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Organic farming and the Common Agricultural Policy: A European Perspective

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Introduction

Organic farming has grown considerably during the last decade in Europe and currently accounts for about 2% of agricultural area of the European Union (Willer and Yussefi 2000) compared to 0.5% in 1993 (Foster and Lampkin 1999). While still small in absolute terms, growth rates are impressive, and organic farming actually represents an exception within European agriculture being a growing subsector. It seems plausible that a number of developments have jointly contributed to this growth. The two most important factors are undoubtedly a developing market for organic products and the influence of policy.

Positions on policy evaluation

Any evaluation of agricultural policy has to state clearly on which scientific or other position it is based. In the context of the evaluation of agricultural policy with reference to organic farming four different positions are potentially relevant.

1. The increase of the extent of organic farming can be seen as a policy objective in itself. In this view the advantages of organic farming have been proven and the only remaining question is how to increase the extent of organic farming most effectively. Political measures investigated are considered with a view to this objective. This is a legitimate standpoint of organic farming interest groups.
2. Another view, which can be termed the traditional approach to policy evaluation, takes the actual or proclaimed objectives of politicians as the starting point of the analysis. Such objectives could be farm income, food supply, environmentally friendly agricultural practices and others. The political measures best-suited for achieving these objectives are then investigated. In this view organic farming is seen as a means to achieve the objectives that competes with other means. Different policies that influence the organic farming sector have to be compared with other policies which could achieve the same objectives. The policy mix that can achieve the objectives at least cost is then the best one.
3. Proclaimed or actual policy objectives of politicians might not necessarily be in the interest of the general public. One of the insights of the economics of politics is that politicians, in an attempt to stay in office or to maximise votes, may pursue objectives that are different from that of maximising the welfare of society. In this view it would be necessary to judge whether the policies to support organic farming actually increase net welfare. Of course the difficulty with this approach is an operational definition of social welfare, but in spite of this, this approach is the one pursued by most economist judging policies today.
4. All three preceding views subscribe to the division between objectives on the one hand and political measures to achieve these objectives on the other – they basically only differ in the objectives defined. The actual policy formation process must not necessarily follow a rational procedure as described in these views. In Kingdon's (1994) view of the political process, problems and policies „each have lives of their own“ (Kingdon 1994: 201). Only in special circumstances („policy windows“) are the different streams merged and a decision on actual policies taken. In such a view, organic farming could be regarded as a solution that might be attached to specific problems only in specific circumstances. Under this view the most relevant question would be to learn why policy windows for organic farming were opened in specific circumstances and policies actually implemented. This paper adopts largely the traditional position described in point 2. The reason for this is that to be directly policy relevant it seems to make sense to take the objectives of politicians at face value and to look into whether or not organic farming can contribute to them and which policies are more or less suited to achieve these objectives.

European Policies for organic farming during the 90s

European regulations have influenced the organic farming sector considerably during the last years (Lampkin *et al.* 1999a and 1999b). The accompanying measures under EC Reg. 2078/92 (known as the agri-environment programme) provided the most important support measured in monetary terms. In 1997 a total of ca. 260 Mill. ECU was spent under this regulation for organic farming which amounts to 11% of all expenditure under this regulation in that year (Lampkin *et al.* 1999a). Table 1 shows that the extent to which land has been converted to organic systems differs very much between the countries of the European Union. (1997 data have been chosen here for consistency, because some of the other data exhibited are only available for 1997.)

Table 1. Organic land area and factors that potentially influence the extent of organic farming ¹

