

# From a policy to a market driven organic sector development?

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„How far should the market (consumers) or policies drive organic sector developments?“ (Legg, 2007)

**Abstract – The organic food and farming (OFF) sector historically was formed as a mainly market driven approach, but is subsidised in Europe for many years. A general tendency to cut subsidies is foreseeable for the next period of the Common Agricultural Policy (CAP). This development necessitates a stronger market orientation for OFF. Some recent developments and innovative approaches in this field are presented and discussed.**

## INTRODUCTION

The roots of OFF dates back to a history far away from politics and regulatory laws. But nevertheless it is a fact that since the mid-1980s its development and maturation process in Europe was deeply influenced and fostered by political initiatives and related support measures. Starting in Denmark and France, then also on the European level since 1991, most stimuli to the sector date back to political regulation initiatives. The introduction of a regulatory framework (e.g. the Danish law from 1987, EU Organic regulations EU Reg. 2092/91 and 1257/1999), the implementation of adapted measures as part of the Rural development programs and not least specific Organic Action Plans<sup>2</sup> (e.g. in Denmark, France, and Germany) can be referred to in this context. Thus organic agriculture was and still is highly influenced and even dependent (Offermann et al., 2009) on political decisions. From a strategic viewpoint especially the dependency on compensation payments could affect or even impede the future development of organic agriculture due to a general uncertainty of subvention payments and a general decline of agricultural related payments as part of the forthcoming reform of the CAP in 2013.

## RESEARCH QUESTION AND METHOD

In their comparative analysis Dimitri and Oberholtzer (2005) characterized the U.S. OFF sector as “market-led”, compared to a “government-facilitated”

sector development in Europe. The author tries to investigate, if this assumption is still correct for 2009 or whether a changing political environment in the enlarged European Union has lead to a stronger emphasis on market aspects<sup>3</sup>. This will be discussed based on a literature based analysis of current, innovative market initiatives in Europe.

## THEORETICAL BACKGROUND

The economist Adam Smith (1723 - 1790) lays the ground for the main elements of our current political and economic system. He described the interplay of and the boundaries between market and politics in his opus *Wealth of Nations*, where he advocates a free market economy as most productive and beneficial to society. Furthermore he defines the role, which both market and politics have to play: On free markets the right amount and variety of goods is produced under the “mechanism” of the so-called “invisible hand”. Accordingly free markets functions best without direction from the state, as individuals are able to structure both moral and economic life and thus market regulates itself. The role of the state is reduced to minimum interference in the economic process and a minimum of regulations (later identified as “laissez-faire” politics). The governmental role shall be restrained to key aspects like education, judiciary, and national defence, which cannot easily be organized on the market.

Interpreting Smith and construing his theory in the context of OFF market organization, the interplay of market and politics related to OFF has to be as follows: The role of politics has to be restricted to a minimum, i.e. regulative issues like defining a legal framework or setting up an effective and efficient guarantee system for the organic production and processing (“certification”), and the provision of information on these specific production processes and product qualities. All other stimuli have then to be regulated “on the market” and adjusted by the “invisible hand”. The author acknowledges that the current societal system is far from Smiths’ ideal due to the existence of market failures, which can be found e.g. in the field of public goods and thus figures prominently in the agri-policy debate.

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<sup>2</sup> The concept of Organic Action Plans originates from EU member states that introduced them at national level as comprehensive strategy to foster OFF sector during the 1990s. Politicians has introduced the Action Plan concept as integrative approach to address both demand-pull and supply-push measures. Action plans have now become a significant part of OFF politics all over Europe with a European Action Plan in place since June 2004. “Best practice” examples and “golden rules” on how to compose Action Plans were compiled in the ORGAP project, in which the author was involved (see also [www.orgap.org](http://www.orgap.org)).

<sup>3</sup> The author acknowledges that nearly all policy instruments have an (direct or indirect) impact on the functioning of markets (supply and demand) and interactions are inevitable; accordingly this paper will show only tendencies and trends in the European OFF sector and cannot address the functioning of the OFF market.

## RESULTS

Ufer (2008) analyzes the framework conditions of the OFF sector in Baden-Württemberg with special emphasis on the analysis of support regimes. From the perspective of interviewed political representatives the function of agri-political payments for organic agriculture should only balance the pecuniary disadvantages for implementing an environmentally sound management technique. Further aspects related to the organic production method "have to be negotiated on the market". The experts are calling for a stronger engagement of marketers as important engine for expanding the organic market. In order to overcome the lack of farm conversions, they referred to long-term contracts and conversion checks for free as important catalysts for the sector development.

The German project *Bio-Offensive*, started in 2008, goes in exactly this direction by providing negotiations on binding contracts between producers and traders prior to a conversion check. The intention of the project lies in a reduction of existing barriers and of uncertainty about acceptance and marketability of organic products, which can be minimized due to cooperation between producers and traders. Furthermore future market fluctuations can be assured beforehand.

Another innovative approach to stimulate market supply and production is the "conversion check" introduced by the Danish retail chain *SuperBrugsen*: The one day profits of organic sales were donated to a Danish organic farmers association and their efforts to stimulate and ease conversion.

In their comprehensive study Alrøe and Halberg (2008) analyzed the Danish OFF sector and its future prospects. Although the Danish organic agriculture was and still is market oriented, the authors stress the need to pick up some new market trends in order to respond to the consumer demand and thus secure the future of the sector. Although the organic farm incomes are on average higher than the ones of comparable conventional farms in Denmark, there has been only limited conversion in the last years. The authors identified "focus areas" which have to be fostered for a further market development. In order to increase the conversion rate, they suggest a stimulation of long term contracts with marketers. This aspect indicates that the Danish OFF sector still sees potential for an even amplified market orientation.

Offermann et al. (2009) show in their analysis of direct payments in selected EU member states, that even under the reformed CAP organic farm incomes are and will remain highly dependent from specific payments. Figures based on typical farm data calculations show e.g. for Germany that in 2002 payments for organic farms are about 24% to 36% of the profits and prospectively 25% to 45% for the year 2013. Thus organic farms seem to be highly vulnerable to political changes. Despite these figures showing an increasing dependency from political support, farmers themselves have a sometimes distinct view on agri-environmental payments and political support schemes: Even if the majority of the European sample of interviewed farmers hopes for a general increase in subsidies related to organic agri-

culture, some farmers voted for a shift of these area based payments. For instance in Austria and Denmark 12% of farmers opting for a complete abolition of financial support related to the agricultural area, opting for more market oriented support schemes, e.g. via a support for organic marketing, processing and inspection issues. Other indicators linking the discussion to a market orientation are the Swiss debate on an abolition of a specific premium for organic agriculture and the German initiative to establish an umbrella organic farming organisation ("Initiative Deutscher Bundesverband Ökologischer Landbau") to better respond to a changing market environment and to ease the inner-organic trading.

## DISCUSSION

Binding contracts and conversion checks for free are not part of the traditional agricultural policy equipment, but can be interpreted as signals of a new, more market-driven sector development. The debate on completely abolishing subsidies dedicated to organic agriculture in Switzerland is tantamount to a revolution in Europe, where the organic agriculture has been directly subsidised for many years. In the current debate about additional organic values (characterized e.g. as "Organic 2.0") market mechanisms seem to be better able to meet consumer demand.

Most of the current product innovations, differentiations and new trends are not easy to catch for politics and transformed into regulations, or even implemented via formal Action Plans. Maybe the future European OFF market will be more strongly influenced by Adam Smith's *invisible hand*. The U.S. OFF sector development shows that a lack of area payments and free markets are not per se obstacles for the development of the OFF sector.

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