

# Public Support for the Development of Organic Farming in Europe<sup>1</sup>

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## Abstract

The growth of organic farming in the European Union and the reasons for supporting organic farming are examined in the context of policy support for organic farming under EC Reg. 2078/92 (the agri-environment programme) and the structural measures (including the development by some countries of integrated action plans combining these measures). The potential for the future expansion of organic farming and the pre-conditions necessary for this to happen are considered in the context of the Agenda 2000 commodity measures and the Rural Development Regulation.

## Introduction

Organic farming is increasingly recognised, by consumers, farmers, environmentalists and policy-makers, as one of a number of possible models for environmental, social and financial sustainability in agriculture. It has taken a long time to get this far. Organic farming's roots can be traced back more than 100 years. Certified organic production dates back 25-30 years (70 years in the case of Demeter-certified bio-dynamic production). Yet only just over two percent of agriculture in the European Union is organic, and much less than 2% in other parts of the world. Why the increase in interest now and what is its relevance to policy makers?

## The growth of organic farming in the European Union

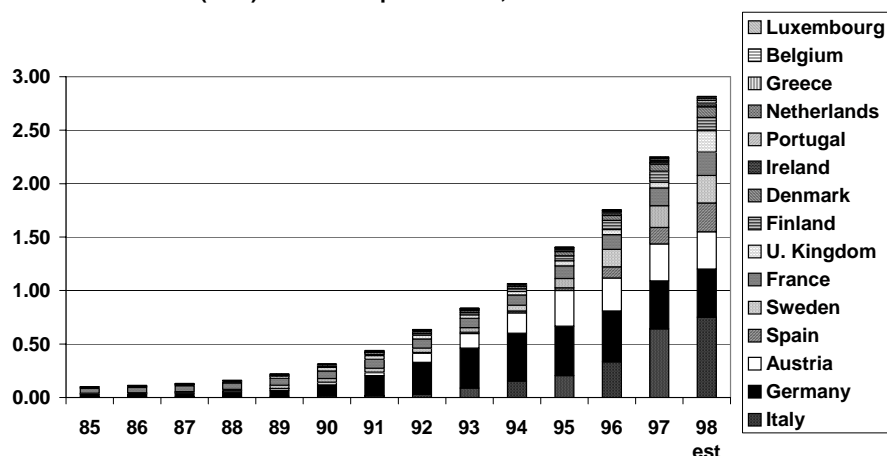
Recent years have seen very rapid growth in organic farming. In 1985, certified and policy-supported organic production accounted for just 100,000 ha on 6,300 holdings in the EU, or less than 0.1% of the total utilisable agricultural area (UAA). By the end of 1998, this had increased to more than 2.8 million ha on 113,000 holdings, nearly 2.1% of total UAA, a 30-fold increase in 13 years (unpublished data – Foster and Lampkin (1999) provide detailed statistics for 1993-1996). These figures hide great variability within and between countries. Several countries have now achieved 3-10% of their agricultural area managed organically, and in some cases more than 30% on a regional basis. But many others are still at or below the 1% level.

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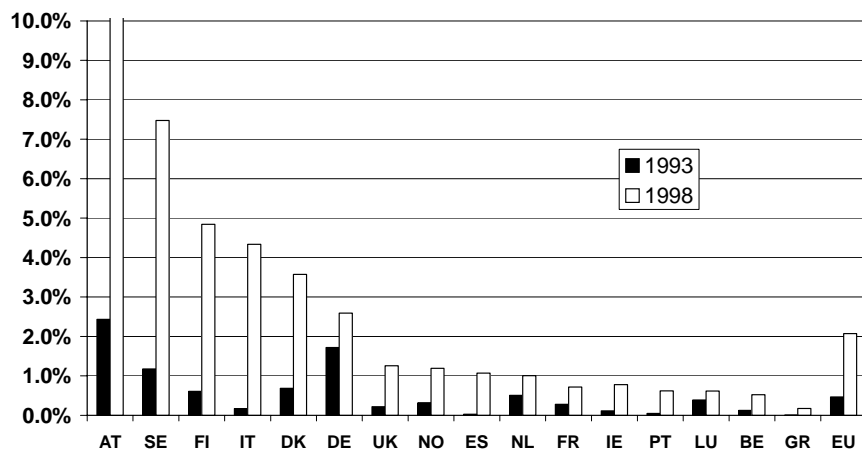
<sup>1</sup> Part of this research has been carried out with financial support from the Commission of the European Communities, Agriculture and Fisheries (FAIR) specific RTD programme, FAIR3-CT96-1794, "Effects of the CAP-reform and possible further development on organic farming in the EU". This paper does not necessarily reflect the Commission's views and in no way anticipates its future policy in this area.

