

COMPENSATION MECHANISMS FOR LIVESTOCK PRODUCERS FOR THE APPLICATION OF SANITARY MEASURES

Dr Francisco Muzio Lladó

Director General, General Directorate for Livestock Services, Ministry of Livestock, Agriculture and Fisheries¹

Original: Spanish

***Summary:** One of the factors that have had the most positive impact on mechanisms for the notification of animal diseases and zoonoses is economic compensation to producers following the implementation of stamping-out measures. Mainly this is because animal owners are usually the first to detect clinical signs in their farms, and early notification helps the veterinary authorities to adopt the appropriate sanitary measures to facilitate the rapid control and eradication of these diseases.*

These sanitary measures often involve stamping out of the infected animals and their contacts, as well as prolonged sanitary bans for the owners, leading to heavy economic losses for producers.

In order to find out and analyse the different compensation mechanisms, the OIE sent a questionnaire to all the countries of the OIE Regional Commission for the Americas, the results of which help to assess the overall situation in order to make recommendations for the implementation and improvement of compensation mechanisms in response to the new regional and world disease scenarios.

Twenty-two of the 29 countries of the OIE Regional Commission for the Americas replied to the survey.

Half have compensation mechanisms and the majority have a legal framework, which reveals that some countries have the legal framework but no compensation mechanisms.

Of the diseases for which there is compensation, foot and mouth disease has the highest coverage, and more than half the countries have specific funds for compensation mechanisms, predominantly deriving from the central government. The existence of specific funds for compensation is considered to be very important for animal owners.

In addition, the majority of countries only compensate for the value of the slaughtered animals and not for other items, such as loss of earnings.

A high percentage of countries stated that producers know of the existence of compensation mechanisms.

Special reference is made to past history and the characteristics and operation of the compensation mechanisms of the countries in the region.

Regarding the threat of an avian influenza pandemic, in view of its specific characteristics, a different compensation mechanism should be envisaged for avian influenza than those established for other diseases.

As a general conclusion on the subregions of the American continent, in South American countries where livestock production plays a significant role in the economy, for over a decade there have been compensation mechanisms that usually adequately cover the disease eradication needs created by different contingencies. With a few exceptions, Central American and Caribbean countries do not have compensation mechanisms. Two of the three North American countries have compensation mechanisms.

Key words: Americas – compensation – indemnification – stamping out

¹ Dr. Francisco Jorge Muzio Lladó, Director General, Dirección General de Servicios Ganaderos, Ministerio de Ganadería, Agricultura y Pesca, Av. Constituyente 1476, Piso 2, Montevideo, Uruguay. E-mail: fmuzio@mgap.gub.uy

Introduction

This report is based on the answers of Member Countries of the OIE Regional Commission for the Americas to a questionnaire entitled 'Compensation to farmers management in the OIE Member Countries of the Region to cover economic losses derived from implementation of stamping-out measures'.

The following countries answered the questionnaire: Argentina, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, El Salvador, France, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, the United States of America, and Uruguay.

For the purposes of the questionnaire, compensation mechanisms were defined as the economic compensation paid to animal owners following the implementation of stamping-out measures.

Economic compensation for sanitary measures is one of the factors that impact on notification mechanisms regarding such critical choices as whether or not to alert the competent veterinary authority, bearing in mind that animal owners are the first to detect clinical signs in their herds.

The OIE therefore considers it to be an important factor to be taken into account by veterinary administrations in order to improve notification systems and prevent the spread of disease. This aspect is crucially important when it comes to the introduction of an exotic disease into a country, zone or region, or the reintroduction of eradicated diseases, as it can have a significant economic impact if the problem is detected late.

1. Survey of compensation mechanisms in the countries of the Americas

1.1. Objective

The objective is to identify and analyse the various compensation mechanisms in existence, in order to disseminate technical information and cooperate with the countries in the region of the Americas in implementing compensation systems where they do not exist, or in improving existing systems.

