

f. Support for agri-environmental practices compatible with organic production

Political justification

Governments can provide subsidies to support the production of positive externalities by agriculture, such as the production of environmental services, or impose regulations, fees or taxes to limit negative externalities by agriculture, such as nutrient leaching or erosion. The rationale for such policy intervention is that the market alone does not internalize costs or benefits related to the environmental impact of farming practices. For example, avoiding nutrient leaching will save public resources in terms of water treatment, but it is often an additional cost for farmers who, without subsidies might not be inclined to perform this service. Another example is the protection of biodiversity, which is a public good that farms can promote, but again, often at an additional cost.

Sometimes, it is easier politically to obtain these general types of subsidies for precise environmental practices than to obtain support specifically for organic farms, which may exclude other agricultural systems that can also deliver environmental benefits. These types of support can still be quite beneficial to organic farmers who typically implement environmental practices. Practicing organic agriculture can be considered in some cases as a de-facto proof that the farm implements a particular subsidized practice or that it delivers equivalent services.

Encouraging a positive externality and avoiding a negative one are often two sides of the same coin. For example, the government may support (e.g. through subsidies) farmers in reducing nutrient leaching, or it could instead apply the Polluter Pays Principle whereby farmers who cause nutrient leaching would bear an additional cost (e.g. through a tax). Subsidizing positive practices has, up to now, often been the approach preferred by government, and is therefore covered in more detail in this section.

Suitable contexts

As these types of policies are not targeted directly at the organic sector, but benefit a broader range of producers (among whom are organic farmers), it can be implemented at any stage of development of the organic sector and in any organic regulatory environment. However, such measures are typically only implemented by countries that have a culture of high government intervention in the agricultural sector: countries where it is commonly accepted that the government should intervene in the agricultural markets with taxes/subsidies to correct market deficiencies and/or to economically support the agricultural sector.

It will not be a relevant measure if the only policy objective to support organic is to earn foreign currency, but for any other policy rationale, it will be relevant.

Possible modalities of implementation

Subsidies for agri-environmental measures that are highly compatible with organic production include:

- Subsidies for extensively managed grasslands⁷⁶
- Subsidies for stabilization of crop rotation⁷⁷
- Subsidies for preserving hedges, woodlands and other biodiversity-rich areas on the farm⁷⁸.
- Subsidies for using endangered breeds or local varieties⁷⁹
- Subsidies for erosion control⁸⁰
- Subsidies for animal welfare practices, including providing sufficient space in livestock housing⁸¹
- Subsidies for particular environmental protection areas like national parks, water sensitive areas, etc.⁸².
- Subsidies for use of catch crops or green manure⁸³.

In general, the amount of the subsidies for agri-environmental measures are calculated, as for organic area payments under the EU CAP, on the basis of additional costs and income foregone because of the commitment to the supported practices. This was for example the case in the EU agri-environmental payments but also in the USA EQIP payments. In the EU system however, any combination of measures (such as organic area payments plus agri-environmental measures payments) needs to take into account the specific income foregone and additional costs resulting from that combination. The instruction to EU member states was that double funding (for the same mandatory practice) was not allowed.

Farmers apply for agri-environmental subsidies with a plan showing how they will manage their particular fields in compliance with the requirements set for each specific measure. Some of the agri-environmental practices linked to direct payments may need to be verified by external control of the farms (either on a sample basis or as a prerequisite for payment). This is the case in the Swiss direct payment system for

⁷⁶ e.g. Belgium starting in 1995, and Switzerland starting in 1991/1993, Denmark starting in 1995, France starting in 1993.

⁷⁷ e.g. Austria starting in 1995.

⁷⁸ e.g. Belgium starting from 1996, Switzerland starting in 1993.

⁷⁹ e.g. Estonia in the new RDP 2014-2020, Austria starting in 1995, Germany in some Länder starting in 1993-1995, Spain starting in 1996, France starting in 1994, Italy starting in 1994, France starting in 1994, Switzerland starting in 1998.

⁸⁰ e.g. Austria starting in 1995, Norway starting in 1997.

⁸¹ e.g. Switzerland starting in 1993, Cataluña in Spain, Austria since 1990.

⁸² e.g. Spain starting in 1995-1996, Germany starting in 1993-1995, England starting in 1994.

⁸³ e.g. Sweden starting in 1996, Belgium in which the requirements for set-aside land allowed the cultivation of green manure on those fields.

contributions to biodiversity, efficient use of resources, or animal welfare. In the Swiss system, farmers applying for direct payments for their contributions are subject to regular and unannounced controls that are organized by each canton but often delegated to independent control bodies. Farmers have the possibility to choose the control body they would like to get the control from, but the costs are partly subsidized by the public administration. In the Japanese Ecofarmer direct payment scheme, inspection is also covered fully by the public administration, at no cost for the farmers.

