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ADDENDUM TO THE OUTCOME OF PROCEEDINGS

of : Working Party of Chief Veterinary Officers
on : 22 February 2008

Subject : Community Animal Health Strategy
- CVOs "Adelbrecht Process"

Delegations will find attached the document reflecting the outcome of Workshop II (Financing).

COMMUNITY ANIMAL HEALTH POLICY 2007 - 2013

“Adelbrecht-Process”

CVO-Working Group 2 “Financing”

Current System of EU-Cofinancing

Council Decision 90/424/EEC of 26 June 1990 on expenditure in the veterinary field (OJ EC No. L 224, p. 19) in its current version constitutes the legal basis for cofinancing. In accordance with this Decision, the Community makes a financial contribution to the emergency measures listed in Article 3 (2) relating to the animal diseases listed in Articles 3 (1), 3a and 11, which usually amounts to

- 50 % of the Member State’s expenditure for the compensation of livestock farmers for the slaughter and safe disposal of their animals and their products where appropriate, for cleaning and disinfection, rodent pest control and the destruction of contaminated feedingstuffs and
- 100 % of the expenditure for vaccines and 50 % of the costs incurred in carrying out the vaccination,

regardless of the structure of the compensation system in the individual Member States (involvement of the sector and/or the public sector and/or private insurers in compensation).

Regulation (EC) No. 349/2005 regulates the technical details for the organisation of the above-mentioned financing of emergency measures between the COM and the Member States, so sound management of all issues concerning financing is of crucial importance.

According to the “Pre-Feasibility-Study on Options for Harmonised Cost-Sharing Schemes for Epidemic Livestock Diseases“, the resources of the emergency fund available for cofinancing between 1997 and 2005 totalling 989.4 million Euros were spent as follows: EUR 668,7 million on FMD, EUR 178,7 million on swine fever, EUR 109,7 million on AI, EUR 19,7 million on BT and EUR 12,6 million on ND, SVD, sheep pox and goat pox, and rabies. Of those EUR 989,4 million, 98% was used for six Member States (UK 59 %, NL 26 %, IT 6 %, ES 4 %, DE 2 %, BE 1 %, other Member States 2 %).

Regarding the indicated amounts in EUR, it must be borne in mind that these amounts generally represented the cofinancing rate of 50 % and that the actual costs were twice as high. Taking the example of the CSF outbreak in the Netherlands, the costs of the outbreak amounted to 25.5 % whereas the losses in the downstream sectors amounted to 74.5 %. In the FMD outbreak in Great Britain in 2001, this proportion was 39.4 % to 60 %, and in the case of the AI outbreak in the Netherlands in 2003 it was 27.2 % to 61.2 %.

In addition to emergency measures, Article 24 of Decision 90/424/EC allows for the cofinancing of national control and monitoring programmes for animal diseases and zoonoses listed in the Annex to the Decision, of which some are identical with the diseases listed in Article 3. Seven Member States (ES, FR, IT, DE, IE, PT, UK) benefited from EUR 878,8 million (88 %) of the EUR 998,6 million spent on these programmes between 1995 and 2005; the remaining EUR 119,8 million (12 %) were allotted to eight Member States (EU 15). Of the EUR 998,6 million total, 38 % (EUR 379,5 million) were spent on BSE, 16 % (EUR 159,8 million) on ovine and caprine brucellosis, 15 % (EUR 149,8 million) on bovine brucellosis, 9 % (EUR 89,9 million) on bovine tuberculosis, 5 % (EUR 49,9 million) on scrapie, 4 % (EUR 39,9 million) on rabies and 3 % (EUR 29,9 million) on bovine leucosis; the remaining 10 % (EUR 99,8 million) were available for other programmes (ASF, salmonellae, BT in ES, FR and IT since 2002).

The expenditure incurred by the COM within the framework of Articles 3 and 24 amounted to approx. EUR 344,5 million in 2004 (monitoring programmes approx. 43 %, emergency measures approx. 55 %, other measures approx. 2 %) and approx. EUR 220 million in 2005 (monitoring programmes approx. 91 %, emergency measures approx. 2 %, other measures approx. 7 %).

For greater efficiency, incentives should be created to ensure that the resources are primarily used within the context of disease prevention and not for incidents.

As regards “financing of disease outbreaks” and “cost-sharing schemes”, the Community Animal Health Policy 2007 – 2013 should give high priority to

1. efficient risk transfer and incentive compatibility,
2. balancing costs and responsibilities,
3. avoidance of distortion of competition,
4. compatibility with EU requirements,
5. support for effective disease control and
6. flexibility of implementation.

