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# An organic market to conquer

Policy Document on Organic Agriculture, 2001-2004

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## Introduction

The policy document on Food Production and Rural Areas (*Voedsel en Groen*) focuses on the change in thinking about the agricultural sector. It is not concerned solely with primary agriculture, but with the whole chain from primary sector to consumer. This agrifood complex is characterised by socially responsible business practice, a high level of knowledge and innovative strength and is thus a world market leader. A demand-centred approach is essential since the agrifood complex is driven by the wishes of citizens and consumers.

The demand-centred approach is the key to this first follow-up to the policy document on Food Production and the Rural Areas. Like other parts of the agrifood complex, the organic chain faces the challenge of developing over the coming decade into a sustainable sector as an integral part of society competing independently in international markets, and setting the standard in Europe. Opting for a demand-centred approach has consequences for the role of the parties involved. This Policy Document on organic agriculture, Een biologische markt te winnen, fleshes out the role of central government and the Ministry of Agriculture, Nature and Food Quality in particular, in assisting the organic chain from 2001 to 2004 inclusive.

The organic sector has an excellent record of socially responsible business practice: in all links of the chain, organic production very largely meets our social requirements in terms of environment, animal welfare and biodiversity, and plays a pioneering role for the entire agrifood complex. There is growing demand for organic produce. While total food sales in the European Union are stagnating, sales of organic products are rising. Consumers are motivated not only by social conscience, but also by the healthy and reliable image of organic products. The certification of products and the method of production with the EKO quality mark contribute to this image. Organic production appeals to the standards and values of both consumers and producers: pride in a product created with respect for our natural environment.

In its further development the organic sector can count on the support of two significant pillars of the Dutch agrifood complex: namely the great extent of available knowledge and the agricultural trade. Available knowledge can be used and disseminated or new knowledge can be developed in the short term. Organic agriculture requires a different system of production and thus continually fuels innovation, which can also be very important for mainstream agriculture. Partly because of the farreaching involvement of supermarket chains, this is an international market. The Netherlands already enjoys a strong position in the international market, and further reinforcement of trade will be

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essential in taking advantage of the international potential of Dutch organic production. However the organic chain also has some weaknesses. Despite the efforts of the chain, supported by government initiatives, Dutch organic agriculture occupies a fairly modest position in Europe. In 1999, for example, only slightly over 1% of the total agricultural land area in the Netherlands was used for organic production (Central Bureau of Statistics, CBS).

	Area of organic agriculture (hectares) in 1998	Percentage of total agricultural land in 1998	Average growth per year (%), 1993-1998
Belgium	6,800	0.5	12.3
Denmark	90,000	3.3	28.2
Germany	374,000	2.2	10.7
Finland	119,000	5.5	25.6
France	230,00	0.4	13.9
Greece	7,200	0.1	78.3
Great Britain	188,000	1.0	18.1
Italy	610,000	4.1	46.6
The Netherlands	19,000	1.0	16.1
Norway	15,581	1.5	32.8
Austria	350,000	10.1	15.5
Portugal	17,000	0.4	33.6
Spain	140,000	0.6	36.1
Sweden	110,000	3.2	12.9

Source: Institute of Environmental Studies, Amsterdam University

The organic sector is moving from a pioneering phase into an expansion phase. The major trigger of growth, market demand, is already in place. However, growth is currently proceeding in fits and starts. The chain is not yet performing well enough in terms of scale and strength: scale great enough to generate sufficient demand, and strength to continue to meet the high expectations of the consumers. Furthermore, the chain seems hesitant: holding back instead of seeking the initiative, at a time when market prospects are better than ever. Significant market players are showing a readiness to invest in organic production. One example is the supermarket trade association, the Centraal Bureau Levensmiddelenhandel (CBL) [Dutch Association of Food Trade Organisations], that recently announced that organic products would receive preferential treatment and special promotion in the supermarkets.

Responsibility for investment in the future lies with the organic chain itself. However, the combination of market prospects on the one hand and the pioneering role of organics in the area of social responsibility and innovative enterprise on the other justify a policy of incentives to give a boost to the organic sector. We have opted more emphatically than in the past four years for a demand-centred approach: for business the market must be the guiding factor, the different parts of the chain must capitalise on the market potential for organic products. The prospects are good: there is an organic market waiting to be conquered.