| Country | Certified organic and in-conversion land area as % of 1997 utilisable agricultural area | Agri-environment programme (EC Reg. 2078/92) supported organic and in-conversion land, as % of utilisable agricultural area | Typical 1997 payment rates for cereals for fully (continuing) organic land (ECU/ha/year) | Agri-environmental area as % of utilisable agricultural area | Actual public expenditure on organic farming support as % of total expenditure on agri-environmental programs (1997) | Price premium for organic producers for cereals, about 1997-98, % above prices of conventional producers |
|----------------|---|---|--|--|--|--|
| Austria | 10.1 | 7.5 | 326 | 93.8 | 12.9 | 100 |
| Finland | 4.7 | 4.2 | 237 | 92.8 | 7.6 | 50 |
| Italy | 4.1 | 2.0 | 185 | 10.3 | 25.6 | 27 |
| Sweden | 3.7 | 6.5 | 144 | 55.4 | 17.0 | 75 |
| Denmark | 2.4 | 1.8 | 114 | 3.9 | 58.2 | 100 |
| Germany | 2.2 | 1.3 | 112 | 31.8 | 6.0 | 65 |
| Netherlands | 0.8 | 0.2 | 136 | 1.7 | 0.8 | 100 |
| Ireland | 0.5 | Nd | 246 | 21.2 | Nd | Nd |
| Luxembourg | 0.5 | 0 | 148 | 74.3 | Nd | 100 |
| Belgium | 0.5 | 0.2 | 111 | 1.4 | 23.7 | 65 |
| Spain | 0.5 | 0.2 | 72 | 2.8 | 3.9 | 25 |
| France | 0.5 | 0.1 | 0 | 22.7 | 1.4 | 80 |
| Portugal | 0.3 | 0.3 | 181 | 13.8 | 1.9 | Nd |
| United Kingdom | 0.3 | 0.2 | 0 | 8.9 | 0.9 | Nd |
| Greece | 0.2 | 0.1 | 182 | 0.7 | 31.7 | 15 |
| EU 15 | 1.5 | 0.9 | 169 | 18.2 | 10.7 | Nd |

¹ Data from Lampkin *et al* 1999, Michelsen *et al* 1999; Foster and Lampkin unpublished data; presentation has been simplified, some data have been processed further, Nd = no data, **bold** figures indicate that the country ranks in the top half of all countries investigated for that category

Also the agri-environment supported organic and in-conversion land shows vast differences between countries. Table 1 lists some variables that might potentially contribute to an explanation of these differences. One would expect that the higher typical payments rates under the agri-environment programs, the higher the proportion of organic land. Obviously the connection is not that simple. Firstly because payment rates for cereals have to be seen in the context of the comparative cost advantages or disadvantages; they have to be compared to other crops in that country – in some cases (Ireland and Greece) payment rates for cereals are high, but they are not typical crops for these countries. Also in some cases payment rates are just a theoretical value –because of limited funds application is restricted.

It can be hypothesized that both the general importance of agri-environment programs in a country (as measured by the agri-environmental area as % of utilisable agricultural area) and the relative importance of organic farming within these programs (measured by the actual public expenditure on organic farming support as % of total expenditure on agri-environmental programs) influence the extent of organic farming. Of course the first value is a rather crude indicator, because in some countries there are rather attractive programs for conventional farmers which make it actually less attractive to convert to organic farming than would be the case without any programs; but still a high proportion of land under agri-environmental agreements can be taken as an expression of concern in that country for issues which are also addressed by organic farming. If organic farming takes up a considerable share of the expenditure under agri-environmental programs, this shows that responsible politicians and administrations believe that organic farming is quite a suitable system to achieve the objectives of the agri-environment programs. However, the interpretation of this variable has to be seen in the context of the general importance of agri-environment programs. If -as is the case with Greece- the share of organic farming in the expenditure of the agri-environment programs is high, but these programs are in total of a negligible size, the relative figure on expenditure for organic farming does not say much. On the other hand if nearly all of the agricultural land is funded under an agri-environmental program, as e.g. is the case in Austria, even a figure close to EU average has considerable impact.

The last column of the table is a reminder that direct financial support through agri-environment programs is not the only factor that influences the extent of organic farming. Actually market development has been one of the most important driving forces for the growth of organic farming. If price premiums are high, this should have a positive influence on the extent of organic farming. While theoretically convincing, the table shows again a mixed picture. One of the reasons for this is that the price premium for cereals has been chosen, more a typical product of the northern countries of the EU than of the south.

If interpreted as a whole, the table shows some tendencies which are obviously not yet the whole story. If payment rates are high, agri-environment programs are important, and organic farming has a sufficient share of these and at the same time there is a premium market then we have all the variables pointing to a favourable direction for organic farming – this applies to the most successful country: Austria. However, one point clearly emerges: Those countries that support organic farming on fairly large proportions of their land also tend to have the highest shares of certified organic land.

Another area where European policy has had a strong influence is standards, inspection and certification. Organic farming is not unique in the fact that government took over the process of determining product standards, after an earlier period in which these had been solely determined by the private sector. EC Reg. 2092/91 was an important cornerstone in providing a standardised organic product. Only last year this regulation was (with EC Reg. 1804/1999) extended to animal products. This step means now that legal standards together with the system of certification (which in total seems to be fairly reliable) are fully guaranteed by the government – only some of the implementation procedures are left to non-governmental institutions.

