National Assembly for Wales
Environment and Sustainability Committee
ORG 02
Inquiry into Organic Production and Labelling of Organic Products.
Response from Organic Centre Wales

Inquiry into organic production and labelling of organic products by the National Assembly for Wales Environment and Sustainability Committee

Written Evidence from Organic Centre Wales, October 2014

Executive Summary

i) The organic sector in Wales has undergone rapid expansion in recent years from about 120 producers and 5,000 ha in 1999 to a peak of just over 1000 producers and 120,000 ha in 2008. Growth was driven by a number of factors including very rapid growth in the UK organic market, a clear policy direction through the publication of the two Organic Action Plans for Wales and strong organic support schemes.

ii) The period 2008 and 2013 was challenging for organic producers because of a combination of a contracting organic market, difficult weather conditions and uncertainty with respect to future government support payments. During this period the number of organic producers, organic area, total production and total sales declined.

iii) Despite those difficult conditions, the performance of organic farm businesses is comparable to or better than their conventional counterparts for the key sectors of dairy and both upland and lowland beef and sheep.

iv) The UK organic market returned to growth in 2013, up 2.8% overall compared to 2012 and has continued to increase into 2014. Growth has been particularly strong in the dairy sector, where overall sales increased by 4.4%. Organic milk sales grew by 5% and yoghurt sales by 7%. Sales of organic vegetables increased by 3.4%, while the market for meat, fish and poultry grew by 2.2%. Catering and restaurant sales rose by 10%, buoyed by the success of the Soil Association's Food for Life Catering Mark. Two major retailers have indicated growing demand for meat, including beef and lamb.

v) Anecdotal evidence suggests that these trends are also reflective of the situation in Wales.

vi) The new Glastir Organic Scheme has been widely welcomed by organic farmers in Wales and has helped to bolster confidence in the sector. Early indications suggest that uptake will be very strong from farmers currently in the OFS, and will attract a smaller number of producers converting to organic farming.

vii) The organic sector is expected to grow and develop over the next few years and is well placed to take advantage of emerging market opportunities and to deliver on many policy objectives.

1. Introduction

1.1 Organic Centre Wales (OCW), based within IBERS, Aberystwyth University was established in 2000 as a focal point for the dissemination of information on organic food and farming, to producers and other interested parties in Wales. It has since extended its focus to public education, public procurement, policy and strategy development, thus providing support to the whole of the organic community in Wales. It is run by a partnership of three organisations actively involved in organic farming research and knowledge transfer in Wales: ADAS, The Organic Research Centre Elm Farm and Institute of Biological, Environmental and Rural Sciences at Aberystwyth University. OCW funding comes from the Welsh Government (WG) together with funds from the European Union EAFRD which supports the Better Organic Business Links Supply Chain Efficiencies project for the organic sector.

1.2 Our evidence reviews the development of the organic sector in Wales and future prospects with particular reference to the last two years.

