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France

Agricultural Situation

An Overview of the French Crop Insurance Program

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Report Highlights:
After decades of primarily state funded disaster programs, in 2005 France launched an extensive crop insurance program involving private insurance companies with subsidized premiums. While still in its infancy, the program has met with some interest from farmers, although crops the most vulnerable to weather-related losses remain largely uninsured as premiums for those crops are much higher.

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History

Since the agricultural law of 1964 was enacted, severe losses to agricultural production due to adverse weather were covered in France by a special fund (Fond National de Garantie des Calamités Agricoles : FNGCA) partly funded by farmers (through a tax on fire and agricultural vehicle insurance contracts) and partly by the national budget. The only exceptions were losses due to hail or wind, which had to be covered by private insurance schemes (although fees were subsidized by the State). The FNGCA program is still active in 2006.

During the 1980-2004 period, average annual disbursements by the FNGCA amounted to 160 million € (2004 value). Since it is estimated that about 25 percent of the losses claimed were covered, annual losses for the period can be estimated at an excess of 630 million €. Hail and wind insurance schemes disburse on average 180 million € annually. In addition, in recent years, the State has granted tax relief, direct subsidies, as well as low interest loans to farmers who had losses due to weather-related disasters in excess of 150 million € annually.

However, the process to claim losses through the FNGCA is lengthy and cumbersome and implies that local authorities pass official decrees recognizing a natural disaster. Moreover, losses are far from being covered completely, and in most cases, the compensation is a fixed sum. Facing growing criticism from farmers' organizations, the French government launched in 2002 an experimental scheme of crop insurance. It was merely an extension of the existing insurance programs on wind and hail related damages to other weather-related events (frost on fruit and vine crops, adverse weather conditions for arable crops). The Ministry of Agriculture partly subsidized the fees. The program was made widely available in 2005.

The arable crop insurance program

Several insurance companies such as GROUPAMA, PACIFICA (insurance branch of the Credit Agricole bank), AXA and AGF now offer farmers insurance contracts on their arable crops for a wide range of weather-related risks. GROUPAMA accounts for more than 85 percent of all crop insurance contracts signed.

Two different types of contracts are available in 2006:

Contracts per crop

Such contracts cover most damage and loss due to adverse weather conditions such as hail, wind, frost, drought, floods or excessive moisture. Any crop except forage crops can be covered. Forage crops (such as hay) are excluded because of the difficulty to precisely assess losses since most of those crops are used on-farm and, therefore, are not traded/invoiced. With this contract, any crop can be insured independently of other farm productions. The crop is usually insured from March 1st to harvest. Insurance companies set the technical modalities of each contract. The reimbursement is calculated by multiplying the difference between the expected yield (based usually on a 5-year average) and the final yield by the acreage and by the price set by the contract (also usually a 5-year average), minus the deductible. By law, the deductible is at least 25 percent of the value of the crop. If farmers want a lower deductible, the excess fee will not be subsidized. Losses are certified by experts sent by the insurance company as well as by use of remote sensing and satellite imagery.

The insurance fees can be subsidized up to 50 percent, both by the Ministry of Agriculture (normally at 35 percent) and by local authorities. Obviously, crops covered by an insurance contract are not eligible for compensation from the FNGCA.

Contracts per farm

Such contracts cover at least 80 percent of the arable crops acreage of the farm. The deductible is at least 20 percent in order for the contract fee to be subsidized. Premiums for lower deductible are not subsidized. Since gains on a crop are taken into account to offset losses on other crops, reimbursements as well as premiums are lower than for crop insurance contracts. Only one insurance company was proposing this contract in 2006, and very few were signed as it seems farmers were discouraged by the complexity of the contract.

Results in 2005

In 2005, it is estimated that 60,000 crop insurance contracts were signed by farmers (64,000 in 2006) covering 15 percent of the value of French arable crops, and 25 percent of arable lands (minus forage lands). However, a more precise analysis shows that only 2 percent of vulnerable crops (such as fruits and vegetables and vines) were covered by insurance contracts while 32 percent of the value of French arable crops (such as grain or oilseeds) was insured. Lower premiums (because of lower risks) for arable crops compared to more specialized (and vulnerable) crops could explain this difference. In 2005, the Ministry of Agriculture disbursed 21 million € to subsidize the premiums; 25 million € were budgeted for 2006, and 30 million € are slated for 2007.

The future

In addition to crop insurance, the French farm bill of 2006 has expanded the possibility for farmers to have tax-free savings where up to 31,000 € can be set-aside for a maximum of seven years, to be used in case of income losses. Some farm organizations would like to increase this ceiling.

For proponents of crop insurance programs, the challenge is to increase the number of contracts, particularly for vulnerable crops. One solution would to increase the subsidization of crop insurance premiums for those crops. However, for specialized crop farmers, using the classic FNGCA disaster programs may still be more profitable. An option will be to gradually diminish FNGCA guarantees for certain crops and certain weather risks, forcing farmers to get crop insurance. Some analysts also doubt the financial capacity of insurance companies to sustain extended crop insurance related losses, even with re-insurance, as weather disasters could be widespread or even systemic (in case of a country-wide drought for example).

According to the French Ministry of Agriculture, using a State-subsidized crop insurance program to replace European farm payments may also be in breach of WTO rules.