

Feasibility
of Conversion Grade Products
Ireland

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EXECUTIVE SUMMARY

This report deals with the market and financial feasibility of converting from conventional to organic food production in Ireland.

Most conversion products are more likely to be sold as conventional and thus no premia attain. However, farmers selling directly can benefit with a premium above conventional and conversion products can attain a premium if sold directly to consumers, or, in the case of cereals, to meat producers.

Most of the intermediaries and workshop participants do not believe there is a market for conversion products, except for fresh direct sales. They also felt efforts to develop the sector should concentrate on organic products and focus on educating consumers and farmers about organics.

Consumers have a positive perception of organic products although high premia are a barrier. They are more positive about conversion products than intermediaries and are also prepared to pay a premium for both conversion and organic products. However, Irish consumers have more positive attitudes to organic and conversion products than market size indicates. Thus their willingness to pay must be exaggerating the likely reality.

Farmers felt the main benefits of organic farming are improved environment, better animal welfare, new market opportunities and better quality food.

Farmers identified a number of technical, financial and marketing barriers to development of the organic sector. These included housing and disease issues, lack of financial incentives, low prices, market uncertainty and lack of formal business arrangements. Low recognition of logos by consumers was identified by intermediaries while both intermediaries and consumers identified the price and availability issues as major barriers.

Financial analyses (with the premia survey farmers indicated they actually attained for conversion and organic products) found conversion and organic Family Farm Incomes (FFI's) are higher than conventional FFI's. Despite these relatively positive financial analyses, farmers are hesitant about converting with only two of the 27 case study farmers having decided to convert and six are still undecided. Thus, the barriers farmers perceive are impacting in such a way that they are unlikely to convert.

Farmers think more incentives are needed if more conversion is to occur including financial support for capital investment (They can benefit from 40% grants towards capital investments at present). A need for secure or guaranteed markets and prices are viewed as probable conditions for entry.

The view that consumer education is needed for market development is widely agreed. More government promotion as well as EU support is suggested. The provision of market information is a key need for the development of the sector. Equally a need to ensure quality standards of organic products compared to conventional emerged as an important issue.

Consumers consider premia too high while farmers perceive the need for higher premia and these two conflicting needs appear difficult to reconcile. Consumers also have difficulties in finding organic products at retail outlets.

Recommendations

Although consumers are more positive about conversion products than intermediaries the market for conversion is limited; thus efforts to develop the sector should be concentrated on the fully organic sector rather than conversion products.

However, farmers with conversion products should where possible use direct sales for conversion products as some premia may be attained.

Ways of allowing producers and the trade to formalise business arrangements need to be put in place. These could include contracts for agreed amounts and prices.

Resources to develop the organic sector should be concentrated in reducing barriers and providing incentives.

Barriers for farmer entry and consumer purchase can be reduced in a number of ways:

Making farmers aware of financial and personal rewards of organic farming

Provision of marketing information so that available supplies can be co-ordinated

Increasing consumer awareness and educating consumers on benefits of organic farming and health benefits for the consumer of eating organic food. In this regard the need to create consumer recognition of symbols is very important

Provision of technical support, setting up discussion groups and visits to demonstration farms

Research into better understanding cost drivers so that farmers can minimize their cost disadvantage.

Incentives for farmers and processors could include:

Incentives to develop the processing sector as supplies increase

Financial support by way of capital grants for producers and processors and direct payments for conversion farmers.

Overcoming Barriers to Conversion to Organic Farming in the European Union through Markets for Conversion Products - Feasibility

1. INTRODUCTION

This report deals with Workpackage 5.1 - Feasibility Assessment and Workpackage 5.2 - Farmer Dissemination and Feedback. In addition findings arising from the workshop held as part of Workpackage 6 - Policy Recommendations and Dissemination are included.