In order to provide general guidance to the Commission in the preparation of its action plan, the CVO working group on financing has focussed on the following issues:

1. the aim of cost-sharing schemes (CSSes)
2. categorisation of livestock diseases
3. providing incentives for prevention
4. “peacetime” or “direct loss-dependent support”

1. The aim of cost-sharing schemes (CSSes)

1.1. Cost-sharing schemes in the Member States

For animal diseases to be categorised (see section 2 below) it is necessary for governments to establish and carry out or order control measures. In this case CSSes must be in place, because farmers are bearing the costs of taking efficient measures against diseases. This section discusses CSSes for such animal diseases.

The compensation systems in the Member States are very different. The differences relate to levels of government contribution, involvement of private insurance companies and/or voluntary organisations and direct involvement of livestock farmers. Because of these differences, the “Pre-Feasibility Study” called for harmonisation of the cost-sharing systems established by the Member States. Involvement of livestock farmers, on the basis that the farmer who owns an animal/animals bears the primary responsibility, allows sharing of costs between the Member State and livestock farmers. Cost sharing means sharing of responsibilities. If farmers do not bear a significant share of the costs they will do little or nothing to prevent diseases. Direct involvement of livestock farmers in financing the costs of control measures leads to greater personal financial responsibility. Collection of contributions from livestock farmers in peacetime could create a financial incentive for them to take precautionary measures against animal diseases in order to keep their own financial share low via the contribution. Traceability of the benefits that individual livestock farmers receive in return for their contributions would help to create the necessary transparency, which would, in turn, encourage livestock farmers to accept their financial involvement. This acceptance would in turn encourage livestock farmers to cooperate, e.g. as regards early notification. For early notification of a serious contagious disease, it is also necessary that an individual farmer who observes a suspicious or an infected animal receive compensation for direct costs/losses, financed by the contributions of all farmers and of government. Early notification will make possible rapid detection and control of a disease outbreak and contain the damage to livestock farmers and the Member State and therefore indirectly also to the Commission and the downstream sector.

1.2. Contribution of farmers to direct and/or consequential losses

1.2.1 Direct losses

Direct losses in an animal disease outbreak include the costs of stamping out the infected herd, pre-emptive slaughter of contact herds, (partial) loss of animal value due to control measures (e.g. abortions linked to compulsory vaccination), cleaning and disinfection measures or destruction of food/feed. But costs relating to the diagnosis of relevant livestock diseases may also be considered direct costs. Losses due to restrictions of the placing on the market of meat from vaccinated animals are not considered as direct losses. It is common sense that, in case of an animal disease outbreak, farmers (individually or jointly) be involved in financing the costs of direct losses according to the categorisation of diseases. It is also concluded that CSSes already exist in the Member States (MSes), bearing in mind that sanitary measures ordered by the administration are for the benefit of all the farmers, although the contributions of the farmers varies (some MSes reimburse at a "flat rate" for the loss of an animal so that the farmer's contribution is the amount of money needed for the purchase of an animal not covered by the "flat rate" amount; in some MSes, farmers have to pay a fee to a so-called animal disease fund; and in other MSes a mixture of both approaches is applied). As a result it is concluded that a possible scheme could limit the public contribution to maximum thresholds defined on the basis of the categorisation of the diseases.

Main Community objectives:

- **to maintain, establish or review with regard to the relevance of the different livestock diseases a CSS for compensation of direct losses. Public resources should not exceed maximum thresholds linked to the categorisation of the diseases or other relevant criteria, e.g. the ability of farmers to affect the risk of the diseases occurring (in which case the private sector should make some contribution);**
- **to encourage the development of professional or private mechanisms for compensating the proportion of losses that not compensated by the public sector.**

1.2.2 Consequential losses

Consequential losses in an animal disease outbreak are costs to indirectly affected farmers, arising for instance from the establishment of restricted zones and from interruption of trade for a certain period of time as a result. These costs and losses can amount to a significant part of the total costs of animal disease outbreaks. In most Member States, for most of the diseases, farmers are primarily responsible for bearing these costs, despite the possibility of compensation within state aid rules. It should be borne in mind that these costs may be compensated, at least partly, by private insurance companies.

