

programs: in countries where organic agriculture is a new field of interest, there will not be enough qualified teachers to teach this subject.

#### **e. Conversion and maintenance area payments for organic production**

##### *Political justification*

The failure of the market to adequately recognize the delivery of public goods and the externalities of agricultural production is widely documented. In a number of countries conversion and maintenance area payments for organic farming are used and they partly address this market failure. These subsidies are given in the form of a fixed amount per ha to organic farmers or farmers in conversion to organic. The main policy logic behind such subsidies is to compensate organic farmers for the positive externalities (environmental and societal benefits) that they produce, or the negative externalities that they do not produce, through their choice of farming. Since these environmental and societal benefits (see Chapter II for more details) are “externalities”, they are not fully compensated for by the premium price that the organic consumer is willing to pay for organic products. Hence, to encourage a wider adoption of organic agriculture amongst farmers, and to attempt to “internalize” externalities, some countries give subsidies to organic farmers in the form of multi-annual contracts. Subsidies are also given during the conversion period, and often these are even higher since, during this period, the farmer bears the additional costs of organic production but without the benefit of the premium prices for their products.

In early development stages of an organic sector, area payments can also provide the incentive necessary to bring a high number of farmers to convert to organic agriculture, at a time when market demand is not necessarily developed enough to pull so many farmers into conversion. This then provides economies of scale to build the rest of the supply chain on a wider basis of production supply. It can therefore create a temporary situation of supply-demand imbalance, which, if addressed by other measures to support organic processing and marketing, leads to a next-level supply-demand equilibrium for the organic sector.

Another advantage of area payments is that they can be used to modulate the development of certain types of production, and therefore encourage diversification in the organic sector, whether this comes from a risk-mitigation strategy, market expansion strategy, import-replacement strategy, or other reasons to encourage particular types of crops. For example, area payments for leguminous crops can be put higher than for other field crops, if the lack of protein feed has been identified as a bottleneck for the development of a domestic organic livestock sector.

Area payments for specific environmentally-friendly production methods such as organic agriculture fall within the “green box” category in the WTO Agreement on Agriculture, meaning that they are an acceptable type of agricultural subsidy for governments to maintain.

### *Suitable contexts*

Organic conversion and maintenance area payments are not necessarily suitable/feasible in all contexts.

Although they can be implemented at all stages of development of organic agriculture, from embryonic stage to well developed production and consumption stages. They are considered most effective in early development stages because the market is not yet there to absorb supply (e.g. Bulgaria). Area payments are also particularly relevant in an importing country situation where the production is insufficiently developed to meet the demand.

Area payments require an agreed-upon official definition of what qualifies as organic production. Hence they will not be a suitable measure in the context of a country that has neither an organic regulation nor an officially referenced organic guarantee system. As soon as the government has referenced an organic guarantee system defining what is considered organic in terms of standard(s) and control system(s), the measure is feasible, with or without a regulation.

Area payments are typical (but not exclusive) to countries/regions with a culture of government intervention in the agricultural sector, i.e. where the government is used to or open to the idea of significantly subsidizing the agricultural sector. Area payments are a costly measure, especially when they are implemented nationwide to any farmer willing to convert, and as they need to be high enough to represent a real incentive for conversion. Additionally, area payments require detailed information about producers and a rather complex administration process, which governments with a culture of low intervention in the agricultural sector might not be willing or able to manage.

Organic conversion and maintenance area payments can link well with the various logics of policy support to the organic sector, including the production of positive externalities, increased access to healthy food, and increasing the self-sufficiency of the organic sector. They are a bit less relevant when it comes to the objective of building an export sector to earn foreign currency (as heavy spending on an export sector would cancel out the monetary benefits for the country), except as a transitional measure at an early stage in order to build a critical mass of producers that would enable the reaching of a competitive scale for exports.