The main objective of Workpackage 5.1 is to apply the results of Workpackages 2, 3 and 4 to assess the impact of marketing conversion-grade products on the feasibility of conversion. The main objective of Workpackage 5.2 is to provide, along with the assessment of feasibility (WP 5.1), an evaluation of the main factors influencing decisions regarding conversion of the case study farms. To assist understanding of this section summaries of results from WP's 1, 2, 3 and 4 are included before outlining the work on WP5.

For Workpackage 5.1 the premia estimates from the farmer survey are used to estimate the impact of conversion-grade products on the budget of farms during conversion. Constraints and the sensitivity of the above to price premia for conversion-grade products are assessed. For Workpackage 5.1 a postal and/or telephone survey of each of the case study farms (n=27) was also completed. Opinions of case study farmers on their decisions regarding conversion to organic production are considered. The reasons for their decision to convert or not, including the main barriers, are outlined, and incentives they perceive necessary to convert identified.

The project concluded with a one-day workshop, held in Tullamore, Co. Westmeath in November 2003 as part of Workpackage 6. The workshop involved policy-makers, representatives of agricultural producers, food manufacturers and food retailers, consumer groups, national support agencies and certification bodies. All participants were sent a summary of the results of the study prior to the workshop. The workshop discussions were tape recorded to help further analysis and the views emerging are taken into account in the final discussion and recommendations.

The report thus takes the following format.

1. Introduction
2. Summary results for workpackages 1, 2, 3 and 4 are presented
3. The premia results for conversion and organic product found in the organic farmer survey and analysis of the impact on farm budgets
4. The views of the case study farmers, taking account of their decision whether to convert or not
5. Outline and summary of the views expressed at the industry workshop
6. Final discussion and recommendations of the study

An executive summary is included at the start of the report.

2. SUMMARY OF WORKPACKAGES 1, 2, 3 AND 4

2.1 Work Package 1 Market review

During this stage of the project a complete review of the Irish market for organic and conversion products was undertaken. This involved a review of production levels for different types of farms with reference to volume, rate of conversion and support mechanisms. Market data where available was also collected. The review involved collecting all published and unpublished data pertaining to organic production. In addition, studies on consumer attitudes to organic products were also reviewed. Finally, the report also detailed discussion with pertinent food and agricultural organization and experts.

Summary Results

- The Irish organic food market is relatively small and is currently estimated to be worth in the region of €22.8-31.7 million. This is a growing market and growth in the region of 25-40 per cent was expected over the coming years. (more recent data suggest growth rates of 10% per annum are more likely). The main expected growth areas over the next three years are beef (45%), vegetables (26%) and lamb (14%).
- The market for in-conversion products is not developed to any great extent in Ireland. While a small number of in-conversion products are branded as in-conversion and sold in the major retail chains, these products tend to be imported. This market is estimated to be worth approximately €126,974.
- It is estimated that there is approximately 32,000 hectares currently being farmed organically by 1,000 registered producers, with 60% of this fully organic and the remainder in-conversion. The majority of organic farms tend to be located in the west and south west of Ireland.
- Increased profitability, less intensive farming, environmentally friendly production and higher quality food were the main reasons given by producers for converting to organic production.
- The main barriers to conversion include difficulties in sourcing supplies, a lack of information, and a lack of development of the supply chain.
- Irish consumers have a positive perception of organic food, but many find the cost expensive and prohibiting. Premia vary between products and this may act as a barrier to consumers in purchasing organic products.
- The lack of development in the supply chain rather than market demand is seen as the greatest limiting factor in developing the organic sector in Ireland. Despite the number of processors in this market and the entry of larger conventional processors, the Irish organic processing sector remains under-developed.

2.2 Workpackage 2: Farm Case Studies

The case studies involved two main aspects of research. Firstly, the in-depth interviews identified the beliefs, attitudes and motivation of farmers that have shown an interest in converting to organic production. Secondly, a financial analysis of economic costs and benefits of conversion was conducted.