1.2. Analysis of the questionnaire

The questionnaire contained 14 questions related to compensation, as follows:

- Question 1 asked whether or not the country had implemented a compensation mechanism.
- Question 2 asked which competent authority in the country is responsible for implementing the compensation mechanism.
- Question 3 asked about the role of the Veterinary Services in compensation mechanisms.
- Question 4 asked whether a legal framework exists for implementing stamping-out measures.
- Question 5 asked which diseases the countries' compensation mechanisms cover, listing as possibilities: foot and mouth disease (FMD), bovine spongiform encephalopathy (BSE), classical swine fever, avian influenza, Newcastle disease, rinderpest, exotic diseases and others.
- Question 6 asked whether funds are available for implementing the compensation mechanism.
- Question 7 asked whether the fund is financed from government resources or a combination of government and private sector resources, from insurance or from another financial source.
- Question 8 asked whether, in the case of compensation insurance, the sum is paid by the government or jointly by the government and the private sector.
- Question 9 asked which procedure is used to budget the amount of money to be made available for compensation.
- Question 10 asked what types of compensation exist for livestock producers. The options were:
 - reimbursement of the value of slaughtered animals;
 - compensation for economic losses deriving from lack of income during the depopulation period;
 - tax exemption;
 - remuneration of personnel who were laid off but whose salaries the owner was unable to pay;
 - other types of compensation.
- Question 11 asked which procedure is used to fix the value of the slaughtered animals and which other types of compensation are implemented in the country.

- Question 12 asked how long it takes to pay compensation to animal owners following stamping-out measures.
- Question 13 asked whether animal owners know of the existence of the compensation mechanism.
- The final point in the questionnaire requested information and texts on implementing the countries' compensation mechanisms.

1.3. Results of the survey

Twenty-two of the 29 countries in the Americas replied to the survey, representing 76% of all the countries in the region.

- In their answers to the 1st question in the survey, exactly half the countries stated that they did have structured compensation mechanisms, and the other half did not (Figure 1).
- In answer to question 2, 14 countries (64% of the total) said the competent authority was responsible for implementing the compensation mechanisms, and the remaining 5 were part of the group of countries with no compensation mechanism.
- In their answers to question 3, 11 countries stated that the official Veterinary Service has full responsibility for the compensation mechanism and in the remaining 8 countries the situation varied, depending on the regulatory framework.
- In answer to question 4 on the existence of a legal framework, 19 of the 22 countries replied that they did have a legal framework, representing 86% of the total. Significantly, in their answers to this question, 8 countries stated they have a legal framework for the implementation of stamping-out measures, but do not have compensation mechanisms (Figure 2).
- In answer to question 5 on which diseases the compensation mechanism covers, 8 countries indicated all or nearly all the disease options (36% of the total), 6 countries indicated several of the options (27%), and 8 indicated no options (36%).

Analysing the answers by disease, FMD has the highest rate of coverage by national compensation mechanisms, with 50% of the total. In second place, with 45% of the total, were the options 'other diseases' and classical swine fever. Third was avian influenza with 41%, followed by Newcastle disease and rinderpest with 36%, and lastly BSE and exotic diseases with 32%.

- In answer to question 6 on the existence of a compensation fund, half of the respondents said that their country did have one. This means that, in addition to the possibility of receiving contingency funding, the existence of a compensation fund is in itself a positive and reassuring factor in a country's health system (Figure 4).
- Question 7 concerned financial sources for the compensation mechanism. Of the 12 countries with a fund, 7 are financed by the government. In the other 5 countries, the funding comes from the government and the private sector.
- In answer to question 8, 2 countries said that they also have an insurance system with government and private participation.
- There were no answers to question 9 concerning the procedure for estimating the sums required for the compensation fund, although some countries that had faced disease occurrences in the past have already budgeted for their funds.
- In answer to question 10 on the type of compensation envisaged, 16 countries (representing 73% of all the countries that answered the questionnaire) replied that the full value of the animals would be compensated. In addition, 4 of these countries also compensate for economic prejudice due to loss of earnings or economic losses during the period when sanitary measures are implemented; 1 country covers miscellaneous costs associated with transport, tourism, etc., and 3 cover other possibilities (Figure 5).
- In answer to question 11 of the questionnaire, 5 countries stated that the procedure used to calculate compensation amounts is based on the decision of assessment committees formed by groups of experts representing national and state governments who, together with livestock producer representatives, calculate the sums to be paid to victims, generally based on market values. The aforementioned procedures form part of each country's legal framework.
- Question 12, concerning the time taken to pay compensation following stamping-out measures, gave three options: less than 30 days, between 30 and 60 days, and more than 60 days.

