

Agriculture and Rural Development Committee

National Assembly for Wales

## **Committee Policy Review of Organic Farming**

**Submission from the Welsh Agri-food Partnership  
Organic Strategy Group to be presented May 1<sup>st</sup> 2002**

### **Summary**

Within a UK context, Wales has taken a lead in establishing an organic action plan with a specific target of 10% of Welsh agricultural products to be organic by 2005. Building on previous policy measures, including the Organic Farming Scheme and the Organic Conversion Information Service, the integration of policy, market and information measures under the plan has enabled significant development of the sector in the three years since its publication. National Assembly, WDA and EAGGF resources (Obj. 1, 5b, RDP etc.) have been utilized to achieve significant results, including the establishment of Organic Centre Wales and its integration with Farming Connect. Despite the stop/start nature of OFS funding in 1999 and 2000, production increased in line with expectations, until FMD and the logjam of farmers that started conversion in 1999 achieved organic status in 2001. The 3-4 fold increase in supplies in 2001 caused significant marketing problems in some sectors, undermining producer confidence in conversion at a time when producers are looking for opportunities to recover from foot and mouth. The Committee's review is therefore a timely opportunity to examine the issues that have led to the current situation and to identify potential solutions. Given the right conditions and policy actions, the original target of 10% remains appropriate and can be achieved, but addressing current problems needs to be a priority.

### **Introduction**

1. The draft terms of reference submitted to the Committee for approval at its meeting on 17<sup>th</sup> April 2002 were to assess:
  - the future prospects of organic farming in Wales,
  - the achievability of the current Welsh Assembly Government targets, and
  - consequent implications for policy and resource allocation with the budget for agriculture and rural development.
2. This document sets out the background to the development of organic farming and policies to support organic farming in Wales, the UK and Europe; analyses achievements to date and future prospects, and considers the issues that need to be addressed in the short, medium and long term and actions that might be taken to address them.

## **Background**

3. Organic farming is first and foremost an approach to agriculture where the aim is to create integrated, humane, environmentally and economically sustainable production systems, which promote soil, plant, animal, human and environmental health and wellbeing. The concept has existed since the 1920s, but first took on concrete form in the UK in the 1940s with the establishment of the Soil Association and key books by Howard and Balfour.
4. The market for organic food has developed since the 1970s, largely in the absence of policy support for organic farming, in order to support producers pursuing these broader aims. Consumer willingness to pay higher prices helped producers to avoid technologies and practices that create environmental and other damage (see below), effectively compensating them for internalizing externalities to the broader benefit of society.
5. In the last 10 years, the market for organic food has expanded very rapidly, to the extent that in some cases the market has become an end in itself, rather than a means to an end, with inherent dangers with respect to the goals of organic farming and producer and consumer confidence.
6. Organic farming does offer clear benefits to the environment. There is now a large body of research, including general reviews and individual studies, that confirms the positive environmental contribution that organic farming can make, with respect to biodiversity, reducing pollution and resource conservation, although there remains a need to conduct further analysis of the relative benefits in the hills and uplands.
7. There is also a growing body of evidence relating to food quality, health, social and rural development issues, although with respect to food quality and health the specific positive results that have been obtained are less easy to generalize and apply to organic products in general. Social issues continue to be debated within the organic standards, but the links are most commonly found with respect to Fair Traded products from developing countries. Most recently, emphasis has been placed on the potential rural development contribution of organic farming given its potential to exploit premium markets and value added opportunities, and thereby to support incomes and employment in rural areas.
8. For the reasons outlined above, organic farming has received significant support across Europe, primarily through the agri-environmental and rural development programmes, with all EU countries and several outside providing both conversion support and continuation or maintenance payments.
9. Of these countries, only the UK does not provide continuing or maintenance payments (although the Dutch will follow suit after 2002). The assumption behind UK policy is that the market should carry organic farming after the conversion phase, but, particularly in the Welsh context, this needs to be questioned.
10. It is only in the last 5 years that there has been a significant premium for organic livestock products, and this mainly because conventional prices collapsed – previously, organic livestock producers relied on conventional prices like other livestock farmers, and only crops commanded premiums. Many livestock producers are now facing this situation again – in the milk sector because organic prices have come under pressure, and in the meat sector because conventional prices are recovering while organic prices continue to remain stable.
11. Complete reliance on the market ignores the public good elements of organic production. No other agri-environment measure expects the full costs of continuation with environmentally-friendly practices to be supported by the market long term. It is fair to ask whether a small minority of consumers should be expected to pay for all the benefits that accrue to society at large.
12. However, recognizing that the market is an important component of the policy mix, greater emphasis is being placed in many EU countries on demand-pull rather than supply-push policies. These are increasingly integrated in organic action plans, with examples from Denmark, France, Germany, Netherlands, Sweden as well as Wales
13. The action plan concept is being taken further, with the development of an organic farming action plan in

