

## **Direct payments coupled to labour force – socio-economic consequences to organic farming –**

*Dr. Matthias Stolze*

*Research Institute of Organic Agriculture (FiBL)*

*Ackerstrasse, CH-5070 Frick, Switzerland, E-mail: [matthias.stolze@fibl.ch](mailto:matthias.stolze@fibl.ch)*

Keywords: direct payments, labour use, agricultural policy, Europe

### **Introduction**

Introducing a new agricultural policy in 1992, the European Union moved away from the market price support approach of the early Common European Agricultural Policy (CAP) to a new direct payments approach. This change in agricultural policy meant decoupling transfer payments from production. Thus, by continuing this approach in the new Agenda 2000 programme, current EU agricultural policy is mainly based on:

1. mainstream measures including direct area payments for commodities and direct headage payments for livestock, and
2. accompanying measures which build the framework for rural development schemes and agri-environmental programs.

Organic farming support is provided under the framework of agri-environmental programs as a reward for farmer's general contribution to the environment and society in form of direct area payments.

Preparing the negotiations for the Agenda 2000 follow-up programme, discussion has started about the pros and cons of the current direct payment approach and its potential for modification which corresponds to the WTO Uruguay Round Agreements on Agriculture. In this context, European environmentalists and the organic sector have started a discussion on a new approach to direct payments which should consider social aspects: They suggest coupling direct payments to labour force.

This contribution will examine the socio-economic consequences that direct payments coupled to labour could have on organic farms in Germany and Switzerland.

### **Methodology**

There are two issues to be addressed when analysing the impacts of modified direct payments:

- a) the impact on unpaid (family) and paid labour use on organic farms, and
- b) the economic performance compared to the situation under the current payment schemes.

The basis for analysis are simulation models of typical dairy farms in Switzerland and Germany. They will be modelled against the background of very different structural conditions. In the Swiss case, the models will be defined for valley region and mountain region. With regard to the dual agricultural structure, in Germany the simulation models will be defined for organic family farms typical for the Southwest of Germany and paid-labour-based large scale farms which are found in Eastern Germany.

### **Discussion**

Labour input on organic farms in Switzerland and Germany is on average 20% higher than on comparable conventional farms (Offermann and Nieberg 2000). Therefore, it is not surprising, that policy-makers expect positive impacts both on organic farming development and on rural employment by modifying the current direct payment approach. However, Dabbert et al. (2002) expect only minor effects to agricultural employment due to the small size of the sub-sector.

The supporters of modified payment schemes argue, that coupling direct payments to labour force might lead to a fairer allocation of subsidies. 'Fairer allocation' in this context means reallocation of payments from large farms with low labour input per hectare to small family farms where labour input per hectare is higher. The opponents on the other side point out that structural change would slow down.

### **References**

- Dabbert, S., Häring, A.M. and Zanolli, R. (2002). Organic Farming and Agricultural Policy. FAIR 3 CT96-1794, Technical Deliverable. 129pp.
- Offermann, F. and H. Nieberg (2000). Economic Performance of organic farms in Europe. Organic Farming in Europe: Economics and Policy Vol. 5, Stuttgart-Hohenheim, 198pp.