Summary Results

- Twenty-seven farms considered conversion to organic production and were broken down into nineteen meat farmers, four dairies and four tillage farmers.
- When asked about what conversion to organic farming involved, farmers mentioned, reduced fertiliser use, reduced veterinary involvement, changing farm practices and less chemicals / residues.
- When farmers were asked what the benefits of organic farming would be to them, they stated that they were highly motivated by income earnings and better prices. The barriers farmers mentioned included how they could control disease and sickness in their animal herd if they converted, lack of market outlets and inadequate marketing of organics and the problems associated with this.
- Farmers sourced information on organic farming in the farming press, accreditation bodies, state bodies as well as other farmers / friends/ family to source relevant information.
- During conversion a decline of four per cent resulted in Family Farm Income on dairy farms. However when fully organic, Family Farm Income increased by 5% over the conventional margin due to a 20% premium in milk price, the organic REPS payment of €242 per ha and lower direct costs of production.
- Family Farm Income on tillage farms declined from €808 in conventional farming to €721 per ha during conversion, a decline of 11%. However, it increased to €1003 per ha for organic production, an increase of 24%. This was due to a twenty-five per cent premium on organic cereal prices combined with organic REPS payments and reduced direct production costs.
- The price premium of 20% assumed for organic meat, together with higher REPS payments and higher extensification payments combined with lower direct costs resulted in higher organic Family Farm Income. Family Farm Income on meat farms increased from €261 to €360 per ha during the conversion phase, an increase of 38%. It increased to €346 per ha for organic production, an increase of 33% over the conventional Family Farm Income.
- Principal Component Analysis (PCA) measured the differences and similarities of farmer attitudes. Overall farmers agreed that converting to organic farming would improve the environment, be beneficial to animal welfare, provide good marketing opportunities and create products of better quality compared to traditional farm products.

2.3. Assessment of Marketing Channels for Conversion-Grade Products

2.3.1 Workpackage 3.1: Organic Farmer Survey

The postal survey was sent to 800 registered organic farmers. A valid response rate of 27% was achieved. Analysis was completed using the statistical package SPSS.

Summary results

- Meat was the most commonly produced organic product, followed by vegetables and fruit respectively. While in conversion, cereals were the most commonly sold as such, followed by fruit and vegetables, respectively. Fodder and meat were most likely to be sold as conventional produce during this period.
- Premia received by farmers during the in-conversion period varied from product to product. Meat products and cereals commanded the highest premia of up to 100 percent. Farmers did not provide details of premia received for in-conversion fruit and fodder. Likewise premia received for organic products varied, with a range of between 5 and 120 percent. Cereals commanded the highest premia of up to 120 percent while some organic vegetables received premia as low as 5 percent.
- Many farmers failed to disclose how they marketed their in conversion grade produce, hence findings can only be interpreted as indicative as against representative. The box scheme/home delivery service was one of the most commonly used channels for the distribution of conversion grade fruit and vegetables, with 41 and 31 percent respectively being sold via these channels. Own farm shop was used by the same number of vegetable farmers as the box scheme, but a smaller quantity was sold in this manner. Conversion grade meat was most commonly sold (as livestock) on to other farms (42% of producers, representing 33% of sales), while milk and eggs were sold in farmer's own shop. Three quarters of cereal producers sold their in conversion produce on to organic grain merchants, while on-farm processed products were sold mainly via the farmers market.
- Where organic products are concerned, the farmers market was the most commonly used channel for the distribution of fruit, vegetables, eggs and on-farm-processed products. Higher proportions of these products were sold through the farmers' market than any other channel.

The majority of cereal producers (61%) sold their produce to grain merchants. The single most important outlet for milk and meat sales was the food processor/slaughterhouse, with 60 and 49 percent of producers respectively using this channel. Sixty percent of all milk produced and 42 percent of meat was sold to this outlet. Own farm shop/direct sales was also an important outlet for organic milk, while other farms (including sale of livestock) was important for meat (28% of producers representing 23% sales).

- Although most farmers did not have any formal business arrangements with their customers, the majority would prefer to have a formal contract for all of their produce.

