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# ECONOMICS COMMENTATOR

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## US AND EUROPEAN TRENDS AND POLICIES REGARDING ORGANIC AGRICULTURE

by

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October 21, 2002 marked the end of a long process for organic agriculture in the US that began with passage of the Organic Foods Production Act of 1990, part of the 1990 Farm Bill. That act required the US Department of Agriculture (USDA) to develop national standards for organically produced products. After a long struggle and much controversy, full implementation of the final rule incorporating these standards took effect on that date. Issues remain regarding some aspects of on-going implementation, but at least there is now a set of official benchmarks from which future debates can begin.

According to the USDA's Agricultural Marketing Service (*Organic Food Standards and Labels: The Facts*, April 2002),

Organic food is produced by farmers who emphasize the use of renewable resources and the conservation of soil and water to enhance environmental quality for future generations. Organic meat, poultry, eggs, and dairy products come from animals that are given no antibiotics or growth hormones. Organic food is produced without using most conventional pesticides; petroleum-based fertilizers or sewage sludge-based fertilizers; bioengineering; or ionizing radiation.

Details of the USDA organic standards can be found on this web site: <http://www.ams.usda.gov/nop>. To be labeled organic, agricultural commodities and food must be certified by a USDA-accredited certifying entity. Some certifiers are State agencies, but many are non-profit agencies that already were heavily involved in organic

certification prior to the existence of national standards. All certifiers must now receive USDA accreditation.

Some issues associated with implementation of the new organic rule already have arisen, and others no doubt will arise in the future. During the summer of 2002, pressure was applied on the USDA to delay implementation of the rule requiring that organic poultry (like other organic livestock) be fed 100 percent organic feed. After a public outcry from much of the organic industry about potential relaxation of the organic rules, the delay was not granted. Another issue concerns the peer review process for accrediting organic certifiers. The Center for Food Safety recently filed a legal petition with the USDA demanding establishment of the peer review panel that is supposed to help ensure the appropriateness and credibility of accreditation procedures and decisions. A third issue is cross-contamination with genetically modified organisms (GMOs). Use of GMO seed varieties is prohibited under organic production standards. However, what will be done about organic crop products that contain measurable amounts of GMOs due to 'contamination' from neighboring fields planted to GMO crops? This issue is likely to rapidly grow in importance over the next year or so.

The new organic standards and associated issues have elevated public, media, and policy attention to organic food and agriculture over the past year. It is timely, then, to review recent organic trends and policies—in both the US and Europe.

### Trends in US organic production and consumption

Recent growth patterns in the US organic food market have been described by USDA economists Carolyn Dimitri and Catherine Greene (*Recent Growth Patterns in the U.S. Organic Foods Market*, USDA Economic Research Service Agricultural Information Bulletin No. 777, September 2002). Sales of organic food in the US grew by 20% or more annually throughout the 1990s. Total sales were estimated to be \$9-9.5 billion in 2001. Fresh fruits and vegetables constitute the largest category of US organic food

sales, followed (in order) by nondairy beverages, breads and grains, packaged foods, and dairy products. The fastest growing category during the 1990s was dairy products.

There has been a profound shift over the past decade in the way organic foods are marketed to US consumers. In the early 1990s, nearly 70% of organic retail sales took place in health and natural products stores and less than 10% of sales were in conventional supermarkets. However, there was major growth during the 1990s in both the proportion of conventional supermarkets carrying organic foods and the lines of organic food they carried. In 2000, conventional retailers surpassed natural product retailers in organic sales (49% compared to 48% of total sales). Direct producer-to-consumer organic sales constituted the remaining 3%. Direct sales are through such venues as farmers markets and community-supported agriculture schemes.

Organic production started from a very small base, but grew rapidly in the US during the 1990s. The USDA's Economic Research Service (ERS) has recently released data on US organic crop and livestock production through 2001 (<http://www.ers.usda.gov/Data/organic/>; contact is Catherine Greene). Organic cropland, pasture, and rangeland reached 2.3 million acres in 2001, 0.3% of the US total. This consisted of 1.3 million acres of organic **cropland**—a 53% increase over 1997, but still only 0.36% of the US total. Organic **pasture and rangeland** totaled 1.04 million acres in 2001, a 109% increase over 1997, but only 0.23% of the US total. Numbers of organic livestock and poultry in 2001 are as follows: **beef cows**—15,197; **milk cows**—48,677; **hogs and pigs**—3,135; **sheep and lambs**—4,207; **layer hens**—1.6 million; **broilers**—3.3 million; and **turkeys**—98,653.

