# Organic farming – can policy and markets mix?<sup>1</sup>

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### **Abstract**

Organic farming is an approach to agriculture that emphasises environmental protection, animal welfare, food quality and health, sustainable resource use and social justice objectives, and which utilises the market to help support these objectives and compensate for the internalisation of externalities. Since the early 1990s, the organic sector has grown rapidly across Europe and globally, thanks to a combination of strong consumer demand, developing regulatory frameworks, direct financial support and insecurity in the conventional agricultural sector. The sector's success in utilising the market to support the broader public good goals has been seen as a role model for mixing market and public support mechanisms in agriculture, but the market has also come to dominate in many circumstances, threatening the achievement of the underlying goals and the integrity of the organic approach. With market growth slowing across Europe, has organic farming achieved its potential? Or is this just an illustration of the limits of relying on markets to support the delivery of public goods – another example of market failure in the making?

### 1 Introduction

Organic farming is an approach to agriculture that emphasises environmental protection, animal welfare, food quality and health, sustainable resource use and social justice objectives, and which utilises the market to help support these objectives and compensate for the internalisation of externalities<sup>4</sup>. As such, organic farming is neither a return to agriculture of 100 years ago, nor farming by neglect without inputs, but a developed approach to agriculture, based on science, with the selective use of modern technologies (e.g. machinery, varieties, breeds) that are consistent with these broader goals.

The objectives of organic farming, and the practices adopted, represent one approach among several to achieving greater sustainability in agriculture. While sharing common goals with many of the other approaches, such as integrated crop management, that also emphasise the selective use of modern technologies to optimise production systems, organic farming represents a more critical approach and involves greater restrictions on the use of some of the technologies, in particular agro-chemicals and genetic engineering, which research has shown result in additional environmental and resource use sustainability benefits compared with less restrictive approaches such as integrated crop management.

<sup>&</sup>lt;sup>1</sup> Paper presented at Agra-Europe Outlook 2003 conference 'Reform, Trade and Sustainability', London, 31<sup>st</sup> March-1<sup>st</sup> April 2003. Some of the research presented in this paper has been financially supported by the European Commission and the Council of Europe, but any opinions expressed are those of the authors alone and do not necessarily reflect the positions of these organisations.

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<sup>&</sup>lt;sup>3</sup> Co-ordinator of EU-funded research programme on Organic Farming and CAP reform (OFCAP), 1997-2000, www.uni-hohenheim.de/~i410a/eu\_org/Fair3\_Index.htm

<sup>&</sup>lt;sup>4</sup> Lampkin, N. H. (2003) Organic farming. In: Soffe, R. (ed.) *Agricultural Notebook*. 20<sup>th</sup> Edition. Blackwell Science, Oxford.

A unique feature of organic farming among other approaches to agricultural sustainability is the reliance on specialist markets to help maintain financial viability. From the 1960s to the 1980s, organic farming received little official recognition and no direct financial support from government, which meant that producers had to rely on consumers' willingness to pay for the perceived benefits of organic food in order to compensate for restricting the technologies used and the lower yields and higher costs that resulted.

The development of specialist markets requires that organic products can be reliably identified, in order to protect consumers and genuine producers, and to prevent fraudulent claims. Because the outputs of organic farming cannot be distinguished by specific characteristics of the end *product*, it is the production *process* that is used to distinguish organic products in the market place. This requires detailed production standards, inspection procedures and control systems to ensure traceability in the supply chain.

Voluntary national standards supported internationally by IFOAM<sup>5</sup> have increasingly been supplemented or replaced by national and international governmental agreements and regulations<sup>6, 7</sup>, including the EU Regulation 2092/91<sup>8</sup>, FAO/WHO's *Codex Alimentarius Commission*<sup>9</sup> and similar initiatives in the USA and elsewhere.

# 2 Growth of organic farming in Europe

Although organic farming as a concept has existed for over 80 years, only since the mid 1980s has it become the focus of significant attention from policy-makers, consumers, environmentalists and farmers in Europe. In 1985, certified and policy-supported organic production accounted for just over 100,000 ha, or less than 0.02% of the total agricultural area in Europe. By the end of 2001, this had increased to almost 5.5 million ha (Fig. 1).

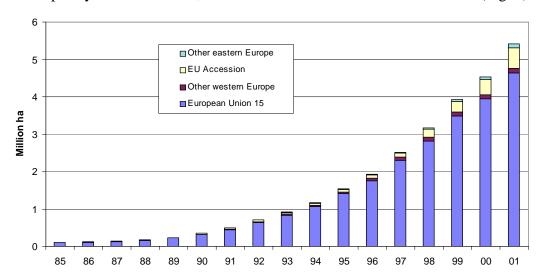


Fig. 1 Organic and in-conversion land area (million ha) in Europe, 1985-2001

<sup>6</sup> Lampkin, N., C. Foster, S. Padel and P. Midmore (1999) *The policy and regulatory environment for organic farming in Europe*. Organic Farming in Europe: Economics and Policy, Vol. 1 and 2, University of Hohenheim, Stuttgart.