Country examples

In **Switzerland**, a significant share of the support to agriculture goes to farmers in the form of direct payments for agri-environmental practices. All farmers are also subject to fulfillment of minimum ecological criteria in order to qualify for support under the state agricultural policy. See more information in the Best Practice textbox.

In the **EU**, agri-environmental measures began in a few Member States in the 1980s on their own initiative, and were taken up by the European Community in 1985⁸⁴ in Article 19 of the Agricultural Structures Regulation, but remained optional for Member States. In 1992 they were introduced for all Member States in an “accompanying measure” to the Common Agricultural Policy (CAP) reform. They became the subject of a dedicated Regulation, and Member States were required to introduce agri-environment measures “throughout their territory” as part of the McSharry reforms. In 1999, the provisions of the Agri-environment Regulation were incorporated into the Rural Development Regulation⁸⁵ as part of the “Agenda 2000” CAP reform. The aim of their incorporation was to help achieve coherence within Rural Development Plans. Some of the agri-environmental measures have been, and still are very favorable to organic producers (when they are combinable with the area payments for organic agriculture, which depends on the member state). Those included subsidies for extensively managed grasslands, for crop rotations, for using endangered breeds or varieties, for using green manure, etc. (see complete list in the section on modalities of implementation). Setting land aside – a very common measure between 1992 and 2008 to address oversupply problems – is one of the measures that was not generally considered particularly favorable to organic producers, except in the case of Belgium where it was combinable with organic maintenance or conversion payments, and where the requirements for set-aside allowed such lands to be cultivated in green manure and other soil improvement crops.

Since January 2015, farmers have had to comply with new rules to qualify for 30% of the Basic Payment Scheme payment for general agriculture support. EU regulations now require 5% of a farmer’s land to be set aside as an Ecological Focus Area – this new

⁸⁴ Council Regulation (EEC) No 797/85 of 12 March 1985 on improving the efficiency of agricultural structures, OJ L 093, 30.3.1985, pp 1-18

⁸⁵ Council Regulation (EEC) No 1257/99 of 17 May 1999 on support for rural development from the European Agricultural Guidance and guarantee fund (EAGGF), OJ L 160, 26.6.1999.

measure is called 'greening'. Organic land is seen as green by default, meaning organic farmers automatically qualify for the payment.

In 1995, Austria enacted several agro-environmental measures. The "Basic support" agri-environmental subsidy targeted 2,3 Million ha and the main requirements were to respect a code of good fertilizing practices, to maintain existing landscape features, and to maintain a proportion of grassland. This basic support measure was combinable with organic farming area payment support. Subsidies were also given for erosion control measures – which became compulsory for organic farmers to access organic area payments. Austria also established a subsidy for rearing local livestock breeds in danger of extinction, which was combinable with organic payments.

In 1995, **Belgium**, enacted a subsidy for "Late mowing and diversification in temporary grassland", whose main requirements were to not apply biocides (except certain spot treatments), to limit fertilizer use, to respect certain grazing and cutting dates, and to seed mixtures. This subsidy was combinable with organic farming area payments and has indeed benefited organic farmers. Also, combinable with organic payments was the subsidy for "Preservation and maintenance of hedges and woodland strips", whose main requirements were to use indigenous species, to replace missing sections, and to respect restrictions on trimming periods. The size of the payments depended on the length of hedges on farms.

Estonia, in its Rural Development Program 2014-2020, foresees some agri-environmental subsidies such as management of semi-natural habitats, use of endangered breeds and local plant varieties, which are deemed important measures for organic farmers, especially as they are often located in marginal areas and have a high share of semi-natural grasslands and some native horse and cattle breeds.

In the **USA**, subsidies for farms to implement conservation practices were introduced in 1985. The voluntary Environmental Quality Incentives Program (EQIP) provides financial and technical assistance to agricultural producers to plan and implement conservation practices that improve soil, water, plant, animal, air and related natural resources on agricultural land and non-industrial private forestland. The program is open to all producers, but there is a special budget reserved for organic and transitioning producers, known as the "Organic Initiative" program. To optimize organic farmers' participation in the program, the USDA provides training and resources on organic farming to the certified Technical Service Providers who help farmers develop their application for this program. In 2016, the program was supporting more than 6,800 farms with EUR 103 million in assistance. Individual subsidies are limited to a maximum of EUR 17,916 per fiscal year and no more than EUR 71,665 over a rolling six year Farm Bill period.

In **Canada**, the province of Quebec, through its program "Prime-Vert", subsidizes certain practices and expenses linked to reducing pesticide use, including the purchase of mechanical weeding equipment and anti-insect nets. The program also subsidizes the establishment of hedges to reduce pesticide contamination risks for organic fields.

