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Impact of the EU Common Agricultural Policy on organic in comparison to conventional farms

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IMPACT OF THE EU COMMON AGRICULTURAL POLICY ON ORGANIC IN COMPARISON TO CONVENTIONAL FARMS

Abstract

Farms in the EU receive considerable support from the Common Agricultural Policy. Support for organic and conventional farms is analysed, covering a wide range of different Common Agricultural Policy support measures. The current design of the Common Market Organisations tends to disadvantage organic farming systems, although developments in the last two CAP reforms (year 1992 and 2000) and the latest reform (2003) have reduced the discrimination of extensive farming systems and now provide opportunities to introduce measures to meet some of the needs of organic farms.

Key Words Agricultural Policy Q18, Farm Accounts Q12.

1 Introduction

Agriculture in the EU traditionally receives considerable support from the Common Agricultural Policy. In most member states organic farms receive specific support and in contrast to other parts of European agriculture, organic farming is a growth sector. Although rapid growth has been observed in absolute terms, the organic farming sector is still quite small, covering only about four percent of total agricultural land area in the EU. Clearly government support, mainly based on organic farming's environmental benefits, has played a significant role in stimulating growth. Support levels have been defined according to yields reductions and required changes in farm organisation due to conversion. Due to differences in support between Member States and regions, large differences in the development stage of the organic sector exist.

The objective of this paper is to compare and to evaluate support to organic and conventional farms, covering a wide range of different support measures from the 1st (Common Market Organisations) and the 2nd pillars (Rural Development Programmes) of the CAP and highlighting differences between member states and regions.

2 Methodology

Direct payments and price support from the Common Market Organisations (CMOs) for organic and comparable conventional farms are analysed based on the European Farm Accountancy Data Network (FADN). The database contains the accounts of approximately 60000 farms. The most recent data accessible at the time of the study referred to the accounting year 2000. However, identification of organic farms was only possible for ten of the EU member states (Austria, Belgium, Denmark, Finland, Germany, Great Britain, Luxembourg, the Netherlands, Portugal and Spain). While the sample farms of the EU-FADN are selected as to allow a nearly representative picture of EU agriculture, it is not clear how 'representative' the sub-sample of organic farms is, as data on the distribution of organic farms in the population is still sparse and the farming system (e.g. organic/non-organic farming) is not a stratification criteria in sampling (D'Avino 2004). Therefore, all of the results presented are based on simple averages rather than on an application of the weighting factors. To enable a meaningful evaluation of the CMO payments to organic farms, all figures are compared to the payments received by a reference group of comparable conventional farms. For the establishment of a suitable reference group, conventional farms with a similar 'production potential', i.e. a similar endowment with production factors had to be selected (for a discussion of the concept of comparable conventional farms see Lampkin, 1994 and Offermann and Nieberg, 2000).

Expenditure through price support instruments such as tariffs and export subsidies is estimated by the Producer Support Estimate (OECD 2002). For organic products it is difficult to assess the impact of the general EU market-price support mechanisms on the prices for organic products. International trade of organic products is comparatively limited, with non-tariff barriers possibly rating a higher importance than classical market price support instruments, and there is currently no 'world market price' for organic products. For this study, an attempt will be made to estimate market price support for organic products based on the market price support for conventional products, even though must be

noted that little information exists on the exact interactions between organic and conventional farm gate prices (Håring et al. 2004).

Support provided within the Rural Development Programmes (RDP) for organic and conventional farms was analysed based on qualitative and where available quantitative analyses of relevant provisions (e.g. eligibility criteria, restrictions, payments received) in 6 selected EU Member States (Austria, Germany, Italy, Spain, UK and France). In countries where RDP are implemented on a regional basis, case study regions were chosen. These case studies provide an overview of the measures in place and analyses of their attractiveness for organic farms compared to conventional farms. Direct payments for organic and conventional farms are analysed based on the FADN. Additionally, where no other information was available comparative model calculations based on average regional organic and conventional farms data provided by Eurostat (2003) and the theoretical potential uptake of applicable measures were used (Håring et al. 2004).

