

# Improving the regional institutional context for the organic agriculture and food industry

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**Abstract** – The impact and success of political and economic innovations on the organic agriculture and food sector depend to a great extent on institutional framework conditions, which determine how the organic sector is embedded in and interacts with the wider economic, political, social, and regional context. A thorough analysis of the institutional context can reveal much about regional options and scope for action, indicate institutional gaps, and help to evaluate the potential of policy programmes. The paper outlines an analytical framework for the institutional analysis of the organic agriculture and food sector and presents results from a case study of the East German region of Berlin-Brandenburg. It concludes with recommendations on how to improve the regional institutional setting.<sup>1</sup>

## INTRODUCTION

Institutional analysis of the organic sector is not restricted to policy, but also includes markets and linkages with society. Such a broadened approach should examine the whole value-added chain – agricultural production, processing, and marketing – because neither the institutional context nor the development of the sector can be understood by looking at organic agriculture alone.

For the institutional analysis of a region, two analytical levels should be distinguished. On a superordinate level (including international, EU, and national levels), general institutions structure and delimit the scope for actors. These institutions can be analysed rather independently according to different domains, such as laws and regulations (Council Regulation on organic farming 2092/91), market instruments, policy programmes (Council Regulation on rural development 1698/05 EAFRD), market structure, and social interaction.

Within the multilevel system, various institutions interfere with each other on the regional level, merge with the regional conditions, and form the regional institutional context. Actors within the organic sector have to

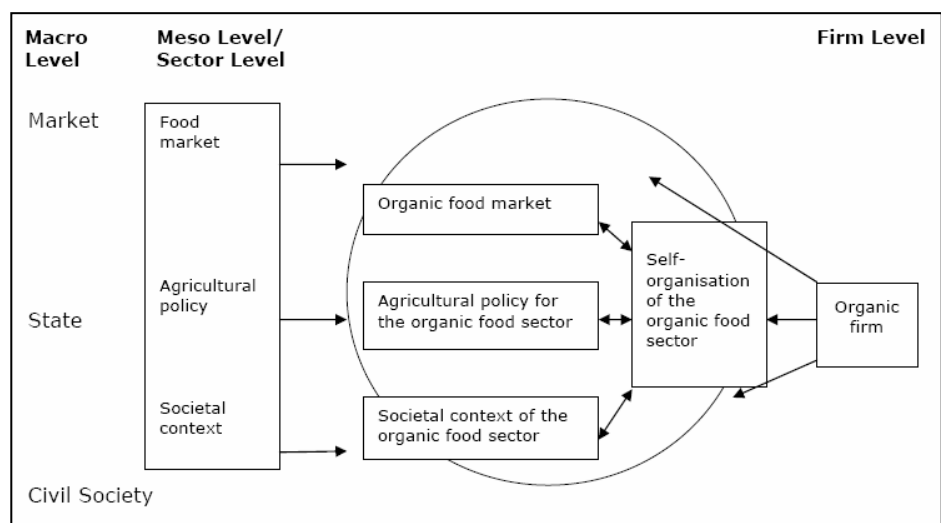
consider the institutional interplay of the elements of their specific regional institutional context.

The paper presents a case study of the East German region of Berlin-Brandenburg, which consists of the urban agglomeration of Berlin and the surrounding state of Brandenburg, characterised by rather peripheral rural structures. The organic agriculture and food industry began there only 15 years ago, after German unification. The case study sheds light on the role institutions have played for the development of the organic sector in East Germany.

## ANALYTICAL FRAMEWORK AND METHOD

Institutions, understood as rules of the game, “are the humanly devised constraints that shape human interaction”, e. g. the market, laws and regulations, (informal) norms and traditions in the social context, and so on (North 1990, S. 3). The various institutions which determine one field of action can be combined analytically into an *institutional* context, which restricts opportunities for social action and reveals much about the involved actors their options and interests (Scharpf 1997). Such an institutional approach can explain the interdependencies of different institutional domains and help to identify institutional gaps and opportunities.