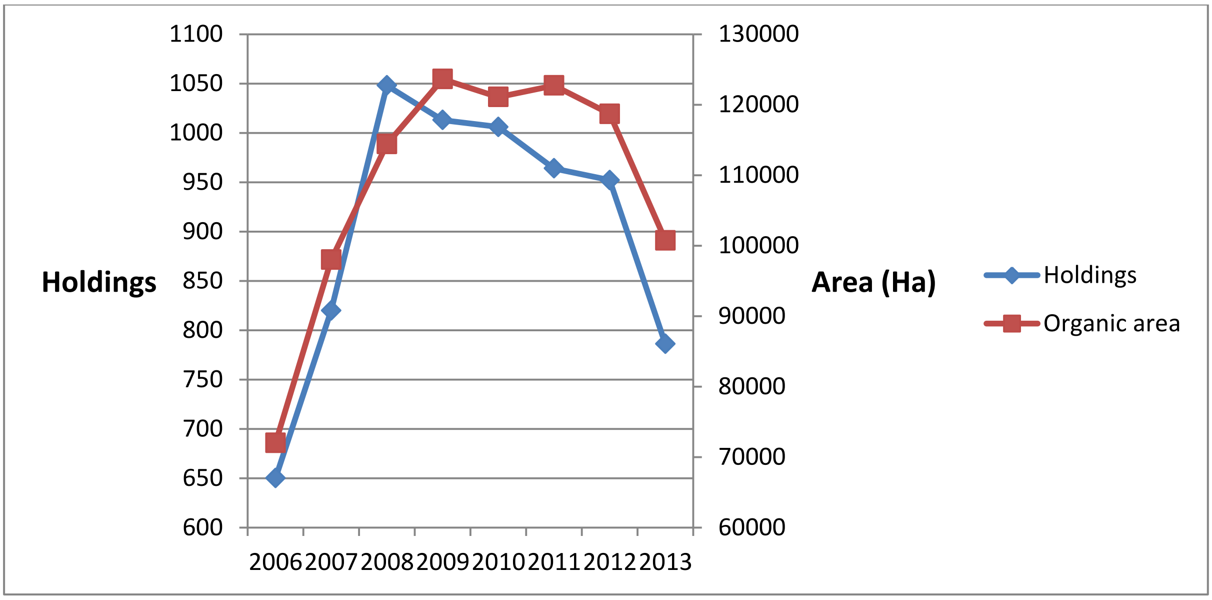
1.3 This document provides a brief summary of a more detailed evidence base and draws heavily on published and unpublished reports which are referenced throughout and listed in the ‘further information’ section at the end.

1.4 Evidence from the Organic Research Centre will build on this information to comment on analyse the implications of the new EU regulation.

2. Overview of organic farming in Wales 1999 - 2014

2.1 The organic sector has grown significantly since 1999 when the first Organic Action Plan was developed, and Organic Centre Wales was established as a focal point for information on organic food and farming.

2.2 In 1999 there were approximately 120 organic holdings with about 5000 Ha under organic management (either fully certified or in conversion). Figure 1 shows these data between 2006 and 2013 (the years for which we have reliable information). At its peak in 2008, the sector was around nine times larger than in 1999.



Source: DEFRA

Figure 1: Organic holdings and land area, 2006 - 2013

2.3 This growth was driven by a number of factors including very rapid growth in the UK organic market (see section 3), a clear policy direction through the publication of strategic action plans, and the development of organic support schemes such as the Organic Farming Scheme for Wales. Other drivers included the increasing cost of conventional inputs such as fertiliser and the low market price of some products in conventional farming, which made organic conversion an attractive option.

2.4 From 2008, growth stagnated and then declined for a number of reasons including:

- A depressed organic market linked to the period of the recession
- Conventional lamb prices rose in 2008 to levels higher than organic had been previously. Therefore maintaining a similar percentage premium would have been challenging even if market conditions had been better.
- A period of political uncertainly as a result in the delay in implementing the Rural Development Plan for Wales 2014–2020
- The ending of many OFS agreements in May 2013. Short term extensions were offered to support farmers to bridge the gap left by the RDP delays, but in the light of the uncertainty about future policy directions, some chose to leave the scheme and withdraw from organic certification
- Difficult weather conditions in 2012 (wet summer) and 2013 (late spring), which impacted adversely on all farmers but organic farmers, who rely more on home produced forage were particularly affected.