<sup>&</sup>lt;sup>5</sup> International Federation of Organic Agriculture Movements: www.ifoam.org

<sup>&</sup>lt;sup>7</sup> Organic agriculture, environment and food security. Environment and Natural Resources, 4. Food and Agriculture Organisation, Rome, 2002.

<sup>&</sup>lt;sup>8</sup> Council Regulation (EEC) No 2092/91 of 24 June 1991 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs. OJ L198 (22.7.91), 1-15.

<sup>&</sup>lt;sup>9</sup> FAO/WHO Codex Alimentarius Commission Guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods. Food and Agriculture Organisation, Rome, 2001. ftp://ftp.fao.org/codex/standard/booklets/organics/gl01\_32e.pdf

In the same period, the number of organic holdings increased from 6,500 to nearly 190,000. Most of the growth (90% of the expansion in the land area) has taken place in the last decade, since the implementation of EC Reg. 2092/91 and the widespread application of policies to support conversion to and continued organic farming as part of the agri-environment programmes in the EU and elsewhere. Consumer demand for organic food has risen sharply, leading to the active involvement of multiple retailers and substantially higher prices at the farm gate than those received in the conventional sector. These factors have contributed to substantial growth in supply, helping market development by increasing availability of products and raw materials, but in some cases also leading to oversupply problems and downward price pressures.

Alongside the increase in the supply base, the market for organic produce has also grown significantly, but statistics on the overall size of the market for organic produce in Europe are still very limited<sup>10</sup>. Some recent estimates have suggested that the retail sales value of the European market for organic food will reach 10-11 billion EUR (40% of the global organic market) in 2003 (Table 1). This represents very rapid growth of up to 25% per annum in recent years, but the ITC has revised its mid-term growth forecasts downward, from its 2002 estimate of 10-20% annually to just 5-10% in many EU countries.

Table 1. Retail sales value (RSV) estimates for organic products, 2003

			Medium term growth rate %	
	Billion Euro RSV	% of total market	(2002 forecast)	(2003 forecast)
Germany	2.8-3.1	1.7-2.2	10-15	5-10
United Kingdom	1.6-1.8	1.5-2.0	15-20	10-15
Italy	1.3-1.4	1.0-1.5	10-20	5-15
France	1.2-1.3	1.0-1.5	10-15	5-10
Switzerland	0.7-0.8	3.2-3.7	10-15	5-10
Denmark	0.3-0.4	2.2-2.7	10-15	0-5
Austria	0.3-0.4	2.0-2.5	10-15	5-10
Netherlands	0.4-0.5	1.0-1.5	10-20	5-10
Sweden	0.4-0.6	1.5-2.0	15-20	10-15
Belgium	0.2-0.3	1.0-1.5	10-15	5-10
Other Europe	0.8-0.9			
Europe total	10.0-11.0			
USA	11.0-13.0	2.0-2.5	20	15-20
Global total	23.0-25.0			

Source: International Trade Centre, Geneva, 2003

The production figures hide great variability within and between regions and countries. The majority of the growth has taken place within the European Union, where close to 4% of the land area is under organic management, and several countries (Italy, Finland, Denmark, Sweden, Austria) have achieved 4-12% of their agricultural area managed organically (Fig. 2). Outside the EU, countries such as Switzerland, Liechtenstein and the Czech Republic have also experienced high rates of adoption. Specific factors, such as particularly strong market growth, the crises in conventional agriculture in the UK and elsewhere, and strong policy support in Switzerland and Scandinavian countries, have also contributed to the growth rates in individual countries <sup>11, 12</sup>.

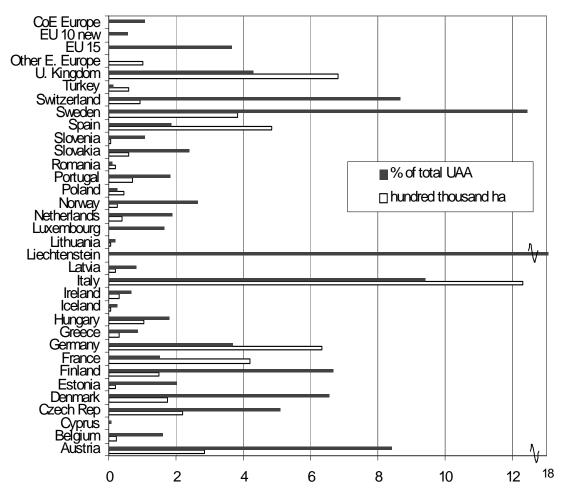
<sup>&</sup>lt;sup>10</sup> Hamm, U.; Gronefeld, F. and D. Halpin (2002) *Analysis of the European Market for Organic Food.* University of Wales, Aberystwyth.