### *Possible modalities of implementation*

The most common way in which direct area payments to organic farmers have been implemented is through multi-year subsidy schemes to which farmers apply in order to get the subsidy. In most cases, there are eligibility criteria for applying to the scheme, and other conditions describing whether the subsidy is combinable or not with other types of public support, whether there is a ceiling (maximum amount per farmer), etc. The subsidy is also usually differentiated in amounts depending on various categories of production (sometimes differentiated to the crop level for certain crops), and there may be a different subsidy for areas under conversion and for already converted areas

(maintenance). Some countries (e.g. Ireland, Portugal) have a degressive payment model whereby the payment level per ha depends on the size of the organic area (the larger the area, the less subsidy per ha).

Although the policy justification of such subsidies is to compensate for environmental and societal benefits generated by organic farmers, the calculation methods used by governments to calculate the payment (for various types of production) has so far not been based on the estimation of the value of those positive externalities, but rather on compensating the additional costs and income foregone from farming organically. This approach is somewhat imposed by the WTO Agreement on Agriculture, which requires that in the case of payments under environmental programs, the amount of payment shall be limited to the extra costs or loss of income involved in complying with the government program.

In the EU, the level of area payments for organic production is defined by Member States based on the following parameters: differences in yield, production costs, prices and transaction costs. Usually Member States define a typical regional organic farm and a conventional reference farm to calculate the additional costs. In other words, those subsidies are calculated with a view to making organic production economical for the farmers, even during the conversion period. In the EU context, however, some countries were restricted in their ability to give high area payment rates (even if with the economics would have justified so) by the maximum subsidy per ha allowed under the EU Common Agriculture Policy Framework, by budget constraints, or both. As a result of those restrictions, not all country and regions are able to compensate 100% of the extra costs associated with organic farming.

Usually, conversion payment rates are higher than maintenance payment rates because the calculation includes the income foregone from not being able to sell produce as organic. In the EU, this is true in the majority of the Member States. However, 13 Member States<sup>73</sup> have had constant payment rates throughout the conversion and maintenance periods, which is a way of avoiding the scenario where some farmers convert back to conventional after the end of the high payment rates for the conversion period.

It is common for this type of support to be embedded in more general agri-environmental policy schemes whereby organic agriculture is not the only system supported but is however normally supported to a higher extent than other systems as organic agriculture is recognized as a sustainable agriculture best practice.

Organic livestock production has been supported through area payments for organic pastures (or more generally for extensive pastures, to which organic grazing areas belong because of stocking rate limitations under organic standards). However, this may not be the most effective way to specifically encourage organic livestock production, as producers can cash in the subsidies for grazing areas without necessarily producing much out of it. To promote organic livestock production, an alternative to

---

<sup>73</sup> Austria, Cyprus, Czech Republic, some German regions, Estonia, Finland, some Italian regions, Lithuania, Latvia, Portugal (Azores), some Spanish regions, Sweden and Slovenia

area payments for pastures is per-unit payments for organic livestock. This has been used for example in Turkey, in Estonia and in 2 regions of Spain (Castilla-La Mancha and Extremadura).

In Switzerland, the direct payment system to farmers is sometimes not calculated on a *per-ha* basis, but using a more complex Standard Labour Unit Index. The Standard Labour Unit (SLU) records the overall working time requirement of a farm using standardized factors. The agricultural area is one factor that comes into the calculation of this index, but in combination with many other factors. This calculation index<sup>74</sup> is meant to be a fairer way to support small labor-intensive farms than the area calculation alone, especially when lower limits are applied as a criterion for accessing subsidies. Instead of requiring a minimum farm size, like in the EU, to access subsidies, Switzerland requires a minimum of 0,25 SLU – this is in order to exclude hobby farms from direct payments. In the canton of Tessin, a one-time payment is granted based on this SLU index to farms wanting to convert to organic. The payment has a ceiling of EUR 13,700 and is conditioned to the farm committing to farm organically for at least 10 years.