Government promotion of the organic sector was cited by farmers as the most helpful approach in marketing in-conversion and organic produce. Other important aids to marketing these products were EU support for the organic sector and information regarding various outlets.

Highest premium possible was cited as the most important benefit when considering customer outlets for in-conversion and organic produce. Local outlets

and an outlet that had a guaranteed secure future were the second and third most important factors cited.

In general farmers had a positive perception of organic produce. Flavour and quality of organic produce were perceived to be better than that of conventional produce. Farmers had a positive outlook on market potential for organic produce. However, the majority of farmers believed that organic produce did not look as good as its conventional counterpart. They also felt that there were not enough organic processors in the country.

2.3.2 Workpackage 3.2: Interviews with retailers and intermediaries

Depth interviews were completed with a purposive sample of series of respondents from around the country, including organic food retailers, distributors and marketing organisations. During the interviews respondents were asked about the costs and problems associated with the procurement of organic products, price premia for organic products in different markets and the potential for the marketing of conversion-grade products. There were twenty interviews conducted and all were recorded and transcribed for analysis.

Summary results

- The production and preparation of organic food is regulated by Council Regulation (EEC) No. 2092/91. While incorporating the requirements of this regulation the Irish accreditation bodies apply standards that tend to be higher than those set down by the EU. The majority of manufacturers/processors had some form of quality assurance scheme in operation. Retailers relied on wholesalers and manufacturers to check the authenticity of organic products. However quality checks were carried out on fresh produce including fruit and vegetables. Supermarkets required extra quality specifications in certain cases.

One of the main barriers experienced by intermediaries to implementing quality policies was the lack of communication, education and information along the supply chain. Research carried out by the marketing support organisations showed that price, availability, range and quality of organic supplies were key barriers to the consumption of organic food. Although barriers to consumption, the above inevitably hinder the development of quality policies for organic and conversion grade produce. A major barrier to conversion cited by many manufacturers is the lack of Irish organic supplies. In the majority of cases manufacturers and processors were forced to import because it was very difficult to source Irish supplies. Another barrier cited by respondents was the heavy amount of paperwork involved.

Price premia for organic produce varied according to product category, time of year and stage in the food supply chain. Price premia ranged between ten and two hundred percent. A set price premium for organic produce was not seen as a good idea, rather it is important to differentiate between various products when setting price premia. Poultry and pig meat commanded the highest price premia (up to two hundred percent) according to research carried out by a marketing support organisation. Price premia for meat fluctuated depending on time of year.

According to some retailers price premia for local grown fresh produce were low compared to premia for further processed products. No clear views emerged on price premia for conversion grade products. It was noted however that conversion grade dairy products do not command any extra premium unless sold through direct sales.

- The research found that intermediaries are generally satisfied with the current EU labelling system. However, intermediaries suggested that there is a low level of recognition among consumers of the three logos that currently represent Irish organic produce i.e. Organic Trust, IOFGA and Demeter. Many respondents stated the need for more information to be made available to create awareness of the current symbols among consumers. The majority of intermediaries would welcome a generic national label for the marketing of organic foods at home and abroad. This supports the recommendations of the Organic Development Committee to devise a national label for Irish organic produce.

The vast majority of those interviewed did not believe that a market existed for conversion grade produce, labelled accordingly. Such a marketing approach was viewed to be confusing from a consumer viewpoint. However, it was generally agreed that such products could be marketed as environmentally friendly or chemical free products.

Various attitudes were expressed towards the idea of conversion grade products. Respondents appeared quite familiar with the idea of conversion although most were sceptical on the prospect of marketing such products as ‘conversion-grade.’ There was the common view that there is enough confusion among consumers with the different product types such as free-range, natural foods and organic and that in-conversion would further add to such confusion. A small percentage of intermediaries felt that a market could be developed for conversion grade products. In most cases the market was for fresh produce in-conversion. The most suitable markets for such produce were home sales and farmers markets through direct sales. A small number of intermediaries believed that conversion grade products have a role to play in farm supply and livestock feeds.