<sup>&</sup>lt;sup>11</sup> Michelsen, J., Lynggaard, K., Padel, S. and Foster, C. (2001) Institutional factors influencing variations in the rate of conversion to organic farming in Europe 1985-96: In-depth studies of selected nations/regions. Organic Farming in Europe: Economics and Policy, Vol. 9., University of Hohenheim.

<sup>&</sup>lt;sup>12</sup> Organic Europe: www.organic-europe.net. Stiftung Oekologie und Landbau, 1999-2002.

Many other western and central European states are showing steady growth and are now at the 1-2% level of adoption and, in most cases, have the institutional basis (organisations, regulations and policies) to permit further expansion, although specific factors in each country may be impeding growth and need to be addressed. Slowest growth can be seen in the Eastern European states, for which little accurate data is available, although some indications can be found in reports from the FAO<sup>13</sup>, ITC<sup>14</sup> and others<sup>15</sup>. The absence of firm statistical data is a reflection of the early stage of development in these countries.

Fig. 2 Organic and in-conversion land area (hundred thousand ha) and as a proportion



of total utilisable agricultural area (%) in individual States, year ending 2001

(Source: own data, see: <a href="www.organic.aber.ac.uk/stats.shtml">www.organic.aber.ac.uk/stats.shtml</a>)

Data not available for European countries not shown

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<sup>&</sup>lt;sup>13</sup> Organic agriculture, environment and food security. Environment and Natural Resources, 4. Food and Agriculture Organisation, Rome, 2002.

<sup>&</sup>lt;sup>14</sup> Organic food and beverages: world supply and major European Markets. ITC/UNCTAD, Geneva, 1999.

<sup>&</sup>lt;sup>15</sup> e.g. The World of Organic Agriculture Worldwide 2003 – Statistics and Future Prospects. Yuseffi, M and Willer, H. 5<sup>th</sup> Edition, IFOAM, Bonn. http://www.soel.de/inhalte/publikationen/s/s\_74.pdf

### 3 Impact of organic farming with respect to policy goals

A key reason for policy interest in organic farming lies in the increasing coincidence of organic farming goals and policy goals <sup>16</sup> with respect to the environment, resource use sustainability, animal welfare, food safety, nutrition and human health, financial viability and social justice. The potential and actual achievements of organic farming with respect to these goals is now widely accepted and documented by a range of research studies, although some areas, such as animal welfare <sup>17</sup> and food quality and health <sup>18, 19</sup>, are subject to greater debate than others.

The clearest evidence exists with respect to the environmental impacts of organic farming, where research, field trials and farm experience have demonstrated that organic farming compares favourably to conventional and integrated production with respect to environmental performance, particular with respect to lower pesticide residues, richer biodiversity, lower nutrient run-off, reduced fossil energy consumption and reduced greenhouse gas emissions<sup>20</sup>.

Premium markets and policy support provide opportunities for organic producers to maintain incomes while reducing production intensity and reliance on specific technologies and practices. A comparative review<sup>21</sup> of the economic situation of organic and conventional farms shows that average profits of organic farms are similar to those of comparable conventional farms, despite the lower yields typical of European organic systems, but the income effect of conversion to organic production depends on farm type, location and country, although extensive farms in marginal regions are more likely to benefit from conversion than intensive farms in fertile regions.

Organic farming is also concerned with social issues and there are many examples of community supported agriculture and similar initiatives being developed by individual producers, as well as in many cases the adoption of Fairtrade standards for trade with developing countries<sup>22</sup>. However, these initiatives remain a minority within the organic sector and in comparison to the other issues mentioned, in general social issues have been much less developed until now. This is being addressed by new initiatives by IFOAM<sup>23</sup> and others<sup>24</sup> in the organic movement to include social issues in organic standards, but it may be some time before these initiatives are reflected in official regulations.

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<sup>&</sup>lt;sup>16</sup> A Long-term Policy Perspective for Sustainable Agriculture – Explanatory Memorandum and Legislative Proposals for CAP Reform. European Commission, Brussels, 2003. http://europa.eu.int/comm/agriculture/mtr/memo\_en.pdf

<sup>&</sup>lt;sup>17</sup> Network for animal health and welfare in organic agriculture (NAHWOA). EU-funded concerted action. www.veeru.reading.ac.uk/organic

<sup>&</sup>lt;sup>18</sup> Pilot project on organic food quality commissioned by Directorate-General for Health and Consumer Protection, European Commission, Brussels.