# 2. The ambition

It would be a feather in the cap for the Netherlands if 10% of available acreage was organic by the year 2010. In international terms this would put the Netherlands in an excellent position. To achieve

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this the acreage under organic farming would have to increase by around 25% per year from 2001 onwards. Considering that the annual average growth from 1993 to 1998 was 16%, some acceleration is required. This cannot be achieved simply by government measures to stimulate supply. The market players, including consumer and social organisations, must rise to the challenge. The necessary acceleration can be brought about through cooperation.

Strong growth in the area under organic agriculture would mean that at the end of this decade:

- Dutch consumers will be among the top European consumers of organic produce from retail, wholesale and catering sources;
- the agrifood producers will have a number of strong organic brands;
- Dutch agriculture, in its leading position in production, technology and management, will also master the field of organic production like no other;
- the sector will compete independently on the international market;
- the Dutch agricultural knowledge complex will make a significant contribution to knowledge and technology.

The market players have primary and joint responsibility for these tasks. There is an important role to be played by the retail, wholesale and catering trades. They form the link with the consumer and, as the demand for organic products grows, they can exert influence on the conversion process. The government hopes to accelerate growth by providing a temporary impetus, with the emphasis on establishing cooperation between market players. With this temporary stimulus the government hopes to contribute to organic agriculture as a socially responsible and innovative type of operation with effects for the entire agrifood complex.

# **3. Difficulties**

The market prospects for organic agriculture are good. However, a number of difficulties could hamper the desired acceleration in growth. These can be summarised under three headings.

#### Difficulty: the chain does not operate as well as possible

To have the greatest possible influence on favourable market prospects chains need to work smoothly and professionally. Market players must be able to cooperate with each other. At the moment in the organic chain they are unsure how to find each other, do not trust each other or are even entirely unknown to each other. As a result they do not make adequate use of opportunities. In addition, existing institutions can hinder the operation of the chain. It is striking that a number of existing institutions are barely addressing organic agriculture, if at all. It would be good if, for example, some of the commodity boards would invest more in strengthening organic chains.

The result of the imperfect working of the chain is that the supply and range of products is limited and unnecessary costs are incurred, making the price to the consumer unnecessarily high.

Market prospects are good because there is a large group of potential new consumers of organic products. However, these new consumers are not being reached, because they require a different approach to the often strongly ideologically motivated consumers who currently buy organic products. The new consumers are concerned with the quality of the product, but are particularly influenced by both the way it is perceived and the availability of a wide range of products. The extra cost of this quality product must not be too high compared with the price of a conventionally produced product, particularly as conventional products are produced in ever cleaner and more environmentally-friendly conditions.

The favourable market prospects have not yet penetrated sufficiently far into the chain to make

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primary producers more willing to switch to organic production. The reluctance to convert has a number of causes. For many, the combination of a 2 - 3 year conversion period with uncertainty about the medium term market situation is an important consideration. In addition, conversion from mainstream to organic production requires a major change in business management and philosophy. Organic production involves different production methods, in turn requiring different knowledge and skills and more work from the producers. It also involves a higher degree of commercial risk, particularly in the initial years. Furthermore many sectors are faced with a statutory conversion period agreed at European level, causing a loss in income which is not offset by any direct price compensation during the period when the produce cannot yet be sold as organic. In certain sectors, such as pig farming, heavy investment in housing units is needed to meet the new requirements.

#### Difficulty: living up to consumer confidence

Consumers are demanding ever-higher standards of quality and production methods. This applies to all chains, but it is particularly true of the organic chain, where consumers have high expectations. Consumers increasingly ask for more information about the production process and the traceability and origin of the raw materials. With organic products consumers will want guarantees that the product is produced entirely organically. This requires a reliable inspection and certification system within the chain. Precisely because the organic chain is currently at an early stage of development, there is an opportunity to close the chain properly.

European regulations (Regulation (EEC) no. 2092/91) set out the requirements to be met by organic products and production methods and also regulate the inspection process. These European regulations permit limited use of conventional products in organic agriculture: often for a limited period. Although this use is legally permissible, in order to reinforce its image, the sector must strive for the most organic products of organic origin in the production process. There are various reasons for this. For example, with organic starting material and organic glasshouse horticulture it is not yet clear what conditions the product or production methods must meet. The organic product may not be sufficiently widely available, as is the case with, say, organic fertiliser and crop protection products of natural origin. Finally, the sector cannot entirely prevent products that do not belong in organic agriculture from ending up in the process. Genetically modified organisms (gmos) are an example of this. Under European regulations no use may be made of gmos or derivative products in the organic chain. But this does not automatically prevent gmos from finding their way into the organic production process, for example, during transportation.