England following the Curry report, and an EU action plan following the Danish Government hosted conference on the issue in May 2001 and the subsequent call by the Council of Ministers in June 2001 for the European Commission to develop such a plan. (The development of organic farming policies in Europe has been examined in detail by researchers at UWA and further information is available from them).

## ***Development of the organic sector in Wales***

14. The organic sector in Wales also has a long history, with a few organic farms dating from the 1940s and 1950s, and a more significant number converting in the 1970s and 1980s. These farms provided the basis for several initiatives that made Wales the centre of organic growth in the UK at that time. These included companies such as Organic Farm Foods and Rachels Dairy, the organic producer organisations Organic Growers Association and British Organic Farmers (subsequently merged with the Soil Association), and early research initiatives at the University of Wales, Aberystwyth and IGER.
15. In 1994, the Organic Aid Scheme was launched based on the English model, but the very low LFA payment rates (£10/ha) made the scheme unattractive, particularly in Wales, and uptake was low (2,355 ha between 1995/6 and 1998/9).
16. In 1996, the Organic Conversion Information Service (OCIS) was launched. OCIS Wales was managed and provided by ADAS with the support of Elm Farm Research Centre and the Soil Association. Since its inception, more than 10% of Welsh producers have contacted the OCIS helpline. A detailed report of the first five years of operation has been prepared by ADAS.
17. In 1997, MAFF announced a review of the Organic Aid Scheme. This review led to the revised Organic Farming Scheme, with substantially increased levels of payment and the lowest rate of payment restricted to rough grazing (unenclosed land in Wales) rather than all LFA land. However, in contrast to schemes implemented in other EU member states, only the conversion period was covered, and no support for continuing organic production was provided.
18. In 1998, the Organic Industry Working Group was established by WOAD, alongside similar groups for the dairy and red meat sectors, to develop an action plan for organic farming Wales. In March 1999, the action plans were published and adopted by WOAD and the Welsh Agri-Food Partnership.
19. The Organic Action Plan included the target of 10% of Welsh agricultural products to be organic by (the end of) 2005. The target was set on the basis of growth rates and potential demonstrated elsewhere in Europe, where a number of countries had set ambitious targets and achieved growth from less than 1% to 10% in a 5-10 year framework. (For example, Germany at 3% in 2000 has a target of 20% by 2010, Sweden at 12% in 2000 has a target of 20% by 2005, Denmark at 7% in 2000 has a target of 12% by 2005.) The revised Organic Farming Scheme was to provide the main basis for achieving the goal.
20. The action plan also envisaged a range of market development initiatives to address bottlenecks and increase the proportion of produce processed and marketed in Wales. A sub-group was established, and recently a report addressing market development issues has been commissioned by the WDA.
21. The action plan emphasized the importance of a co-ordinated information strategy to complement policy and marketing initiatives. Building on the experience of OCIS and a partnership of ADAS, IGER, UWA, Elm Farm Research Centre and the Soil Association, Organic Centre Wales was established with National Assembly funding to implement the strategy. Recently significant effort has gone into integrating OCW with Farming Connect. This element of the action plan has been successful in disseminating information to producers, but as argued below, a change of focus will be required to address the changed circumstances of the sector.
22. At the time the target was set at the end of 1998, only 0.3% of Welsh (and UK) holdings and land were under organic management, well below the EU average. By the end of 2000, Wales and the UK had caught up with the EU and German average of 3% of farmland and 2% of holdings. In three years, there has been a 10-fold increase in the size of the organic sector in Wales, from 1 in 235 farms organic in 1998 to 1 in 50 in

