

Managing compensation for economic losses in areas surrounding foot and mouth disease outbreaks: the response of France

M.-H. Cassagne

National Director, Fédération Nationale des Groupements de Défense Sanitaire, 149, rue de Bercy, 75012 Paris, France

Summary

This article describes the French scheme for providing compensation to stock farmers located in the prevention and surveillance zones in the vicinity of foot and mouth disease (FMD) outbreak sites and for economic losses suffered as a result of restrictions on animal and animal product movement.

As early as 1991, the Groupements de Défense Sanitaire (GDS: Animal Health Groups – associations of stock farmers dealing with health issues, recognised under French law) set up a Compensation Fund that was put to use during the FMD episode of 2001. The Fund paid out FRF6,488,000 (€989,000) to stockbreeders in the five affected departments (French local administrative divisions).

Based on the principle of a national mutual benefit society, the Compensation Fund is the first instance of a system of private compensation, outside of conventional insurance schemes, based on a convention between French stock farmers.

With decentralised management and speed of implementation, the Compensation Fund has proved its worth. The Fund now needs to be adjusted on the basis of changes introduced in FMD control policy in France and possibly the European Union.

Keywords

Agricultural organisation – Animal health groups – Compensation – Foot and mouth disease – Mutual benefit society – Zones around outbreaks.

Introduction

The Groupements de Défense Sanitaire (GDS: Animal Health Groups) were created in France in the 1950s. They are organisations of stock farmers whose task is to collectively organise the action of stockbreeders in the field of animal disease control. In this capacity, the GDSs act in conjunction with the official Veterinary Services to implement regulated prophylactic measures. Furthermore, they devise action plans against diseases and conditions that are not officially regulated but that have significant economic or commercial impact on stockbreeders (infectious bovine rhinotracheitis, bovine hypodermosis [warble fly], paratuberculosis, porcine reproductive and respiratory syndrome, etc.). They are also active in many departments in the identification of animals and also carry out animal hygiene and health actions.

These groups, which are recognised under French law as being disease control bodies, bring together a very large majority of livestock breeders, particularly in the cattle-raising sector (more than 95% belong to a GDS). They are organised nationally as the Fédération Nationale des Groupements de Défense Sanitaire (FNGDS: National Federation of Animal Health Groups).

The reasons for creating a Compensation Fund

At the end of the 80s, the prospect of a ban on foot and mouth disease (FMD) vaccination throughout Europe rapidly raised questions within the GDSs and the FNGDS. Stock farmers, who in the years following the war, had experienced several

episodes of FMD, were aware of the fact that the eradication of FMD outbreaks all over France since 1981 (date of the last episode) was the result of the combined stamping-out policy and vaccination scheme, which was recognised by all as being efficient in spite of the limitations and cost of the scheme.

The annual cost for a blanket vaccination scheme for cattle came to nearly FRF200 million (€30.5 million). Broadly speaking, cattle breeders considered this expenditure as a sort of insurance against FMD and producers of other susceptible species benefited from the free protection afforded by the blanket vaccination scheme for cattle.

As the prospect of a ban on vaccination gradually turned into a certainty, the question of an alternative policy was raised to protect stockbreeders as far as possible from, if not the re-emergence of FMD, at least from the disease achieving epizootic proportions.

Many of the proposals for an alternative policy to vaccination made by the FNGDS largely coincided with the decisions taken under the new legislation on FMD control. The one outstanding item was compensation for stock farmers.

Although legislation provided for compensation of animals on infected sites by the member state (70% of which, and subsequently 60%, was reimbursed by the European Economic Community), no provisions had been made either for compensation of consequential losses at the infected sites or for economic losses suffered by the holdings subjected to movement restrictions in the surveillance and protection zones, unless emergency vaccination measures were taken. This raised a major problem inasmuch as a 30-day period or more of restrictions on movements could lead to major losses for many holdings, in some cases even jeopardising their very existence.

To solve this issue, the FNGDS began by entering into consultations with the State on one hand, and with other agricultural organisations on the other.