South Korea, has supported biological insect prevention practices under its "Biological

Disease and Harmful Insect Prevention Project” since 2005. Its policy objective is to reduce the usage of pesticides and produce high quality safe agricultural products by converting chemical insect prevention to biological insect prevention for enclosed horticulture crops. Operators growing certain eligible crops in greenhouses larger than 3,000m² qualify for support.

In **Mexico**, the government disburses subsidies for environmental services such as carbon sequestration, water protection, and biodiversity. These are large subsidy programs. For example, between 2001 and 2012, the Ministry of Agriculture invested EUR 27 million into the Soil and Water conservation program, with around 1,4 million producers benefiting. Many organic producer groups have benefited from those subsidies.

In **Colombia**, the Checua project has supported since 1998 soil and water conservation practices and more generally conservation agriculture with a focus on ecological and organic approaches. The project has been implemented by Colombia's Cundinamarca regional corporation (CAR), a government agency in charge of enforcing the country's environmental related policies, in partnership with the German Ministry of Cooperation. It has produced results that are widely recognized within the country and beyond.

In **Japan**, the Ecofarmer Program is a direct payment scheme established in 2011 aiming at encouraging soil building practices and reducing the use of chemical fertilizers and pesticides. Farmers must use alternative measures such as application of organic fertilizers, mechanical weeding, and they must restrict chemical inputs to 50% or less of the amount commonly used in the region. Ecofarmer registration is required for organic farmers to apply for area payments for organic farming. However, the Ecofarmer program is not only a subsidy scheme but also a product label scheme, whose certification costs are entirely covered by the government (unlike for organic farming). In this respect the program competes with the organic label, both in terms of farmers' incentives and in the market place (see more in Chapter VI, section 4).

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

Best Practice Example: Agri-environmental measures in Switzerland

In Switzerland, the overall support to agriculture is strongly oriented towards the payment for environmentally sustainable and animal welfare practices. For several years, agri-environmental direct payments have represented a significant and growing share of all direct payments received by farmers (e.g. about 23% in 2012-2013 before the system reform and about 34% in 2015 under the new system).

All direct payments to farmers (whether organic or conventional) are subject to the fulfillment of certain ecological criteria that are highly compatible with organic farming. These include a demonstration of farm nutrient balance (no over-application of nitrogen or phosphorus), 7% of the farm area being set aside for biodiversity, crop rotations, measures against soil erosion, and pesticide use restrictions. Once the baseline conditions are fulfilled, farmers can receive direct payments for various socio-environmental contributions, many of which are also highly

compatible with organic farming: extensive grasslands, hedges and other biodiverse areas, the non-use of herbicides, etc.

Agri-environmental payments in Switzerland gained importance in the same period as in the EU: in the early nineties. Subsidies were created for measures such as maintaining “nutrient-poor ecosystems and flower rich hay meadows (ecologically diversified areas)” or “extensive management of hay meadows, hedges and shrubs”. Both payments were combinable⁸⁶ with organic payments. The requirements were to use only organic fertilizers and no pesticides, and there were some restrictions on cutting⁸⁷. These measures have been regularly adjusted over the years, but the principle of direct payments for environmental services remains, with a particular focus on landscape maintenance and biodiversity protection. In 2015, direct payments to farmers for diversity protection measures amounted to EUR 357 million.

In terms of animal welfare promotion, Switzerland also has had subsidies for a long time, for example for “controlled free range system” which requires animals to have pasture access. Started in 1993 with poultry added in 1997, this payment was combinable with organic payments. Another subsidy for “animal welfare friendly housing system” started in 1996, requiring deep litter/straw yard housing systems. It was also combinable with organic payments. Again, the measures have slightly evolved over the years but the principle of direct payments for animal welfare friendly housing system and access to outdoor areas, remain. In 2015, direct payments to farmers for animal welfare measures amounted to EUR 245 million.

In Switzerland, collective projects can also be set up by cantons in order to achieve water protection objectives, whereby farmers are compensated (on the basis of additional costs and income foregone) for reducing or not using fertilizers and pesticides. This again benefits organic farmers although it is not exclusively reserved for them.

While the effectiveness of agri-environmental policy measures in Europe in general has been widely debated, Switzerland’s agri-environmental policy has shown a comparative effectiveness at motivating farmers to provide environmental services. It should however be noted that the Swiss direct payment system also contains area payments for organic farming that can be combined with the aforementioned agri-environmental payments.