European regulations on organic production methods are still being developed. On 24 August 2000 the rules for crop production were supplemented with those for animal production. However, in practice the rules - for example on organic glasshouse horticulture - will have to be elaborated before we can really talk about European harmonisation. The lack of full European harmonisation means that the rules are still not entirely clear. As a result, organic products from different EC member states cannot always be compared like for like.

The rising expectations of consumers go further than the statutory regulations. In the coming years, organic agriculture will be expected to adhere to reliable guarantees over a broader field. The inspection and certification system will have to develop continually. Transparency is a precondition for continuing consumer confidence.

#### Difficulty: lack of new knowledge and inadequate dissemination of knowledge

Because it is a different system, organic production methods require different knowledge and skills of all links in the chain. Among primary producers in particular there is a real need for new knowledge about organic production systems and techniques and specific problems in operational management. This applies to the development of business systems, starting material and crop

protection methods of natural origin, new forms of weed control, energy use in glasshouses and labour-saving and labour-reducing techniques. Further professionalisation of the chain will require joint development of knowledge, in which conventional and organic businesses and the knowledge institutes collaborate more effectively and benefit from each other's knowledge.

Gaining access to developed knowledge (including experiential knowledge) is a problem for individual businesses. In this context more intensive interaction between researchers, information services, education, intermediaries and primary producers and better dissemination and exchange of knowledge are essential and need extra attention. Finally, when it comes to the driving force behind research, organic agriculture takes too little responsibility for the formulation of research questions.

# 4. Spearheads of policy

The role of the government is two-fold. It is permanently responsible, under Regulation (EEC) no. 2092/91 among others, for the enforcement of legislation and regulations and supervises the inspection system. In addition, research, education, and provision of information are important instruments of government policy.

However, because the organic chain faces a number of difficulties in achieving the desired growth, the government will also have a transitional role as a catalyst, inspiring the chain to take initiatives to overcome the difficulties. Thus government contributes to an economically sound and socially responsible production chain which will be able to operate without government support in the short term. This role will be a transitional one. It is ultimately up to the market players to complete the task unaided.

Cooperation between all the parties is important. In terms of policy it should be emphasised that not only the state but also the provincial authorities stimulate organic agriculture. Other regional authorities, such as the municipal councils and water boards, and social organisations are also developing activities aimed at expanding organic agriculture. The government heartily applauds these initiatives.

Platform Biologica is an umbrella organisation for primary organic producers, the supply and processing industries, the trade and retailers. In addition to promoting the interests of the sector, Platform Biologica also has a role in relation to this Policy Document, in closing the chain (including organic starting material, gmos), increasing awareness of the regulations for and understanding of organic production methods, and cooperation with the conventional sector. It can also fulfil a role in private and public initiatives to stimulate organic agriculture. Platform Biologica has performed a lot of important work in recent years. As with other organisations, the Ministry of Agriculture, Nature and Food Quality will opt for a market-centred approach. The funding of Platform Biologica will be continued in 2001. Starting in 2002 the scale of funding will be decided on a project-by-project basis depending on submitted and approved project proposals.

Considering the nature of the difficulties identified and the desired rapid growth in organic acreage, there is no need for government policy to select particular areas and/or sectors in the Netherlands. Businesses must choose what organic products to grow and where. Government policy will be generic in nature. The demand-centred approach is the main consideration and this will affect the choice of policy instruments.

The 1997-2000 Action Plan was aimed primarily at supporting market development, improving quality and stimulating the conversion of primary production. The time is now ripe for a new and different orientation: the chain is the key factor and given favourable market prospects, a demand-centred approach is appropriate. Considering the nature of the problems, the government has opted for the following approach:

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- synergy: cooperation between market players enabling them to exploit favourable market prospects;
- quality and guarantees by closing the chain;
- development and dissemination of knowledge.

In the next four years following this Policy Document, policy will focus on the following spearheads.

