

Dyddiad:

Dydd Mercher 16 Hydref

YMCHWILIAD Y PWYLLGOR I FFERMIO ORGANIG

Diben:

1. Gwahodd sylwadau ar ddrafft cyntaf adroddiad y Pwyllgor ar ffermio organig.
2. Yn ei gyfarfod ar 17 Gorffennaf, nododd y Pwyllgor nifer o faterion i'w cynnwys yn yr adroddiad ar ei ymchwiliad i ffermio organig. Mae drafft cyntaf yr adroddiad yn Atodiad 1.
3. Gofynnodd yr Aelodau a ellid cynnwys data allweddol ar gyflwr prif sectorau'r farchnad organig yng Nghymru. Cytunodd Canolfan Organig Cymru i ddarparu'r wybodaeth hon, a bydd yn cael ei rhoi yn yr adroddiad terfynol. Er mwyn rhoi syniad o'r wybodaeth a'r fformat a ragwelir, mae'r drafft amgaeedig yn sôn am y sector ? yn unig (tudalen ?).

Gweithredu ar gyfer y Pwyllgor

4. Gofynnir i'r Aelodau fynegi barn ar y drafft a nodi unrhyw newidiadau yr hoffent eu gweld. Yn dibynnu ar y sylwadau a geir, bydd drafft terfynol yn cael ei gyflwyno gerbron y Pwyllgor i'w gymeradwyo cyn cael ei gyhoeddi.

Ysgrifenyddiaeth y PwyllgorauHydref 2002

Atodiad 1

Introduction

1. The UK market for organic food has developed since the 1970s, largely in the absence of specific government support. Consumers, concerned about the environmental and other consequences of some agricultural practices, have shown themselves willing to pay premium prices for organically produced food, so helping to offset the generally lower yields and higher costs of organic producers. The market has grown dramatically in recent years with the total value of UK retail sales now being around £1 billion. This, alongside Government support for organic conversion and the desire of many farmers to adopt more sustainable farming methods, has led to an increase in organic production in Wales from some 3,000 hectares of land in 1998 to almost 43,000 hectares in 2002. As a proportion of Welsh agricultural output, organic production now represents about 3%, in line with the rest of the UK and the average across the whole of the European Union.

2. Wales has been at the forefront of the development of the sector in the UK. In March 1999, the Agri-food Partnership Organic Strategy Group published an action plan for the sector that included a target to increase production to 10% of Welsh agricultural products by 2005. As well as being the first part of the UK to set an explicit target in this way, Wales also led the way by establishing the Organic Centre Wales (OCW) to help implement the strategy and to provide a centre of expert knowledge and advice. Recently, significant effort has gone into integrating OCW with the broader services offered through Farming Connect.

3. Despite this, the growth of the sector in Wales has faltered. In 2001, there was a surge of supply as farmers who started conversion in 1999 when the new Organic Farming Scheme was introduced achieved organic status. At the same time, the foot and mouth outbreak meant that activities related to informing and certifying new producers were suspended. Despite efforts to encourage producers to consider conversion as an option for recovery, the 3-4 fold increase in supplies in 2001 and the significant marketing problems that caused, has undermined producer confidence. Consequently, applications to the Organic Farming Scheme in the six months to the end of September 2002 totalled just 41 compared with more than 260 in 1999 when the scheme was introduced. Nonetheless, the future development of the sector remains central to a sustainable future for agriculture in Wales, especially given recent moves by the European Commission to give a more environmental focus to the Common Agricultural Policy. In the spring of 2002, therefore, the Agriculture and Rural Development Committee felt it timely to conduct an inquiry into the progress made and prospects for the sector.

Terms of reference

4. In April 2002, the Committee agreed the following terms of reference:

To assess the future prospects for organic farming in Wales, the appropriateness and achievability of current Welsh Assembly Government targets and consequent implications for policy and resource allocation within the budget for agriculture and rural development.