Pitfalls and challenges

One of the main challenges of agri-environmental subsidies, from the point of view of the organic sector, is the risk that they compete with organic subsidies if the set-up is such that the measures are not combinable (producers are not allowed to combine both subsidies). So, even if the intent of the subsidy is very compatible with organic farming, the incentive effect might distract from conversion to organic. One example is the subsidy given by Austria (starting in 1995) for farms that did not use “yield increasing farm inputs” for which the requirement was basically not to use any input that was not allowed under the organic regulation. Since this was not a combinable measure, it competed with organic in terms of farmers’ incentive to convert to the full range of (certified) organic practices. See Chapter VI, section 4 for more examples of environmental subsidy schemes that competed with organic.

⁸⁶ This means that an operator could get both supports for the same land, if applicable.

⁸⁷ In the current version of those measures, fertilization is further restricted.

This competing effect is also increased if the other schemes are also market oriented and their products are promoted in the market place. The Japanese Ecofarmer scheme is only one of many such schemes developed, in particular in Asia.

On the other hand farmers who participate in these kinds of schemes may quite easily convert their production to organic, it can act as an organic incubator. In some cases they could do that without a full conversion period, depending on the exact rules of the scheme and the organic standard in place, which means that they could very rapidly become certified organic farmers if there is a sufficient market demand.

Even if the measure is combinable, subsidies may compete with organic if there is a ceiling for the total amount of subsidies that can be given per farmer or per ha: in the case where this ceiling is relatively low, combining organic and agri-environmental subsidies might not be so much more advantageous than having only agri-environmental subsidies.

Agri-environmental measures should not be a replacement for more general support to organic agriculture. For example, a switch away from organic area payments to a purely segmented agri-environmental measures payment system (even if each agri-environmental measure taken individually is fully in line with organic standards) would represent a risk of organic sector stagnation in a context, like the EU, where organic farmers have enjoyed dedicated support lines. Indeed, a system of payment for small indicator performance may only encourage “subsidy optimization” behaviors on single environmental aspects leading to segregation of ecosystem services and production, and not to holistic sustainable farming management systems like organic agriculture.

In a policy environment where support to the farming sector is very varied and complex (many different measures and application procedures), it can also be a challenge to make organic operators aware of all the possibilities of subsidies and to persuade them to go through the application bureaucracy necessary to obtain the subsidies (even when they correspond to practices they are already implementing). This challenge was for example identified in the Estonia support system.

Complexity and multiplicity of agri-environmental support measures are not only a problem for farmers: they represent important administrative costs for the government. In cases of multiple policy targets that are well served by organic farming, it may be more efficient, from a societal cost point of view, instead of using too many different agri-environmental subsidies, to use multi-target policy instruments such as organic farming area payments⁸⁸.

In particular country situations there is a challenge in the administrative implementation. For example, in India, under the National Project on Management of

⁸⁸ For a detailed economic explanation of this argument, see Schader C. et al, 2014, *The role of multi-target policy instruments in agri-environmental policy mixes*, in *Journal of Environmental Management* 145 (2014).

Soil Health and Fertility, financial assistance of around 7 €/ha is offered to promote the use of organic manure and provided on the basis of project proposals received from States. However, several reports indicate that although subsidies are allocated, they are not reaching farmers.

g. Tax breaks for organic operators

Political justification

A tax break targeted to organic operators is a way to incentivize organic businesses and favor private investment (and potentially attract foreign investment) in organic operations, in recognition of the positive market externalities that such operations generate. Although tax breaks for organic operators may be subject to qualifying criteria and conditions, one advantage of tax breaks is that they do not distort so much the production and business choices and they leave operations the freedom to make investment decisions based on market opportunities. Reducing income tax is a way to increase return to capital and labor, and therefore to encourage more investment, as well as job creation in the organic sector.

A low tax level on the organic production and processing sectors also has the effect of increasing international competitiveness and therefore favoring export activities, or import substitution, while still remaining within the realm of WTO-compatible measures.

Tax breaks can also be a useful complement to area payments, especially to support organic farmers with very small land area who would not otherwise benefit substantially from area payment support (e.g. this was installed in France in 2006 and continues up to now). Income/profit tax breaks may also favor those with active management over those who are only interested in subsidies.

One advantage of tax incentives is that they do not require an actual expenditure of funds by the government. Although the economic impact of an expense and a missed income should normally be equivalent, for political and other reasons it may be easier for the government to agree to provide tax benefits for organic operators than to agree to dedicate a specific budget line for expenses towards the organic sector. Especially if a limited budget has been allocated to support the organic sector, tax incentives may come on top of this budget.

Suitable contexts

Tax breaks for organic operators can be implemented at all stages of development of the organic sector. They are however only suitable for the contexts in which there is an agreed-upon definition of what constitutes organic (who can be the beneficiaries of a tax exemption) and this requires either an organic regulation or an officially referenced organic guarantee system.