The position of the State as declared by the Ministry of Economy and Finances was straightforward – these losses did not come under the responsibility of the public authorities. Finding a solution was the responsibility of the stock farmers, although the Ministry of Agriculture did recognise the magnitude of the problem and agreed that the State should continue to shoulder its responsibilities.

The agricultural organisations fully grasped the extent of the problem although they differed as to the solutions that needed to be implemented. This was particularly true of the swine, sheep and goat sectors that had never contributed financially to FMD control.

Because of this situation, the FNGDS began to work along different lines. First, the Federation made contact with insurance companies whose response was that because the risk

that the disease might occur and spread was practically impossible to quantify, they could not offer a contract at a reasonable cost. A committee consisting of representatives from the GDSs was formed and began to meet on a regular basis. On the basis of expert assessments, the committee started by setting out the basic principles for a private compensation system and later went on to devise the legal framework for collecting funds and paying compensation. The committee then analysed the various items in the economic losses suffered by farmers and proposed a compensation structure.

Hence, at their 1991 annual general meeting, the GDSs approved the principles of a collective mutual aid system for compensating economic losses in the areas bordering FMD infected areas. Throughout 1992, these general principles were translated into an operational scheme that was ratified by the annual general meeting.

During 1991, even before the entire scheme had been formally approved, more than 60% of the GDSs had adopted the principle of a Compensation Fund at the local level and nearly half of these had begun to collect funds from stock farmers. Indeed, the system rapidly became very popular among cattle breeders first, but later also among breeders of other stock susceptible to FMD.

At the end of the signature procedure for the local-level (department) conventions, practically all the GDSs in metropolitan France had become members of the Compensation Fund. Only three departments (Côtes-d'Armor, Finistère and Morbihan) had chosen an alternative system of retained earnings and three departments (Alpes-Maritimes, Var and Bouches-du-Rhône) had refrained from taking part because of their small cattle farming sector (Fig. 1). The GDSs

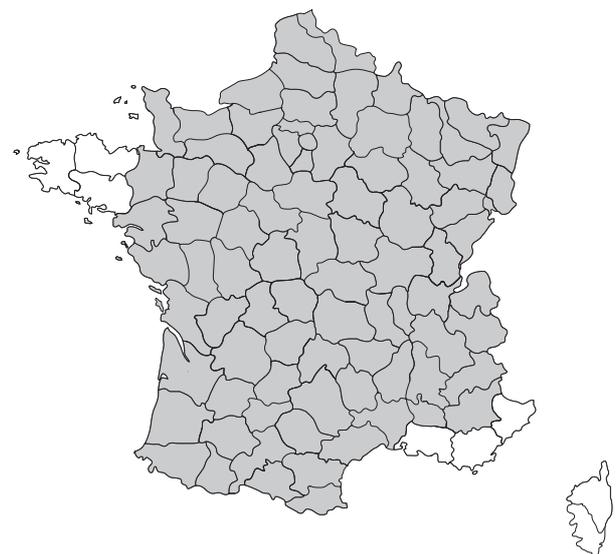


Fig. 1
Animal health associations that were signatories to the national convention for compensation in France, 1992-2001

of Corsica, Guadeloupe and Reunion whose livestock sector is highly specific also chose not to participate in the process.

The major principles of the Compensation Fund

As the first experiment in a private fund managed by stock farmers without either the legislative or financial involvement of the State, the Compensation Fund needed to be governed by very precise and uncontroversial rules. While the members of each GDS had to decide whether or not to support the Fund during their statutory meetings, and the GDSs had to validate the scheme by voting at the annual general meeting, the task of the FNGDS was to draft a contract setting out the various provisions that bound each group to the others under the Fund.

The purpose of the Fund should be highlighted, i.e. to provide lump sum compensation, by means of a mutual benefit society scheme, to offset the economic losses suffered by stock farmers in protection and surveillance zones due to restrictions on the movement of animals and animal products and by-products.