3 Results and brief discussion

3.1 First pillar measures

In all countries analysed, the organic farms receive fewer direct payments per hectare from the Common Market Organisations (CMO) than comparable conventional farms (Table 1). The difference is least pronounced in Austria and Finland (6-8% fewer payments), and highest for the samples in Spain (-33%), Denmark (-33%) and Portugal (where organic farms receive only a third of the payments of the conventional reference group). On average, CMO-payments to organic farms in the EU-FADN 2000 are approx. 18% lower per ha than for comparable conventional farms (Table 2).

Organic farms receive considerably fewer area payments for cereals, oilseeds and protein crops. Specifically the eligibility of maize for silage for these payments in many countries favours conventional farming. Total livestock related payments per hectare are higher on organic farms than in the conventional reference group. However, significant differences with respect to the different categories of payments exists. The conventional reference group receives more special premiums for bulls as well as slaughter premiums, as stocking rates are higher and fattening periods shorter. Organic farms profit from the second premium for steers, but these payments only have a very small share in total beef payments. Organic farms also receive a significantly higher amount of suckler cow premiums, reflecting the suitability of this activity in extensive farming systems. Extensification payments are twice as high in organic than in comparable conventional farms, a clear indication that organic farms can more easily comply with the stocking rate limits as required by the respective regulation.

Table 1: Direct payments from the first pillar of the CAP to organic and comparable conventional farms in different countries in the EU in Euro/ha UAA in 2000

Payments for	Finland		Portugal		Austria		Spain		Germany		Denmark	
	Org	Con	Org	Con	Org	Con	Org	Kon	Org	Con	Org	Con
Grandes Cultures	113	148	15	58	62	81	92	103	110	181	122	182
Olives	0	0	41	132	0	0	38	67	0	0	0	0
Set-aside	17	15	0	9	5	7	13	17	13	22	15	23
Bulls	23	24	2	6	9	18	0	7	6	11	6	13
Slaughter	5	5	0	1	5	6	0	2	3	3	7	10
Suckler cows	15	2	5	10	24	14	0	0	34	11	3	1
Extensification	13	7	4	7	34	25	0	0	15	0	2	0
Sheep + Goats	3	0	18	18	0	0	4	23	4	0	1	0
Total	188	201	85	240	139	151	146	220	186	229	155	230

Source: Offermann (2003) based on FADN-EU-GD AGRI/G.3

With the exception of horticultural farms, where CMO payments play a less important role, the payments are lower in organic farms for all farm types (Figure 1). The difference is especially high for

dairy and permanent crop farm samples, where organic farms get 33% to 38% fewer payments per hectare than the conventional reference farms. The difference can be attributed to the much higher payments received by the conventional farms for olive growing as the sample of permanent crops farms consists mainly of farms in Portugal and Spain. As production aid for olive growers is paid per tonne of olive oil delivered and is therefore linked to the actual output for all producers, extensive farms with lower yields receive fewer payments than comparable but more intensive farms.