2001. Growth rates have been faster in Wales than in England, but slower than in Scotland where large areas of rough grazing have been converted and the proportion of land area converted is now over 5%.

23. A detailed breakdown of production by holding numbers, main crop and livestock production, and the proportion of Welsh agriculture that this represents is contained in Table 1. The average size of farms converting at 80ha is higher than the Welsh average of 53ha in 1999, although the average size of farms converting in 2001 was smaller than in previous years. The figures illustrate a relatively even spread across the different sectors, although the high proportion of Welsh horticulture (including potatoes) converted is noteworthy. On the basis of this data, it is possible to take land area as a proxy for the action plan's target of 10% of Welsh agricultural output in examining whether and how the target can be achieved (see below).

Year ending	<b>Organic production</b>				<b>Proportion of Welsh agriculture 1999</b>				
	1998	2000	2001	2002	1999 values	1998/9%	2000%	2001%	2002%
Organic area (1000 ha)									
Grass/forage	2.3	6.9	25.4	28.4	961	0.2	0.7	2.6	3.0
Rough grazing	0.5	1.5	6.5	10	306	0.2	0.5	2.1	3.3
Arable	0.1	0.4	1.6	1.9	47	0.3	0.9	3.3	4.0
Horticulture	0.0	0.1	0.5	0.6	5	0.9	2.6	9.6	11.6
Total organic area	3	9.4	35.5	42.7	1493	0.2	0.6	2.4	2.9
Including inconversion land	4	40.0	45.0	n/a	1493	0.3	2.7	3.0	
Holdings	120	429	560	n/a	28018	0.4	1.5	2.0	
Average size (ha)	33.3	93.2	80.4	n/a					
Dairy cows	900	2260	5200	6900	278533	0.3	0.8	1.9	2.5
Milk (million litres)	4	11	26	34	1500	0.3	0.8	1.7	2.3
Beef breeding herd	600	1800	4100	5200	229692	0.3	0.8	1.8	2.3
Sheep and lambs	20000	60000	180000	216000	11677882	0.2	0.5	1.5	1.8

Source: Organic Centre Wales estimates and NAW statistics

These are preliminary results derived from incomplete certification, OFS and OCIS statistics and should therefore be treated with some caution.

24. By the end of 2000, the 10% target was still within reach, despite significant delays firstly in 1999 until the new Organic Farming Scheme was actually opened, and again in 2000 as the Organic Farming Scheme was reapproved in Brussels as part of the transition to the Rural Development Programme.
25. Then in 2001, FMD struck, so that all activities relating to informing, certifying and registering new producers on the Organic Farming Scheme ceased for much of the year. As FMD was brought under control, several initiatives were implemented by OCW to encourage producers to consider organic production as an option for recovery. But these efforts were eclipsed by growing problems in the market, particularly for organic milk, which have seriously undermined producer confidence to convert, particularly since the market provides the only form of long-term support for organic production in the UK.