The principle of a mutual benefit society is a predominant one in the GDS culture. The first principle can be expressed as follows: if the sanitary status of a holding and the risks run by the animals on that holding do not depend solely on the efforts of the farmers, but also on the sanitary status of neighbouring holdings and on the efforts of the farmers of these holdings, disease control measures must be implemented in a collective framework of mutual support. This framework is a mutual society when stock farmers collectively set aside money so as to be able to provide compensation to any member who encounters difficulties deriving from disease control. This simple mechanism, which was behind the idea of insurance in the 19th Century, is still very popular within the field of disease control. Precisely to circumvent French legislation regarding insurance, it was crucial for the Compensation Fund to benefit solely GDS members, and hence avoid being considered a commercial service.

The second principle relates to the purpose of the Compensation Fund. The funds collected must be used only for cases stipulated in the convention, i.e. for compensation of losses in the vicinity of outbreaks of FMD. Application of this principle means that any other use is prohibited and any attempt of this type would immediately lead to the redistribution of the funds to the member farmers who at all times remain the owners thereof, as expressly provided for under the National Convention. Another application of this principle relates to the management of the funds collected. Both the capital and interest are required to be held in escrow on special accounts that are managed by the GDSs.

The third principle of the fund is that of intervention being locally-based and efficient. The GDSs prefigured subsidiarity by deciding that the contributions of the farmers, which were collected locally, were to be managed locally too, even though, because speed is all-important in providing compensation, a reserve had to be set up at the National Federation level. In accordance, 90% of the funds collected are invested and managed by the respective GDSs while the remaining 10% are managed by the FNGDS through the National Reserve.

The fourth principle is transparency. Every year, each GDS must supply the FNGDS with the balance sheet of the local fund (capital and interest) as submitted for approval to the annual general meeting. Naturally, the same applies to the National Federation and the National Reserve. Furthermore, a National Monitoring Committee was established. This Committee consists of five representatives from the bureau of the FNGDS and two representatives from other agricultural organisations (the Permanent Assembly of Chambers of Agriculture and the National Stockbreeding Confederation). The Committee is in charge of monitoring the management of the fund on an annual basis and also, in the event of an FMD episode, of overseeing compensation procedures. Finally, checks may be performed to ensure, for instance, that the number of declared beneficiaries matches the number of paying members. The highest penalty is that the eligibility of the concerned department to Fund benefits can be revoked and the GDS can be required to refund the amounts collected to the stock farmers.

The main mechanisms for running the Fund as set out by the Convention are as follows:

- a) Establishment of local funds exclusively reserved for FMD, with both capital and interest held in a special escrow account, the amounts collected remaining the exclusive property of the stock farmers
- b) Establishment of a private law contract between each GDS and the FNGDS that sets out:
 - a single membership fee
 - a 10% allocation of the amounts collected to the National Reserve under the same rules as the local funds
 - compensation and auditing mechanisms designed to guarantee transparency and collective solidarity.

The flexibility, decentralisation and stringency of this system enable the freedom and autonomy of each GDS to be combined with the necessary responsibility towards collective solidarity.

The mechanisms for compensation are described in detail in the section specifying how the scheme was implemented during the FMD outbreak which occurred in 2001.

Estimating losses and establishing compensation amounts

In 1991, the FMD committee of the FNGDS performed the difficult but essential task of assessing losses deriving from the restrictions imposed in the vicinity of infected sites with a view to paying realistic, lump-sum benefits. The objective of the exercise was not to reach exact figures but rather to provide an order of magnitude for the average losses incurred.

Barbara Dufour and Vincent Potaufoux, who at the time were respectively Advisory Veterinarian and Advisory Engineer at the FNGDS, drafted a summary report on the basis of the contributions made by some fifteen GDSs that had conducted evaluations in their own departments. The elements presented below were published in the *GDS-Info* bulletin (issue No. 106) (reprints can be requested from the author).

The general principles used for the purpose of these calculations were as follows:

– ten types of production were chosen (Table I), and for each of these types, a standard herd or flock was defined

Table I
Types of production selected for calculating economic losses

Livestock system	
1	Dairy cattle stock
2	Beef suckler stock
3	Beef suckler breeder stock
4	Fattening cattle unit
5	Killing calf unit
6	Pig breeder stock
7	Fattening pig stock
8	Dairy ewe flock
9	Suckling ewe flock
10	Dairy goat flock

– the observed average duration of the FMD outbreak, i.e. 30 days, was used for the calculations and applied per animal and per day of restricted movement

– animals were assumed to have been isolated in living quarters rather than at pasture.