Alongside the increase in the supply base, the market for organic produce has also grown, but statistics on the overall size of the market for organic produce in Europe are still very limited. Recent estimates have suggested that the retail sales value of the European market for organic food was of the order of EUR 5-7 billion in 1998 (Datamonitor, 1999).

**Figure 1 Certified and policy-supported organic and in-conversion land area (Mha) in the European Union, 1985-1998**



**Figure 2 Certified and policy-supported organic and in-conversion land area as % of total UAA in each country, 1993 & 1998**



## Factors influencing the growth of organic farming

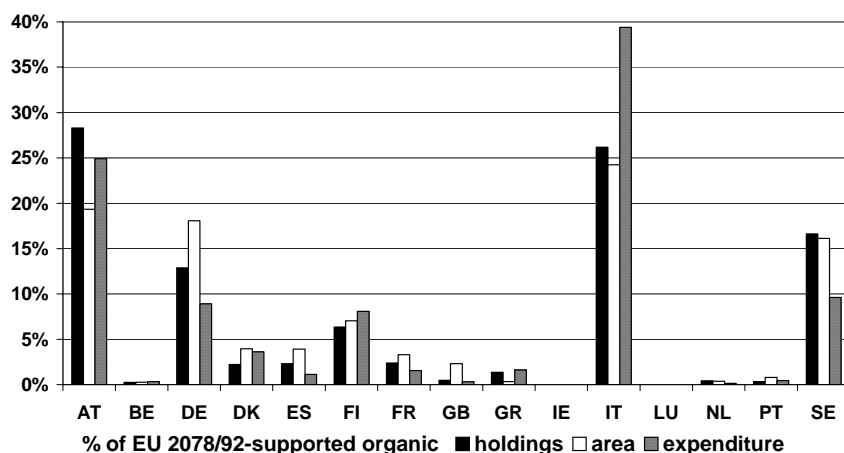
Nearly 80% of the expansion in the land area has taken place in the last six years, since the implementation in 1993 of EC Regulation 2092/91 defining organic crop production, and the widespread application of policies to support conversion to and continued organic farming as part of the agri-environment programme (EC Reg. 2078/92). The former has provided a secure basis for the agri-food sector to respond to the rapidly increasing demand for organic food across Europe. The latter has provided the financial basis to overcome perceived and real barriers to conversion.

The increasing role of EU policy support of this type during the 1990s has arisen because of a gradual convergence of policy goals with the underlying objectives of organic farming,

including environmental protection, animal welfare, resource use sustainability, food quality and safety, financial viability and social justice. Organic farming is also perceived to contribute to reducing problems of over-production. Organic farming offers three potential advantages over other, more targeted policy measures: it addresses all (or most of) these goals simultaneously, it utilises the market mechanism to support these goals, and it is recognised globally.

The agri-environment measures came into effect in 1993, although the majority of organic aid schemes under EC Reg. 2078/92 were not fully implemented by EU member states until 1996. By October 1997, more than 65,000 holdings and nearly 1.3 million ha were supported by organic farming support measures at an annual cost of more than 260 million ECU (Lampkin et al., 1999; Foster and Lampkin, 1999). Organic farming's share of the total agri-environment programme amounted to 3.9% of agreements, 5.0 % of land area and nearly 11% of expenditure, the differing shares reflecting in part the widespread uptake of baseline programmes in France, Austria, Germany and Finland. There were wide variations between countries in terms of the significance of organic farming support, both relatively and absolutely, within the agri-environment programme (Figures 3 and 4).

