

# Subsidies Based on Area Payments for Organic Production

**Pacific Organic Policy Toolkit**  
<http://www.organicpasifika.com/poetcom/>

## **Subsidies based on area payments for organic production**

### ***Political justification***

Conversion and maintenance area payments are subsidies 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 through the choice of farming organically. Since those environmental and societal benefits are “externalities”, they are not fully compensated 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 “internalize” those externalities, some countries give subsidies to organic farmers on a permanent basis. Subsidies are also given during the conversion period, and often those are even higher since during this period, the farmer incurs the additional costs of organic production but without the benefit of the premium prices for his products.

In early stages of development of an organic sector, area payments can also provide the incentive necessary to bring a high number of farmers to convert to organic (at a time when the market demand is not necessarily developed enough to pull so many farmers into conversion), which then provides the basis for economies of scale in the organic sector and 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 combined with other measures to support organic processing and marketing, can help establish supply-demand equilibrium for the organic sector. Another advantage of area payments is that they can be used to modulate the development of certain production, and therefore be a policy instrument to encourage diversification in the organic sector, whether this is a risk-mitigation strategy, market expansion strategy, import-replacement strategy, or other reasons to encourage particular types of crops.

In Europe, where general agricultural subsidies are institutionalized in the form of annual area payments (per hectare), additional conversion and maintenance area payments have been the cornerstone of public support to organic farming and an important driving force for the expansion of organic farming over the last two decades. All EU member states now provide area conversion and/or maintenance payments on top of general agricultural subsidies. This is the most important type of support to organic farming in financial terms in the EU. However, payment rates, eligibility conditions and requirements vary considerably between countries. Outside of Europe, where agricultural subsidies are less common, there are only a few examples of special subsidies to organic farmers based on area. The high cost of this policy instrument, and difficulty of administering it to many smallholder producers, may be challenging for governments to implement. It will likely require a significant conversation between the stakeholders and government in order for consideration to be given.

Area payments for specific environmentally-friendly production methods such as organic agriculture fall under the green box category in the WTO Agreement on Agriculture, meaning that those are an acceptable type of agricultural subsidies for governments to maintain (whereas there has been tremendous pressure on governments to remove or decrease most other forms of agricultural subsidies, especially those coupled to production).

### ***Suitable contexts***

Organic conversion and maintenance area payments are not necessarily suitable/feasible in all contexts. These payments are a very costly measure as they have to be available nationwide to any farmer willing to convert to organic production, and they need to be high enough to represent a real incentive for conversion. They are typically applied in Europe where there is a history and culture of general agricultural subsidies.

*Stage of sector development:* 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 relevant in early development stages because the market is not yet there to absorb supply (e.g. Bulgaria). This is a typical measure that can be used to sustain a temporary stage of supply-demand imbalance, which will then be rectified through market development (but first the products need to be available for processors and retailers to engage in the organic business). They are also particularly relevant in an importing country situation where the production is insufficiently developed to meet the demand.

*Regulatory context:* 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 no organic regulation and no 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.

*Culture of government intervention:* Area payments are typically feasible only in countries/regions with a culture of government intervention on the agricultural sector, i.e. where the government is used to or open to the idea of significantly subsidizing the agricultural sector.

*Policy objectives:* Organic conversion and maintenance area payments can serve well 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 currencies (as heavy spending on an export sector would cancel out the monetary benefits for the country), except as a transitional measure at early stages in order to build a critical mass of producers that would enable reaching a competitive scale for exports.

### ***Possible modalities of implementation***

The most common way that direct area payments to organic farmers have been implemented is through multi-year subsidy schemes to which farmers should 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, and there may be a different subsidy for hectares under conversion and for already converted hectares (maintenance).

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 determine the right amount that should be given per ha (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 resulting from the choice of farming organically. In the EU, the level of area payments for organic 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 intent to make organic production economical for the farmers, even during the conversion period.

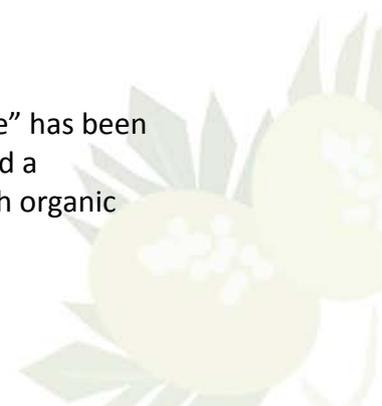
### ***Pitfalls and challenges***

Because it will be based on application, review, approval, and monitoring, these financial incentive programs may be challenging for governments to administer and for farmers to access them. Good program design and a support structure for farmers to apply can mitigate these potential barriers.

A 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 or modified, the rate of conversion to organic agriculture drops and producers fall out of the scheme. The way to overcome those challenges is to develop longer-term support schemes, and to provide sufficient administrative support (e.g. through the extension services) to farmers to help them understand the schemes (and changes thereof) and file their applications. More important than the high 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.

### ***Countries examples***

Republic of Korea: A “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 unit amounts for direct payment per ha in 2010 were 794 thousand won (US\$ 670) for organic fields, and 674 thousand won (US\$ 570 ) for no-pesticide cultivation.

Quebec Province, Canada: A subsidy program supports conversion to organic farming with conversion area payments ranging from 25 CA\$ (US\$ 19) per ha for grassland to CA\$ 2,500 (about US\$ 1900) per ha for vegetable and fruit production. This is a one-time support with a ceiling of 20,000 CA\$ (US\$ 15,300) per farm.

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 per hectare payment depending on the crop. The payment rate is based on a complicated formula but the minimum is US\$ 100 per farm. This subsidy program is financed through a tax levied on fuel.

