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# ECONOMICS COMMENTATOR

South Dakota State University

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## Organic Agriculture in Europe: Lessons for the U.S.?

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Organic food sales in the United States (U.S.) increased by more than 20% annually from 1990 through 1996. Starting from a very low base, organic sales increased to 1.3-1.4% of total retail food sales by 1997. Demand growth for U.S. agriculture products also was strong abroad during the 1990s. Japan and countries of northern Europe were among the principal export markets for U.S. organic products. As a result, there was some growth in the number of cropland acres used for growing organic products, but it still constituted only about 0.2% of all U.S. cropland by 1997. In contrast, nearly 3% of agricultural land in the European Union (EU) was farmed organically by the end of 1999. Organic production methods covered just over 100,000 hectares in the EU in 1985, but this grew to 3.5 million hectares by the end of 1999—a 35-fold increase. Austria's organic farmland increased from 2-3% of its agricultural area in 1993 to over 8% in 1999. Increases in the organic share of total cropland acres among several other EU countries between 1993 and 1999 were: Sweden, from a little over 1% to over 7%; Denmark, from less than 1% to nearly 6%; Finland and Italy, less than 1% to over 5%; and Germany, a little less than 2% to a little over 2%.

The relatively rapid rate of growth in organic farmland in the EU during the 1990s was due in part to government-sponsored organic transition subsidies in a number of countries, something largely lacking in the U.S. In this Commentator, I describe recent organic initiatives and developments in the EU, paying particular attention to the United Kingdom (UK). I then discuss possible policy implications for the U.S.<sup>1</sup>

## Organic agriculture in Europe

The rapid growth in land area farmed organically in a number of European countries in recent years has been driven by both markets and policies. Denmark was among the first European countries to provide financial assistance to farmers for conversion to organic production, and Germany introduced support in 1989. France and Luxembourg followed with small conversion assistance programs in 1992. Austria, Sweden, and Finland all had national programs to support the conversion to organic agriculture before they came into the EU in 1995. Sweden's program included support for the continuation of organic production. European Community (EC) Regulation 2092/91, which defined standards for organic crop production, also contributed to growth in European trade and production of organic products following its implementation in 1993. The livestock sector recently became included within the scope of the original organic standards legislation, also, by EC Regulation 1804/99.

Although organic farming in the UK has a long tradition, the proportion of agriculture covered by certified organic farming methods was lower than that of a number of other European countries. However, organic agriculture in the UK has increased quite rapidly in just the last few years, going from less than one-half of 1% of the total agricultural area in 1993 to over 3% by the end of 1999. This put the UK sixth among the 15 EU countries in terms of proportion of agricultural land area covered by organic methods.

Demand for organic food in the EU has been growing rapidly in recent years. Sales of organic food in Western Europe were expected to be 70% higher in 1999 than just four years earlier. This has been reflected in the growth of retail offerings of organic foods. In the

Conference, Rapid City, South Dakota, October 5-7, 2000. (Individuals wishing to receive this paper may contact Dobbs by regular mail, in the SDSU Economics Department, or by e-mail at: Thomas.Dobbs@sdstate.edu) The research drawn upon was conducted while Dobbs was a Visiting Fulbright Scholar at the Centre for Environment and Society, University of Essex, England, from January to July 2000. Professor Pretty is Director of that Centre. Dobbs and Pretty have a rather comprehensive report in process, assessing experiences with a wide range of agri-environmental schemes in the UK and implications for U.S. policies.

<sup>1</sup> This Commentator is drawn from a recent paper by Thomas Dobbs and Jules Pretty, "Policy Issues for U.S. Organic Agriculture in International Markets: Implications of Recent Developments in Europe", presented at International Agribusiness Session of Seventh Annual South Dakota International Business

UK, organic retailing has primarily followed a supermarket approach. Safeway was the first major supermarket to stock organic food, starting in 1981. Virtually all the major supermarkets in the UK were selling organic foods by the end of the 1980s. In the past couple of years, supermarket chains in the UK (such as Waitrose, Sainsbury's, and Tesco) have begun to stock and promote organic foods more actively than ever before. Total retail sales of organic food in the UK reached £390 million<sup>2</sup> in 1998-99, 70% of which was imported.