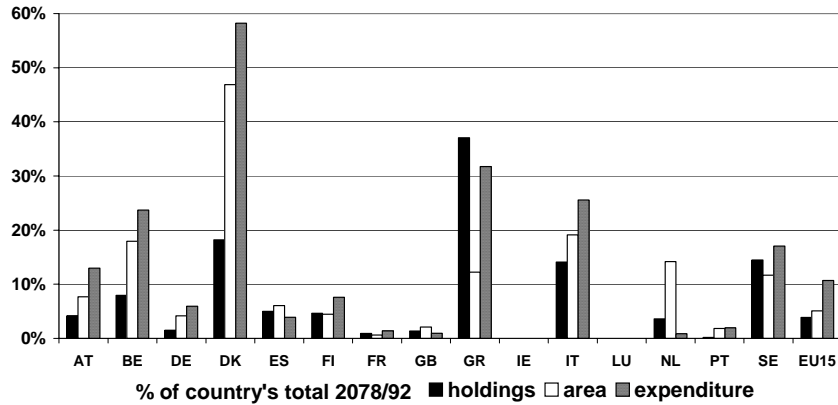
**Figure 3 Percent of total EU 2078/92 supported organic holdings, area and expenditure in individual countries, 1997**



Other EU policy measures which have been used to support organic farming in recent years include:

- support for marketing and processing activities and producer groups
- structural measures (Obj. 1, 5b, Leader)
- support for advice (usually as state aids) and demonstration programmes
- support for training activities (usually under 2078/92 or national programmes)
- support for research (under the EU Framework and national programmes).

**Figure 4 2078/92-supported organic farming as a percentage of individual countries' total 2078/92-supported holdings, area and expenditure, 1997**



In some countries, notably Denmark, Sweden, Finland, France, the Netherlands, parts of Germany and most recently Wales, these measures have been integrated with agri-environmental payments to create ‘action plans’ for the development of the organic sector. These action plans usually contain targets for the growth of the organic sector, and in many cases contain innovative proposals for involving local authorities and the private sector, based on in-depth analyses of specific problem areas and potential solutions.

A full review of the policy and regulatory environment for organic farming in the European Union, including all the measures described above, is contained in Lampkin et al., 1999.

### Potential for widespread conversion

Although growth trends in individual countries have varied considerably, with periods of rapid expansion followed by periods of consolidation and occasionally decline, overall growth in the European Union has been consistently around 25% per year for the last ten years, i.e. exponential growth. There is no indication yet of this rate of growth declining. Similar growth rates are reported for organic farming in the United States. If these growth rates are projected forward to 2010, this gives some indication of the potential significance of organic farming within a relatively short period. Assuming a starting point of 2.0 % of EU agriculture in 1998, continued 25% growth each year would imply a 10% share by 2005 and nearly 30% by 2010. A slower rate of growth of 15% each year would still result in just under 5% by 2005 and 10% by 2010. 10%, whether achieved by 2005 or 2010, may still be a small proportion of the total, but it is very significant in absolute terms. It represents nearly 15 million ha and more than 600,000 farms, almost equivalent to the share of the United Kingdom within EU agriculture.

This level of growth has tremendous implications for the provision of training, advice and other information to farmers, as well as for the development of inspection and certification procedures. It also has major implications for the development of the market for organic food, as it progresses from niche to mainstream status, with a likely retail sales value in 2005 of EUR 25-35 billion.

## **Pre-conditions for widespread conversion**

Projections into the future based on past performance are not sufficient to realise the potential of organic farming. There is no guarantee that the rates of growth seen in the past will continue, and the normal expectation would be for rates of growth to decline eventually. A better understanding of the factors lying behind the growth of organic farming, and in particular the differences between countries, is needed. This will be a key focus of work to be carried out this year by colleagues in Aberystwyth, Denmark and Italy as part of our EU-funded research on organic farming and agricultural policy. Zanolini (this volume) also addresses some of these issues.