<sup>&</sup>lt;sup>19</sup> Food quality and safety as affected by organic farming. Paper presented to 22<sup>nd</sup> FAO regional conference for Europe, Porto, July 2000. Food and Agriculture Organisation, Rome

<sup>&</sup>lt;sup>20</sup> Stolze, M., A. Piorr, A. Häring and Dabbert,S. (2000) The environmental impact of organic farming. Organic Farming in Europe: Economics and Policy, 6. University of Hohenheim.

<sup>&</sup>lt;sup>21</sup> Offermann, F. and Nieberg, H., 2000. Economic performance of organic farms in Europe, in: Organic farming in Europe: Economics and Policy, Vol. 5. University of Hohenheim

<sup>&</sup>lt;sup>22</sup> Organic agriculture, environment and food security. Environment and Natural Resources, 4. Food and Agriculture Organisation, Rome, 2002.

<sup>&</sup>lt;sup>23</sup> Cierpka, T. and Geier, B. A social agenda for organic agriculture. In: Workshop on Organic Agriculture, Washington DC, September 2002. Organisation for Economic Co-operation and Development, Paris.

<sup>&</sup>lt;sup>24</sup> Trading fairly from plough to plate: new models for ethical and sustainable trade in agriculture. Soil Association conference, Cirencester, January 2003.

Rural development has become a key issue of European agricultural policy<sup>25</sup>, <sup>26</sup> and an array of policies has been implemented to enhance economic development in rural areas, with the main objective of increasing income of rural households and reducing unemployment rates. Organic farming needs in most cases more labour per unit area<sup>26</sup> and traditionally has evolved through small processing and marketing businesses often located in rural areas<sup>27</sup>. In situations where the labour force in agriculture is still high and where it is desirable to have only a gradual decrease, measurable positive effects of organic farming on the number of jobs can be expected if organic markets are accessible for these farms. In highly industrialised countries organic farming may have little direct effects on unemployment rates in rural areas. Indirect positive effects such as increased employment in tourism due to a positive "ecological" image of a region can also be of importance.

### 4 The case for policy intervention

Policy makers are interested in supporting organic agriculture for two main reasons <sup>28,29,30</sup>.

Firstly, organic farming is recognised as delivering environmental and other benefits to society that society wants. These benefits are public goods, which would not be delivered in sufficient quantities without government intervention. Organic farming support can also be seen as one way to address the issue of negative environmental externalities in modern farming. Of course there are other policies needed and some already in place that deal with decreasing these negative impacts of conventional farming. The key advantage of organic farming support compared to other more specific agri-environmental policy instruments is that a broad range of environmental and other benefits can be obtained, partly supported by the market, and organic farming support is comparatively easy and inexpensive to administer because of the existence of control/inspection systems. In general terms, the more targeted agri-environmental instruments may be more effective at achieving specific targets, but are likely to yield fewer benefits in related areas, and may be associated with much higher transaction and monitoring costs. In these circumstances, support for environmentally friendly farming systems such as organic farming, with more general benefits and lower transaction costs, might actually be a superior policy.

The second argument rests on the following observation: overall, the organic sector is still too small to benefit from economies of scale, especially in the chain between farm gate and point of sale to consumers, which leads to comparatively high costs and sometimes insufficient quantities to meet the requirements of new entrants. Higher costs and small quantities in turn necessitate high premium prices and are one reason why only a relatively small number of products are available in supermarkets. These factors deter the potential "new organic consumer" from actually buying the products. With low levels of demand, the situation stays

<sup>&</sup>lt;sup>25</sup> Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund.. OJ L 160, 26/06/1999, 80-102.

<sup>&</sup>lt;sup>26</sup> Council Regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures in agriculture and rural development in the applicant countries of the central and eastern Europe in the pre-accession period. OJ L161 26/06/1999, 87-93.

<sup>&</sup>lt;sup>27</sup> Organic marketing initiatives and rural development. EU-funded research project no QLK5-2000-01124; University of Wales, Aberystwyth. http://www.irs.aber.ac.uk/omiard.

<sup>&</sup>lt;sup>28</sup> Lampkin, N., C. Foster, S. Padel and P. Midmore (1999) *The policy and regulatory environement for organic farming in Europe*. Organic Farming in Europe: Economics and Policy, Vol. 1 and 2, University of Hohenheim.

<sup>&</sup>lt;sup>29</sup> Dabbert *et al.* in: Organic Food and Farming: Towards Partnership and Action in Europe. Proceedings of conference organised by Danish Ministry of Food, Agriculture and Fisheries, Copenhagen, May 2001. www.fvm.dk/kundeupload/konferencer/organic\_food\_farming/index.htm

<sup>&</sup>lt;sup>30</sup> Workshop on Organic Agriculture, Washington DC, September 2002. Organisation for Economic Cooperation and Development, Paris.

unchanged. This analysis forms the basis to argue that organic farming can be regarded as an "infant" industry, support for which can be justified in terms of expanding consumer choice and allowing the industry to develop to a point at which it is able to be independent and compete in established markets and make a positive contribution to rural development.

