

Joint (Industry/Government) Working Group on Animal Disease Cost Sharing

Cost sharing systems in other countries

Introduction

1. This paper is tabled for information and discussion at the next meeting. **(Action for next meeting.)**
2. There are several international models that either socialise the costs of dealing with animal disease [within the farming community] or, as in the case of the Australian Government, 'engage' their livestock industry via an enforceable contract.
3. Outlined below is an examination of the systems used in other countries including Member States (MS) of Europe.

Denmark

4. Production-based levies in Denmark are well developed; they aim to meet common challenges of the future for the agriculture sector which cannot be met by the farmer alone. In particular, levies focus on disease prevention rather than controlling outbreaks (and any associated compensation):
5. Levy funds raised contribute to investments in:
 - Research and development (40 per cent)
 - Prevention and control of diseases (14 per cent)
 - Promotion of products (27 per cent)
 - Education and consultancy (13 per cent)
 - Fund administration (6 per cent)
6. Levies are collected in accordance with Danish law after recommendations are made by the agricultural sector. This approach ensures that all farmers pay the levies and is consistent with European Community Guidelines for state aids in the agriculture sector. Production levy foundations have been established to administer the levies – one for each sector (including livestock, horses, fur animals, crops and Christmas trees). Each has its own board, including members of the agricultural sector, consumer, labour, and research representatives. The Ministry of Food, Agriculture and Fisheries supervise the administration of each board, and approve regulations, membership of boards, budgets and accounts. These

are notified to the European Commission to ensure compliance with state aid rules.

7. In the pig sector, for example, a levy is collected for each pig produced, slaughtered or exported live. The slaughterhouse collects the levy from each pig (deducted from the price paid to the farmer per pig). The slaughterhouses then report the number of slaughtered pigs to the Pig Production Foundation (located at Danish Bacon and Meat Council) and transfer the appropriate amount of money to the Foundation. In the case of exports, exporters must report the number of exported pigs to the Foundation and transfer the money accordingly. Violations are punished by fines.

Netherlands

8. The Netherlands Animal Health Fund was established in the mid 1990s by agreement between the Dutch Government and the Commodity Boards representing the livestock sectors: (i) dairy produce, (ii) livestock and meat and (iii) poultry and eggs. The Fund is, in effect, wholly funded by industry. The Dutch Government believes that disease control is an integral part of livestock production and, therefore, the costs of animal disease control should be borne by the producer.

9. All industry sectors are required to raise some funds in advance of an outbreak by means of a 'peace time' levy. This is used to fund surveillance and monitoring. Under the agreement the Commodity Boards, which have legal status and associated powers, have had to provide a bank guarantee to ensure payment of their obligations, that is the maximum contributions – if the Fund is called upon. The Commodity Boards would subsequently raise money from the various sectors to repay the banks. The Boards collect the levies from slaughterhouses and exporters, who in turn raise contributions from farmers. Hobby farmers are exempt from the levy.

10. The capital requirement for the Fund is agreed between industry and Government for multi-annual periods. In July 2000 the Government and industry entered into an agreement under which the livestock sector committed itself to pay €467,390,000, if required, into the Fund in the period up to January 2005. The maximum contributions per industry sector were €226,890,100 for cows, €226,890,100 for pigs, €11,344,500 for poultry and €2,265,300 for sheep and goats.

11. This agreement was renegotiated in 2004 for a further 5 years until January 2009. The current industry caps in € m are:

Cows	85
Pig	125
Poultry	30
Sheep and goats	5.6
Total	245.6

12. The reduction in these caps from the 1999 - 2004 cap was negotiated on the understanding that the Dutch livestock industry would adopt a regime of vaccination in the event of future outbreaks, FMD or Newcastle disease. This reduction also stems from the undertaking from industry that funds would be accessed immediately through the bank guarantee.

13. If the maximum contributions from the industry sectors are not sufficient to cover the costs of disease outbreaks Government would underwrite the fund, but would recover its money subsequently. This is usually done by deduction from the EC budget reimbursement (under Council Decision 90/424 on expenditure in the veterinary field) with the balance put back into the Fund.

14. The Fund pays for the costs of measures imposed by Government to control animal diseases. The diseases covered by the Fund are OIE List A diseases and some OIE List B endemic diseases which pose a risk to human health, like BSE, Bovine TB and brucellosis. However, a disease like salmonella is considered too endemic in the flock and not capable of eradication – and it is, therefore, left to industry to deal with it. Administrative costs, incurred in dealing with disease outbreaks, are covered by the Fund. The Fund also pays for compensation for animals which are slaughtered for welfare reasons, for example, where problems arise on farms which are subject to movement restrictions.