There were 57,417 certified organic acres of farmland in South Dakota in 2001—a 78% increase over 1997—on 69 farm operations. Most of this (49,984 acres) was cropland, and the remainder (7,432 acres) was pasture and rangeland. The more detailed breakdown of this South Dakota organic acreage, by percentage of the total, is as follows: **grains** (36%); **beans** (15%); **oilseeds** (7%); **hay** (24%); **vegetables** (0.1%); **fruit** (0.01%); **herbs/nursery** (0.02%); **other cropland** (5%); and **pasture and rangeland** (13%). There were 1,142 certified organic **beef cows** and 174 certified organic **sheep and lambs** reported in the State in 2001. These acres and livestock numbers, of course, do not include crops and livestock that may be completely or nearly organic but not certified. Many small organic fruit and vegetable producers and some organic livestock and poultry producers who sell directly to consumers do not bother with the paperwork and costs of organic certification.

## Trends in European organic production and consumption

David Hallam, in a paper presented at a September 23-26, 2002 **OECD Workshop on Organic Agriculture** in Arlington, Virginia, described recent organic food and agriculture trends in European and other OECD (Organization for Economic Cooperation and Development) countries (*The Organic Market in OECD Countries: Past Growth, Current Status and Future Potential*). The European Union (EU) and the US dominate the world consumer market for certified organic food. Rates of growth in demand for organic food have generally been high in Western Europe over the past decade, due in part to food scares in many countries during the late-1990s and early years of this century. Organic fruit and vegetable sales grew by about 85% annually in Italy during the period 1998-2000; with the discovery of bovine spongiform encephalopathy (BSE) in the early months of 2001, growth rates moved even higher as concerns about the safety of conventional meat products caused people to shift their diets toward more fruit and vegetables in general and organic produce in particular. Growth rates have slowed some in recent years in some European countries with well-established organic markets and relatively high organic market shares, such as Austria, Denmark, and Switzerland. The shares of organics in total food sales were as follows in 2000: Denmark (2.5-3%); Switzerland (2%); Austria (1.8%); Netherlands (1.2%); Belgium (1%); Italy (1%); France (1%); United Kingdom (1%); and Sweden (0.9%). The shares of fruits and vegetables consisting of organics were substantially higher in several countries. In the United Kingdom (UK), for example, 510% of fruit and vegetable sales were organic. In Switzerland, 5% of the fruit and 10% of the vegetable sales were organic.

The growth in supermarkets' share of total organic sales in many Western European countries is similar to that of the US. In the UK, 80% of organic food sales now are through supermarkets. Supermarkets handle 63% of organic dairy product sales in Western Europe, as a whole. In Ireland and the UK, three-quarters of organic meat sales are through supermarkets. In some countries, however, such as Germany, specialized food shops remain quite important in total organic food sales.

Organic production methods cover a much higher proportion of agricultural land area in the EU than they do in the US. By the end of 2001, 3.25% of

the EU's total agricultural area was farmed organically or in the process of conversion to organic certification. (This compares to less than 0.1% of the total agricultural area in 1985.) There is wide variation among EU member states, however. Sweden had approximately 11% of its agricultural area under organic production (or in conversion), and Austria and Italy both had around 8%. Denmark had more than 6%. The UK, where growth has been very rapid in recent years, was at around 4% by the end of 2001. Germany was approaching 4%, but France was still below 2%.

Overall growth rates of land under organic production methods in Western Europe were around 25% annually during the 1990s. Growth rates have been slightly lower over the last couple of years, but annual absolute growth in area continues at a similar pace. According to Nic Lampkin, of the University of Wales, Aberystwyth, 10-20% of EU agriculture could be under organic production by 2010 if similar growth continues.

### **Organic policy initiatives in Europe**

Lampkin, at the September OECD workshop, described initiatives in EU countries over the past 15 years to support organic agriculture (*From Conversion Payments to Integrated Action Plans in the European Union*). Support has been based, in part, on the European belief that organic agriculture provides a number of environmental, social, and other benefits to society that are not rewarded in the market. Economic theory demonstrates that such *public goods* and *positive externalities* will be "under-supplied" if there is not some kind of public intervention through regulation or financial incentives.

Denmark is known for its pioneering scheme, introduced in 1987, that consists of financial assistance to farmers for conversion to organic production, development of a market, and extension and information support. Germany introduced support for conversion to organic farming in 1989, as did France and Luxembourg in 1992. The UK introduced its first program of financial support for organic conversion in 1994. Austria, Sweden, and Finland already had national programs supporting the conversion to organic prior to their entering the EU in 1995. Sweden's scheme included continuation of support for organic production beyond the conversion period. Greece and Spain began their organic support programs in 1996. By now, most EU countries have a uniform national organic support policy, but rates of payment and requirements vary by region within several countries. Nearly all now support both conversion and on-going organic production, though payment rates often are lower after the conversion stage. France and the UK still do not

have programs in place to provide financial support after conversion is completed.