Four of the 13 countries that replied to this question answered that the period was less than 30 days; 1 country said it was between 30 and 60 days, and 2 said it was more than 60 days. One of the latter two countries stated that compensation would be paid 12 months after stamping out, and it would cover only the value of the animals and not other economic losses. Three of the 13 countries that replied to this question stated, in addition, that the period varied and depended on a statutory decision (Figure 6).

- Lastly, in answer to question 13, 10 countries out of a total of 14 stated that animal owners were aware of the existence of compensation mechanisms, while the remaining 4 said that they were not. In the majority of cases, the information is supplied by the respective Veterinary Services and by circulating regulations among livestock producers (Figure 7).

2. Analysis of past history in the Region

To comment generally on the subregions of the American continent, in South American countries where livestock farming plays a significant role in the economy, compensation mechanisms have existed for over a decade, while in Central America, with a few exceptions, there are no such mechanisms, and two of the three North American countries have developed compensation mechanisms.

2.1. Argentina

In Argentina, Law 24305 stipulates that, for each fiscal year, a specific share be provided under the National Budget Law to supply the compensation mechanism with funds for FMD. For other diseases, financing comes from the SENASA¹ budget.

An Assessment Committee is responsible for assessing animals to be compensated. The Committee comprises one representative from the official Veterinary Services, one representative of the local producers and one local official.

Regarding the time taken to pay compensation, it is stipulated that the right of owners to claim the compensation is limited to within three months of slaughtering the animals.

2.2. Brazil

In Brazil, there is a legal history of compensation for the slaughter of animals and the destruction of rural assets or facilities, dating back to December 1948. The federal and state governments are the competent authorities for implementing the compensation mechanisms, with resources coming from the official sector in the former case and from the private sector in the latter case.

The majority of Brazilian states have compensation funds with resources provided by farmers themselves through the payment of specific rates, and in some states they also operate for more than one species.

During the FMD outbreak in 2005, which affected the states of Mato Grosso do Sul and Parana, stamping out was carried out on some 34,000 susceptible animals.

Compensation is paid thirty days following the slaughter of the animals.

2.3. Chile

In Chile, the time taken to pay the compensation varies, depending on decree rulings.

2.4. Colombia

Compensation is paid provided that the animal owner declares the disease without negligence.

The regulations in force provide for the compensation mechanism to cover tuberculosis, and in the case of other diseases, an analysis is made. Compensation has been paid in the case of FMD.

2.5. Dominican Republic

In the Dominican Republic compensation mechanisms have been implemented only for classical swine fever.

1 SENASA: *Servicio Nacional de Sanidad y Calidad Agroalimentaria* (National Agrifood Health and Quality Service)

2.6. United States of America

The United States provides compensation for avian influenza, making a distinction between the highly pathogenic and low pathogenic forms. Among the other diseases, it provides for exotic ones such as African swine fever, swine vesicular disease, contagious bovine pleuropneumonia, with plans to include porcine brucellosis, bovine tuberculosis and Aujeszky's disease.

2.7. Mexico

Mexico has implemented compensation for two diseases: classical swine fever and avian influenza.

2.8. Paraguay

Paraguay has implemented compensation mechanisms for FMD.

2.9. Uruguay

2.9.1. Permanent compensation fund

Since the 1989 Law on the Eradication of Foot and Mouth Disease, Uruguay has had a Permanent Compensation Fund for Foot and Mouth and Exotic Diseases. The law stipulates that the fund be set up by a government tax of 0.21% on the value of exported cattle and sheep products.