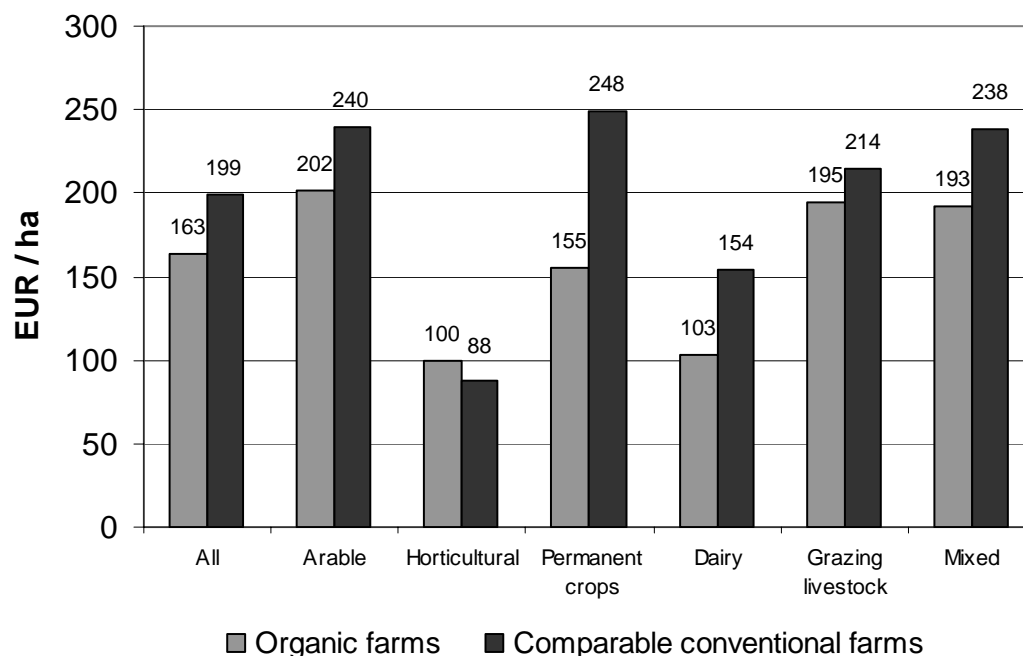


Figure 1: Direct payments from the first pillar of the CAP to organic and comparable conventional farms in the EU-FADN in 2000 by farm type

Price support instruments such as tariffs and export subsidies play a major role within the Common Market Organisations. In the EU this indirect support to farms still accounts for the bulk (60%) of the Producer Support Estimate by the OECD. First estimates indicate that the benefit for organic farms from price support measures of the Common Agricultural Policy could be 20-25% lower than that for comparable conventional farms (Häring et al. 2004).

A range of measures on exemptions or specific rules for organic farming systems implemented or discussed in some member states were identified (Häring et al. 2004). These included preferential access to quotas for organic producers, specific management requirements/exemptions for set-aside land and rotation of arable area payment eligible land. Furthermore, the development of action plans for organic farming can be seen as an implementation of special measures, although they usually build on the framework provided by the rural development and structural measures. Because examples of special provisions are not widespread, it is difficult to provide an overall assessment of their impacts. Of the examples cited, probably the flexibility with respect to set-aside management on organic farms has had the most impact, initially at the individual country level, then on an EU-wide basis since 2001.

3.2 Second pillar measures

Although the payment levels via the CMOs are on average lower for organic than for conventional farms in the year 2000, organic farms in the EU in total receive 20% more CAP payments per hectare than conventional farms according to FADN data for the year 2000 (Table 2). This results from the fact that, on average, organic farms receive more than 70% higher payments from the agri-environmental and LFA area payments than conventional farms. Organic horticultural and arable farms benefit most from agri-environmental and LFA payments compared the conventional farms, permanent crop and grazing livestock farms least (Häring et al. 2004).

Table 2: Direct payments for the first and second pillar of the CAP to organic and comparable conventional farms in the EU according to farm type in Euro/ha UAA in 2000

Payments for	Arable		Vegetable		Permanent		Milk		Grassland		Mixed		All	
	Org	Con	Org	Con	Org	Con	Org	Con	Org	Con	Org	Con	Org	Con
CMO	202	240	100	88	155	248	103	154	195	214	193	238	163	199
AEP	156	48	164	12	87	58	225	115	168	109	171	71	185	86
LFA	32	32	9	3	4	6	79	76	113	101	51	53	66	59
Total	390	320	272	103	246	313	407	345	476	423	414	362	414	344

Source: Offermann (2003) based on FADN-EU-GD AGRI/G.3, Häring et al. (2004)

The most important measures supporting organic farming are the agri-environmental measures (Figure 2). These are implemented within the Rural Development Programmes, the “2nd pillar of the CAP”. In 2001 a total of 275 Mio. € was spent on organic farming within the agri-environmental measures of Council Regulations (EC) 2078/92 and 1257/99 with commitments of more than 18,000 holdings farming nearly 3 Mio. hectares. Of 1.7 billion € spent on agri-environmental measures via the agri-environmental measures of Council Regulation (EC) 1257/99 organic farming support makes up approx. 15% of expenditure, covering 7.5% of agri-environmental area.