Although both justifications can be seen to be utilised in most countries, the first is more typical of some Scandinavian and Central European countries (e.g. Sweden, Finland, Austria) while the second approach is reflected in the Dutch focus on supply chain initiatives<sup>31</sup>, the UK's historic unwillingness to support farms beyond the initial conversion phase<sup>33</sup> and the new English organic action plan focus on market targets<sup>32</sup>.

However, there is a significant risk that if the organic market becomes an end in itself, rather than a means to supporting the broader goals of organic farming, then the benefits to society, and the basis for consumer trust in organic products, will be undermined. In addition, it is relevant to ask why a small minority of consumers should be expected to pay through higher prices for benefits that accrue to society as a whole.

The challenge for policy makers is to develop a mix of policies that can make effective use of the market base which the organic community has developed, while at the same time allowing organic agriculture to remain true to its original aims, thus maximising the broader benefits to society as a whole.

#### 5 Examples of policy measures to support organic farming

The positive perceptions of the potential of organic farming led to the introduction of support programmes in various western European countries starting in the late 1980s<sup>33, 34</sup>.

In the European Union, the two most important policy measures, in terms of their impact on the organic farming sector, were

- the agri-environmental policies<sup>35</sup>, with specific provisions for organic farming, implemented as a consequence of the 1992 MacSharry Reform of EU agriculture policies, and continued as part of the rural development programme<sup>36</sup> under Agenda 2000;
- the EU-wide common certification system for organic farming, which came into effect in 1993 and was extended to the animal production sector in 2000.

Similar policies were implemented in the EFTA states, so that by 1998, all western European states had implemented regulations to certify organic products and to provide direct financial support to producers converting to or (in nearly all cases) continuing with organic production. Policy initiatives have also been developed in several of the CEE states poised to join the EU. Examples of direct financial support to organic producers can be found already in the early

<sup>&</sup>lt;sup>31</sup> An Organic Market to Conquer. Policy Document on Organic Agriculture, 2001-2004. Ministerie van Landbouw, Natuurbeheer en Visserij, Netherlands, 2000. www.minlnv.nl/international

<sup>&</sup>lt;sup>32</sup> An Action Plan for Organic Food and Farming in England. Department of the Environment, Food and Rural Affairs, London, 2002. http://www.defra.gov.uk

<sup>&</sup>lt;sup>33</sup> Lampkin, N., C. Foster, S. Padel and P. Midmore (1999) *The policy and regulatory environment for organic farming in Europe.* Organic Farming in Europe: Economics and Policy, Vol. 1 and 2, University of Hohenheim. <sup>34</sup> Dabbert, S., Haring, A., Zanoli, R. (2003) Organic Agriculture: Policies and Prospects. Zed Books, London.

<sup>&</sup>lt;sup>35</sup> Council Regulation (EEC) No 2078/92 of 30 June 1992 on agricultural production methods compatible with the requirements of the protection of the environment.. OJ L193, 30/07/92, 85-90.

<sup>&</sup>lt;sup>36</sup> Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund.. OJ L 160, 26/06/1999, 80-102.

1990s in the Czech Republic<sup>37</sup>. More recently, policies including direct financial support have been implemented in, for example, the Czech republic, Poland, Hungary and Slovenia under SAPARD<sup>38</sup>. Several CEE countries have also implemented regulations defining organic farming consistent with the European Union regulations.

In financial terms, the agri-environmental support programmes are the most important western European policies applicable to organic farming, with nearly €190 million of a total of about €300 million spent on organic farming support in the EU in 1996 accounted for by direct support under agri-environmental programmes. In the following year, this increased to €260 million and current expenditure is believed to be ca. €600 million. Against this, all other areas of support are much less important in financial terms.

Lately, because of the negative impacts of supply increases on the markets for organic food, there has been increased interest in some countries in a more diversified approach to the selection of organic farming support policies, with particular interest in demand pull rather than supply push initiatives. Thus a wide range of policies can be found in different countries, some of which are not necessarily specific to the organic sector, but may be targeted at organics as a priority sector. Examples of such policies include:

# Producer-focused support

- direct payments to support conversion to and continued organic production
- support for certification costs
- capital investment support (grants, low interest loans etc.)
- special exemptions to mitigate the impacts of mainstream commodity measures, e.g.:
  - o more flexible application of set-aside and arable area eligibility rules
  - favourable access to national quota reserves
  - EU-wide provision since 2001 for organic producers to utilise set-aside land for feeding livestock
- information initiatives (research and development, advice, training, benchmarking, pilot/demonstration farms, discussion groups, mentor farmer networks)
- producer groups
- taxes/levies on pesticides and fertilisers with resources redirected to organic farming

### Supply chain-focused support

- marketing and processing grants
- supply chain agreements (Netherlands)
- infrastructure/institutional capacity building (information centres, certification, auditing and traceability systems)
- information initiatives (research, product development, consultancy and training, statistical and benchmarking data, market intelligence)
- tax credits/rebates on investments in organic businesses

### Consumer-focused support

- regulations and certifications systems
- national/European logos/symbols for organic food
- public/consumer information campaigns
- public procurement initiatives<sup>39</sup>

<sup>&</sup>lt;sup>37</sup> Znaor, D. (ed.) (1994) The contribution of organic agriculture to sustainable rural development in Central and Eastern Europe. International Seminar, Rudolec, Czech Republic, 1993. Avalon Foundation, Netherlands.