#### I. The professionalisation of demand-centred chains

The purpose of this process is to make the best possible use of market potential through cooperation between the parties. It should result in stronger chains with a larger volume and a wider range of organic products at lower prices, and with adequate prospects for primary producers to convert to organic production methods.

### A. A framework agreement elaborated in business plans

The Ministry will set up a Task force for market development of organic agriculture with a limited number of representatives from various links of the chain, including banks and consumer and social organisations. The job of the task force will be to catalogue the difficulties and designate solutions and objectives in the various chains. To prepare for the task force, the Ministry has already funded external research, in consultation with the CBL, LTO Nederland (Dutch Federation of Agricultural and Horticultural Organisations) and Platform Biologica, into problems and possible approaches to solutions in a number of organic chains. The work of the task force must culminate in the signing of a framework agreement. In view of the willingness displayed by the market players, this should be possible by the end of 2000.

This cooperation between the players must subsequently lead to concrete business plans for the various chains. These business plans must contain specific objectives and binding agreements about the stimulation of the organic chains. The business plan is the stage when the intentions expressed by the various players are put into operation.

In the execution of the business plans, the government will make a financial contribution on a project-by-project basis, through the joint innovation programme and other measures, to the development of concrete market activities. Such activities might be, for example, in the fields of quality improvements, production volumes, product innovations, clustering of businesses and logistics. The funding will be limited to projects in which different market players have an interest, projects which would not get off the ground without an extra boost from the government, and which contribute to achieving the objectives agreed in the business plans. The results of the projects must also be of use to all parties.

By mid-2001 the business plans should be complete. This will be the time to evaluate this part of the process: too few business plans, or none at all, will lead to a reconsideration of the deployment of government measures and funds. The implementation of the business plans will be reviewed annually by the Ministry, and adjusted where necessary.

### B. Information and communication plan

The government has the task of providing the public with objective information. By raising public awareness about sustainable production, animal welfare and biodiversity, the public, and thus the consumer, begins to appreciate the real value of the product and will be more willing to pay a higher price for it. The premium is paid because organic agriculture goes beyond the statutory requirements applicable to conventional agriculture, and incurs higher costs in production. Agriculture as a whole can benefit from this process of increasing consumer awareness. An information plan will be elaborated in which institutions such as the

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Voedingscentrum Nederland (Netherlands Nutrition Centre) will provide the public with objective information on sustainably produced products.

Communication with potential new consumers is a challenge to be shared by the market players. A communication plan linked to the framework agreement or the business plans is the obvious direction to take. This communication plan must be aimed at the consumer and the part of the chain serving the consumer (retail, catering and wholesale trades), emphasising the promotion of organic products. The main aim of the communication plan must be to win over and retain new consumers.

#### II. Optimum transparency and closing the chain

Optimum transparency and closing the chain are priorities for all players in the agrifood complex. The chains themselves are responsible for this, and the aim is to provide guarantees and live up to consumer expectations. Given the current stage of development of the organic chain, there is now a good opportunity to build up a solid and efficient system.

#### A. Chain guarantee systems

Like other chains, the organic chain must meet the relevant public health requirements and requirements imposed by market players. The obvious approach is to link this to the development of chain guarantee and certification systems in the conventional agriculture sector. Where necessary a chain guarantee system can be adapted to the organic production system. Transparency is a precondition for consumer confidence. The entire production process must be inspected at every step and must be traceable. The use of the Hazards Analysis of Critical Control Points (HACCP) principle throughout the chain is therefore desirable. The organic chain can make use of its expertise in the field of certification for the EKO quality mark.

#### B. Closing the chain

Organic products have a high amenity value. The products are known to consumers as being produced in a natural and environmentally-friendly way without the use of pesticides and gmos. However, the chain cannot currently guarantee that everything is entirely organic. The chain is primarily responsible for this. Given the issues specific to this chain, and the overriding importance of closing the chain, the government wishes to spur on the process. Where necessary temporary assistance will be provided in the following areas:

• Organic starting material

The Netherlands is highly respected throughout the world in the field of the breeding and production of starting material. The organic and breeding sectors must join forces in the short term at European level to arrive at an adequate and accepted definition of organic processing. They must specify what methods are acceptable and how processing should be carried out. Alliances between the conventional and organic sectors would facilitate this. On completion of this first step, the processing sector will receive transitional funding on the basis of initiatives to be proposed by the business community. In addition, to provide support, the research will be expressly aimed at increasing the availability of organic starting material.