In many respects, the development of organic farming has parallels to the traditional adoption-diffusion model for the adoption of innovations (Padel, 1994). Over time, the individualistic and socially-isolated innovators or pioneers are followed by the early adopters typified as community opinion leaders, to be followed in turn by the majority of farmers. In many countries, including the UK, this shift can be clearly seen. However, the rate at which this change takes place depends on the complexity of the innovation, and the adoption of organic farming is clearly a complex innovation.

The adoption-diffusion model does not seem to explain why the development of organic farming may be characterised by periods of stagnation followed by very rapid growth, as has been seen in several countries. A possible explanation for this is that farmers need to perceive the *need* to change before significant change will take place. A period of financial prosperity, as UK farmers experienced between 1992 and 1995 due to the CAP Reform package combined with the low value of the pound, was clearly not the basis for change. The reversal of circumstances since 1996, with the BSE crisis, the high value of the pound, and falling prices and agricultural support levels, has changed this perception dramatically. Similarly unsettling circumstances have arisen in other countries, for example in eastern Germany following re-unification, and in Austria on accession to the EU, leading to large increases in the number of farms converting.

The perception of the need for change has to be accompanied by a conviction that organic farming is a suitable alternative. This requires a high degree of confidence building because of the perceived financial, social and psychological barriers to conversion. It is not simply a case of 'more profits = more farmers' as some might argue. Our preliminary assessment of this issue indicates that four key factors are involved: policy signals from government and other policy-related institutions; market signals from consumers and the food industry; access to information; and the removal of institutional blockages or antagonisms. In the UK case, it seems clear that each of these has been problematic at some point in the last decade. However, the changes that have taken place in all four areas over the last two years mean that the UK is now poised for substantial growth.

Assuming that this analysis is correct, it provides a new basis for future policy development to encourage organic farming, particularly in the context of Agenda 2000, with a focus on integrated action plans rather than single measures like the organic support schemes under the agri-environment programme.

## Agenda 2000

Agenda 2000 (Agriculture Council, 1999; Berlin European Council, 1999; EC, 1998 & 1999) deals with the next policy planning period 2000-2006. The proposals have been drawn up against the background of the accession of new EU member states, particularly from Central and Eastern Europe (CEE), raising serious concerns about increased surpluses and costs of support. There is also a need to meet current and future WTO commitments, with the emphasis on removing production subsidies and facilitating global trade. In addition to these financial and political pressures, social and environmental issues continue to play a key role in the development of rural policy.

For commodities, there will be further intervention price reductions together with corresponding (although less than fully compensating) increases in direct payments. Eventually most crops and set-aside land will be supported at the cereals rate, although a higher area premium will be payable for pulses. Area payments for maize, including maize for silage, are to be retained. Potentially of more interest to organic producers is a new grass silage area payment option (based on cereals reference yield) which can be applied by member states 'where maize is not a traditional crop'. The extension of this concept to all organic farmers could be beneficial as an alternative to using set-aside payments to support the fertility-building phase of the rotation.

To the extent that the Agenda 2000 proposals for arable crops represent a continuation of the CAP Reform process begun in 1992, then the developments are likely to be favourable for organic farming. There remains a case for organic farmers to be exempted from compulsory set-aside, while remaining eligible for voluntary set-aside. The reduced rate of area payment for set-aside, however, may make it less attractive as a support mechanism for the fertility building phase of organic stockless rotations or during conversion.

Beef support prices are also to be cut, accompanied by revisions to the intervention and safety net arrangements. Beef special premium and suckler cow premium payments will be increased and a new slaughter premium is to be introduced. The extensification premium for low stocking rates would be increased, but would in future be calculated on the basis of total numbers of cattle, rather than those actually claimed for as at present. In some member states, a modified version of the previous extensification scheme may be implemented. This involves lower levels of payments for producers with stocking rates above 1.4 LU but below 2.0 LU (1.8 LU from 2002) and could be particularly useful for those organic producers who would no longer be eligible under the stricter rules.

Part of the funding for direct payments will be allocated to 'national envelopes' for member-state governments to distribute according to local needs, either as an additional headage payment to supplement the suckler cow premium, as a supplement to the slaughter premium, or as an area payment. In some cases, resources in the national envelopes could be used to support particular production systems, for example organic beef production.