Although the most common case is to link organic area payments to organic certification (as a proof of who is farming organically), there are a few experiences of countries that have de-linked it from the obligation of certification in an attempt to encourage a broader uptake of organic practices. This was the case in **Japan**, in which direct payments for organic farmers are allocated also to non-certified organic farmers who follow the simplified definition of organic (as per the OA Promotion Act) as not using inputs other than those listed in the Organic JAS regulation, not using GMOs and following sustainable agriculture production guidelines issued by the provinces (be registered as an Ecofarmer). There are free-of charge inspections by the local governments to verify compliance with the above, but that is not an organic certification inspection. **Denmark** has also experimented with a similar system of decoupling area payments from certification, whereby payments were given under the Environmental Farming Scheme to farmers who did not use pesticides and who reduced nitrogen application rates. However, this system was changed due to very low uptake by farmers other than those certified organic, and the fact that organic certification in Denmark is already a service provided for free by the government. The payment scheme is now reserved only for certified organic farmers. **Sweden** also had for a long period a system of area payments that supported non-certified organic farmers, but those would get only 50% of the payments – this was a modality that was promoted by the certification body Krav at the time of design of the scheme in an attempt to encourage farmers to get certified in order to bring more organic products to the market. Under this payment scheme, non-certified organic farmers were controlled by random checks by the country authorities (similar to other agro-environmental subsidy schemes). This system however was forced to end in 2013, due to a change in the EU CAP regulations. In the new rural development program (2014-2020), payments for organic farmers are only for certified farms.

---

<sup>74</sup> This index is called “unités de main d’œuvre standard (UMOS)”. More details on this index is available at <https://www.blw.admin.ch/blw/fr/home/instrumente/grundlagen-und-querschnittsthemen/sak.html>

### Country examples

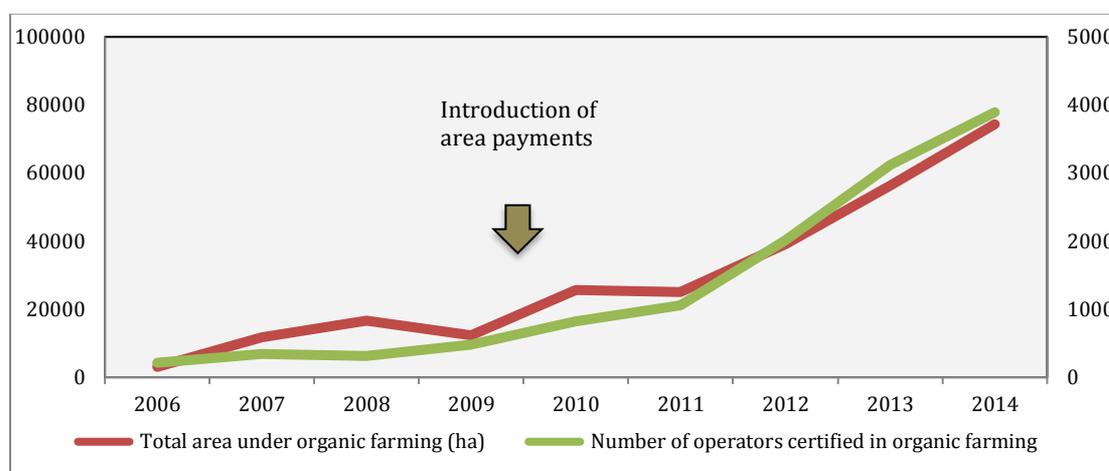
Conversion and maintenance area payments have been the cornerstone of public support to organic farming in Europe and an important driving force for the expansion of organic farming over the last two decades. This type of government support for organic farming began in the late 1980s, with national initiatives in countries like Denmark, Austria and Switzerland, as well as programs in a few EU member states under the framework of the 1988 EU Extensification Program. After organic farming was legally defined at the EU level in 1991, payments to organic farmers for conversion to organic or maintenance of organic management became widespread across EU countries under the “agri-environmental payments” scheme in the successive Rural Development Plans<sup>75</sup>. **All EU member states**, except the Netherlands, now provide area conversion and/or maintenance payments, which is the most important type of support to organic farming in financial terms in the EU. However, not all EU countries have a clear strategy when it comes to organic area payments payment rates, and eligibility conditions and requirements vary considerably between countries. Generally, the lowest area payments are for grassland (ranging from 43 €/ha for maintenance of grassland in Sweden to 548 €/ha for conversion in Estonia, in 2015), followed by arable land (ranging from 90 €/ha for maintenance in the UK to 800 €/ha for conversion in Slovenia, in 2015). Perennials, orchards and fruits generally receive the highest level of subsidies per ha (ranging from 160 €/ha for maintenance in Finland to 2,160 €/ha for conversion in Germany, in 2015), apart from greenhouse crops, which receive exceptionally high support rates but only in few countries (in Germany, they receive 6,000 €/ha). A more complete overview of organic area support payments in the various EU countries is available in the 2016 IFOAM EU report [CAP 2014-2020: Organic Farming and the Prospects for Stimulating Public Goods](#).