The motivation for standardisation of organic farming products has mainly been to counteract fraud and to ease trade within the EU, active marketing seemed to have been less of a concern. With respect to the consumer, private labels (mostly of national relevance only) are still better known than the EU-regulation, a situation that might or might not change with the advent of the European logo. From the viewpoint of producers there are still arguments to maintain a system of certification and control beyond the EU system. Firstly it is possible to position such a label based on a separate standard that is stricter than the EU standard differently on the market. This might lead to premium organic products as distinguished from mass market organic products. Also a separate label is interesting from the viewpoint of agricultural producers as a safety net. While up to now the EU system of organic farming certification has not been plagued by widespread scandals, the possibility of such a scenario still exists. In spite of the efforts of standardisation it seems that a transparent, unified European market for organic farming products does not yet exist. Price differences observed by Michelsen *et al.* (1999) that indicate obviously non-equilibrium situations and very different market shares in countries that otherwise show quite a number of similarities (Table 2) point to the importance of national specifics.

Table 2. Market share of organic products in selected European countries ¹

| | vegetables | cereals | milk products |
|----------------|------------|---------|---------------|
| Austria | k. A. | 2 | 8-10 |
| Germany | 1,7 | 3,4 | 0,5 |
| Denmark | 6-10 | 3,5 | 14,2 |
| United Kingdom | 2,3 | 0,2 | 0,35 |

¹ Michelsen *et al.* 1999

Organic farming as a means to achieve policy objectives

Among the policy goals that can be pursued with organic farming are improvement of the agri-environmental situation, increased farm income, decrease of surpluses and thus decrease of budgetary expenditure of the CAP.

From a detailed review of European research on the environmental and resource use impacts of organic farming (Stolze *et al.* 2000) it can be concluded that organic farming under the present situation clearly compares favourably to conventional farming with respect to most environmental indicators. It is thus well suited as a policy instrument, if the improvement of the condition of a greater number of environmental indicators is to be achieved. In case very specific indicators are to be improved by using more specific measures within conventional farming, these might reach the objective more cost effectively.

Offermann and Nieberg (2000) have reviewed numerous studies on the profitability of organic farming relative to conventional farming in Europe. They found profits of organic farms in the past to be “quite similar to those of comparable conventional farms...” (p55). More often than not, the profits of the organic samples analysed were higher than those of conventional farms. This fact can be interpreted in a way that those farms for which it is profitable have converted to organic farming. However, there are many farm types for which the organic farming system under current conditions seems not to be a viable option. While the spread of organic farming certainly has improved average farm income on those farms involved, this fact can neither be projected to other farm types in an unqualified way, nor is the extent to which this development is policy-influenced directly obvious. There have been instances when supply-side policy support has lead to a decrease in premium prices

and consequently to a decrease in farm income. On the other hand, Nieberg and Offermann (2000) observe that Agenda 2000 will act in favour of organic farming because the more pronounced direct income transfer largely decoupled from production favours organic farming relative to conventional farming.

Zanoli and Gambelli (1999) have investigated the budgetary consequences of organic farming in an ex-post evaluation. For methodological reasons they did not take account of any possible savings in export refunds and storage costs but concentrated on changes in direct payments that would have taken place in 1996, if organic farming would not have been in place. They found that without organic farming the EAGGF budget would have been 93 Million ECU higher – not an impressive figure in view of a total budget of 39 107 Million ECU in that year. However, put against the estimated 198 Million ECU spent on organic farming support in that year it is quite substantial. In other words: A substantial part of the organic farming support has been saved in other parts of the budget by organic farming itself.

Outlook

In the medium term it is quite clear that the main justification for government intervention for organic farming is its superior environmental performance. While important in the past, with a tendency to a more liberalised agricultural policy other justifications will become less important. Only two groups of instruments have been discussed in this paper: direct income support and standardisation. Of course there is a much broader array of instruments available (Dabbert 1997), many of which are also used, however often only on a small scale (Lampkin *et al.* 1999).

Agenda 2000 brings a certain improvement to organic farming relative to conventional in its generally applicable parts. However, the agri-environmental policies will be administered on a regional level within the context of the rural development plans. Such regionalisation brings certain problems to organic farming which is not just an environmental instrument but a subsector competing in markets. Largely differing direct support for organic farming between regions – however justifiable on environmental grounds – tends to distort the competitive positions between organic farmers. For this reason, among others, it seems time for the EU to develop a consistent action plan with respect to its policies for organic farming.

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