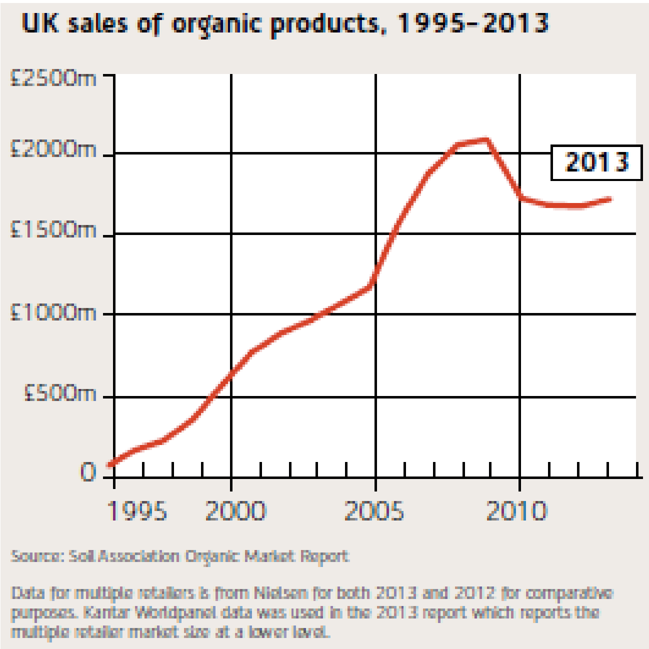
2.5 Since 2013, the situation has improved markedly. The UK organic market is back to growth, a new support scheme - Glastir Organic – will start on 1 January 2015 (with the application window closing on 29th October) and the new RDP potentially offers new opportunities to organic food and farming businesses.

2.6 We estimate the current Welsh organic sector comprises of around 650 producers managing about 90,000 ha. In the light of an improving market situation and the introduction of Glastir Organic from 1 January 2015, we expect these numbers to stabilise and start to grow again.

2.7 However, the uncertainty being generated by the discussions on the new EU regulation could lead to some farmers not registering for Glastir Organic now, for fear of what new regulatory commitments might be imposed on them in the middle of their five-year GO agreements.

3 The UK organic market 2013/ 14

3.1 As indicated in para 2.1 and in Figure 2, the organic market grew rapidly between 1995 and 2008 but declined during the recession.



Source: Soil Association Market report 2014

Figure 2: Sales of organic products 1995 – 2013

3.2 The 2014 Organic Market Report showed that the sales of organic products in the UK grew by 2.8% to £1.79 Billion in 2013, a decisive return to growth after four years of contraction, and against a background of declining non-organic sales.

3.3 Growth has been particularly strong in the dairy sector, where overall sales increased by 4.4%. Organic milk sales grew by 5% and yoghurt sales by 7%. Sales of organic vegetables increased by 3.4%, while the market for meat, fish and poultry grew by 2.2%. Catering and restaurant sales rose by 10%, buoyed by the success of the Soil Association's Food for Life Catering Mark.

3.4 More recent data (Table 1) show that recovery has continued into 2014 and, for some products, accelerated compared to a decline in non-organic sales in many categories

Table 1: Organic sales though UK supermarkets, year to 16 August 2014

	Total Value	52 wks yoy	Non organic
Beef	£46m	-1.9%	+1.6%
Lamb	£14m	-5.2%	-3.5%
Pork	£3m	-8%	-0.8%
S & Bacon	£10m	-9.7%	-2.2%
Poultry	£50m	+7.1%	-0.8%
Fruit	£90m	+0.1%	-1.6%
Veg	£115m	+0.5%	-4.6%
Salads	£83m	-2.1%	-4.9%
Milk	£152m	+6.6%	-1.5%
Yoghurts	£136m	+12.1%	-2.5%
Eggs	£46m	+7.7%	-4%
Cheese	£25m	+1.4%	+0.5%

Source: Nielsen

3.5 Although the figures for beef and lamb are disappointing in the context of the reliance of Welsh agriculture on these two products, we believe there is reason for optimism. Two major retailers, for whom organic sales are important, have indicated growing demand for these products during July 2014; indeed one was expressing concern that they may have difficulty meeting demand.

3.6 For further information download the Soil Association Organic Market report 2014

4. Current market position in Wales

4.1 Whilst the sales figures above are not specific to Wales, in 2012/13 OCW staff visited all key organic supply chain business in Wales, and we have on-going dialogue with many of them. We therefore have anecdotal evidence that these national trends are reflected in Wales.

4.2 Most businesses reported that sales had at least stopped declining. Many reported modest increases and some were enjoying strong growth.

4.3 With respect to meat sector, the dominant issues remain low organic premiums for lamb and low beef prices, although the aforementioned increase in demand from some retailers may begin to feed through. However, independent retailers are seeing sales grow, with some of the larger companies benefiting from strong export markets, particularly in the Far East.