In Table II, total estimated losses are expressed for each type of production (figures for 1991).

Based on this work and these estimations, the FNGDS Board of Directors presented the lump-sum compensation structure in Table III (amounts per animal and per day of restricted movements) at the annual general meeting.

Table II
Estimation of losses incurred in 1991 by an outbreak of foot and mouth disease in France

Type of production	French Francs	Euros
Dairy cattle farming		
– if milk is destroyed	42/cow/day	6.4/cow/day
– if milk is collected	8/cow/day	1.22/cow/day
Beef suckler herd		
– selling season for weanlings	10/cow/day	1.52/cow/day
– outside of selling season	9/cow/day	1.37/cow/day
– winter season	1/cow/day	0.15/cow/day
Fattening cattle units		
– outside of selling season	0	0
– period in shed: sale of a batch	1/young bull/day	0.15/young bull/day
– feeding period	5/young bull/day	0.76/young bull/day
Killing calves		
Pig breeder unit	5/stall/day	0.76/stall/day
– if batch stamped-out	15	2.29
– if sold	0	0
Fattening pig units	1/batch/day	0.15/batch/day
Suckling sheep flocks		
– lamb selling period	7/ewe/day	1.07/ewe/day
– summer selling period	2/ewe/day	0.3/ewe/day
	0/ewe/day	0/ewe/day
Dairy sheep flocks (Roquefort cheese)		
– in winter quarters with milk collection	0	0
– in winter quarters, no milk collection	from 5.5 to 11/ewe/day	from 0.84 to 1.68/ewe/day
– at pasture, no milk collection	9/ewe/day	1.37/ewe/day
– outside lactation period	2/ewe/day	0.3/ewe/day
Dairy goat flocks		
– during lactation, with no milk collection	9/goat/day	1.37/goat/day
– during lactation, with milk collection	1/goat/day	0.15/goat/day

As can be seen, these figures do not match estimated loss figures following adjustment by the Board of Directors of the FNGDS, on the basis that the loss figures were only estimates. Special care was taken to ensure that farmers would not in any way feel that their losses were being minimised.

Table III
Structure of compensation paid to farmers, following economic losses incurred by foot and mouth disease in France in 2001

Category	Compensation	
	French Francs	Euros
Dairy cow	10.00	1.52
Suckler cow	10.00	1.52
Fattening beef	1.20	0.18
Dairy ewe	2.50	0.38
Suckling ewe	2.50	0.38
Goat	1.20	0.18
Breeder pig	2.00	0.30
Fattening pig	1.20	0.18
Litre of milk	depending on going rates	depending on going rates
Piglet	250.00	38.11

Management of the Compensation Fund

Management of the Compensation Fund can be divided into two periods from 1992 to date:

- ‘phasing-in’ of the fund (for the first four years)
- ‘routine’ management of the fund (for subsequent years).

From the start, a significant innovation was introduced compared to other public or private funds, which consisted in setting an upper limit to the amount of funds collected. Based on figures relating to earlier FMD episodes in France and on expert advice, the FNGDS considered that a fund in the order of FRF120 million (i.e. €18 million) would meet needs, bearing in mind that additional funds could always be collected (including during an FMD episode).

In view of this, the FNGDS set the annual membership fee at FRF2 (€0.3) per livestock unit (i.e. one head of cattle, four sows, ten fattening pigs, six sheep or five goats) over a period of three years. To provide for greater security, the FNGDS then decided on an additional year of fees at a rate of FRF0.20 (€0.03) per livestock unit.

During the first four years of the existence of the Fund, some difficulties were encountered owing in part to the fact that not all the GDSs had signed the convention at the same time or began collecting contributions during the same financial year. In addition, although the scheme was immediately popular, in some areas stock farmers had waited sometimes up to a year before deciding to take part in the scheme and were late in paying their fees.

Following the initial four years of phasing-in, during which the Fund secured the necessary capital (and even more), the management of the Fund became a fairly routine matter since the capital was frozen and the only important issue was how to invest this capital. The funds were invested according to the principle of due diligence, i.e. minimising as much as possible the financial risks involved. During that period, although average interest rates tended to decline, the investments did not lose any value.