### Organic assistance in the United Kingdom

Starting in 1994, the UK Organic Aid Scheme provided financial assistance to farmers in the process of converting to organic production systems. Farmers could receive assistance for five years on land undergoing conversion, up to a limit of 300 hectares.<sup>3</sup> Also, starting in 1996, the UK Ministry of Agriculture, Fisheries and Food (MAFF) launched an Organic Conversion Information Service. This service provides helpline advice through the Soil Association and technical advice from experts of the Elm Farm Research Centre. The Organic Aid Scheme was replaced by the Organic Farming Scheme in 1999. As in its predecessor program, the Organic Farming Scheme offers financial assistance for five years for farmers in organic conversion.

Signup for the Organic Aid Scheme was limited --fewer than 500 farmers signed up in England--during the five years of its existence.<sup>4</sup> Payment levels were quite low relative to organic aid schemes in other parts of Europe. In contrast, there has been much greater interest in the new Organic Farming Scheme. First-year (1999/2000) money initially allocated was fully committed within four months of the scheme's introduction. Funds from subsequent years were then committed over the following two months. Almost £16 million were committed to farmers under the UK Organic Farming Scheme during the first half of fiscal year 1999/2000. Because of strong farmer interest, the Welsh National Assembly allocated an additional £1 million to the Organic Farming Scheme in Wales in early 2000, bringing the total to £3 million in Wales for fiscal year 1999/2000. The amount budgeted for the scheme in Wales that fiscal year originally had been less

than £300,000. England's Rural Development Plan calls for increased expenditures on the Organic Farming Scheme, reaching £23 million annually in 2005 to 2007.

The UK's revised Organic Farming Scheme is much improved over the original Organic Aid Scheme, at least from farmers' perspectives. Annual payment levels over the five-year conversion period now average £70 to £90 per hectare for cropland (except for unimproved land). Additional payments of £300 per organic farming unit in the first year, £200 in the second year, and £100 in the third year are available to help cover costs associated with such items as training and organic certification.

### Question of ongoing organic subsidies

It has been suggested that the lack of ongoing organic payments in the UK could be an important contributing factor to 'reversion'--the phenomenon of some farmers reverting back to conventional farming after first converting to organic production. Farmers who convert to organic production primarily for 'economic' reasons and then encounter problems with market outlets or lower than expected price premiums may need the added incentive of some ongoing payments for continued organic production. Also, the ongoing costs of organic inspection/registration can be a substantial burden for the smaller organic farming operations; this provides another rationale for ongoing government payments. One suggestion put forward is that there be a permanent government organic payment of £25 to £40 per hectare per year.

A number of sustainable agriculture and environmental organizations in the UK joined together in 1999 to promote an 'Organic Food and Farming Targets Bill' in the UK. The bill, if enacted into law, would establish the following targets for 2010 in the UK (except for Scotland):

- (a) at least 30% of the agricultural area be certified organic or in the process of conversion; and
- (b) at least 20% (by volume) of food consumed be certified as organic.

One estimate of the government budgetary costs of achieving these targets at current conversion payment rates (five years per agreement) would be about £1 billion per year. If ongoing payments were made to farmers, at a rate of approximately £40 per hectare, continuing annual budgetary costs would be around £700 million.

<sup>2</sup> The British pound (£) was equivalent to approximately 1.45 U.S. dollars as of October 2000.

<sup>3</sup> One hectare equals 2.47 acres.

<sup>4</sup> The United Kingdom consists of England, Wales, Scotland, and Northern Ireland. Agri-environmental schemes such as those dealing with organic agriculture sometimes differ in the way they are funded and administered in these various UK political entities. As a consequence, uniform statistics at the UK level are not always available.

## Implications for organic policies in the United States?

The U.S. does not have any policies for organic agriculture that come even close to those presently in existence in the EU. Unlike most EU member states, the U.S. is yet to even declare growth in organic agriculture to be a public goal. There have been a number of efforts since the 1990s, however, to help lay the groundwork for possible expansion of organic agriculture in the U.S. The Low Input Sustainable Agriculture (LISA) program authorized by the 1985 Farm Bill, later retitled the Sustainable Agriculture Research and Education (SARE) program, has been used to help fund a number of studies with organic agriculture as at least part of the focus. The 1990 Farm Bill called for national organic standards, though final standards are yet to be approved. (It does appear that approval may finally come soon.) Organic exports are facilitated and promoted by the USDA's Foreign Agricultural Service. Also, organic production techniques now qualify as 'good farming practices' under the Federal crop insurance program.