4.4 Dairy processors and cheese makers in particular, reported increased sales, although liquid milk sales at the time were struggling.

4.5 With regard to horticulture, after a period of consolidation between 2009 and 2012 during which a number of smaller businesses either ceased to trade or were bought by larger operations, many businesses, especially small to medium organic wholesalers indicate that business is growing again.

5. Organic production in Wales

5.1 Tables 2 (livestock) and 3 (cropping/ forage) summarise OCW's estimate of the productivity of organic farms in Wales. These figures are based on the results of the annual OCW Welsh organic producer survey. The 2012 data from DEFRA, derived from the returns of annual inspections by the organic control bodies, are provided for comparison.

5.2 The 2013 producer survey attempted to contact all organic farms in Wales and achieved a 76% response rate. The survey data was then extrapolated to arrive at an estimate of livestock and land figures for the sector in Wales.

Table 2: Organic livestock numbers for Wales 2013

	Estimated data based from 2013 producer survey			**DEFRA CB data**
	Organic (Head)	In-conversion (Head)	Total (Head)	2012 total (Head)
Breeding Cattle	11247	54	**11300**	16100
Growing Cattle	18924	32	**19000**	31500
Replacement Beef Heifers	1206	0	**1200**	2400
Breeding Sheep	177436	2633	**180100**	263100
Growing Sheep	26973	0	**27000**	72700
Ewe Lamb Replacements	36814	250	**37100**	67300
Dairy cows	7911	0	**7900**	15800
Dairy heifers	4093	0	**4100**	11000
Laying hens	17010	0	**17000**	39900
Sows	34	0	**30**	100

Source: Welsh Organic Producer Survey 2013, Organic Centre Wales

Table 3: Organic cropping areas for Wales 2013

	Estimated data based from 2013 producer survey			DEFRA CB data
Crop	Organic (ha)	In conversion (Ha)	Total	2012 total (Ha)
Grassland (inc. rough grazing)	85100	2200	**87300**	**111288**
Arable	3500	0	**3500**	5022
Horticulture	70	0	**70**	379
Other	300	0	**300**	2010
Totals	**88970**	**2200**	**91200**	**118699**

Source: Welsh Organic Producer Survey 2013, Organic Centre Wales

5.3 This data shows an overall reduction in organic area, stock numbers and sales. This is mainly explained by a number of producers leaving the organic sector as discussed in para 2.4. We estimate losses to the organic sector to be in the region of 20% of grassland, 18% of arable land, 30% of beef, 25% of sheep and 18% of dairy animals.

5.4 The survey also estimated the number of livestock sold and whether or not they were sold through an organic market (Table 4). Significant numbers of organically reared store cattle and lambs (both store and finished) were sold on to the conventional market, although to a lesser extent than in 2012. This is often due to low premiums on these products providing little incentive to sell them onto the organic market, particularly when to do so requires additional investment of time effort and money (e.g. having to transport them extra distances to a registered organic market/ processing plant, additional paperwork/ record keeping). On the positive side, it does mean that these sectors do have some ‘spare capacity’ which would enable producers to respond to increased demand quickly (subject to them meeting market specifications).

Table 4: Estimated numbers of stock sold from Welsh organic farms 2013

	Organic	**In-conv.**	**Non-organic**	**Total***
Finished cattle (Head)	6400	0	200	6600
Store cattle (Head)	4600	100	2300	7000
Finished lambs (Head)	82000	1000	55000	138000
Store lambs (Head)	8000	1000	17000	26000
Milk (thou' litres)	45000	0	0	45000
Eggs (thou' doz.)	600	0	0	600
Pigs (all classes)	300	0	0	300
**Estimated total calculated with overall survey response rate of 76%*				

Source: Welsh Organic Producer Survey 2013, Organic Centre Wales

5.5 For further information download the Welsh Organic Producer Survey 2013

6. Financial performance of organic farming businesses

6.1 Despite five difficult years, both with respect to market and growing/ farming conditions, data from the Farm Business Survey Wales show that the financial performance of organic business remains comparable with, or better than their conventional counterparts in the key sectors of dairy (Figure 3), Lowland beef and sheep (Figure 4) and Upland Beef and Sheep (Figure 5).