Among the innovations introduced by Law 16082 is the creation of a Permanent Compensation Fund for the Campaign to eradicate Foot and Mouth and Exotic Diseases, designed to provide funding for compensation. It is implemented through a tax on beef and lamb exports, meat by-products and derivatives, as well as on all dairy products and derivatives, and wool.

The tax is collected by the Bank of Uruguay (Banco de la República Oriental del Uruguay). It is held by the Ministry of Livestock, Agriculture and Fisheries (MGAP¹), and is at the disposal of the General Directorate of Livestock Services which controls and supervises it, reporting on its status every six months to the member institutions of the Honorary National Commission for Animal Health (CONHASA²).

The law stipulates that insufficient resources in the Compensation Fund shall not be an obstacle or impede the corresponding compensation, because the General Treasury can inject funding where necessary. However, collection of the tax is suspended when a sufficient amount is reached. The tax that had been collected since 1990 was suspended on 1 March 1999 when the amount already amassed was considered sufficient to cover requirements in the most pessimistic hypothesis of FMD being reintroduced (for dairy cattle of high genetic value, approximately USD 13 million). If the fund is used, it can be refinanced at the planned rate.

2.9.2. Compensation mechanisms for FMD

The current regulations in force for FMD provide for the effective compensation of animals and goods that have been destroyed as a result of implementing sanitary measures to keep the country free from the disease.

Grounds for compensation.— Stamping out of animals; compulsory slaughter of animals; destruction of animal/plant products and by-products; and destruction of movable assets.

Assessment.— The Departmental Assessment Committees fix the compensation amounts to be paid as a consequence of the destruction of animals, products or by-products and of movable assets. The Departmental Assessment Committees comprise three members: one member from the MGAP, one representing livestock producers and a third one, neutral, nominated by the member from the MGAP and endorsed by the representative of the livestock producers.

1 MGAP: *Ministerio de Ganadería, Agricultura y Pesca*

2 CONHASA: *Comisión Nacional Honoraria de Salud Animal*

Payment period.– The compensation amounts are to be paid within a period of no more than thirty days following the ruling by the Departmental Assessment Committee, the latter being under the obligation to make its decision within thirty days of slaughter.

Assessment criteria.– The Departmental Assessment Committees must announce the amount of compensation in a report sent to the General Directorate of Livestock Services (automatic procedure), taking into consideration the following criteria:

- Market prices.
- The producer can opt for the cost of replacing the cattle, which requires the Committee to be present at the time of purchase.

Assessment procedure.– Where there is compulsory expedition of animals to the slaughterhouse or stamping out, a certificate is drawn up by the responsible veterinary authority, indicating the date of slaughter. This document is then sent directly to the respective Departmental Assessment Committee. The Committee sends the report containing the compensation amounts and the assessment criteria to the General Directorate of Livestock Services. If the animals were sent for slaughter, a settlement document issued by the slaughterhouse is required. Lastly, after a prior visit to the premises of the claimant, which does not signify suspension of slaughter, the General Directorate of Livestock Services fixes the compensation amount and makes it available to the claimant.

Economic losses.– These are being considered in the compensation for FMD and are understood as the exploitable value of the animal had it not been slaughtered early.

2.9.2.1. Special indemnities following the reintroduction of FMD in 2000 and 2001

The reintroduction of FMD into Uruguay in the two consecutive years 2000 and 2001 caused heavy cattle production losses, bearing in mind that Uruguay had been 'FMD-free without vaccination' since 1996. The strategy adopted to eradicate the disease was based on stamping out until April 2001.

As a consequence, a series of laws and regulatory decrees was passed to extend to new beneficiaries the indemnities provided for in the respective legislation. These extensions included certain farmers in the Department of Artigas (in 2000) and holdings with lactating animals or animals ready to give birth that had contracted the disease (April to July 2001).

The indemnities paid in the Department of Artigas following the reintroduction of FMD (October 2000) directly related to its eradication totalled USD 2,090,090 for stamping out 6,829 cattle, 12,991 sheep, 1,149 pigs and destroying 1,606 salted casings, 607 kg of offal and 2,000 litres of milk (fresh and pasteurised).