Written submissions of evidence were received from the bodies and individuals listed at Annex A

In addition, oral evidence was taken in Committee from the following:

Agri-food Partnership Organic Sector Strategy Group
Dafydd Jones & Jonathan Rees, Young Farmers Clubs Wales

Soil Association
Food Standards Agency
Welsh Consumer Council
Dr Bernard Tinker editor of *Shades of Green; A Review of UK Farming Systems*, Royal Agricultural Society of England
Sainsbury's
Tesco

5. To inform our inquiry, the Committee visited the Trawscoed research farm of the Institute of Grassland and Environmental Research and Rachel and Gareth Rowlands, the founders of *Rachel's Dairy*, Britain's first certified organic dairy. Advice and guidance was also received from the Organic Centre Wales, based in the University of Wales, Aberystwyth and from officials working for the Welsh Assembly government. We are grateful to all who assisted us with our work.

6. The report and recommendations that follow represent the conclusions the Committee has drawn from the evidence presented to it. We hope that they will be taken forward by the Welsh Assembly Government in order to develop a robust and sustainable future for agriculture in Wales.

The benefits of organic farming

7. Organic farming seeks to work as much as possible with natural systems, avoiding synthetic fertilisers, pesticides and growth promoters, and emphasising the importance of soil health, animal welfare, care for the environment and the production of healthy and nutritious food. This approach is supported by a certification framework with independent auditing and explicit environmental objectives.

8. The delivery of these aims comes at a cost to organic producers in terms of lower output and higher input costs. To date in the UK, these costs have largely been passed onto consumers in the form of higher prices. But in an attempt to attract a broader, less ideological customer base and in the face of consumer and regulatory pressures on conventional agriculture to move in a similar direction, organic prices have reduced.

9. As the economics of organic production alter, so the sector's supporters argue for Government financial support to offset the additional costs associated with environmentally-friendly practices. But in this regard the organic sector must compete with other agricultural systems, which increasingly claim to deliver the environmental, animal welfare and food quality benefits that society demands. In the course of our inquiry, the claims that can legitimately be made for organic farming, in particular the environmental, health and nutritional benefits it delivers, were questioned by some.

Environmental benefits

10. In its evidence to the Committee, the Countryside Council for Wales (CCW) – the statutory advisers to the National Assembly on nature conservation - outlined their recent consideration of available research into the role of organic farming in delivering environmental benefits. CCW endorses organic farming as one of a suite of measures that will contribute to achieving a more sustainable approach to countryside management with the key underpinning of this position being 'that it has been demonstrated to deliver biodiversity benefits'. This view coincides with that put forward by the Minister for Rural Development in a report to the Committee and by the

Department for Environment, Food and Rural Affairs (DEFRA) in their plan for organic farming in England.


11. We are conscious that legitimate concerns were raised by others. For example, the Environment Agency Wales (EAW) informed the Committee that ‘whilst many aspects associated with organic farming may be expected to bring positive benefits in terms of water quality and the water environment, there are some issues which are of concern’. In particular, the Agency identified the use of permitted alternatives to organophosphate sheep dip chemicals under organic regimes, as a concern for aquatic fauna.

12. Nonetheless, subject to the concerns of the EAW and others about particular aspects of organic farming regimes, the Committee would endorse the assessment that, on balance, the environmental effect of organic farming is a positive one. We recognise that most of the research upon which this assessment is based has been carried out in lowland habitats. Given the nature of the Welsh agricultural landscape, the Committee welcomes the steps being taken by CCW and OCW to look at the impact of organic systems on upland ecosystems.