Some individual States have begun to promote organic agriculture. The Minnesota Department of Agriculture began an Organic Cost Share Program in 1999, to reimburse farmers for up to two-thirds of the cost of organic inspection and certification. Organic agriculture has recently taken on a higher profile in Iowa, also, where organic crop production has been eligible since 1997 for cost-share support under the USDA's Environmental Quality Incentive Program (EQIP).

These are all quite modest efforts, however, in comparison to what has been underway for the past decade in Western Europe. Is it time, now, for U.S. policy to emulate those of EU member states, and begin to actually *encourage* growth in organic agriculture? The answer to that question depends on the roles envisioned for organic agriculture in international agribusiness and in providing environmental goods.

Organic grain and soybean producers in the Upper Midwest fared very well in growing international export markets for several years during the late-1990s. Relatively high price 'premiums' for organically certified products provided attractive prices to organic farmers at a time when prices for 'conventionally' produced grains and beans were at depressed levels. Although demands for organic foods are expected to continue to grow at rather robust rates, there is likely to be substantially increased competition in export markets. Organic suppliers from within the existing EU are likely to expand substantially, for one thing. Also, some east and central European countries could be major, low-cost suppliers of organic products. As those countries begin

to acquire EU membership, they will provide even more competition for U.S. organic exports than is currently the case. If U.S. policy is to maintain and expand organic exports, there may be a basis for providing support for organic conversion similar to that which exists in most EU countries.

There also may be a basis for the U.S. to provide ongoing, or 'maintenance', payments for organic production, as is done in most European countries. The basis for this policy in Europe is the *multifunctionality* concept of agriculture that is moving to center stage there. This multifunctional view of agriculture is one in which agriculture produces not only food, but also environmental (e.g., wildlife habitat) and social (e.g., rural employment) goods. Organic agriculture is considered by many to be quite effective in providing some of these environmental and social goods in Europe. Therefore, there is growing acceptance in Europe of policies that provide ongoing *public* payment for the *public* and *externality* goods provided by organic agriculture.<sup>5</sup>

Also complicating the picture for organic agriculture policies, however, is the debate about the nature and structure of future organic food and agricultural systems. One school of thought sees the organic food and agricultural system becoming increasingly like the 'industrialized' conventional system. This school contends that, for better or for worse, there is a certain inevitability about the industrialization trend, for both conventional and organic systems. Another school recognizes the pressures for 'industrialization', but calls for extraordinary efforts to retain organic agriculture's traditional *family farm* and *local market* characteristics. This school, though not disavowing world trade in organic products, places emphasis on development of local and regional food systems. The USDA's National Commission on Small Farms called for such an emphasis. Organic policies consistent with this school of thought probably would limit conversion and maintenance payments to farm sizes considered 'small' or 'midsize'. With this school, the policy emphasis would not be so much on overall expansion of organic area as it would be on expansion of organic farming within the context of moderate sized operations and local or regional food systems. This would call for a much more complete and coordinated set of policies than would mere expansion of organic land area.

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<sup>5</sup> The issue of what kinds of agri-environmental payments—including payments to encourage and support organic agriculture—are or will be consistent with World Trade Organization (WTO) agreements is too complex to be addressed in this Commentator. Dobbs and Pretty address this issue, however, in the comprehensive report in process that is referred to in Footnote 1.

## Additional information

The paper by Dobbs and Pretty cited in Footnote 1 contains a more complete discussion of UK and EU organic agriculture. Sources of data and information reported in this Commentator are listed in that paper. In addition to various reports of the Soil Association (in the UK) and the UK Ministry of Agriculture, Fisheries and Food, the following sources were especially useful:

- Green, C. 2000. U.S. organic agriculture gaining ground. *Agricultural Outlook* AGO-270, April, pp. 9-14.
- Lampkin, N and Midmore, P. 2000. Changing fortunes for organic farming in Europe: policies and prospects. Paper for Agricultural Economics Society Annual Conference, Manchester, UK.
- Lohr, L. 1998. Implications of organic certification for market structure and trade. *American Journal of Agricultural Economics* 80 (5), 1125-1129.
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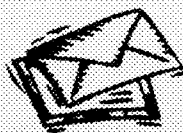
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