A variety of other measures also have been taken in some European countries over the past decade to support expansion of organic farming. Austria, Germany, and Denmark, for example, have programs to support organic marketing and processing. EU 'Structural Funds' were used for organic sector projects in some countries, such as Ireland. Support also has been provided for organic advice and technical assistance; special conversion information programs in Sweden and the UK were well received.

The EU's Common Agricultural Policy (CAP) now officially recognizes 'rural development' as a major objective, along with the long-standing food production objective. Rural development, the so-called 2<sup>nd</sup> pillar of the CAP, is viewed as an integrated approach that includes agri-environmental and a number of other concerns. In Lampkin's view, the CAP's 1999 'Rural Development regulation' offers an opportunity for EU countries "to support integrated action plans that achieve a better balance between supply-push and demand-pull policies" for development of the organic sector.

Action plans for organic agriculture have been developed in a number of EU countries. Denmark has had action plans since 1995 that serve as excellent models. The proposed German action plan focuses on a goal of having 20% of agricultural land under organic farming by 2010. Part of the plan calls for creation of a new information program targeting all elements of the supply chain. The most recent action plan in the Netherlands has a strong emphasis on improving the functioning and efficiency of the supply chain. In contrast to plans of other countries, the Dutch plan calls for phasing out conversion payments. Action plans for Wales and England have been produced in the UK. The Welsh plan, dating from 1999, targets 10% of agricultural land to be under organic production by 2005. Specific targets are not part of the recently published action plan for England, but the plan does include a recommendation for the kind of maintenance (post-conversion) payments that exist for organic farmers in most other EU countries. The plan also calls for a series of supply chain initiatives and increased funding for research.

### **Organic policy initiatives in the US**

The US, for the most part, does not have aggressive support schemes for organic farming like

those that are now common in Europe. A principal reason is the lack of a broad social consensus in the US that organic agriculture provides major environmental and other social benefits. Although there is growing evidence of such external and public benefits, awareness has not yet grown to the point that there is broad public support for a comprehensive organic action plan and necessary support policies.

Nevertheless, there have been notable organic policy developments in the US this year. In the Organic Farming Research Foundation's most recent *Information Bulletin* (Fall 2002, No. 11), Brise Tencer summarized significant organic features of the Farm Security and Rural Investment Act of 2002 (2002 'Farm Bill'). There is \$15 million of mandatory funding in a new Organic Agriculture and Extension Research Initiative, to be spent at a \$3 million/year rate over 5 years. Although this is a minuscule amount in comparison to overall Federal agricultural research funding, the funding is significant in relation to previous spending on organic agriculture research. The Organic Certification Cost Share provision of the 2002 Farm Bill provides \$5 million to expand a 15-State pilot program to the national level. Producers and handlers will be able to receive a maximum 75% Federal cost-share of organic certification costs, up to a maximum of \$500.

Other recent US policy initiatives that are not part of the new Farm Bill also can help facilitate growth in organic production. Among these are initiatives undertaken since 2001 by the USDA's Risk Management Agency to shape crop insurance to the needs of organic farmers. In another area, the Foreign Agricultural Service has expanded efforts to promote and facilitate exports of US organic products. One of these efforts involves

working with other government bodies to establish trading codes for organic commodities.

The new Farm Bill's Conservation Security Program (CSP) has the potential for the greatest impact on US organic agriculture over the next several years, however. This 3-tier program will make funds available to farmers for different levels of stewardship on 'working lands'. Although the CSP is not, explicitly, an organic support program, many organic farmers should be able to qualify for payments in the higher tiers. Organic certification, by itself, will not make them eligible for payments, but many organic certification farm plans—such as ones with crop rotations that include forage or green manure legumes—deal quite effectively with at least some resource concerns of the CSP. It may be that many organic farmers will need to add some resource stewardship measures to their organic certification plans to qualify for payments, especially in the highest tier. If the CSP is implemented the way many in the organic industry believe it can and should be, a US program will have been launched that effectively operates somewhat like European organic support programs—providing payments both for organic conversion and for post-conversion organic production. Current information about the CSP can be found on the USDA Natural Resources Conservation Service web site (<http://www.nrcs.usda.gov/>).

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