<sup>&</sup>lt;sup>38</sup> Council Regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures in agriculture and rural development in the applicant countries of the central and eastern Europe in the preaccession period. OJ L161 26/06/1999, 87-93.

<sup>&</sup>lt;sup>39</sup> see, for example, Rech T. (2002) Organic food for public institutions. Paper presented at Workshop on Organic Agriculture, Washington DC, September 2002. Organisation for Economic Co-operation and Development, Paris.

- organic agri-tourism initiatives
- reduced/zero rate VAT on organic products

From this list, two areas emerge as deserving attention at all levels. Firstly, a wide variety of information initiatives in all areas of the food chain are needed to ensure both effective communication of existing knowledge and to improve the performance of organic farming with respect to policy goals. Secondly, appropriate partnerships are needed at all levels, in particular between stakeholders and government, as well as the development of appropriate infrastructures, to ensure the effective development of the organic sector.

It should be noted that the mainstream commodity measures are also available to organic producers, and that in particular the shift from price support to area-based support is likely to have been beneficial for organic producers. In general terms, decoupling of support from specific commodities, and the shift of resources to rural development measures as proposed in the mid-term review of Agenda 2000<sup>40</sup>, is likely to be beneficial for organic producers. The proposed exemption of organic farming from compulsory set-aside is also to be welcomed. However, there is still a need to reduce the impact on organic farming of other supply constraining measures such as quotas, since organic farming involves reduced levels of output *per se*, and in many case markets remain under rather than oversupplied.

Organic farming policies are less well developed in the candidate countries. The European Commission's evaluation<sup>41</sup> of the impact of enlargement on agriculture in CEE countries highlighted the potential role of organic farming, and the opportunities have been identified by policy makers in other Central and Eastern European states, although in some cases little action has taken place despite efforts to include organic farming in pilot agri-environmental programmes. Organic farming approaches can be well suited to areas of high nature value where traditional agriculture is already very extensive, by offering the potential for higher returns, although positive management is required to minimise the risk of environmental damage through neglect/inaction<sup>42</sup>. However, encouraging producers to adopt organic practices without a full understanding of and commitment to the reasons or methods to be used could lead to problems of acceptance in the longer term.

Organic farming may also have a role in improving productivity in regions where access to external inputs is limited by financial or other constraints and maximising outputs in a self-sufficiency, subsistence context is important. (For this reason, Cuba has adopted organic farming methods as a major part of its agricultural policy, and the FAO<sup>43</sup> has identified the contribution that organic farming can make to food security outside the normally perceived context of premium price markets for organic produce).

The specific circumstances of some candidate countries, in particular low labour payments; small farm structures in some countries; high proportions of the population deriving incomes from agriculture; the lack of developed domestic organic markets; and the lack of information (research, training etc.) and certification infrastructures needed to support a developing organic sector all mean that specific policies are needed that will be different to those developed in western European countries with a longer history of organic farming.

<sup>41</sup> Enlargement and agriculture: successfully integrating the new Member States into the CAP. Issues Paper, Commission of the European Communities, Brussels, January 2002.

<sup>&</sup>lt;sup>40</sup> A Long-term Policy Perspective for Sustainable Agriculture – Explanatory Memorandum and Legislative Proposals for CAP Reform. European Commission, Brussels, 2003. http://europa.eu.int/comm/agriculture/mtr/memo\_en.pdf

<sup>&</sup>lt;sup>42</sup> Znaor, D. (2001) Overview of the development of organic food and farming in the CEE – elements for a regional action plan. In: Organic Food and Farming: Towards Partnership and Action in Europe. Proceedings of conference organised by Danish Ministry of Food, Agriculture and Fisheries, Copenhagen, May 2001.

<sup>&</sup>lt;sup>43</sup> Organic agriculture, environment and food security. Environment and Natural Resources, 4. Food and Agriculture Organisation, Rome, 2002.

## 6 Action plans for organic farming

A key problem facing policy-makers is the balancing of the supply (push) and demand (pull) initiatives to achieve sustainable development of organic agriculture without undermining markets in support of environmental and rural development goals. Some countries (e.g. Austria, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden and parts of the United Kingdom) have developed integrated action plans<sup>44</sup> in an attempt to achieve a better policy mix. The range of approaches adopted, however, illustrates the problems, and the political pressures, inherent in achieving this.