Implementation of the Compensation Fund in 2001

When, in February 2001, the first cases of FMD in Great Britain and the impending risks on the French livestock sector were announced, the FNGDS reacted even before the first French case occurred, firstly by asking the GDSs that had signed the Convention to submit as soon as possible a financial statement for the local fund and secondly, by convening the Board of

Directors of the Federation on 8 March so as to plan, pursuant to the convention stipulations, possible activation of the compensation scheme.

On 12 March, the first outbreak in France was notified and the animals slaughtered, and on 14 March, the National Monitoring Committee of the National FMD Fund met in Paris. The Committee took three decisions, as follows:

- decision 2001-01 which validated the amounts for lump sum compensation, which remained unaltered compared to the amounts set out in 1992
- decision 2001-02 (Mayenne) and decision 2001-03 (Orne) concerning the departments where surveillance and prevention zones were being set up around the La Baroche-Gondouin (Mayenne) infected area.

The wording of the decision concerning the Mayenne department (also applied to the Orne, and later, to the departments in the Paris area), which is reproduced below, provides a better understanding of the mechanisms whereby compensation was paid by the FMD Fund (the allocations to the reserve were calculated in co-operation with the GDSs involved, on the basis of the estimated numbers of fund members and of animals subject to movement restriction).

‘The National Monitoring Committee for the FMD Fund,

Considering the provisions of the National Convention on compensation for economic losses suffered by stock farmers in the areas bordering on FMD infected sites, in particular article 2 e) of Title I and Title II,

Considering resolutions numbers 5, 6 and 7 adopted by the Board of Directors of the FNGDS on 8 March 2001

In view of the file submitted by the Mayenne GDS, dated 13 March 2001, and, in particular the order of the Prefect Office implementing the notification of infection provided for under article 228 of the Rural Code in the Mayenne department, published on 13 March 2001,

Adopts the following provisions,

1. – Decision has been taken:

1. to allocate the amount of FRF3.5 million to account No. 10736565000 held by the Mayenne GDS, pursuant to article 2.2) of Title II of the above-mentioned Convention

2. to authorise the Mayenne GDS to begin payment of compensation to the members of the Compensation Fund and of GDS whose fees are fully paid and whose holdings are located in the restricted area in the zone surrounding the outbreak, in compliance with provisions applicable nationally

3. to request the financial participation of the GDSs to the above-mentioned Convention so as to replenish the National

Reserve, pursuant to article 2.5) of Title II of the Convention, as per attached the distribution schedule

4. to implement these measures as required, at least every fortnight, and until the Prefect Office order for the Mayenne Department is lifted.

2. – These provisions are applicable immediately, subject to the following conditions:

– at the earliest possible opportunity, the GDS must provide documentary evidence that the declared number of members, the number of livestock units attaching to fees paid and the amounts collected in application of article 4 h) of Title I of the Convention are consistent

– the GDS must keep the FNGDS informed of any changes, in particular as regards the number of stock farmers and livestock units concerned, the amount of the compensation, and the needs of the GDS for supplementary funding, at least weekly until the Prefect Office order is lifted in application, pursuant to article 2.4) of Title II of the Convention.

3. – The Monitoring Committee empowers the President of the FNGDS to perform the necessary bank transactions.'

On 28 March, another meeting of the Monitoring Committee adopted two additional decisions concerning the Ile-de-France departments affected by the second outbreak (Seine-et-Marne, Seine-Saint-Denis and Val-d'Oise).

Finally, on 7 April, the Monitoring Committee, at the request of the Mayenne GDS decided (decision 2001-06) to establish 'for stock farmers specialising in fattening cattle located in the zones around the FMD-infected areas, (...) an additional benefit of FRF2.80 per animal per day of restriction on movements.' (€0.426).

Table IV shows the total amount paid by the Compensation Fund to stock farmers subjected to restrictions in the prevention and surveillance zones of the two French FMD outbreaks in 2001, i.e. a total of FRF6,488,242 (€989,126).