In France (which has a rather medium level of conversion and maintenance area payments compared to other EU countries), this translated into a budget allocation for 2013 of EUR 50 million for area maintenance payments and EUR 56 million for area conversion payments.

**Bulgaria** is an example of country where organic sector development was triggered mainly through financial support (subsidies), while other factors (market demand, organic associations and social movement) were nearly non-existent. This happened after Bulgaria’s accession to the EU, when the structural communitarian funds started providing financial incentives for the development of the organic sector. From 2011 to 2012, following the introduction of area payments, organic farming in Bulgaria expanded from 1054 to 2016 operators in only one year:

---

<sup>75</sup> More specifically under measure f) in the 2000-2006 Rural Development Plan of the CAP, and under measure 214 in the 2007-2013 Rural Development Plan (and in the case of France under Article 68 of Regulation 73/2009, due to national budgetary strategies).



**Fig. 5:** Evolution of organic farming in Bulgaria with the introduction of the organic area payments

**Switzerland** also has a long history of public subsidies to organic farming. A number of cantons introduced conversion support schemes as early as 1989, which were supplemented by a national scheme in 1994. Today, federal direct payments to organic farmers are set at EUR 1,450 per ha for vegetables, fruits and wine crops and EUR 1,080 per ha for other crops. In addition, the various cantons in Switzerland have also given generous area payment (particularly conversion payments) subsidies to organic farming. Conversion subsidies vary between a few hundred Euros per ha up to EUR 18,270 per ha depending on the farm dimension, the type of production and the cantons.

At the periphery of the EU, aspirant countries have also subsidized their organic farming sector. For example, **Moldova** gave extensive support to areas under conversion to organic farming in the 2007-2009 period, with an average of around EUR 5,600 of subsidies per beneficiary farmer in 2008, a rate of subsidies that was higher in many cases than those of the EU Member States. As a result, organic exports rose to 11% of all agriculture exports from Moldova, but in 2009, it was followed by a drop in the number of organic producers when a general economic crisis erased the subsidies while domestic demand for organic was not yet developed - an objective which the government subsequently worked to address.

**Turkey** also provides area payments to organic farmers. Organic farmers receive area support payments for environment-friendly farming and culture techniques, under Decision No. 2012/3106 on Agricultural Supports of 2012 and the Notification No. 2012/60 on Support Payments for Organic Farming. In 2013, payments for organic agriculture amounted to around EUR 200 Euros per hectare for fruits and vegetables, and EUR 40 per hectare for field crops.