Health and nutrition

13. For many consumers, ‘health’ is listed as the top reason for buying organically rather than conventionally produced food. It is important for the continued growth of the market, therefore, that the sector is able to justify claims that its practices contribute to enhanced food quality and safety. There is undoubtedly some scientific evidence to help support this assertion and, to many, it makes intuitive sense that the lower chemical inputs associated with organic production will result in food that is somehow safer and of higher nutritional value. In its evidence to the Committee, though, the Food Standards Agency (FSA) made clear its assessment that organic food is not significantly different in terms of food safety and nutrition from food produced conventionally. This assessment is based on the FSA’s consideration of all available scientific evidence and, as an independent Government Agency established to provide advice on food safety, the Committee must give due weight to its view. We would, though, wish to see a continuation of research to enable consumers to make informed choices about the relative merits of organically produced food.

The achievability of the current target



14. The target set in 1998 was to increase the organic proportion of Welsh agricultural output from 0.3% to 10% by the end of 2005. The graph below illustrates the growth rates that were required to achieve this. Both straight line and exponential expansion paths are illustrated.

15. Actual growth in 1999 and 2000 was close to the straight line growth path and substantially greater than the 65% annual growth rate needed to achieve 10% by 2005, but this has clearly tailed off in 2001. Despite the slow down, catching up and achieving the target would be possible if around 26,000 ha were converted annually. Realistically, achieving this sort of growth appears unlikely, especially given the current lack of confidence amongst prospective converters.

16. For the Committee, the key issue is not whether the current target will or will not be reached. Rather, we are concerned with ensuring that the benefits of organic production are maximised and that the sector is able to grow in a sustainable fashion. The recommendations in this report should give a signal to current and prospective producers that our support for the organic sector is sincere and long term. But the Committee would also stress that the sector's growth should reflect consumer demand rather than the need to attain government targets. A single, easily understood target is useful in giving a lead to the industry but can carry the risk of becoming an end in itself. We recommend that **future targets should be linked to the size of the market – for example, by**

aiming to see Welsh organic produce take an equivalent share of the UK organic market as conventionally produced Welsh output takes of the conventional market. We appreciate that the availability of reliable and timely data will need to improve if measurement of progress against such a target is to be made possible.

Future prospects for the domestic market

17. The domestic market for organic food has grown dramatically in recent years and is now worth in excess of £1 billion. Its likely continued growth was demonstrated in the evidence we heard from the UK's two largest supermarket retailers – Tesco and Sainsbury's. Tesco forecast organic sales growth in 2002/03 of 40% and in the longer-term annual growth of 10-15%. Similarly, Sainsbury's expect the organic market to remain vigorous and to continue to expand.

18. Growth in the retail market does not necessarily translate into a corresponding increase in market potential for Welsh producers. Some will be taken by imported produce whilst attempts to boost the absolute size of the organic market will put pressure on retail and, in turn, farm-gate prices. Nonetheless, such anticipated market growth should be seen as an opportunity for Welsh producers rather than a threat, provided they are able to focus on customer demands.

19. From the evidence submitted to us it is clear that consumers are demanding:

- Value for money – price is undeniably a barrier to purchasing organic food for many consumers;
- Product availability and convenience – consumers have grown accustomed to produce that is available throughout the year and in a form convenient for modern lifestyles;
- Safe and healthy food.

20. Each of these raises issues for organic production. For example:

- how to balance returns to compensate for lower yield and higher input costs with consumer and retailer pressure on prices;
- how to ensure consistency and continuity of organic supply from small producers;
- how to differentiate organic produce from conventional food standards using fewer chemical inputs and increasingly being marketed as healthy and environmentally-friendly.

The Committee's view of the future of organic farming in Wales

21. In view of the environmental benefits it delivers and, having considered the future prospects for the sector, the Committee sees organic farming as an important part of our drive to make Welsh agriculture environmentally and economically sustainable. It complements the image of Wales as a place producing high quality food in an environmentally friendly way and we have a strong base to build on through the work of the Agri-food Strategy Group and the existence of the OCW as a centre of expert advice and guidance. We therefore consider that

continued public support for the sector is justified, especially in the light of likely reforms of the CAP and the need to make best use of funds from modulation.

