

Organic Farming in Europe - Growth, Policy Support and Future Potential¹

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The growth of organic farming in the European Union

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. Recent years have seen very rapid growth in the sector. 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 (see Foster and Lampkin (1999) for 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.

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).

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

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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.

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

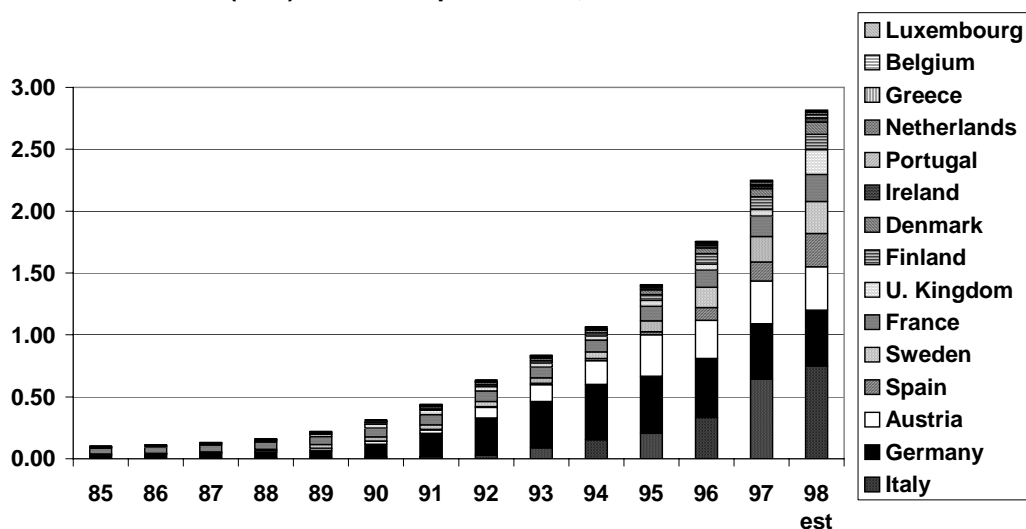
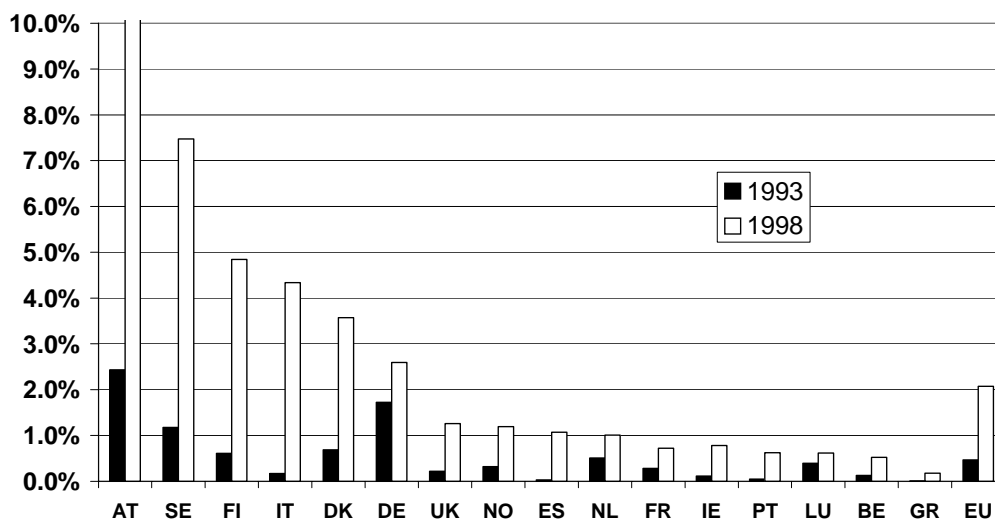


Figure 2 Certified and policy-supported organic and in-conversion land area as % of total UAA in each country, 1993 & 1998