### ***The market for Welsh organic products***

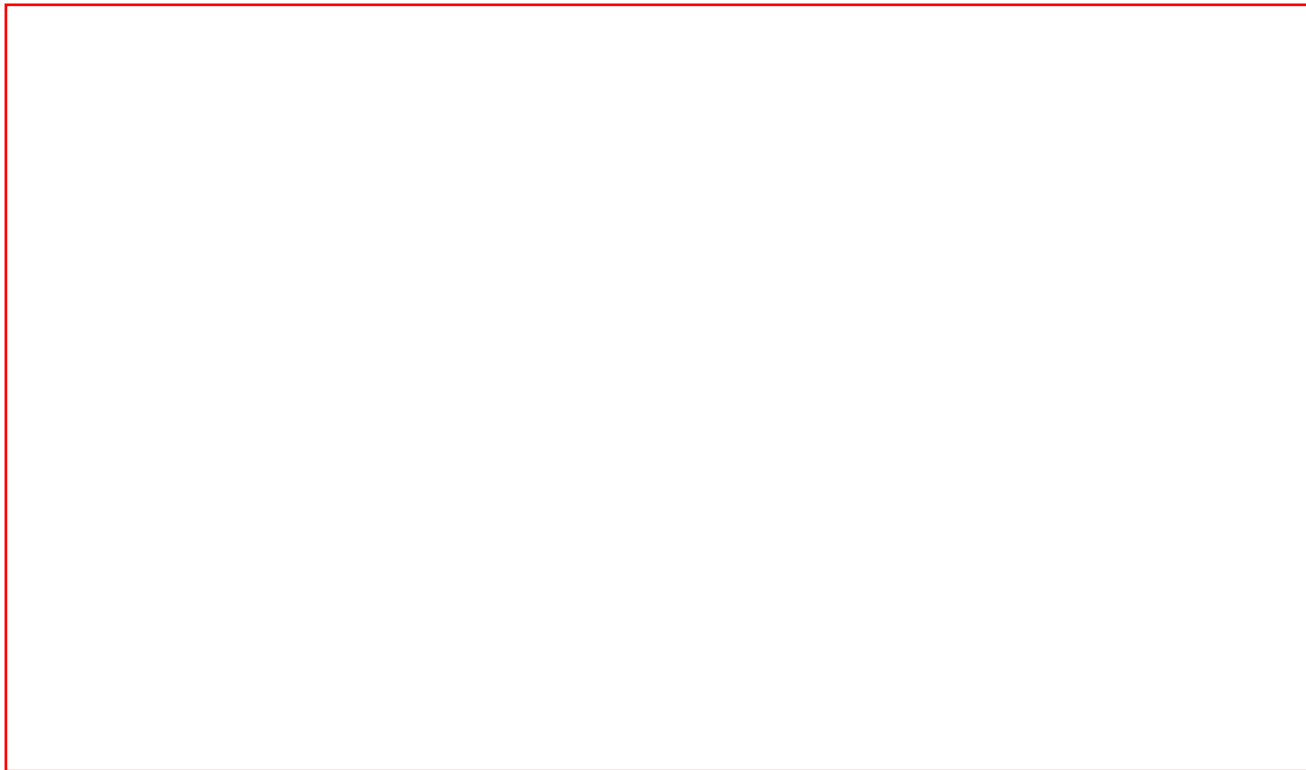
26. In general terms, the marketing difficulties that have arisen in 2001 need to be seen in the context of a) FMD and b) the 'logjam' of new converters that delayed starting conversion until the new Organic Farming Scheme became available in 1999 and achieved organic status after the 2-year conversion period in 2001. This meant that the area of full organic status land and supply of organic products in Wales increased by 300-400% in 2001, and similar increases took place elsewhere in the UK. Further supply increases are in the pipeline for 2002, as producers that started conversion in 2000 come on stream, but after that the fall off in conversion rates in 2001 means that in 2003/2004 there could again be supply shortages.
27. The organic dairy sector in Wales has been hardest hit by the current problems, with many producers being forced to sell most or all of their milk on conventional markets, so that the average price being obtained by producers with established markets has fallen from 29 to 24 ppl and in some cases producers are being offered as little as 21 ppl. The increase in Welsh production from 11 to 26 million litres in 2001 is clearly a contributory factor and needs to be seen in the context of total UK production in 1999/00 of only 33 million litres. Part of the problem may also be attributable to fragmentation of the supply chain, with several groups including competing producer co-operatives now supplying organic milk from Wales, and there is a clear case for improved co-ordination and collaboration between producer groups. However, it is important to note that this is not entirely a problem of the organic market – the dairy sector as a whole is going through a period of substantial restructuring, both at producer level and in the supply chain, and prices to conventional producers have also fallen significantly in recent months.
28. The meat sector has not been as seriously affected by supply increases, but it is not without problems. Serious difficulties with the marketing of light lambs emerged in the autumn of 2001, as supermarkets responded to the FMD export ban for lamb by clearing organic product off the shelves and promoting conventional light lambs. Since then markets have recovered, although there are still some problems marketing organic light lambs. Prices for lamb and beef remain in the £2.30-£2.50 range. (Conventional lamb prices for the premium spring lamb market have also recovered to these levels, illustrating again how the organic premium is primarily a function of low conventional prices rather than high organic prices.) Some producers are reported to have recently experienced problems selling beef cattle, but it is not known at this stage whether this was due to a failure to notify availability of supplies to the buyer, or reflects an emerging problem. Despite the success of companies such as Welsh Hook and Graig Farm in developing the market, fragmentation in the supply chain is also becoming an issue in the organic meat sector and needs to be addressed.
29. The organic horticulture sector is the longest established in Wales, with Organic Farm Foods dominating the supply of products to supermarkets, and a variety of box scheme and other local marketing initiatives developed by smaller producers. There have been some examples of oversupply of specific commodities in 2001, for example potatoes, which again appear to reflect a failure of many producers to plan the marketing with buyers in advance of production. The establishment of the new Horticulture Strategy Group, and an organic horticulture sub-group linking with it and the Organic Strategy Group, is providing a mechanism for