Direct area payments to organic farmers have also been used by a few countries outside Europe. **South Korea** is one example with its "Direct Payment System for Eco-friendly Agriculture" which has been implemented since 1999. This policy supports farmers who have obtained a certification for eco-friendly agricultural products (this encompasses both organic and no-pesticide schemes). The amounts for direct payment

per ha in 2010 were around 500 €/ha for organic fields, and EUR 421 for pesticide-free cultivation.

In **Japan**, the government has given direct payments to organic farmers since 2011 as part of the broader Ecofarmer program. Payments for organically cultivated land amount to around 600 €/ha, and since 2014, this support is combinable with support for other organically-compatible practices (such as application of compost for another 600 €/ha). However, these amounts are very small in comparison with the general agricultural subsidies given to farmers in Japan.

In **India**, under the Paramparagat Krishi Vikas Yojana (PKVY), farmers that participate in clusters comprising 50 acres of organic land can receive a total subsidy of around 275 Euros per acre for the first three years. See more information in the Best Practice Example below.

In **Canada**, the province of Quebec has a subsidy program to support conversion to organic farming with conversion area payments ranging from EUR 16 per ha for grassland to EUR 1,600 per ha for vegetable and fruit production. It is a one-time support with a ceiling of EUR 13,000 per farm.

In **Costa Rica**, the government set up, in 2007, a conversion area payment scheme that supports small and medium organic farmers for a period of three years, with a few hundred euros per ha depending on the crop (payment rate is based on a complicated formula but the minimum is EUR 77 per farm). This subsidy program is financed through a tax levied on fuel.

### [Best practice example\(s\)](#)

#### ***Best Practice Example 1: Conversion and maintenance area payments for organic agriculture in Belgium***

Belgium has a maritime temperate climate and a mixture of poor and very fertile soils. The main production includes livestock, barley, corn, potatoes, sugar beets, wheat, fruits and vegetables. A densely populated country, Belgium faces some environmental problems such as water quality and biodiversity loss. Environmental protection is high on the government agenda and due to consistent efforts, the state of the environment in the country is gradually improving. Belgium has provided important support to organic farming through conversion and maintenance area payments.

As a member of the European Union, Belgium has been subject to the Common Agricultural Policy (CAP) since 1962. Support to organic agriculture started in Belgium in 1994, with the introduction of the EC Reg. 2078/92 that provided a framework for all EU member states to implement policies to support organic farming. Agriculture in Belgium is under the authority of the regions. Therefore, payment levels have been set independently for the two agricultural regions of Flanders and Wallonia, but they have been relatively similar, particularly for conversion payments.

Since 2003, Belgium has shown a consistently high level of area payment rates for organic agriculture and these payments have played a major role in supporting conversion to organic

agriculture. Although starting at a small level compared to neighboring countries, organic agriculture in Belgium has experienced steady growth over the past decade, with roughly a tripling of the area under organic production between 2005 and 2014. The regions have projected high organic growth rates, allocating increasing budgets for the organic subsidy portfolio over the years, and this has enabled continuity in subsidy allocation.

Conversion area payments in Belgium have been in the range of 300 €/ha for grassland, 450 €/ha for arable land, and 900 /ha for horticulture and arboriculture. However, there has been some variability around those figures depending on the region, the CAP period and the degressivity aspect - Wallonia has a degressive payment model whereby the payment level per ha decreases when the farm organic area increases. Nevertheless, payments have remained in the same order of magnitude between 2004 and 2014.