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

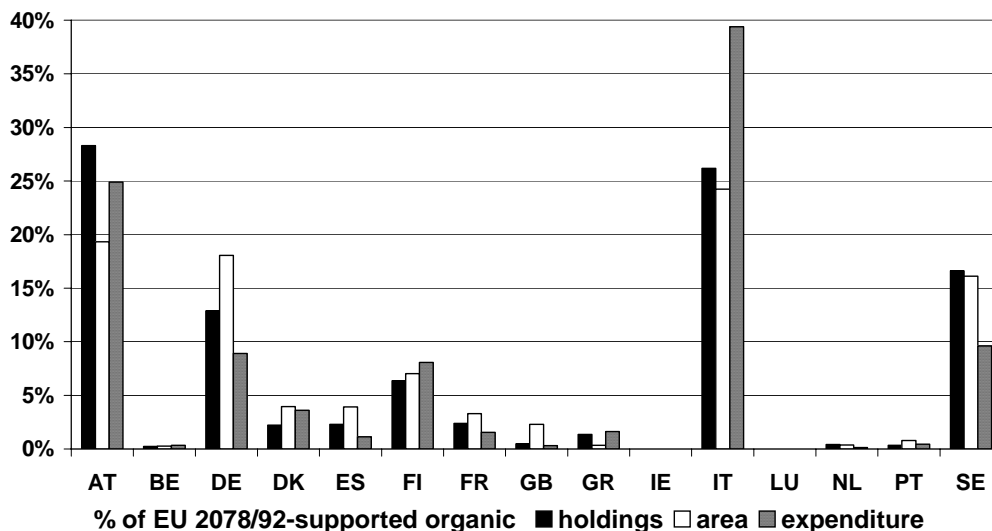
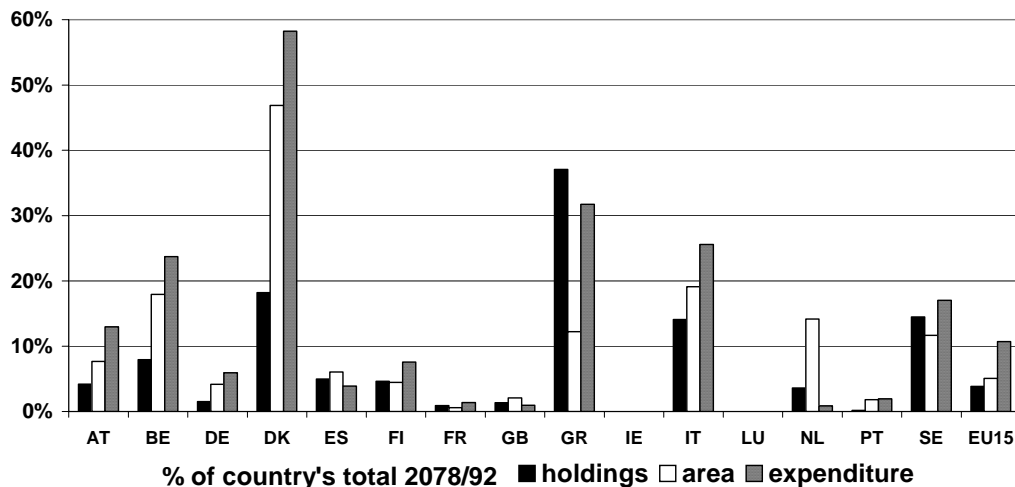


Figure 4 2078/92-supported organic farming as a percentage of individual countries' total 2078/92-supported holdings, area and expenditure, 1997



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).

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.

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. On the basis of the available evidence, it is clear that farmers need to perceive a need to change (and the crisis in conventional agriculture in the UK has provided that) and they need to be confident that organic farming represents a viable option. This requires a high degree of confidence building because of the perceived financial, social and psychological barriers to conversion. Four key factors are involved here: 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

The Agenda 2000 proposals for reform of the CAP in 2000-2006 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.

The mainstream commodity support programmes are not poised to change significantly, but may see some minor innovations, such as the grass silage area payments, the national envelopes for beef and modifications to beef extensification arrangements may prove advantageous to organic producers, who already make effective use of set-aside to support organic farming. The introduction of environmental cross-compliance measures is unlikely to impact adversely on organic producers as they are already following a strict code of good environmental practice in the form of organic production standards.

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 regulation 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 the various measures 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 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.

The challenge for the food industry

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. Attitudes of policy-makers are generally positive and there are many opportunities under Agenda 2000 for organic farming to receive even greater policy support than previously. In some countries, with the constructive involvement of the organic sector, this will lead to full use of the range of support measures available, but in others there may be less support.

However, 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, a problem which has already been demonstrated by the closing of the Organic Farming Scheme in England after only 6 months.

As a consequence, serious consideration needs to be given to the role the food industry can play in underpinning producer confidence in conversion. Support for information activities, in particular training and advice to producers, is one option. Guaranteed markets and possibly modest premiums during the conversion period is another. Longer-term contracts or price guarantees, such as the Sainsbury 5-year agreement on milk prices, can also be important. Whatever happens, it is not sufficient to rely on public funding to be the sole stimulus and support for conversion. The food industry needs to be a pro-active and to participate in building the industry.

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