- planned development of organic horticulture in Wales.
30. The marketing problems being experienced in the different sectors are fundamentally due to a boom and bust cycle in supply, combined with the current levels of exchange rates favouring imports over home-produced products. Although demand growth rates are slowing down, as would be expected as the sector expands, the market is still growing and various reports put growth at 35% in 2000 (to a UK retail sales value of £800 million) and 25-30% in 2001 (to £1 billion plus). Tesco's alone are targetting £1 billion in organic sales by 2005 and achieved 30% growth to £240 million in 2001.
  31. In the context of oversupply for some commodities, the buying behaviour of some supermarkets is giving cause for concern, as producer prices are being forced down to below costs of production by the availability of cheaper imports. Practices such as category management and internet bidding for contracts are creating additional problems for the smaller, specialist suppliers. There is a need for positive interaction with supermarkets to ensure a long-term commitment to the development of the sector in a collaborative and co-ordinated approach. There may well be scope for the NAW, WDA and Agri-Food Partnership to facilitate this.
  32. There is some scope for market expansion to be driven by reductions in consumer prices, but this should not be taken to imply or justify reductions in producer prices. There is still significant potential for economies of scale in the distribution and marketing of organic products, and in many cases the producer price only accounts for a small proportion of the end product price. Why should a consumer pay 25-30 p more for a litre of organic milk, when the producer, who is responsible for the 'organic' part of the process, can not even get a 10 ppl premium?
  33. Even if the market does not grow substantially in the short to medium term, there is significant scope for import substitution. According to the Soil Association's 2001 Organic Food and Farming report, 85% of fruit and veg, 80% of cereals, 35% of dairy products and 45% of meat sold in the UK was imported in 2000/01. Longer term, any devaluation in the value of the pound if the UK joins the Euro would be expected to favour UK producers in terms of import substitution potential.
  34. The benefits of import substitution could be significantly enhanced through increased availability of appropriate processing facilities to deal with Welsh organic produce, since currently the majority of Welsh organic produce leaves Wales as a commodity for sale into English markets. Linked to this is the potential for greater exploitation of domestic (Welsh) markets.
  35. Some reduction in pressure from imports, and possibly even export opportunities, are possible in the context of the rapid expansion in the German market stimulated by the BSE crisis there in 2000 and the consequent change in direction of agricultural policy. 2001 has seen a rapid uptake of organic products by German supermarkets including discounters, representing a significant change from the previous situation where only 25% of organic products were sold through supermarkets in Germany, compared with 70% plus in the UK.
  36. The German government's plans for a major consumer information campaign to promote the new unified logo for organic foods in 2002 and 2003 (EUR 23 million out of a total budget for organic supply chain information initiatives of EUR 70 million in this period) is likely to further stimulate demand and German requirements for imports.
  37. The analysis in this section indicates that despite the problems being experienced currently, there are a number of opportunities that can be exploited to bring about an improvement in the situation, and policy initiatives are needed to assist this.