• Genetically modified organisms (gmos)

Keeping the chain gmo-free concerns not only organic agriculture but also all other chains seeking gmo-free production. The chain itself is primarily responsible for

excluding gmos. The role of the government in respect of gmos is set out in the Integral Policy Document on Biotechnology. The government wishes to give consumers the opportunity to choose between gm and gm-free products. For some years the Ministry has provided support for a project concerned with the non-gm nature of the organic chain. Following on from this project financial support will be given to a joint initiative of the organic business community aimed at the actual development of a gm-free organic chain, and the necessary monitoring system. In this project cooperation with other gm-free chains would be an advantage.

#### • Crop protection products of natural origin

Consumers will in future expect the sector to keep the use of crop protection products permitted under the regulations to a minimum. Prevention of pests and diseases must take precedence. Policy on crop protection after 2000 will be determined this autumn. The crop protection products of natural origin required by the organic sector are subject to the same requirement as the conventional products: that they are safe for mankind and the environment. Work is currently underway nationally and internationally to simplify the approval procedures for crop protection products of natural origin and so reduce the costs of evaluation. In addition the institution of a transitional incentive fund for approval is being evaluated.

These actions combined with the activities of the sector in these fields must be sufficient to close the organic chain.

#### C. Inspection

As announced in the policy document on Food Production and Rural Areas (Voedsel en Groen) the government will take a stronger interest in supervision of the inspection process. In the Netherlands Skal (Stichting Keur Alternatief voortgebrachte Landbouwprodukten) is currently responsible for the inspection of organic production methods under the Landbouwkwaliteitsbesluit biologische productiemethode (Agricultural Produce Quality Control Decree). The role of the Ministry of Agriculture, Nature and Food Quality as the Skal watchdog is currently being evaluated and adapted where necessary. The same applies to the unique position of Skal in the Netherlands.

#### D. Harmonisation of international legislation and regulations on organic agriculture

In addition to its role as a driving force and supervisory authority, the Ministry of Agriculture, Nature and Food Quality has an important function to fulfil in the development of European and international legislation and regulations. The debate on standards for organic production is currently taking place mainly in the European forum. For the Netherlands issues such as the import of organic products from third countries, the rules for organic glasshouse horticulture and starting material and the further elaboration of gmo-free organic agriculture are of great importance. The sector is being asked to make an active effort to indicate clearly the directions it wants to develop. The object is optimum harmonisation of international legislation and regulations. This must increase the transparency of the chain.

European rules for organic animal production have been in force since 24 August 2000. These provide the opportunity to supplement the European rules with national rules. The Ministry of Agriculture, Nature and Food Quality has decided not to introduce any additional national statutory regulations. Its argument is that the European rules form the basic level and the 'bonus' - stricter national standards - can be created in the market. The Ministry does however wish to make a strong case in Brussels for a further round of harmonisation between member states. Should additional harmonisation prove impossible, cooperation will be sought in the

European context with other member states holding similar views.

#### III. Development and dissemination of knowledge

Knowledge is essential for tapping new markets, developing new ways of reaching consumers and improving the environment we live in. Development and dissemination of knowledge is essential in all links of the chain: in growing, processing, sales and distribution.

The development and dissemination of knowledge has in recent years contributed significantly to the growth of organic agriculture. It will continue to be in demand in the coming years. Primary producers in the process of conversion will want to know more about organic production systems and techniques and specific difficulties in operational management. By forging a link between organic and conventional research, existing knowledge and infrastructure can be used. Organic agriculture will have to strengthen its position within the current structure of research control. Proper organisation of the research questions and contributions to the realisation of the research will help to strengthen its position.

## Examples of difficulties facing primary producers in organic operational management:

- pests and diseases
- mechanical weed control
- use of energy and nutrient management in the glasshouse
- soil and nutrient management
- mineralisation of organic fertilisers
- labour productivity

Wageningen University and Research Centre (UR) has announced that it intends to put organic agriculture firmly on the agenda. Within a foreseeable time Wageningen UR hopes to devote 10% of its discretionary budget for research to organic agriculture. It is also investigating the possibility of starting a new course in organic agriculture. These initiatives on the part of Wageningen UR will strengthen the development and dissemination of knowledge.