22. For farmers considering their plans for the future, converting to organic production is certainly an option. The organic market is likely to continue to grow as part of a general demand from consumers for high quality food produced to high standards of environmental and animal welfare care. But as those same market pressures and the reform of the CAP push conventional agriculture in a similar direction, farmers should be aware that premia for organic produce will come under pressure.

23. Recently, the sector has experienced similar economic difficulties to the rest of agriculture with production imbalances, import competition and supply chain difficulties placing pressure on prices. This illustrates that organic production is not a panacea for Welsh agriculture – as with the conventional sector, only high quality, well-managed organic farms that respond to market needs will prosper.

24. In signalling our fundamental support for the sector as an aspect of sustainable agricultural policy, the Committee does not wish to see the Government drive development for its own sake. Rather, the development of the organic sector should reflect market demands with public policy aiming to inform consumers and help Welsh producers identify opportunities and deliver high quality, competitive products to the market.

We would make the following recommendations to assist in this process.

Recommendations:

Maintenance support payments

25. The UK is one of the few EU countries not providing ongoing maintenance support for organic producers although DEFRA recently announced its intention to provide ongoing payments to organic farmers in England after conversion. To date, support has instead been concentrated on conversion support with producers reliant on market returns thereafter. The case for introducing some form of ongoing maintenance payment for organic producers was put to us by many. Agriculture is already over-reliant on public support and the Committee has considered the arguments for and against replacing one form of market support with another. On balance, the Committee considers that organic production should be encouraged and supported since:

- it contributes to the Assembly's wider aims for sustainable agricultural industry and practices; and
- Welsh producers should not be disadvantaged in the marketplace relative to their counterparts in England and the rest of Europe.

The Committee recommends that **the Welsh Assembly Government should introduce a scheme of ongoing maintenance payments tailored to Welsh needs. The Welsh Assembly Government should consider how best this should be financed in the short term, perhaps through refocusing under-spend from the existing Organic Farming Scheme.**

Integration of organic support with other agri-environmental measures

26. The principal justification for the payment of public support to organic producers relates to the environmental public goods organic production provides. As we have noted elsewhere, the delivery of such environmental gain is at the heart of proposed reforms to the CAP and to other policies delivered by the National Assembly. In the longer term, therefore, the Committee recommends that **support for organic farming should form one part of an integrated suite of agri-environment schemes in Wales**. Maintenance support could be in the form of an organic stewardship tier as part of a broad and shallow general agri-environment scheme. The Committee will consider the shape of future agri-environment schemes in Wales in its next major inquiry.

Funding

27. The Committee recommends that **the delivery of ongoing maintenance payments for organic production and the integration of support for organic farming into a suite of agri-environment schemes, should be seen as a priority for the Welsh Assembly Government's negotiating position for the mid-term review of the CAP and the use of funds arising from modulation**.

Supply chain

28. Fragmentation of the supply chain is an issue affecting all of the main organic sectors in Wales. The organic dairy sector has been particularly hard hit by recent problems of oversupply whilst supply chain co-ordination and the planning of marketing in advance of production are becoming issues for the organic meat and horticulture sectors respectively.

29. The need to develop more integrated supply chains is a feature common to much of Welsh agriculture, not just the organic sector. Indeed, the existence of a specific organic strategy group within the Agri-food Partnership gives the sector an advantage through a network already dedicated to enabling the sort of co-operation and integration required. The Committee therefore welcomes the establishment of the new Horticulture Strategy Group within the Partnership umbrella, and an organic horticulture sub-group linking it and the Organic Strategy Group. We recommend that **the Welsh Assembly Government and the Welsh Development Agency (WDA) should continue to provide support for producer groups consistent with a strategic approach to market development**. The sector as a whole must recognise that supply chain fragmentation represents a serious threat to long-term success and that improved co-ordination and collaboration between individuals and producer groups is vital if market planning, supply and the availability of appropriate processing facilities in Wales is to be improved.