The indemnities paid on the second outbreak of FMD (April 2001) related to the primary objective of eradicating the disease totalled USD 1,926,469 for stamping out 5,093 cattle, 1,511 sheep, 333 pigs and destroying 2,442 bales.

- Producers in the Department of Artigas
 - Small-scale cattle producers in Artigas were paid one-off compensation for direct or indirect prejudice resulting from the outbreak of FMD in the Department. Each farmer received 7,500 Uruguayan pesos.
 - Cattle producers selling live fattened meat cattle for export were paid compensation. These living animals had to have been present on the territory, in the department of Artigas, from 23 October 2000 to the date they were exported (Law No. 17361 of 25 June 2001).
- Suppliers of milk to industrial plants and small cheese producers

Law No. 17438 of 21 December 2001 and Decree 28/002 of 24 January 2002 enabled the MGAP to spend up to USD 720,000 from the Fund for Foot and Mouth and Exotic Diseases, on milk producers supplying industrial plants and small cheese producers whose lactating animals were directly affected by FMD between 24 April and 31 July 2001.

The compensation was paid on the basis of verifiable objective criteria and according to the official list of milk producers affected by FMD.

2.9.3. Insurance for bovine brucellosis control

At the end of 2003, as producers suffered a resurgence of bovine brucellosis, the Insurance for Brucellosis Control (SCB¹) was created by Law 17730 in order to supplement the price paid for cattle that had reacted positively to tests confirming bovine brucellosis infection and been sent for slaughter.

The insurance was created to encourage the notification to the official Veterinary Service of any and all reactors to screening tests and to promote the cooperation of farmers in sending cattle for slaughter following a positive reaction to supplementary testing.

Producers whose animals would have been sent to the slaughterhouse in compliance with Law 12937 and the regulations in force would receive differential compensation of USD 250 for each dairy cow and USD 60 for each meat-producing bovine sent for compulsory slaughter. The compensation was provided within the first year of the Law's enforcement. Similar situations that occurred in 2002 and were not compensated could also be taken into consideration.

Between March 2004 and October 2006, compensation was paid to 594 producers, totalling USD 609,750 for dairy cows and USD 708,480 for meat cattle.

Funding.— Law stipulates that the Fund is financed through:

- a) a contribution of the equivalent in Uruguayan pesos to USD 0.26 (maximum) for each cow or female calf with two teeth that are slaughtered in any cattle slaughterhouse (Law 17730);
- b) a contribution of the equivalent in Uruguayan pesos to USD 0.296 (maximum) for every 1,000 litres of milk exported directly or supplied to industrial plants (Law 17906 of 12 October 2005, which modifies Law 17730).

Contributors and custodians.— The contributors are the producers (individuals or corporate entities) that supply the said establishments, while the custodians shall be the holding companies of all slaughter and dairy establishments, which must receive and deposit the contribution.

Fund validity.— The validity of contributions and payment of differential compensation is for one year, starting from the entry into force of the present law. By decree of 11 January 2006, the validity of contributions and payment of differential compensation was extended until 13 January 2007. It is envisaged to extend the insurance validity until January 2008.

Fund's Administrating Committee.— The SCB shall be owned, administered and disposed of by an Administration Committee comprising a representative and an alternate from the MGAP, and by six representatives of farming cooperatives. The Committee shall decide by simple majority. The Presidency shall rotate, starting with the first person appointed by the members. Its objectives are: to manage the insurance funds, to pay producers, to monitor contributions and to submit the account statements.

3. Compensation mechanisms for avian influenza

The outbreak of the epidemic form of highly pathogenic avian influenza which, until now, has been confined to Asia, Europe and Africa but which threatens to spread to the other continents, has called for reflection on the need for the American continent to provide for compensation mechanisms in the event of a pandemic, owing to the serious impact it would have on the poultry farming sector.

The scenario that the FAO² is analysing in South America provides the framework for conducting compensation and rehabilitation practices within the avian influenza control programmes.