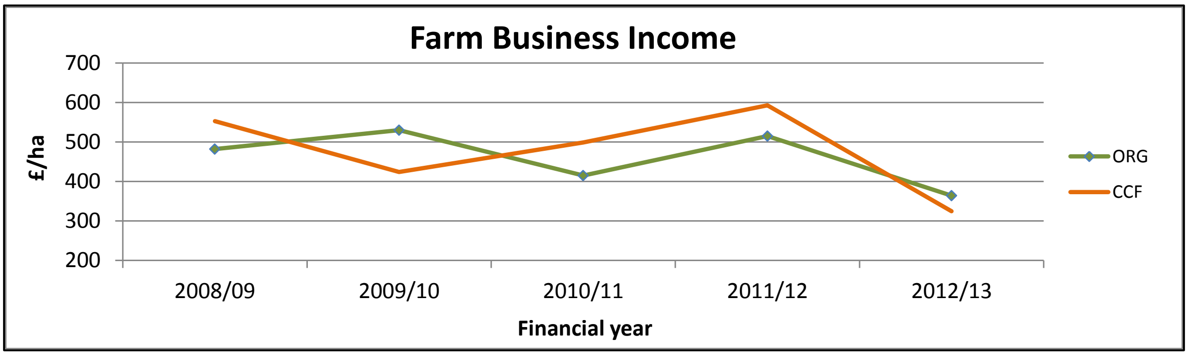


Figure 3: Farm business incomes for organic and conventional dairy farms

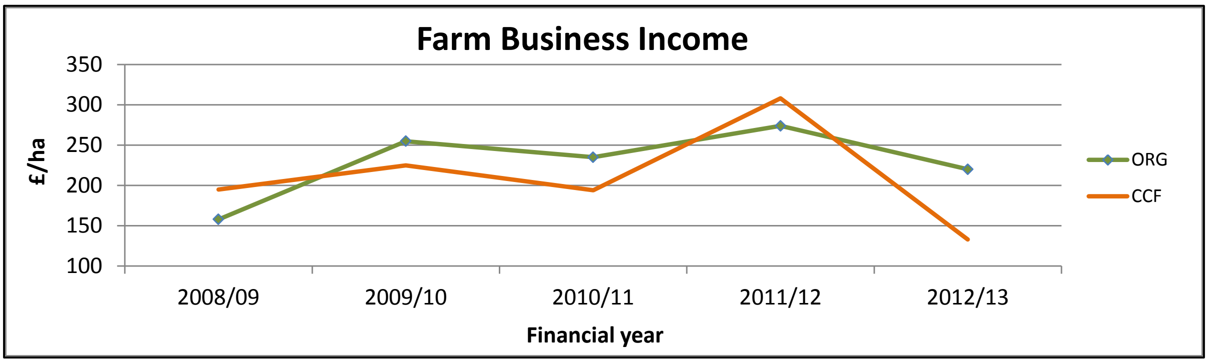


Figure 4: Farm business incomes for organic and conventional lowland beef and sheep farms