15. The Fund does not pay compensation for consequential losses. Farmers make their own decisions about this risk and, in particular, whether to take out insurance to cover themselves against such losses.

Germany

16. In Germany's federal system of Government cost-sharing for animal health is well developed. A statutory compensation scheme refunds the value of livestock and subsequent culling and rendering costs for notifiable diseases such as BSE or swine fever. Other costs, such as private veterinary fees, cleansing and disinfection and consequential losses are ineligible. The scheme is administered by the Lander and is financed 50 per cent by Government and 50 per cent by industry through a species-specific levy. Levy rates are fixed annually according to need, and funds (including the reserve) raised are ring-fenced by species.

17. Most Lander have an Animal Diseases Fund (TSK) for administering the scheme. The TSK are governed by a managing board half of which are from the agriculture industry, the other half from the Land Ministry, private and official vets etc. The board decides the annual working plan and the spending of the budget while the ultimate control lies with the relevant ministry. The TSK sets the levy rates, determines compensation rates and pays renderers.

18. In Bavaria, for example, the 2004 levy rates per animal (figures for 2002 in brackets) stand at €4.3 (€4.8) for cattle, €1.4 (€1.0) for sheep and €1.2 (€1.5) for pigs. Levies for sheep increased slightly because of the

occurrence of Scrapie cases in Bavaria and fell for cattle because of the decrease of BSE cases. Most TSKs are required to maintain a reserve. In Bavaria the reserve was increased from €25 million in 2002 to €30 million in 2004. The reserve is calculated according to the number of animals multiplied by a fixed rate for each animal species of currently €6.5 for cattle, €2.0 for sheep and €1.5 for pigs.

19. The TSK also operate their own additional schemes for prevention and eradication which are funded fully by levies on farmers such as the BHV1 (Bovine Herpes Virus) eradication scheme in Bavaria.

Spain

20. The Spanish National Agricultural Insurance Agency (ENESA) is an executive agency of the Spanish Ministry of Agriculture, Fisheries and Food. ENESA makes available insurance products to crop, cattle keepers and aquaculture farmers – the range of insurable risks and production yields are set out in its Annual Agricultural Insurances Plan. ENESA also acts as arbiter in all disputes and all stakeholders are represented on ENESA.

21. Animal disease insurance products are provided by the private sector but are subsidised by the state – by some 37 per cent to 43 per cent. ENESA will set subsidy levels for insurance premiums. All crop production may be insured on a voluntary basis. Farmers can either take out insurance individually or as part of a co-operative or other professional body.

22. ENESA works closely with AGROSEGURO which is a pool of sixty private insurance companies which participate in a system of co-insurance, with underwriting risk based on equity shares. AGROSEGURO is responsible for day-to-day running of the programme, i.e. commercialisation of policies, fixing premium rates which vary from region to region, collecting premiums, assessing losses, paying claims. The State is further involved through CCS which is a public enterprise under the control of the Ministry of Economics, operating as re-insurer. Re-insurance by CCS is compulsory.

23. Notifiable diseases: in 1999 additional coverage was added to ENESA's cattle insurance to provide compensation payments to farmers for any animals slaughtered following officially declared outbreaks of brucellosis, bovine tuberculosis, Enzootic Bovine Leucosis (EBL) or Contagious Bovine pleuro-pneumonia (the last two diseases are covered even though there have been no recent cases in Spain).

24. The premium applied varies according to the prevalence of the disease in the province in question (Spain's 17 autonomous regions, each with their own regional Ministry of Agriculture and animal health authorities, are further divided into provinces) and the farm's health rating.

25. BSE: as a result of the 2001 outbreak a new product was developed to cover all insured animals – i.e. whether an outbreak is declared on the individual farm or if an animal tests positive on an uninsured farm and forces

the sacrifice of an insured animal. The compensation paid to the farmer is completely independent to any central Government aid paid out as part of any eradication campaign. The BSE coverage option has only been available for four years but take-up is currently at 15 per cent.