1 SCB: *Seguro para el Control de la Brucelosis*

2 FAO: Food and Agriculture Organization of the United Nations

The special characteristics of the Latin America scenario are as follows:

- A great variety of poultry production systems coexist, ranging from highly intensive and sophisticated industrial systems to family or backyard systems typical of subsistence farming.
- Regional economic areas, such as MERCOSUR¹ and CAN², could suffer serious economic damage, which would also impact on the production and export of meat and meat products from other animal species.

The nature of the problem and the seriousness of avian influenza as a zoonosis are a grave threat for the countries in the Americas, because its characteristics differ from other diseases for which the countries have created compensation mechanisms and in which they have gained significant experience. Part of the danger can be appreciated when this scenario includes countries in the Americas with no structured compensation mechanisms and no compensation funds. This is a critical problem for the Americas as a whole because of the potential impact of avian influenza if it were to infect the region, as it is so difficult to control and eradicate.

FAO pinpoints three aspects of the problem:

- Compensation from governments, with the classic concept of payment of private assets (birds) that are destroyed under the “public good” concept.
- Compensation from private sources, such as insurance funds created by producers or companies in the poultry sector.
- Production rehabilitation, support from public funds with equitable social criteria, in order to restore means of subsistence or rehabilitate poultry industries. In the latter case, some countries have already begun to compensate for loss of production time. Another important consideration, with regard to the rehabilitation of small producers in particular, is the need to provide a better level of biosecurity in this new scenario.

The general view is that compensation will need to be financed entirely at central level, while rehabilitation could be funded from local resources.

Another question arising from this difficult problem is that, unlike the process of compensation/indemnification, rehabilitation comes after the sanitary procedures to control/eradicate the infected zone have been suspended and requires a previous record from small farmers which ought generally to be trustworthy. However, such records are difficult to obtain.

As regards sources of financing, there has been a proposal to create taxes associated with the area of animal health and to set up emergency funds with government and private participation, it being essential for the emergency funds to be well organised. This allows for sharing of financial risks and will encourage producers to take further measures to prevent disease occurrence.

In conclusion, we believe that the scenario for compensation mechanisms in South America to cope with a possible pandemic of avian influenza should be envisaged in a different way to that for other diseases.

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1 MERCOSUR: Southern Common Market