### ***Can the 10% target be achieved?***

38. Figure 1 illustrates the growth rates that were required from the 0.3% start at the end of 1998 to achieve 10%

by the end of 2005. Both straight line and exponential expansion paths are illustrated, the exponential growth pattern reflecting trends observed at a European level although in practice individual countries, as Wales, have experienced periods of very rapid growth followed by periods of consolidation before renewed growth takes place. Actual growth in 1999 and 2000 was close to the straight line growth path and substantially greater than the 65% annual growth rate needed to achieve 10% by 2005, but has clearly tailed off in 2001.



39. Despite the slow down, catching up and achieving the target is still possible as illustrated in Figure 2. 26,000 ha would need to be converted annually to achieve the target of 10% or 150,000 ha by 2005. The original straight line growth rate of 21,000 ha per annum, or a reduced 25% annual exponential growth rate equivalent to the European average, would still achieve the target by the end of 2006. The total cost of achieving this with the existing organic farming scheme, assuming a typical cost of £350/ha over 5 years, would be about £52 million (of which about £15 million is already committed), including the period beyond 2005 when OFS payments will still be due.

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40. Realistically, however, achieving these sorts of growth rates remains a challenge, and a number of new policy initiatives will be required. Clearly one focus must be dealing with the current marketing problems, but, perhaps perversely in the current circumstances, there is also an urgent need to rebuild producer confidence in conversion so that shortages do not re-emerge in 2004/2005.

### ***Policy initiatives***

41. While it is attractive to justify support for organic farming in terms of consumer choice and ‘infant’ industry arguments, organic farming is first and foremost an agri-environmental measure delivering public goods, and the EU’s agri-environmental programmes have provided the main basis for delivering this support. The case made above that the market should be seen as providing a means to support agri-environment initiatives, rather than the main goal, needs to be taken seriously and an appropriate balance needs to be struck between reliance on consumer willingness to pay through the market mechanism and taxpayer support.
42. At the European level, the two extremes are reflected in the policies adopted in the Netherlands and Sweden. The Netherlands has adopted a strong market focus and from 2002 will be removing direct agri-environmental payments to organic producers. In 2000, only 1.4 % of its land area was under organic management. Sweden in contrast supports organic farming as a pure agri-environmental measure, with no requirement for certification or linkage to organic markets. Organic producers can choose to be certified and market at a premium if they wish. The two consequences of this have been more orderly development of markets and the highest level of adoption of organic farming in Europe (12%), although only half of this is certified as such.
43. There is a clear case to look at the implementation of maintenance payments for organic production on agri-environmental grounds. This would make a major contribution to shifting the burden of payment for public goods from individual consumers to the tax payer, and would provide producers with a better basis for confidence in the longer term potential viability of organic production, reducing concerns about being left high and dry should market conditions deteriorate.
44. We would not accept the protectionist case made by some that further conversion should be discouraged in order to protect the market for existing producers. This is counter-productive in terms of the potential environmental and other public good benefits, and it is not in the interests of long term development and