Reforms to the milk regime will not be introduced until 2005/06. The quota regime has been extended until 2006, with a mid term review to decide on the possibility of abolishing quotas in 2006. In the meantime, specific quota increases are to be applied in a number of member

states. Across many sectors, the issue of quota constraints limiting the expansion of organic production is an important issue. Some countries already give priority allocations of milk, beef and sheep quotas to organic producers – this concept could be extended more widely.

In addition to the regulations proposed for individual commodities, a horizontal regulation applying across all commodities is designed to establish minimum levels of environmental cross-compliance and to allow member states to vary payments on the basis of labour usage by farms. To the extent that organic farmers are less likely to contravene any environmental cross-compliance requirements and might benefit from any additional payments relating to higher labour use, this regulation is also potentially advantageous to organic producers.

## **Rural Development Regulation**

Potentially the most important Agenda 2000 proposal is that to consolidate all existing agri-environment, rural development and structural policies into a single rural development regulation, to be implemented through single programming documents (Rural Development Plans) developed by member states. The revised draft regulation (EC, 1999) makes specific reference to the increasing demand for organic products and the resulting creation of a new market for agricultural products, stating that specific rural development support measures may contribute to the production and marketing of organically produced agricultural products.

The rural development regulation consists of nine chapters covering investment aids, young farmers, training, early retirement, less favoured areas, agri-environment schemes, processing and marketing of farm products, forestry, and the adaptation and development of rural areas. Most of these emphasise economic, environmental and animal welfare objectives that are fully compatible with organic farming.

In particular, the agri-environment measures will provide support for agri-environmental undertakings ‘which go beyond the application of usual good farming practice’ and it is envisaged that this definition would normally include organic farming. Also of significance are the proposals concerning less-favoured areas where the emphasis is on support for low-input (sustainable) farming systems with stronger links to environmental factors. The nature of ‘sustainable’ farming practices will need to be defined in each area, but it may be possible to give specific recognition to organic farming in this context.

By integrating most of the measures discussed in this report into a single regulation, and by requiring member states to produce customised rural development plans, the proposals have significant parallels to the ‘action plans’ for the development of organic farming discussed in the previous section. The draft regulation provides a significant opportunity for the development of integrated action plans that combine agri-environmental and less-favoured area support with investment aids, processing and marketing support, and training and advisory initiatives. In some regions, these action plans may be reinforced by actions under the structural measures (Obj. 1, 2, 3 and LEADER).

## The policy challenge

In this paper, it has been argued that the potential for the widespread adoption of organic farming is good, and certainly better than commonly supposed. Yet, apart from the preamble to the revised Rural Development Regulation, organic farming is not specifically mentioned in the Agenda 2000 regulations, and the impact of a significant expansion in organic farming does not yet form part of the analysis underpinning the main commodity measures.

Member states will have more responsibility than previously for the implementation of Agenda 2000 measures. In some countries, with the constructive involvement of the organic sector, this will lead to full use of the range of support measures available. In others, there may be less support than at present. This will, as now, have significant implications for trade between member states, with likely distortions to the level playing field which EC Reg. 2092/91 was designed to create.

The limitations on resources available under the Rural Development Regulation are such that a rapidly expanding organic sector supported solely from this source risks becoming a 'cuckoo in the nest', taking resources away from other worthwhile agri-environment and rural development projects. Organic farming support may therefore be subject to capping limits, deterring new entrants.

As a consequence, serious consideration needs to be given to using the Agenda 2000 mid-term review that now seems almost inevitable in 2002/03 to review funding allocations to the Rural Development Regulation and to examine mechanisms for supporting organic farming under the main commodity measures, for example through set-aside and quota derogations as well as higher payments for organic production of supported commodities.

At the same time, any policy interventions need to be carefully implemented, with full consideration for the needs and potential contribution of existing organic producers, in order to maintain an appropriate balance between policy support and the market, i.e. between taxpayer and consumer willingness to pay for the non-market benefits of organic farming, and in order to achieve sustainable and balanced growth in the organic sector.

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