The organic farming action plans normally include targets for adoption (typically 5-10% by 2000/2005 or 10-20% by 2010) and a combination of specific measures including: direct support through the agri-environment/rural development programmes; marketing and processing support; producer information initiatives; consumer education and infrastructure support. The more detailed plans contain evaluations of the current situation and specific recommendations to address issues identified, including measures to ameliorate conflicts between different policy measures. Some examples are illustrated in more detail below.

**Denmark** has the longest history of policy support for organic farming, with the first measures introduced in 1987. The first Danish Action Plan of 1995 covered the period until 1999. Its 7% by 2000 target was almost achieved, with 6% of agricultural land in Denmark certified in 2000. Action Plan II<sup>45</sup> aims for an increase of 150,000 ha, to ca. 12% of agricultural land, by 2003. The plan was drawn up by the Danish Council for Organic Agriculture, a partnership between government, organic producer organisations, conventional farming groups, trade unions, consumer and environmental groups. It is characterised by an in-depth analysis of the situation in Denmark and represents the best developed example of the action plan approach, containing 85 recommendations targeting demand and supply, consumption and sales, primary production, quality and health, export opportunities as well as institutional and commercial catering. The plan has a specific focus on public goods and policy issues, with recommendations aimed at further improving the performance of organic agriculture with respect to environmental and animal health and welfare goals, including research and development initiatives, administrative streamlining and policy development.

The situation in **Germany** has a more overtly political basis. The fall-out from the BSE crisis in Germany in 2000 led to a goal of 20% organic farming by 2010 being set. This was heavily criticised by farming unions and agricultural economists, in part because of the absence of specific measures to achieve the goal. However, the rates of payment for the federal German organic farming scheme were increased and a unified symbol for organic products introduced (following the failure of private sector initiatives to achieve a similar goal). Marketing and processing support initiatives continue through the rural development plan. The German 'Federal Programme for Organic Agriculture' is not strictly an action plan as it does not aim to integrate or modify policy measures that are already in place, but seeks instead to create a new information programme targeting all elements of the supply chain, from the input suppliers through producers, distributors, processors and retailers to consumers. Substantial funding (€70 million in 2002/2003) is directed at the key elements, including web-based information resources, research, training and demonstration activities, with the major share of funding targeted at consumer information campaigns.

<sup>&</sup>lt;sup>44</sup> Lampkin, N., C. Foster, S. Padel and P. Midmore (1999) *The policy and regulatory environment for organic farming in Europe*. Organic Farming in Europe: Economics and Policy, Vol. 1 and 2, University of Hohenheim.

<sup>&</sup>lt;sup>45</sup> Actionplan II – Developments in Organic Farming. Ministry of Food, Agriculture and Fisheries, Copenhagen, 1999. www.fvm.dk/oko\_uk/high\_final\_okouk\_forside.asp?page\_id=217

<sup>&</sup>lt;sup>46</sup> Bundesprogramm Ökologischer Landbau. Bundesministerium für Verbraucher-schutz, Ernährung und Landwirtschaft, Berlin, 2001. http://www.bundesprogramm-oekolandbau.de/

In contrast to the mixed approach in Denmark with an emphasis on both market development and the delivery of public goods and the dominant information focus of the German programme, the most recent action plan in the **Netherlands**, 'An organic market to conquer' 47, reflects the very strong demand/supply chain focus of Dutch policy, which targets a 10% organic share of production by 2010. The plan aims to improve the functioning and efficiency of the supply chain, to reach new, less ideological consumers, and to retain consumer confidence through effective certification procedures, but it also recognises the need for continuing research and information dissemination initiatives. In contrast to other countries, the policy includes the phasing out of supply measures including direct payments, with support for conversion available for the last time in 2002.

In the **United Kingdom**, action plans have been produced in Wales and in England. The Welsh action plan <sup>48</sup>, published in 1999, aims for 10% of Welsh agriculture to be organic by 2005. An integrated approach combining three main types of activities was envisaged: effective utilisation of existing measures and development of new policy initiatives; marketing measures (including market analysis and development, marketing and processing/RDP grants, and related training and business advice); and information measures, involving a co-ordinated information strategy and the establishment of an organic centre for excellence. The more recent English action plan <sup>49</sup> does not include targets for production, focusing instead on market share of domestic organic products, but does for the first time introduce the concept of maintenance payments for organic producers (as available elsewhere in Europe). It also includes a series of supply chain initiatives, including reform of the certification system and improved statistical and bench-marking data, as well as increased funding for research, the establishment of an institute to support the accreditation and information needs of advisors, and a range of other training and extension initiatives linked to existing programmes for conventional producers.