Table IV
Compensation paid to stock farmers in the zones surrounding outbreaks in France in 2001

Departments	Compensation	
	French Francs	Euros
Mayenne	3,500,000.00	533,571.56
Mayenne (balance)	574,322.00	87,554.82
Orne	3,500,000.00	533,571.56
Orne (balance)	- 1,102,280.00	- 168,041.50
Ile-de-France	6,000.00	914.69
Ile-de-France (balance)	3,000.00	457.35
Seine-et-Marne	11,000.00	1,676.94
Seine-et-Marne (balance)	- 3,800.00	- 579.31
Total	6,488,242.00	989,126.12

The speed with which the scheme was implemented should be emphasised. The National Monitoring Committee met within three days of the Prefect Office orders implementing notification of infection and allocations were transferred to the special GDS accounts within two days. Although in actual fact, compensation was paid to farmers with a time lag because of the involvement of the GDSs in implementing the control schemes locally, the process was completed in record time. In Mayenne, for instance, most payments were made on 17 April and 23 May. Naturally, being subject to the management constraints of public finances, benefits paid by the State took longer on average.

The outlook for the FMD Compensation Fund

Many lessons can be derived from the 2001 FMD episode, in particular as regards disease control policy and organisation, and the financial aspects. The FNGDS has already convened the internal committee on FMD on several occasions to draw the conclusions from this episode. A White Paper will soon be ready concerning the general aspects of animal health policy and there is an ongoing investigation of changes that should be made to the FMD fund.

What differentiates the policy implemented in 2001 from the one defined when vaccination was banned relates to disease control. Holdings neighbouring those that had imported sheep from Great Britain and where animals were pre-emptively culled were subjected to movement restrictions for varying periods of time. As such, the stock farmers in these areas were in a situation very much comparable to that of their counterparts located in the vicinity of ascertained FMD outbreak sites. While clearly, in the view of the FNGDS, the public authorities had the major responsibility of shouldering the financial consequences of that decision, professionals also needed to investigate possible supplementary benefits for these areas.

Furthermore, the provisions of the National Convention need to be assessed in legal and practical terms and consequent changes contemplated.

Finally the question of whether the National Fund should be replenished shall be raised before the next FNGDS annual general meeting.

The creation of this fund notably encouraged the French Government, in 1991, to take the decision to pay compensation, not only for direct losses at infected sites as set out by European legislation, but also for consequential losses suffered by stock farmers in those areas. The Fund was also no doubt instrumental in persuading the public authorities to take additional financial measures in favour of stock farmers in the

Mayenne, Orne, Seine-et-Marne, Seine-Saint-Denis and Val-d'Oise departments who, for several weeks, were subject to restrictions beyond the surveillance zones.

By way of conclusion, the GDSs take a very positive view of their decision made 10 years ago to set up a mutual benefit society scheme for providing relief in areas neighbouring FMD outbreak sites. By doing so, they responded both responsibly and imaginatively to the needs of French stock farmers.

In the European Union in particular, but also in other countries, professional organisations may find it worth investigating to what extent this experience can be adapted to the specific features of livestock breeding in each country. The FNGDS supports this idea and reflected this position in 1993 by presenting the Compensation Fund to Italian organisations. The European Federation of Animal Health, established in December 2001 in Brussels, should foster this type of co-operation between European stock breeders in dealing with problems such as FMD.

Acknowledgements

The author wishes to thank Bernard Terrand, honorary President of the FNGDS, who chaired the FMD committee between 1991 and 1992; Barbara Dufour (present policy officer at the French Agency for Food Safety) and Vincent Potaufoux (presently director of the Vosges GDS) for their work in analysing economic losses incurred in areas neighbouring FMD outbreaks; the President and bureau of the Mayenne GDS, Eric Borius, director of the Mayenne GDS, and Thérèse Pelletier, director of the Orne GDS, for the information they provided about benefit management and, more broadly, the work accomplished by themselves and their colleagues during the FMD episode in 2001; the members of the FMD Committee and Thibault Delcroix, the Advisory Veterinarian at the FNGDS for his work in analysing and making proposals for improving the Compensation Fund; and more generally, the French Veterinary Services, the veterinarians, the GDSs and all the French livestock breeders for their handling of the crisis.