In the year 2001, on average 89 €/ha are spent on the area under agri-environmental measures, while 186 €/ha are spent on organically farmed area. In all countries, except Portugal and the UK, average payments per land area are higher for organic than for the average of other agri-environmental measures. Compared to average payments made (183 €/ha) under the agri-environmental measures of Council Regulation (EC) 2078/92 average payments have increased slightly.

In the year 2003 average expenditure on the area under agri-environmental measures and on organically farmed area has continued to increase to 185 €/ha and 91 €/ha, respectively (EC 2005). However, in several countries the average hectare payment to organic farms has decreased, i.e. in Denmark, France, Greece Italy, Netherlands and Portugal. In all countries, except Portugal and the UK, average payments per ha are higher for organic than for the average of other measures. The highest difference in payments received through the agri-environmental measures between organic and conventional farms can be observed on horticultural and arable farms (Table 2). Nevertheless, in many EU countries payments are nearly as high for integrated production, the closest alternative to organic farming, or combinations of other agri-environmental measures (Häring et al. 2004). Furthermore, payments often are not sufficient to cover the income loss of organic compared to conventional production, particularly in horticulture, vine and olive production in Italy. In other countries specific provisions for organic farming are made, i.e. in Austria the ceiling of total payments for farms > 100 ha is higher for organic farms than for conventional farms, or organic farming may benefit due to the possibility of combining the organic farming measure with other agri-environmental measures, i.e. in Austria and Spain.

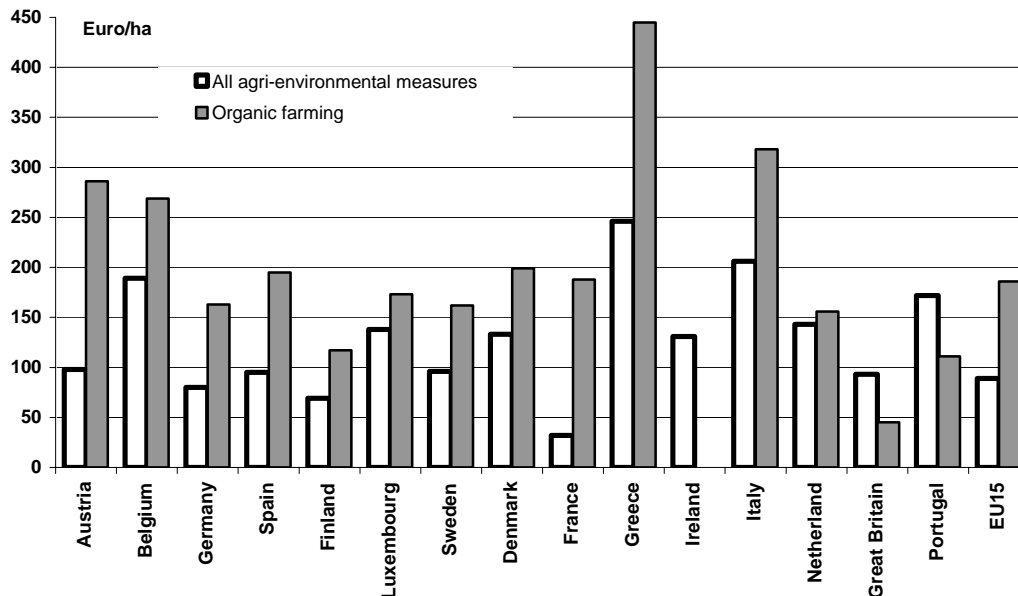


Figure 2: Average expenditure on the agri-environmental measures in the EU (2001) (EC 2004)

Other measures implemented within the Rural Development Programmes – although not always quantifiable - are also important instruments for supporting organic farming. Investment aids rarely benefit one specific farming system. However, in the region of Marche (Italy) the maximum investment support rates are 10% higher for organic than for conventional farms. Similarly, few examples of specific targeting of organic farming in processing and marketing measures exist. In Austria, for example, the marketing of organic milk and dairy products is supported, as is the establishment of processing and distribution structures for fresh vegetables and potatoes and marketing structures for oil pumpkins (Häring et al. 2004). Specific support for vocational training of organic farmers is not included in the RDPs of the case study regions. However, in some cases training for agri-environmental issues are clearly emphasised and organic farmers may indirectly benefit, e.g. in France. Similarly, in England and Wales and Austria various educational projects are implemented although no specific mention of organic farming is made in the measure.