30. Linked to this, the Committee would reiterate its support for the **provision of high quality advice and market information** through OCW and Farming Connect to ensure that producers and processors can make informed decisions about conversion, marketing and grant applications. Developments announced in the English Action Plan will improve the availability of retail market information at a UK level. Data at a Welsh level should allow those working in the sector to identify market opportunities and to assess progress in exploiting these. To ensure that the development of future policies is soundly based, the Committee recommends that **reliable, timely and relevant information be collected all along the organic supply chain**.

31. Over three quarters of organic food sales are made through the major retailers and, as outlined earlier in the report, the leading supermarkets forecast substantial growth in organic sales. It is essential, therefore, that organic producers in Wales benefit from this outlet. Given the relatively small output of most organic producers in

Wales, co-ordination between farmers and processors will be essential if the product demands placed by retailers are to be met and a fair return obtained for producers. The Committee recommends that **the Welsh Assembly Government and the Agri-food Partnership sector group should seek to facilitate understanding and a mutually beneficial relationship between the supermarkets and the Welsh organic sector.**

32. Not all organic producers in Wales wish to channel output through the supermarkets. For some, direct selling through farmers' markets, box schemes or arrangements with local catering or retail outlets will be preferred. The Committee has promoted the advantages of such local connections in earlier work and therefore recommends that **the work of OCW/Farming Connect, the sector strategy group and other public bodies in facilitating such marketing developments should continue to be supported.**

33. A further contribution to the development of local markets for organic producers could be made through public procurement policies. The **encouragement of local, quality-based procurement policies by public bodies** is another step the Committee recommended last year following our inquiry into diversifying the rural economy. To this end we welcome the current pilot scheme involving Powys County Council, the Soil Association and Cardiff University. We recommend that **the experience of pilot schemes encouraging the public procurement of locally produced organic goods should be more widely applied.**

34. In recommending that the future development of the sector should be market led, the Committee recognises the role of the public sector in enhancing demand. The Committee recommends that, **as part of its general approach to marketing and promoting Welsh agricultural products, the Welsh Assembly Government and the WDA should ensure that the distinctive needs of the organic sector are addressed. In addition, consideration should be given to a publicity initiative to explain what is meant by organic production and what consumers can expect from organic foods.**

The availability of organic seed

35. From 2004, seed for use in organic production systems will have to be produced organically compared. At present only 35% of seed mixture is required to be organic but even this is placing heavy demand on the supply of organically produced forage seed. Evidence provided to the Committee by the Institute of Grassland and Environmental Research (IGER) suggests that, to meet the target of 10% of production being organic by 2005, and comply with the 100% organic seed regulation, will require some 400 tonnes of grass seed and 50 tonnes of legume seed each year in Wales. Currently only 15 tonnes of organic forage seed is produced in the UK and none in Wales. Lack of suitable seed will constrain the development of the sector in Wales and leave farmers dependent on imported seed that is often inappropriate for Welsh climatic conditions. The Committee therefore recommends that **the Welsh Assembly Government puts in place a strategy to encourage the domestic supply of organically produced seed of the most appropriate varieties to ensure the continued development of the organic sector in Wales.**

Research and development

36. The Committee regards research and development as a priority area and would emphasise the need for the Welsh Assembly Government's policies to be informed and evidence-based. To this end, we are fortunate in Wales to have centres of excellence such as IGER from which organic producers and public policy makers can benefit. Control of major research budgets lies with DEFRA and other Whitehall Departments, rather than the

Welsh Assembly Government. We therefore welcome the measures identified in the English Action Plan for Organic Farming to increase and better identify and co-ordinate research funds for the sector. We recommend that **the Welsh Assembly Government uses its influence to focus research resource on matters of particular significance to Wales** such as the environmental impact of organic farming on upland eco-systems. The Committee offers its support to the efforts of CCW and OCW in this regard and other work that will help to clarify the contribution of organic production to our wider environmental objectives. Similarly, it has been clear to the Committee during the course of its work that the debate on the health and nutritional effects of organic food is not yet settled and that further work is needed in this field.

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