26. Summary of key features of the Spanish animal disease insurance scheme:

- (a). it is voluntary
- (b) insurance only covers bovine species, ie cattle and dairy herds
- (c) premiums are subsidised by the Spanish government to extent of between 37-43 per cent
- (d) diseases covered:-
 - (i) Bovine brucellosis
 - (ii) Bovine tuberculosis
 - (iii) Enzootic bovine leukosis
 - (iv) Haemorrhagic septicaemia
 - (v) Infectious bovine rhinotracheitis/infectious pustular vulvovaginitis
 - (vi) Bovine spongiform encephalopathy
 - (vii) Contagious bovine pleuropneumonia
 - (viii) Anthrax
- (e) Compensation for animal slaughter at the time of an outbreak is paid for by government at a fixed rate per head of livestock
- (f) Where the farmer is paid compensation by the insurance company, the amount already paid to the farmer by the government is deducted from any insurance payouts
- (g) The compensation rate is determined by the government using a range of market information sources and includes value of the animal, age, breed and other factors.
- (h) policies are provided by private insurance companies [to farmers]
- (i) an intermediary body, AGROSEGURO, monitors the scheme, determines the level of insurance subsidies, imposes governance rules and generally provides a liaison role between the government and the insurance companies.
- (j) Disease clean up is paid for entirely by the government.
- (k) In terms of certification, insurance companies monitor [are responsible] for the on-farm inspection of animal biosecurity undertaken by the farmer.

France

27. The French Government pays compensation for slaughter of animals in the case of FMD. Private 'peer groups' of farmers, established in the early 1950's, and recognised by French law as animal health bodies, set farm disease standards and disease freedom accreditation. Farmer membership of the animal health group costs between £1.40 and £3.50 per livestock unit (€2 and €5 per livestock unit). Only FMD is covered for compensation for

consequential losses. Funds for compensation are taken from accumulated farmers' contributions.

28. Annual membership of the FMD compensation fund costs a farmer £0.25 (€0.33) per livestock unit. The Government compensates farmers if animals are destroyed where they have TB or other regulated disease. The Government pays 55 per cent of the value of the animal to a limit of £160 (€229). Top-up compensation over and above the Government payment can be paid to the farmer by the animal health body from membership fees.

29. Other exotic disease may be covered under a disaster fund arrangement.

Ireland

30. Ireland has been operating an animal disease levy system in respect of dairy cattle and cattle slaughtered or exported live, since the creation of their Bovine Diseases (Levies) Act in 1979. The money collected is used to contribute towards the compensation costs for the TB and BR Eradication Schemes. The rates of levies are determined on the basis of contributing circa 50 per cent towards the compensation costs. The rest of the compensation costs, testing, equipment purchases and other costs are paid by the Irish Department of Agriculture and Food (DAF). DAF also seeks partial re-imburement each year from the EC.

31. The levy is collected in the following ways:-

(a) The milk levy is payable when the milk is received for processing by creameries or dairy producers. The rate due, applicable from 1st January 2004, is 0.75 cent per gallon of milk received for processing. (This is equivalent to 0.164977 cent per litre) The relevant company receiving the milk pays the levy, on a monthly basis, directly to DAF.

(b) The bovine levy is payable in respect of (i) bovines slaughtered, and (ii) bovines exported live from Ireland. Meat plants pay the levy on a monthly basis to the Department of Agriculture for each animal slaughtered. Department officials collect the levy due for bovines that are slaughtered in domestic abattoirs. The officials also collect the levies for any bovine exported live. The levy due, again applicable from 1st January 2004, is €3.80 per animal.

32. The companies paying the levy are entitled to recoup the money paid in levy to the Government from their suppliers, by deducting it from the price paid for the milk or animal.

33. Ireland On-Farm Market Valuation Scheme compensation arrangements provide for a refund to the farmer of Bovine Diseases Levies for all reactors slaughtered as part of his/her compensation payment.

Australia

34. Australia launched a cost-sharing agreement for emergency animal disease control in March 2002. The agreement was negotiated and signed by Government and industry. The agreement covers new and exotic diseases and some endemic diseases. There are four categories of disease which require varying proportions of contributions to costs:

- Category 1 – known disease which is not endemic e.g. rabies - funded entirely by collective Governments
- Category 2 – variant diseases e.g. BSE, FMD, brucellosis - 80% Government / 20 per cent industry
- Category 3 – serious infectious or unknown or uncertain cause which could be new or not on categorised list e.g. classical swine fever, AI, bovine TB – 50 per cent Government / 50 per cent industry
- Category 4 – severe outbreak of known endemic e.g. sheep scab – Governments 20 per cent / 80per cent industry

35. Any change to the categorisation of a disease needs to be agreed by Government and industry through a consultative committee. This process and any other changes to the agreement is facilitated by Animal Health Australia. Costs cover additional salaries and wages, operating costs, capital costs incurred by parties responding to the disease and compensation to affected owners. Consequential losses are not covered.

36. Ultimate accountability for cost-sharing resides with the parties who have signed the cost-sharing agreement via the Emergency Animal Disease National Management Group (NMG). This high-level group is made up of signatories and it takes decisions on policy and resource allocation issues during an emergency animal disease response. It is advised by a technical group made up of Government Chief Veterinary Officers and technical representatives from industry.