Research is not an end in itself. The dissemination and transfer of knowledge are at least as important. Knowledge institutes will have to make extra efforts through cooperation between researchers, information services, education and intermediaries. The government will continue to make a financial contribution to the dissemination of knowledge for potential organic farmers. The emphasis here is on encouraging conversion and improving organic enterprise skills.

In the educational world serious efforts have been made to integrate organic agriculture into general courses. This has laid the foundation for the broad introduction and dissemination of organic agriculture in professional practice. This line will be continued in subsequent years, among other things in the reform of agricultural education. Financial assistance will be made available for this under an innovation regulation for agricultural education. Courses on organic agriculture for current producers also receive financial support so that course fees can be kept down.

These actions in the field of research, information and education, where the government has a traditional role, will help to tackle the remaining knowledge gaps.

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# **IV.** Stimulating organic primary production: transition from supply to demand-centred **A** approach

Direct government support for the development of organic agriculture is not the appropriate course for the future. Good market prospects must provide the stimulus for farmers to convert to organic production. The business plans referred to under the heading 'the professionalisation of demandcentred chains' must in the short term provide primary producers with sufficient guarantees to make the step from conventional to organic methods. On the other hand the sector must be given some time to master this demand-centred approach. The next few years will be a transitional period: new instruments will be introduced to stimulate conversion, old measures will be dismantled.

#### A. Guarantees for capital-intensive sectors

Government guarantees reduce the risks of investment in capital-intensive business systems. In terms of the costs associated with conversion, pig farming has particularly high start-up costs due to the necessary adaptation of the housing. Currently under the Borgstellingsfonds (Agricultural Guarantee Fund) banks lend money to farmers and growers with (partial) government guarantees that the interest and amortisation payments will be honoured.

#### B. Promoting conversion

In the 1997-2000 Plan of Action financial support was available for the conversion of primary production to organic in the vegetable sectors and dairy farming under the Regeling Stimulering Biologische Productiemethode (Organic Production Financial Incentives Scheme (RSBP)). Under this scheme the government contributed to compensation for loss of income suffered as a result of the statutory conversion period during which the primary producers produce organically but cannot yet market their products as organic. In the last year of the current Action Plan (2000) and the first year of this Policy Document (2001), 65% of the loss of income is compensated by the government under the Financial Incentives Scheme. The scheme will run for the last time in 2002. The compensation for loss of income will then be set at 50%. The scheme is non-selective in that it does not specify which vegetable and dairy farming sectors may be eligible.

#### C. Business review

For a producer to make a considered choice to convert to organic production it is vital to have a commercial development plan drawn up by a competent body. Financial support will be available to all sectors to help with the cost of compiling the plan.

#### V. Other matters

#### Fiscal measures

The new tax system, aimed in part at sustainable development and promoting employment by a relative reduction in tax on labour, gives a further boost to the development of organic agriculture. In addition to existing instruments, including the regeling groenfinanciering (rural areas funding scheme), the regeling willekeurig afschrijving milieu-investeringen (accelerated depreciation scheme for environmental investments) (VAMIL) and the energie-investeringsaftrek (energy investment allowance) (EIA), new instruments have been developed such as the milieu-investeringsaftrek (environmental investment allowance) (MIA) and the duurzame ondernemingsaftrek (sustainable business allowance) (DOA). These new instruments give an extra boost to the development of organic agriculture. The environmental investment allowance has already been introduced and the sustainable business allowance will come into force once approved by the European Commission. The sustainable business

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allowance of 15,000 guilders will be raised to 22,500 guilders commencing 2001.

### A. Labour

Organic agriculture is labour-intensive and often has seasonal labour peaks. This is not unique to organic agriculture. Other primary sectors are also faced with labour shortages. In addition, working conditions in agriculture and horticulture are not (yet) regarded as attractive. Recruiting the necessary workers can sometimes cause serious problems. The employment strategy is in the first instance the responsibility of the producers themselves. However, in its policy document 'Voedsel en Groen' (Food Production and Rural Areas), the government announced that it would examine the possibility of forming labour pools. This would facilitate a broad deployment of labour not bound to a particular business which would benefit organic agriculture. The research process will consider labour saving in operational management by developing labour-saving techniques, among other things.