2 CAN: Andean Community

Figure 1: Existence of compensation mechanisms

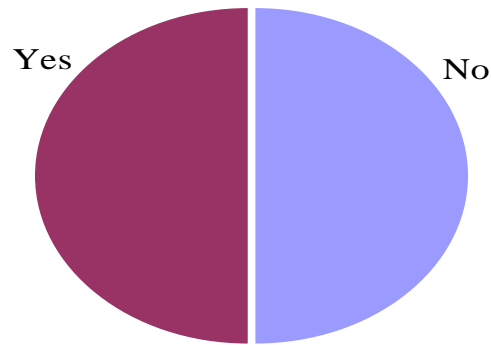


Figure 2: Existence of a legal framework

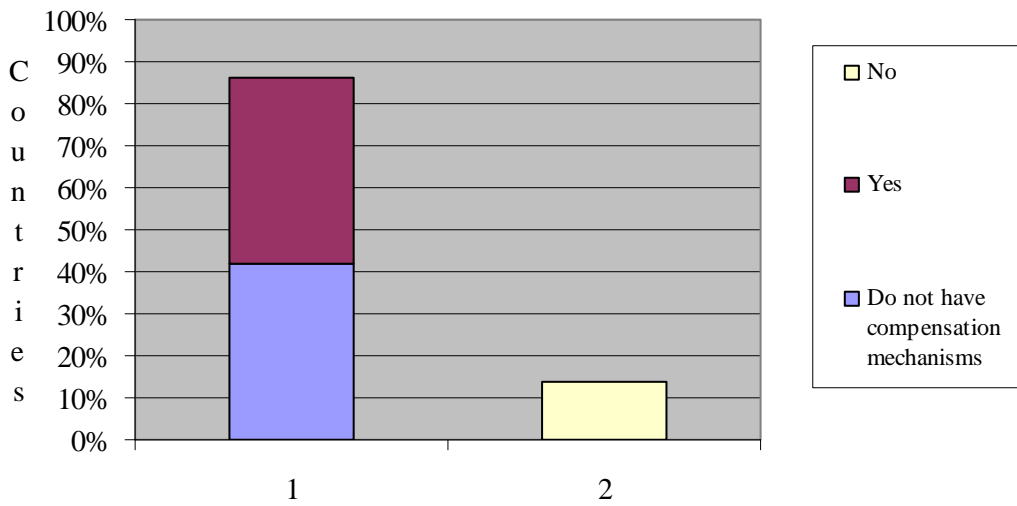


Figure 4: Provision of compensation funds

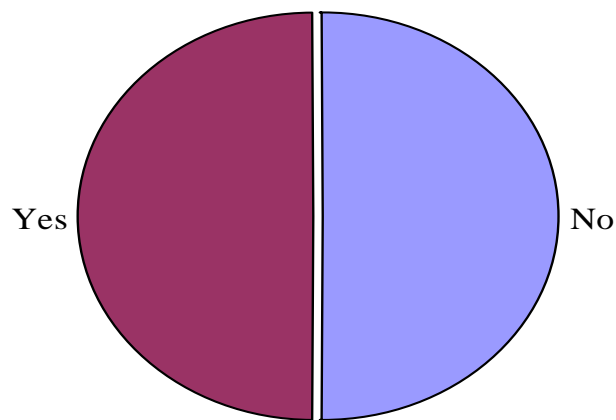


Figure 5: Type of compensation envisaged

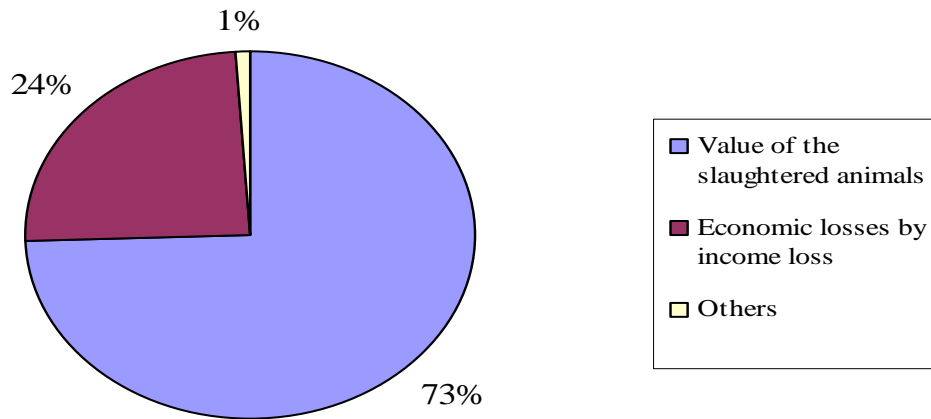


Figure 6: How long does it take to pay compensation to animal owners

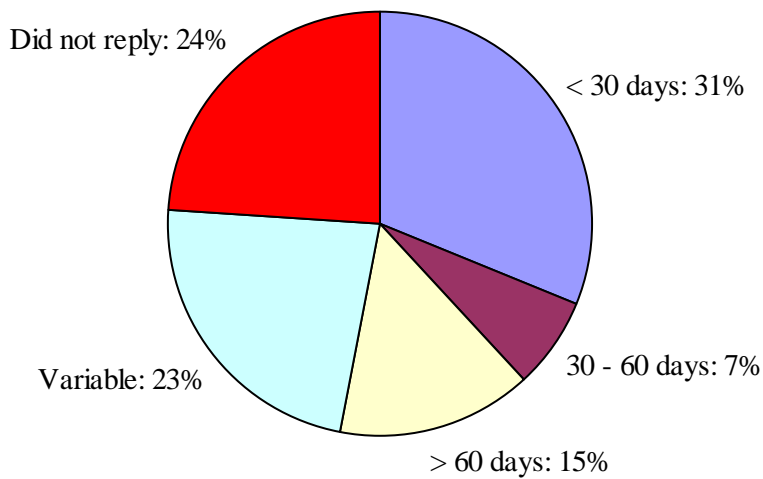


Figure 7: Animal owners know of the existence of the compensation mechanism