Payments for Less Favoured Areas (LFA) tend to be slightly higher on organic than on conventional farms as organic farms are more likely found in LFA (Häring et al. 2004). Furthermore, some countries implement specific measures that benefit organic farms in LFA. For example, in the UK specifically targeted payments for organic farms that are not part of the Organic Farming Scheme are made and in Marche (Italy) LFA payments are only made to farms not relying on GMO.

However, not just the levels of support through different measures are critical for the development of specific farming systems, but administrative issues can have a major impact, e.g. with stop/start schemes potentially causing serious damage. Delay in implementing announced support measures may cause serious concern among organic producer. Farmers are likely to wait for the implementation of a programme before starting conversion. This may lead to a rush of producers starting conversion when the schemes are finally (re)opened, resulting in significant problems marketing the sudden increase in supply.

4 Conclusions/Outlook

Currently, the design of the CMOs can pose a disadvantage to organic farming systems, even though the CAP reform of 1992 and the subsequent Agenda 2000 reform have generally reduced the discrimination of extensive farming systems by reducing the level of price support for a number of products, compensating farms for losses of revenue via direct payments. Especially for arable crops,

where the reforms introduced compensatory payments based on regional historical average yields, this has generally favoured extensive farming systems. The CAP reform of 1992 also reduced price support for livestock products (mainly beef and sheep meat), but as compensatory payments are paid per head, the benefit to extensive systems was small, if any. The Agenda 2000 has continued the trend of decoupling support payments in the livestock sector from production. As payments continue to be made per head, the linkage to production remains close and any extra benefit to extensive farms small.

The CAP reform 2003 is a fundamental reform of agricultural policy. The decoupling of payments from production included in the reform generally favours more extensive farming systems and thus also benefits organic farming. The exemption from the mandatory set-aside obligation for organic farmers is an advantage, as long as mandatory set-aside is applied. Member states that opt for a regional approach to premium calculation will relatively favour organic farmers as compared to the individual farm approach. National envelopes provide a possible further (and potentially more reliable) source for support options similar to the RDPs.

In general cross compliance provisions may be more easy to follow for organic farmers, compared to conventional ones. Whether concerns voiced in the political discussion that cross compliance might make it necessary to phase out some of the grassland support within agri-environmental programmes are valid remains an open question. The abolishment of these programmes would negatively affect organic farming.

The new provision of the rural development policies provide a number of options potentially beneficial to organic farmers. The main concern is whether regions will actually provide sufficient funds for co-financing. There is a potential danger of increasing differences in organic farming support between regions, with negative implications for interregional organic competition.

As organic farms receive less payments under the CMOs it should be less affected by modulation. On the other hand they should benefit from measures financed by modulation which makes modulation a measure beneficial for organic farming.

The market reform of the milk sector is of high importance for organic farming. A decrease of milk prices received by organic farmers is likely as a consequence of the reform. Many organic farmers depend more strongly on ruminants for their farm organisation, which implies a less flexible reaction of organic farms to decreasing milk prices than for their conventional counterparts. In this respect the reform might disadvantage organic farmers. However, the actual effect will depend on the development of the premiums paid at the market for organic milk. The reform of the olive oil sector will be quite beneficial for organic farming.

The overall conclusion on the CAP reform 2003 is that the positive effects for organic farming seem to clearly outweigh some negative effects. Thus the reform has the potential of supporting a continued positive development of organic farming. However, to what extent this potential may be realised depends on many details, e.g. of the RDPs, which will be decided upon in 2005.

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