – minimal effect – insurance companies reap the profits

The European Milk Board does not see insurance schemes as a solution to bring stability to the crisis-prone dairy market and prop up the income of milk producers.

Because:

1. Insurance schemes do not address the actual causes of crises. Therefore, overproduction and subsequent lower milk prices can repeatedly generate crisis situations and thus compensation claims from producers. Such a model would only be viable for insurance companies if the insured party were to pay exceptionally high premiums, which, in turn, would significantly eat in to regular income and thus prove counter-productive for said party.

2. If part of the premium were to come from national support measures, taxpayer money would be used to essentially add to the profits of the insurance sector. Numerous models of State-subsidised agricultural loss-of-earnings insurances show that there is a significant dead-weight effect for private insurance companies. In other words: Sooner or later, all models lead to the formation of insurance annuities. This is well illustrated by agricultural policy in the US: Of the total $10.1 billion of crop insurance premiums paid to the insurance industry in 2017, $6.4 billion were public funds and $3.7 billion were paid by farmers themselves. Compensation payments, which were then paid to farmers as insurance benefits, amounted to $5.2 billion. If the $3.7 billion share of farmers' premiums is subtracted from their compensation payments, farmers ultimately benefited from net payments of $1.4 billion[1][1]. As they passed through the insurance system, the state subsidies of $6.4 billion thus shrank to $1.4 billion, corresponding to the net amount that ultimately reached the producers.

These models are very expensive for the State – or after the foreseeable withdrawal of the tax payer – for producers as well.

3. While State-supported collective insurance solutions like the Margin Protection Program in the USA do provide a degree of compensation for price collapses in the short term, they actually lead to continued overproduction – thus counteracting market stabilisation.

[1] Source: RMA – Crop Year Government Cost of Federal Crop Insurance Program, https://legacy.rma.usda.gov/aboutrma/budget/17cygovcost.pdf (Download: 30.01.2019)

4. Therefore, insurance systems that pay money in the event of price collapses do not fulfil the following two conditions per se.

I) Preventing substantial income losses among EU producers

II) Counteracting the market imbalance rather than adding to it

This is because insurances

I) provide a pay-out that can compensate a producer to some extent during price collapses in the short term, but this leads to continued overproduction – thus counteracting

II) market stabilisation and, in fact, worsening the situation.

In contrast, the measures of voluntary production cuts fulfil both conditions. They lead to:

I) Compensation for reductions in milk deliveries, thus cooperative producers receive money and all producer benefit from rising prices

II) The market imbalance – overproduction – is reduced or eliminated; it does not worsen or sidestep the problem. (A production cap for all producers during crises is also important in this context.)

In order to evaluate if risk or crisis management instruments are appropriate, all proposals should be checked for their fulfilment of points 1 and 2.

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