- expansion of the market, which requires sufficient levels of supply for growth and import substitution.
45. Maintenance support could be in the form of an organic stewardship tier as part of a broad and shallow general agri-environment scheme – plans for this are well advanced in England and are likely to feature in the English Organic Action Plan currently under development. Similar schemes are also being considered by the recently established ARAD agri-environment committee. A conclusion to this issue should be a key priority for the mid-term review and the utilization of modulation funds.
  46. While we are not yet in a position to propose a specific level of support, 150,000 ha supported at £100/ha annually would cost £15 million per annum once the 10% target had been achieved. (The total amounts required would be proportional to any actual rate of payment eventually determined). In the short term, the relatively small areas of land (ca. 10,000 ha) not eligible for the existing organic farming scheme would require £1 million per annum at £100/ha, which would be achievable out of the existing OFS budgets given the current low levels of uptake. Therefore a decision on this would not need to wait for the full implementation of the mid-term review.
  47. There are a number of other specific measures that could be implemented to provide specific producer support. These include:
    - Making organic producers eligible for Farm Waste Management Grants on the grounds that organic legislation imposes identical constraints to NVZ requirements.
    - Recognise the considerably reduced risk of BSE from organic herds and the additional specific BSE-control constraints imposed by organic standards, in order to link organic production to the beef assurance scheme, thereby relaxing the 30-month rule.
    - Support moves at European level to remove production constraints from organic producers, in particular compulsory (but not voluntary) set-aside.
    - Ensure that a high priority is given to organic producers for allocations of in particular suckler cow quota from national reserves, recognizing the parasite control and environmental benefits that be achieved with a better balance between cattle and sheep in the hills and uplands.
    - Consider whether part of the sheep national envelope should be targeted at organic producers.
    - In the short term, consider extending the 10% HFA supplement for organic production to 20%, pending the review and possible integration of HFA with agri-environmental measures.
  48. We commend and encourage the Welsh Assembly Government in their continued support for a GMO free Wales and request continued support in ensuring that GMO developments do not conflict with and undermine the potential development of the organic sector.
  49. The second major area for policy initiatives is in stabilizing and developing markets for organic products. Support for producer groups, and processing and marketing grants, is already available through the WDA and this should be continued, but care is needed to avoid fragmentation in the supply chain and support for new producer groups and initiatives should be consistent with a strategic approach to market development, including the principle of enhanced co-operation between producers, certifiers and within supply chains.
  50. These initiatives can be supported by improved market intelligence and dissemination of market information. Part of this is covered by current Farming Connect developments, including the appointment of a market intelligence officer at Organic Centre Wales. However, the improvement of available statistics also needs to include actions on the part of official statistical agencies, including the National Assembly. Census data needs to be improved to identify organic production levels and there is scope to explore other opportunities for improving data availability at other points in the food chain.
  51. There is particular potential in a German-style publicity initiative to explain the term organic, what organic certification entails and what the consumer can expect from organic foods. Although there is no single logo in the UK, the term ‘organic’ is covered by regulations, and could be the focus of an information campaign. The emphasis would be on factual information, and therefore should not need to be seen as disadvantageous to other producers.
  52. There is also potential for public procurement initiatives focusing on local and organic foods. A pilot scheme

has been established involve Powys County Council, the Soil Association and Cardiff University, that could provide a model for more widespread application with support from the National Assembly and local authorities.

53. More generally, there is significant scope for improving information flow, by further developing the existing provision of information to producers through Organic Centre Wales, the Organic Conversion Information Service and Farming Connect, and by extending the role of Organic Centre Wales to include a wide range of public education and consumer information activities – proposals for this work are currently under development. It is essential that resources for Organic Centre Wales and OCIS, both key components of the original action plan, are secured for the 2003-2006 period.
54. We would support the development of an autonomous organic groups in Wales network to support grass roots initiatives at producer, consumer and other levels. Discussions are currently taking place with the WDA to secure resources for a start to this work.
55. The recent initiative by the European Commission to develop an EU action plan for organic farming, in order to provide a basis for specific policies for organic farming in the next phase of CAP reform following Agenda 2000, will have implications for possible policy developments in Wales beyond 2006. We have a direct link into the working group, which should help with ensuring compatible development of initiatives.
56. Finally, discussions need to start soon on the nature of a second organic action plan for Wales and new targets appropriate to achievements to date and the developing policy framework.