

POLICY SUMMARY:

AREA-BASED PAYMENTS TO ORGANIC PRODUCERS



OVERVIEW

This policy summary provides recommendations on why and how to provide area-based payments (fixed amount per hectare or acre) to organic producers. It outlines options for providing this support, followed by examples from various countries.

SUMMARY OF POLICY OPTIONS

Agricultural subsidies paid exclusively to farmers converting to and maintaining organic agriculture production can be structured to achieve specific policy objectives.

Measures can include:

- Perennial payments to maintain certified organic production
- Time limited payments during conversion
- Payments that are de-linked from organic certification

RATIONALE

Subsidies to organic farmers compensate them 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. Those environmental and societal benefits are not fully compensated by the premium price that the organic consumer is willing to pay for organic products compared to conventional products. Furthermore, the subsidies compensate organic farmers for certain costs related to organic production, including higher labor costs, sometimes lower yields, and transaction costs in smaller markets. To encourage a wider adoption of organic agriculture 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 higher since the farmer bears the additional costs of organic production in this period without the benefit of the premium prices. Area payments can be tailored to meet specific policy objectives by encouraging organic production of certain crops and livestock.

SCOPE

Area payments can be especially effective to develop organic agriculture when the organic sector is in early stages of development. However, as they are costly, this policy measure may not be feasible for some governments. Because they require identification of and disbursements to organic farmers, they are feasible only when there is an organic regulation or other means of identifying farmers who have achieved organic status or are in a conversion process overseen



by a certification body. Generally, these measures are undertaken by governments that are willing to intervene in agricultural markets and already give general subsidies to farmers.

POLICY OPTIONS

Perpetual payments to maintain certified organic production

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 have so far focused on compensating the additional costs and income foregone from farming organically, which is in accord with the WTO Agreement on Agriculture. Factors used include yield differences, production costs, prices and transaction costs.

Time limited payments during conversion

Some countries subsidize only the conversion period. The underlying rationale is to compensate the farmer for new costs during conversion while premium prices are not available to offset these costs until the farmer is certified. These payments can be distributed in annual payments over the course of the conversion period or as a one-time payment. Usually, conversion payment rates are higher than maintenance payment rates because the calculation includes the income foregone from not being able to sell the production as organic. In the EU, this is true in the majority of the Member States. However, 13 Member States have had constant payment rates throughout the conversion and maintenance periods, which is a way to avoid that some farmers convert back to conventional after the end of the high payment rates of the conversion period.



Payments that are de-linked from organic certification

In a few cases countries have de-linked payments from the obligation of certification in an attempt to encourage a broader uptake of organic practices, e.g. Japan. Sweden

and Denmark experimented with this approach, but discontinued it due to low uptake by farmers (Denmark) and restrictions due to change in the EU Common Agricultural Policy (Sweden).

COUNTRY EXAMPLES

European Union: 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 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, those receive 6,000 €/ha).

Costa Rica: The government has set up since 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.

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.

India: Under the program, Paramparagat Krishi Vikas Yojana (PKVY), a scheme that provides area payments to farmers based on the objectives to support domestic organic market development and participatory guarantee systems is being implemented in India.



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 inputs purchase and harvesting and transportation costs. 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.

Japan: The government has been giving direct payments to organic farmers since 2011 as part of the broader Ecofarmer subsidy program. Payments for organically cultivated land amount to around 600 €/ha, and since 2014, this support has been combinable with support for other organically-compatible practices (such as application of compost for another 600 €/ha).

Republic of Korea: The “Direct Payment System for Eco-friendly Agriculture” 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 no-pesticide cultivation.

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