Main Community objectives:

- **to encourage farmers to assume primary responsibility for bearing consequential losses;**
- **to encourage the industry to explore how it can mitigate the risks faced by livestock keepers through a mutual fund (with or without insurance companies).**

2. Categorisation of livestock diseases

CSSes should take into account the kind of animal disease for which compensation of the direct costs/losses will be paid. So compensation will depend primarily on public relevance (for instance, possible impact of the disease on human/animal health (directly/indirectly)), but also on contagiousness (the disease cannot be combated effectively by the individual farmer), economic damage to farmers and downstream sector(s)), need for EU-coordinated actions and the relevance of on-farm biosecurity measures (risk of an outbreak influenced by on-farm biosecurity measures). The current system (Art. 3 (emergency measures) and Art. 24 (animal disease programmes) of Decision 90/424/EC) should in general be maintained, but adjusted according to public relevance on the basis of the above-mentioned factors. In addition, the list of diseases in Art. 3 should be adjusted in line with the conclusions of the Working Party of CVOs on “Priorities for disease control”, where a tool for categorising livestock diseases is being developed.

Main Community objectives:

- **to categorise animal diseases in line with the conclusions of the Working Party of CVOs on “Priorities for disease control” and according to criteria such as public relevance and need for EU-coordinated action, so that the results of the categorisation can be taken into account in the CSS;**
- **to maintain a system of EU co-financing.**

3. Providing incentives for prevention

Farmers' contribution to CSSes must reflect the risks to a farm, which depend on several factors, e.g. the number of animals in the herd, the type of herd (breeding/fattening, only animals in a certain age/weight category), the biosecurity system in place and the farm's risks of infection. Greater herd size does not of itself entail increased risk of disease outbreak. It is true that, in the event of a disease outbreak, larger herds will result in higher compensation payments compared to smaller herds. In terms of hygiene for disease control, the overall risk to a farm, however, also depends on many other factors. A particularly decisive factor is the organisation of the farm (e.g. disposal of the slurry from different livestock buildings of one or more farms in a common or separate facility, shared vehicle fleet, separation from other farms, farm-specific clothing, use of the all-in/all-out system, specialised piglet rearing holdings¹, approach to purchasing animals). For example, farms that continuously purchase animals from numerous traders without completely emptying their livestock buildings in the meantime are at a considerably higher risk than farms that, for example, only purchase animals from specific farms which are under constant veterinary supervision and whose health status is therefore known. These well-established structures must be taken into account in the context of CSSes. Besides these on-farm measures, vaccination can be an important tool in preventing the spread of animal diseases.

It is therefore likely that in "intensity hot spots" efficient on-farm biosecurity standards are higher than in regions with low farm intensity, because an outbreak in a hot spot causes higher costs and losses. In general, it is the task of the farmer (and not of the public) to establish a biosecurity environment in order to avoid the introduction of animal diseases into a farm or the spreading of animal diseases from a farm, but this depends on many factors. To create incentives for farmers it may be useful, once biosecurity measures have been implemented, to e.g. reduce farmers' contributions to animal disease funds or even to reduce the number of controls or, on the other hand, to reduce compensation if proper biosecurity measures have not been implemented and the farmer could thus have contributed to the spread of a disease.

¹ English translation for the German term "Systemferkelhaltungsbetrieb"

Main Community objectives:

- **In the context of the harmonisation of CSSes (see section 1), CSSes should provide incentives for biosecurity measures through bonuses (either for additional biosecurity measures or for disease-free status) or other mechanisms such as reduction of control intensity or reduction of compensation payments if proper biosecurity measures have not been implemented.**

4. “Peacetime” or “direct loss-dependent” support

There are three possible approaches regarding public financial support to CSS: peacetime support (including support aimed at establishing proper biosecurity systems) or direct (current situation) or consequential loss-dependent support in the event of an animal disease outbreak. Financing direct losses may lead to continuation of unsustainable and inefficient livestock production structures; peacetime support, on the other hand, may lead to more efficient production systems by establishing biosecurity. In reality, losses have never been covered completely and if farmers jointly also bear a large part of the costs of CSSes, there will be a strong incentive to take preventive / biosecurity measures. In addition, the absence of loss-dependent support could also lead to late or insufficient notification of animal disease outbreaks and, as a result, to a longer outbreak and an increase in total costs.

Main Community objectives:

- **to continue, establish or review a system of public support for direct losses (=loss-dependent support) in the framework of the categorisation of the diseases, to support disease prevention and control measures;**
- **to encourage, by peacetime support, the establishment of biosecurity measures both in livestock production and in the sector of farm animals kept as pets.**

In conclusion, it is important for future work to analyse, given the existing situations in the MSes, the feasibility of the establishment of a CSS, in order to make sure that farmers are compensated in case of an animal disease outbreak on the basis of the categorisation of the diseases and to provide incentives to improve biosecurity.

But: Contributions organised as parafiscal levies are considered as public under current state aid rules. So it is very important to note that farmers' contributions, if organised as a (compulsory) parafiscal levy, are not at present considered as private contributions. In order to implement CSS and to guarantee the continuation of existing systems based on farmers' solidarity contributions, this must be taken into account.