At the **European Union** level, a strategic focus for policy support for organic agriculture is needed, given its potential significance in coming years. Although the implementation of measures to support organic farming is primarily a matter for member states, it is important that the enabling regulatory framework is adequate to provide the right policy mix, including the minimisation of conflicts between individual initiatives. As organic farming grows, the size of the sector will begin to impact on the overall supply and market situations for agricultural products in the EU, and this will need to form part of the considerations for ongoing reform of the main commodity measures. Therefore, while the EU may hold back from setting a global target for organic production, some consensus on the longer-term potential of the sector is still desirable. In addition, there is a need for certain actions at an EU-wide level, for example a common, non-discriminatory identification symbol also applicable to non EU-products.

The development of a European action plan was initiated by the European conference on organic farming held in Copenhagen in May 2001<sup>50</sup>, and subsequently supported by the Council of Agricultural Ministers in June 2001. A working document from the EU

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<sup>&</sup>lt;sup>47</sup> An Organic Market to Conquer. Policy Document on Organic Agriculture, 2001-2004. Ministerie van Landbouw, Natuurbeheer en Visserij, Netherlands, 2000. <a href="https://www.minlnv.nl/international">www.minlnv.nl/international</a>

<sup>&</sup>lt;sup>48</sup> The Welsh Organic Food Sector Action Plan. NAW/WDA Welsh Agri-Food Partnership, Cardiff, 1999. <a href="https://www.wales.gov.uk/subiagriculture/newdevelop/newdev">www.wales.gov.uk/subiagriculture/newdevelop/newdev</a> e.htm#AGRI-FOOD

<sup>&</sup>lt;sup>49</sup> An Action Plan for Organic Food and Farming in England. Department of the Environment, Food and Rural Affairs, London, 2002. <a href="http://www.defra.gov.uk">http://www.defra.gov.uk</a>

<sup>&</sup>lt;sup>50</sup> Organic Food and Farming: Towards Partnership and Action in Europe. Proceedings of conference organised by Danish Ministry of Food, Agriculture and Fisheries, Copenhagen, May 2001. www.fvm.dk/kundeupload/konferencer/organic food farming/index.htm

Commission was presented to the Council of Ministers in December 2002<sup>51</sup> and submitted to public consultation in March 2003. This process is expected to lead to detailed proposals for a European Action Plan before the end of 2003. The consultation document issued by the Commission includes a description of the development of organic farming as well as an attempt to analyse the strengths and weaknesses of the current situation. It does not yet suggest a comprehensive and coherent set of actions, but recommends reflection on a number of broader issues connected to organic farming that could possibly become part of a European action plan.

The consultation document lacks a strategic view of the role of organic farming within the context of agricultural policy. The Commission does not address the key question on which role it foresees for organic farming in comparison to other farming systems and the document lacks an in-depth analysis of the necessary revisions that the Common Agricultural Policy might have to undergo if organic farming is to be supported more strongly, as identified in the Copenhagen conference and by key stakeholder NGOs such as IFOAM<sup>52</sup>. The connections between a European action plan and the mid-term review of Agenda 2000 remain unclear. As such, the Commission's working document falls short of the expectations of the participants in the May 2001 conference in Copenhagen as well as many stakeholders. It is to be hoped that the consultation process will lead to significant enhancements to the proposals, but political action, at governmental and parliamentary level as well as by stakeholders, may be necessary to achieve this.

## 7 Conclusions

Organic farming in Europe has been through a remarkable period of growth, but has now reached a turning point. Market growth is slowing (as would be expected as markets mature), and in specific regional/sectoral cases oversupply problems have led to downward pressure on prices or producers having to sell into conventional markets. Despite this, the market led approach for the provision of public goods that organic farming represents continues to provide a role model for the rest of agriculture and indeed other industries, such as renewable energy. But the experiences of recent years have demonstrated that the heavy reliance on the market to support organic farming can lead to a loss of emphasis on the provision of public goods and services and potentially a loss of integrity and consumer trust in the organic farming concept. Equally, direct financial support to producers in return for the provision of public goods can distort and undermine the capacity of the market to reflect consumer preferences with respect to such goods. A mix of market and policy support is required to avoid the disadvantages of the two extremes, but determining the appropriate balance, and in particular the appropriate level and mix of policy interventions, is a difficult task for policymakers. The action plan approach, with specific measures targeted at well-defined problems, may provide the way forward.

<sup>&</sup>lt;sup>51</sup> Analysis of the possibility of a European Action plan for organic food and farming. Commission Staff Working Document, December 2002. Commission of the European Communities, Brussels.

<sup>&</sup>lt;sup>52</sup> A sustainable agricultural policy for Europe: a position paper on CAP review and reform. International Federation of Organic Agriculture Movements EU Group, April 2002.