### ***Best Practice Example 2: India's Paramparagat Krishi Vikas Yojana (PKVY)***

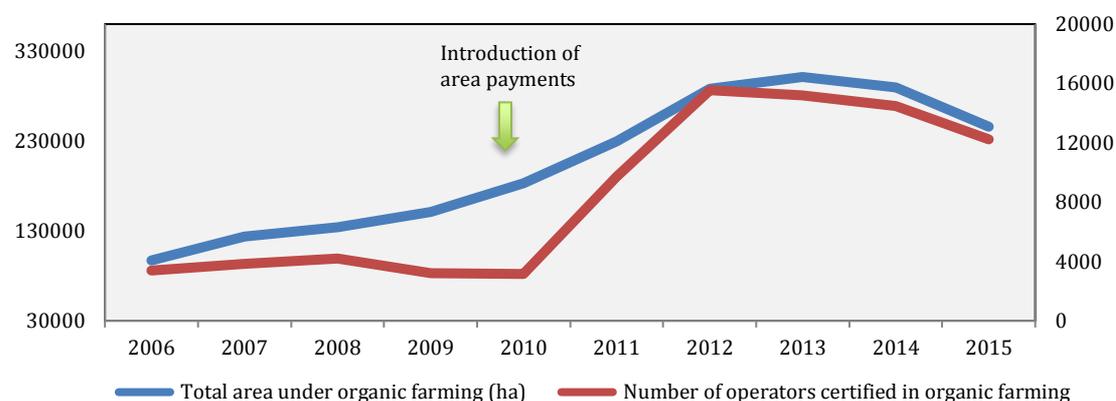
For many countries, especially those in the developing world, it will not be financially possible to provide area payments to all organic farmers. India is implementing an alternative scheme that provides area payments to farmers based on the objectives to support domestic organic market development and participatory guarantee systems. The subsidy, about EUR 275/acre for three years, is provided to farmers who are organized in clusters and collectively holding 50 acres or more of organic land. The subsidy covers a variety of costs, such as input purchase and harvesting and transportation costs. Certification costs are covered by the government in a separate program. Subsidies are awarded on the basis of applications for subsidy from the organizers of the clusters, which are administered by the Indian States. A 3-year national budget for PKVY of about EUR 55 million is allocated to Indian States based on a weighted formula taking into account the State's percentage of cultivated land, number of small/medium farmers, area under organic cultivation, and existence of a declaration and work plan for implementing an organic program. The program for North-Eastern States is administered regionally in the context of a special mission for organic farming. The aim is to form 10,000 clusters in the period 2016-2019 and bring about 500,000 acres of agricultural area under organic farming.

### **Pitfalls and challenges**

The biggest challenge in the adoption of area payments for organic agriculture is often the lack of sufficient government budget resources to finance such a measure. It is more likely to be feasible (and considered acceptable public expense) in the context of countries that already have a culture of providing subsidies to the agricultural sector. This is rarely the case in developing countries. Another problem for least developed countries is the difficulty for farmers to apply and for governments to administer the scheme. The payment schemes require application by the farmer and submission of information. This is a barrier to implementation and therefore effectiveness of the programs, particularly in countries with high percentages of smallholder farmers (many who may live in remote villages) who may lack capacity to apply.

Another challenge in terms of budget allocation is for the government to correctly predict the uptake of the subsidy scheme. A dramatic illustration of this problem is the case of **Romania**, where the government estimated that about 300 very small farmers (less than 5 ha) would convert to organic farming based on the area payment conversion subsidy scheme that was adopted in 2010 and that foresaw a subsidy of EUR

1,500 (maximum) per farm for those small farmers. However, more than 7,000 farmers in this category applied for the subsidy scheme, of whom 6,550 were eligible. Because the government had budgeted a fixed total budget for this subsidy scheme, the strong uptake of organic farming led the payment per farm to drop from a maximum of EUR 1,500 to a maximum of EUR 80 per farm. This was a huge disappointment for farmers who had signed a commitment to practice organic farming for at least 5 years. Because of the time it took government to respond to the situation and communicate the drop in payments, another huge uptake of organic farming occurred in 2011 (raising also the organic export value from EUR 100 million in 2010 to EUR 200 million in 2011). Starting in 2012, after the drop in payments became public, this growth halted and even reversed.