Looked at from this perspective, the organic sector is integrated into the larger context of the general agriculture and food sector, which is further linked to at least three different social systems: the market, via the food market; the state, via agricultural policy; and civil society, via social networks



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Figure 1: The institutional context of the organic sector

and the business community. A fourth institutional domain is the organisational structure and capacity of the organic food sector itself. The institutional context is composed of the following four domains (Michelsen et al. 2001) (see Figure 1):

- The market for organic food.
- The agricultural policy for the organic food sector.
- The self-organisation of the organic farming and food sector.
- The societal context (the professional and social context).

The empirical data for the case study consists of 35 interviews with experts from business, organic associations, administration, politics, and science on the regional and national level, plus four focus-group discussions with managers of organic farming, processing, and retail companies.

#### THE INSTITUTIONAL CONTEXT IN BERLIN-BRANDENBURG

With the German unification, the organic sector in East Germany had to start from scratch. Organic agriculture grew quickly in East Germany, however, and a new type of organic agriculture emerged there, with large, specialised farms. Yet, organic food processing and the actual consumption of organic food in East Germany are below the nationwide German average (Nölting et al. 2005).

The structure of the organic sector in the Berlin-Brandenburg region is characterised by a high percentage of organic agriculture being situated in Brandenburg, while Berlin is a big market for organic food, which is an exception for East Germany. But only a small share of the organic products sold in Berlin have their origin in the region, whereas regional agricultural products are sold in bulk outside of it. This is due to gaps in the regional value-added chain: primarily a lack of food processing capacity and insufficient regional marketing. The institutional context of the Berlin-Brandenburg region can be described in terms of the institutions of the market, policy, the societal context, and the self-organisation of the sector.

The market for organic food has grown and become differentiated over the last ten years. By and large, two structures can be distinguished: One part of the organic market is affected by the logic of conventional food production, with functional and spatial specialisation, efficient organic mass-production, and new marketing channels, such as supermarkets. It provides cheaper organic products and attracts new clients, but runs the risk of eroding quality and transparency. On the other hand, a niche market for organic products exists which follows its own economic logic, characterised by a close and trusting relationship between producers and consumers, transparent regional business cycles, and premium products. Both markets are hardly connected, with the consequence that regional business cycles and markets remain underdeveloped.

In the field of policy, traditional agricultural policy has been quite effective in expanding organic agriculture through financial assistance and in implementing organic standards with government regulation and control. But policy measures have failed to stimulate innovations because they barely address processing, retailing, and consumers; additionally,

the administrations of Berlin and Brandenburg, representing respectively consumption and production, do not cooperate.

In the societal context, organic firms are tolerated, but the organic sector as a whole is not really accepted by the professional and social community. Indeed, many managers of organic firms are engaged in local or regional organisations or in networks for regional development; but in East Germany a socio-cultural milieu like the environmental movement in West Germany — which could support the ideas and initiatives of the organic sector — hardly exists.

The self-organisation of the organic sector is characterised by a large variety of active organisations, such as those for organic farmers. Even though they cooperate, their plurality prevents effective political and economic lobbying.

Altogether, the organic sector in the region can be characterized as being economically viable, and its institutional context provides, even after a short period of 15 years, a stable basis for further development. Its assets include the growth and differentiation of the regional sector as well as vital networks of organic firms and associations. The shortcomings include incomplete value-added chains, lack of comprehensive proactive policy strategies for the organic sector, and the marginal involvement of the organic sector in the societal context.

#### CONCLUSION

The presented analytical framework proved to be a useful tool for institutional analysis. The case study indicates the strengths and weaknesses of the institutional context and how institutional interplay opens opportunities, because actors can sometimes switch from one institutional domain to another. Consequently, starting points and strategies for further institutional improvements and reforms can be identified.

At first, institutional requirements from the regional level can be brought back into (inter-)national decision making. For example, the design of the EAFRD Regulation could focus on the whole value-added chain of organic production and facilitate its integration, regionalisation, and diversification.

Secondly, regional strategies could a) further strengthen smoothly working institutions, b) overcome institutional gaps, and c) link the institutional domains in order to create synergies and to prevent contradictory outcomes of single interventions. In the session, these strategies will be outlined.

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