### B. VAT rate for organic products

Based on the sixth EU directive on turnover tax, zero-rating for organic products is not permitted in Europe. In the Memorandum on various VAT issues of 14 June 2000 to the Standing Finance Committee of the Lower House, the State Secretary of Finance indicated that this would only be likely to succeed if other EU member states would be prepared to support such a request from the Netherlands. The Ministry of Finance is currently seeking the views of other member states and will inform the House in due course of its progress.

### 5. Financial resources

The deployment of state funding depends to a considerable extent on the will of the market players to set up joint market-oriented projects. The section **'The professionalisation of demand-centred chains'** of this Policy Document will be evaluated for the first time in mid-2001 and policy will be adjusted as necessary.

A conscious choice has been made not to attach the deployment of financial resources to particular parts of the chain. Deployment must be flexible to respond to the development of the chain. Support for the development and dissemination of knowledge is an exception to this rule.

The following amounts are available for the implementation of the Policy Document on Organic Agriculture 2001-2004:

Financial statement (commitment in NLG millions)

		2001	2002	2003	2004	Total
1.	Professionalisation of chain; optimum transparency and closing of chain	5	7.5	7.5	5	25
2.	Knowledge					
	- research	17	18.5	18	18	71.5
	- information and educational courses	2.6	2.6	2.6	2.7	10.5
3.	Measures to stimulate the sector	conve	ersion	of the	prima	ry
	- guarantees	5	5	5	5	20

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	Total	75.1	72.1	64.6	65.2	277
6.	Fiscal: sustainable business allowance**	22	25	28	31	106
5.	Platform Biologica	0.9	*	*	*	0.9
4.	Public awareness	1.6	2.5	2.5	2.5	9.1
	- business review	1	1	1	1	4
	- RSBP	20	10	0	0	30

\* Based on project funding from public awareness budget.

\*\* The structural part of the sustainable business allowance for organic agriculture amounts to an annual 75 million guilders and will be reached in 2015.
It is not known precisely how the other fiscal measures will affect organic agriculture. The tax benefit of the green investment scheme

is currently estimated at over 10 million guilders per year.

In addition to the instruments described above, organic agriculture can also benefit from other government subsidies, such as the future Agricultural Innovation Fund.

New supplementary policy instruments and amendments to existing instruments must be submitted to the European Commission for approval before they are put into effect. Every effort will be made to make the best possible use of opportunities for European co-financing for new policy instruments.

During the lifetime of the Policy Document the progress of the incentive schemes will be broadly monitored. An initial part of the process, the development of business plans, will be evaluated in 2001, following which, in 2004, a final evaluation will be carried out and the results submitted to the House. The House will also receive a progress report annually in May on the implementation of the Policy Document.

#### Annex: Current status of organic agriculture in the Netherlands

The Policy Document on Organic Agriculture states that the organic sector has witnessed strong growth in recent years. This is confirmed by the statistics given in this annex.

#### **Consumption and retail**

#### **Consumption**

In general it may be concluded that both production and consumption of organic products represent around 1% of total production and consumption in the Netherlands. Yoghurt is a positive exception with a market share of 2.6% in 1999. In other European countries organic products also account for around 1% of food consumption. Notable exceptions are Germany (2.5%), Denmark (3%) and Austria (5%). It is striking that the Netherlands imports the majority of organic products from abroad. Of these imports, 80% are re-exported. A proportion of Dutch production is also exported. The UK in particular is a lucrative target market.

Source :N.M. van der Grijp, F. de Hond : Green supply chain initiatives in the European food and retailing industry (1999) Institute for Environmental Studies (VU Amsterdam); EKO-monitor, Platform Biologica

#### Retail

The total retail turnover of organic products in the Netherlands has risen steeply in recent years (in NLG millions):

1997 375

mhtml:file://D:\documents%20NL\NL-OAP-SCD-2000An%20organic%20market%2... 06/11/2006

1998	440
1999	515

Source: EKO-monitor, January 2000, Platform Biologica

The total food turnover in the Dutch retail trade was 45.9 thousand million guilders in 1999, with organic products accounting for 1.1%. Source: CBL

The number of points of sale has also risen steeply. The number of supermarkets stocking over 15 organic products increased from 70 in 1995 to over 4,000 in 1999. The number of wholefood shops has also risen over the same period from 280 to over 400 and the number of pre-purchase schemes (organic box schemes) has risen from 4,000 to 44,000.