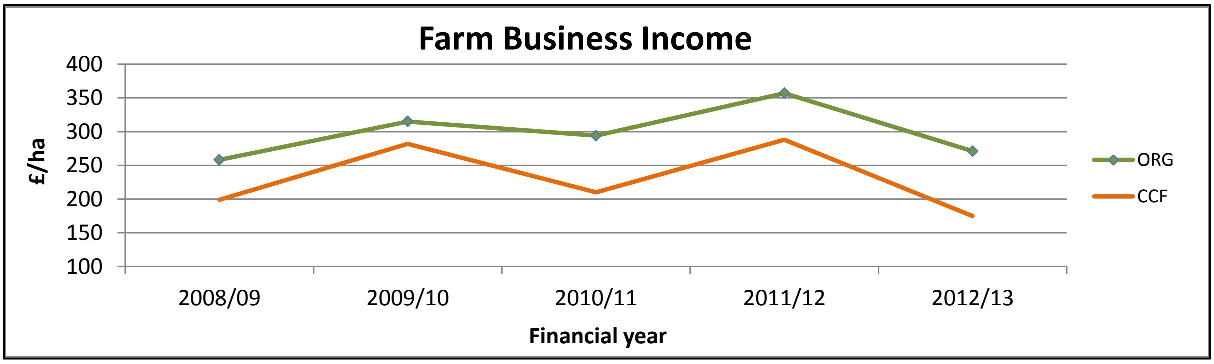


Figure 5: Farm business incomes for organic and conventional upland beef and sheep farms

6.2 For all businesses, these data show that that while organic farms can often achieve similar or superior margins and profitability to conventional systems, the finances for both groups can be challenging, with reliance on support payments for the farm to break-even.

6.3 For dairy, the organic milk price premium has been sustained for a number of years, but cost control is important to maintain relative incomes. Some of the factors influencing performance are the use of high quality legume-rich forages to reduce reliance on expensive externally sourced feeds, as well as minimising excessive fixed costs.

6.4 With respect to beef and sheep, whilst there is a price premium for organic beef, organic lamb price premiums remain minimal for much of the year so cost control is important to maintain relative incomes. Some of the factors influencing performance are the increased role of cattle, with implications for housing and winter feed provision, as well as the emphasis on a closed flock/herd and maximising use of forage as a cheaper feed source.

6.5 For further information download Organic Centre Wales factsheets on the financial performance of organic dairy, lowland beef and sheep and upland beef and sheep.

7. Government support for organic farming 2015 - 2020

7.1 The environmental benefits of organic farming are widely recognised and form the basis of strong public support at Welsh Government, UK and EU level. The submission of the Organic Research Centre to this inquiry will detail the supporting evidence.

7.2 Glastir Organic has been developed and is funded through the Rural Development Plan for Wales 2014–2020 and is one of the first of the schemes to be rolled out under the new RDP. The scheme opened for applications between 1 and 29 October 2014.

7.3 It has been welcomed by organic producers and is widely perceived to be an improvement on previous support schemes including the OFS and the OFCS.

7.4 Key characteristics include enhanced maintenance payments, support for organic conversion, strengthened support for horticulture and options to combine Glastir Organic with other elements of Glastir with no double funding issues.

7.5 As the application window is still open at the time of writing, it is difficult to estimate likely uptake of the scheme. However, OCW has fielded over 200 calls from farmers during the development of the scheme and the application window itself, and has good reason to believe that the vast majority of farmers currently in the OFS will join Glastir Organic. We are aware of 14 producers likely to enter the scheme as new converters. There are also a number of farmers who decertified at the end of their OFS agreements in 2013 and wish to re-join the new scheme.

8 Conclusions

8.1 The organic sector in Wales has undergone rapid expansion since the late 90's and early 2000's when the first Organic Action Plan for Wales was drawn up and Organic Centre Wales was established.

8.2 The period 2008 and 2013 was challenging for organic producers because of a combination of a contracting organic market, difficult weather conditions and uncertainty with respect to the future of government support payments.

8.3 Despite those difficult conditions, the performance of organic farm businesses has been comparable to or better than their conventional counterparts.

8.3 A return to market growth and a new strengthened organic support scheme has bolstered confidence in the sector.

8.4 The organic sector is expected to grow and develop over the next few years and is well placed to take advantage of emerging market opportunities and to deliver to many policy objectives.

9. Further information

Soil Association (2014) 'Soil Association Organic Market report 2014'

Organic Centre Wales (2014) 'Welsh Organic Producer Survey 2013'

Organic Centre Wales (2014) 'Organic dairy production: financial performance'

Organic Centre Wales (2014) 'Organic lowland beef and sheep production: Financial Performance'

Organic Centre Wales (2014) 'Organic upland beef and sheep production: Financial Performance'