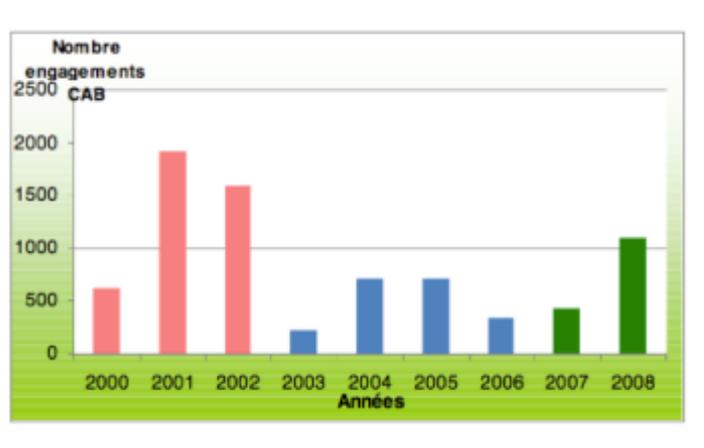
**Fig. 6:** Evolution of organic farming in Romania with the introduction of the organic area payments

An important drawback of area payments is that they sometimes tend to have proportionally more impact (encourage more conversion) in extensive farming regions or farms (where the subsidy income will represent an important revenue for the farmer) and less impact on the more intensive regions or farms for which the same amount of subsidy per ha is more negligible compared to the produce sales. This effect may be one reason why in the EU countries under the CAP subsidy system, with more marginal land and extensive systems (typically mountain areas) have reached a much higher level of conversion to organic farming than the intensive farming areas (good arable crop regions). Unfortunately this means that the subsidy scheme may accentuate the trend whereby the most productive land remains dedicated to conventional farming, while organic farming becomes more concentrated on marginal and less productive land.

An extreme version of this problem is cases where farmers convert completely unproductive land into organic just to cash in the subsidy. This is dramatically illustrated by the “Croatia Organic Mountain story” in which, following the beginning of area payment subsidies in 2013, a farmer got 5000 Ha of wild mountain grassland certified as organic and cashed in the area payments for organic pasture land without producing anything (no livestock actually grazing that land), thereby wasting huge amount of public money and distorting national organic statistics by suddenly multiplying the certified organic area by 14 times in one year! Possible measures to

mitigate this problem include putting a cap on the amount receivable per farm, and adding requirements for a minimum number of animal head per ha for accessing pasture subsidies, but such criterion have their own limitations as well.

Another difficulty of area payment support is to ensure its continuity and stability over a longer period than political mandates. Every time the subsidy scheme is discontinued and modified, the rate of conversion to organic agriculture drops and producers fall out of the scheme. An example of this is shown in the graph below, showing the number of conversions to organic in France in the period 2000-2008. In 2002, the administrative system established by the French government to disburse conversion area payments was suddenly suspended, and replaced in 2003 by a different administrative system. The same effect is visible in 2006-2007 with the transition to yet another administrative system. Each change of subsidy scheme (even if the amount of subsidies remain the same) creates uncertainty for the farmers, as well as difficulties for understanding the conditions to apply for support and to fill the adequate paperwork, which slows down the overall conversion rate.



**Fig. 7:** *Number of annual conversions to organic agriculture, in France (Source: ASP, 2009)*

The administrative burden of obtaining and maintaining subsidies was mentioned by 57% of the French farmers in 2009 as a main hurdle to conversion to organic farming, much ahead of technical or marketing difficulties.

The way to overcome these challenges is to develop longer-term support schemes, and to provide sufficient administrative support (e.g. through extension services) to farmers to help them understand the schemes (and changes thereof) and file their applications. More important than the level of the payments is the fact that government think long term (not just 4 or 5 years) to ensure stability and continuity of the payments.

Area payments are a very strong “push” measure. If they are not accompanied by “pull” measures, they risk creating strong market imbalance (growth of organic production without demand growth) and lead to prices falling, which in turn decreases the incentives for farmers to convert or stay organic. This effect however is tempered by the fact that, for most organic commodities, the price is now set at the level of the global market.