37. Each state or territory has an emergency plan, prepared with advice from the technical group, and this plan forms the basis for the response to a disease outbreak – the plan will contain an indicative budget.

38. Cost-sharing commences once the NMG accepts the proposed plan and all parties have agreed (on a consensus basis) to cost share. Costs to be shared are back-dated to the first notification of the disease or an earlier date if agreed. Cost sharing ends when the disease is contained or eradicated (often the 'Proof of Freedom Phase').

39. Costs of responding will depend on the nature and circumstances of the disease outbreak but the maximum liability of cost-sharing for industry is one per cent of the gross value of production of the industries involved. In the event of an outbreak, NMG will work out the upper limit – it could be less than one per cent. However, if NMG believes that the cost of a particular response will exceed the agreed limit it will determine what approach to take. Once the

agreed liability limit is reached there will still be partnership working between Government and industry over continuing a response.

40. The Commonwealth of Australia underwrites the livestock industry share of costs. In most cases sectors have decided to fund repayment by putting in place a levy which can be activated at the time of a disease outbreak, though some have chosen to accumulate a contingency fund.

50. Managing expenditure for all parties is carried out by Animal Health Australia. It reports actual and committed expenditure to NMG and coordinates claims and advises on the liabilities of different parties.

51. NMG is required to carry out an independent efficiency audit to ensure the plan is implemented efficiently and cost-effectively. National standards of performance are being developed to ensure an even approach across states and territories.

New Zealand

52. The New Zealand Government has overall responsibility for the funding of biosecurity and, in particular, border management, surveillance and incursions. However, it is recommended that a 'cascading decision rule' process be adopted on future funding arrangements for services for which Government is responsible :

- Costs should be recovered from the users of each service, or those whose actions caused the need for the service or function to be provided, where this is practical and cost-effective;
- Otherwise the funds required should be raised through the imposition of levies on those who benefit from the provision of the service or function, where they are an identifiable individual or class of individuals and where the cost of doing so is reasonable;
- Otherwise taxpayer funding should be used.

53. Legislation under Part V of the Biosecurity Act 1993 (s.90) allows the imposition of levies and several other funding options as part of a pest management strategy. This legislation was designed to allow interested industry groups to develop and fund pest management strategies themselves. It provides for cost sharing and the giving of statutory powers to stakeholders to implement the management strategy.

54. Currently there are pest management strategies in place for TB and American Foulbrood, with one for Varroa shortly to be finalised.

55. For all exotic diseases the Government picks up the primary response costs. The Biosecurity Strategy 2003 does discuss the possibility of stakeholder partnerships but as yet these mechanisms have not been worked through. A cost sharing mechanism (similar to that in Australia) has been considered and rejected by industry at this time.

56. The Biosecurity Strategy also sets out the various plans to respond to incursions of diseases and pests.

57. In terms of cost sharing, a working group examined partnerships between industry and Government in 2004 where cost sharing was raised but not finalised. In December 2004 a draft NZ Animal Disease Response Policy was tabled to Chief Executive Officers in industry and Biosecurity New Zealand and the New Zealand Food Safety Authority. Industry is seeking funding to further this work in 2005. While there is no contribution (cost sharing) from industry in New Zealand, the current arrangements do provide for compensation of livestock producers by Government. Compensation is provided to the extent that a producer is no worse off than he or she was before the disease outbreak, where there is compulsory animal destruction.

58. At this stage there is no insurance market in New Zealand in respect of risks associated with exotic disease in livestock.

United States Of America

59. The United States Department of Agriculture (USDA) does not have cost sharing arrangement/agreements with industry. The Animal and Plant Health Inspection Service (APHIS) of the USDA has no specific regulation that establishes guidelines for cost sharing with industry. However, under US Federal Regulations, costs may be shared with States during a disease response.

60. The USDA will pay up to 50 per cent indemnity for diseased or exposed animals to the States. The USDA will also pay up to 100 per cent indemnity for poultry with Highly Pathogenic Avian Influenza. It is unclear whether industry contributes to the costs of the individual States. Under the Animal Health Protection Act of 2002, the Secretary of USDA has powers to declare an emergency and extraordinary emergency during an animal disease event. Under an extraordinary emergency, the Secretary can pay up to 100 per cent indemnity for animals taken and for cleaning and disinfection. USDA cannot offer compensation for lost income or debt due to loss of cash flow.

Conclusion

61. It is clear that there are many differing models available to share the costs of animal disease and some of the Member States of the Community have well-established systems in place. Models vary from a simple levy arrangement through an insurance-based system to a bank guarantee system.