Currently 60% of consumers buy their organic produce in supermarkets, 30% in wholefood shops, and 15% direct from the farmer or from farmers markets. Since a proportion of consumers buy from more than one outlet, the total exceeds 100%.

Source: Evaluatie Plan van aanpak biologische landbouw 1997 - 1999 (Evaluation of Organic Agriculture Action Plan 1997 - 1999)

#### **Processing companies**

Since 1996 the number of businesses in processing and preparation of organic products has increased by 350. Currently 780 organic processors are registered in the Netherlands. These are industrial and craft companies, importers and service companies.

Source: EKO-monitor, May 2000, Platform Biologica

#### **Primary organic companies**

In 1999 organic production methods were applied in 1216 businesses (1.2% of the total number of primary producers). Of these 280 companies were in transition. During the period of the Action Plan (1996 to 1999 inclusive) the land devoted to organic agriculture increased by more than 10,000 hectares, to 22,997 hectares (1.2% of total agricultural land area).

CBS figures show that in the period 1996-1999, 61% of the increase in land devoted to organic agriculture area was in dairy farming, 34% in arable and 5% in horticulture.

Distribution of companies per sector in percentages (1999):

Horticulture	24.5
Fruit growing	6.0
Arable farming	24.0
Livestock	42.0
Other (incl. mushrooms and plant material)	3.5

Source : EKO-monitor, January 2000, Platform Biologica; Evaluatie Plan van aanpak biologische landbouw 1997 - 1999 (Evaluation of Organic Agriculture Action Plan 1997 - 1999)

#### Some sectors

The figures below relate to the development of organic agriculture broken down into various sectors. Although the same statistics are not available for all sectors, this still provides a rough picture of the growth of organic agriculture.

#### Dairy

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	1997	1998	2001
			(projection)
number of cattle farmers	120	175	340
milk delivery (in millions of litres)	33	50	98
percentage of total	0.3	0.5	1.0

Market share (as a percentage) of organic dairy produce compared with total consumption of fresh dairy products:

	total	yoghurt	(butter) milk	custard
1998 (to end of 3rd quarter) :	0.7	0.9	0.9	0.2
1999 (to end of 3rd quarter) :	1.8	2.6	2.1	0.4

Source: EKO-monitor, January 2000, Platform Biologica

#### Pig farming

At the end of 1999 there were 9,000 organic heavy baconer places and 1,200 sow places (35 farms) in the Netherlands. 23,000 organic pigs were slaughtered in 1999. 4,000 organic pigs were imported over the same period.

Demand for pre-packed meat for supermarkets is rising steadily. Source: EKO-monitor, May 2000, Platform Biologica

#### Egg production

In May 2000 the organic poultry stock consisted of around 90,000 chickens. This is around 0.5% of total egg production. Last year there were 50,000 organic chickens. Source: EKO-monitor, May 2000, Platform Biologica

#### Potatoes, vegetables and fruit (PVF)

According to the CBL the market share of organic potato, vegetable and fruit products in supermarkets is currently around 5% and will rise to 10%. Source: EKO-monitor, January 2000, Platform Biologica

From 1996 to 1999, the area under arable crops grew from 5115 hectares to 6661 hectares, a rise of 30%. This growth is mainly due to the increase in the amount of land devoted to fodder crops (maize, alfalfa and cereals). The area under horticulture rose in this period from 1086 to 1633 hectares, an increase of 50%. Source: CBS

The area of potatoes increased by 55 hectares to 749 hectares between 1996 and 1998. Source: CBS

#### **Apples**

	1999	2000 (projection)
total (May census)	12,084 ha	
organic	183 ha	300 ha

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share (%) of total Dutch 1.5 2.5 acreage

Source: publication 'Biologische groeistuipen'(Organic growing trends), March 2000, Rabobank Stafgroep Duurzame Ontwikkelingen (Rabobank Sustainable Development Group)

#### Mushrooms

	1999	2000 (projection)
organic	30-40 ton / week	130-150 ton/week
share (%) of total Dutch production	0.8	3

Source: publication 'Biologische groeistuipen'(Organic growing trends), March 2000, Rabobank Stafgroep Duurzame Ontwikkelingen (Rabobank Sustainable Development Group)

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