- A large number of intermediaries expected growth in the organic market. It was noted that the market for organic foods would expand with growth in consumer awareness. The future market for horticultural produce is expected to be very strong while the market for organic lamb is expected to develop at a slow pace. A number of respondents perceived a link between organic growth and increased supermarket demand. Some intermediaries believed that the future market for organic foods would be determined by economic factors such as income and price. A small number of respondents did not perceive future growth in the organic sector. The knowledge and information deficit, the continued supply of imported raw material and the lack of positive publicity were some of the concerns expressed by respondents about the future of the organic sector.

There is a general consensus that there is a lack of marketing support for conversion grade and organic foods in Ireland. A high percentage of respondents felt that marketing support from the support agencies Food is essential for the development of the organic sector. Thus, for example, the need for Bord Bia to head up a campaign to create consumer awareness was frequently stated. Some

respondents suggested that supermarkets have a role to play in support of the marketing of conversion grade and organic foods.

The majority of respondents felt that a significant gap continues to exist between organic and conventional food products through quality standards. Organic standards have improved in recent years according to many intermediaries. However, it was suggested by many that the organic sector has a lot to offer and has yet to reach similar standards in terms of quality as that of conventional products.

2.3.3 Conclusion

The findings from the organic farmers' survey (OFS) and retail interviews suggest that the organic market has considerable potential. However, the findings also suggest there is very limited potential for conversion grade products. This suggests that for sector growth to occur, existing incentives to encourage farmers to convert need to be maintained and new ways of encouraging entry identified.

2.4 Consumer Opinion

2.4.1 Workpackage 4.1: Consumer Focus Groups

The Irish team has contributed to this workpackage by drafting a recruitment guide and a discussion guide for the focus group

One focus group was conducted in Cork and three were conducted in Dublin. The use of organic food from various organic food categories was used as aids during the focus group discussion. All focus groups were recorded and transcribed. The focus groups were divided into two categories dedicated organic buyers and conditional organic buyers. One group was male and the other three groups were female, with age categories ranging from 25 to 39 and 40 to 65.

As agreed by partners the focus group data was analysed jointly with data for the 4 other partners by the Italian team using the statistical package N-VIVO. Some of the main points emerging relevant to Ireland are summarised below.

Summary results

- Organic products can satisfy consumer needs for quality safety and health. They are perceived as natural or local and as part of a holistic way of life. Secondly but by much fewer consumers they are seen as offering sustainable production, being environmentally friendly with less usage of pesticides and fertilisers
- Conversion was a new term to consumers and they had no perceptions of conversion products. Generally there was a lack of knowledge among consumers about conversion products including uncertainty about their safety. However, they agreed that producers moving to organic agriculture should be supported. Conversion was not seen as a good name whereas fair trade product had a favourable image. A number felt they would buy such products particularly if they were cheaper and organic product was unavailable

- In terms of motives for buying organic, safety, health and care about children were stronger motives than environmental concerns
- Consumers perceived that organic food tasted better than conventional. However, price was the main barrier to purchase and some of the other barriers to purchase were origin, packaging and availability and quality. Consumers want national labels or labels from certified bodies, rather than an EU label, unknown to the majority at the time of the study. From the availability viewpoint they feel there is a lack of information about organic produce and of efficient promotional campaigns. Quality concerns include freshness, nutritional content and visual appeal.

It was concluded conversion-grade products would be an alternative for some consumers who believe that organic products are too expensive and are not available. However, conversion products would bring about an increase of confusion and misinformation in the market.

2.4.2 Workpackage 4.2: Consumer Survey

The aim of the consumer survey was to assess consumer willingness to purchase conversion-grade products and the price premia, if any, they are willing to pay. More specifically, the purpose of the survey was to deliver information on:

- Beliefs and attitudes regarding conversion-grade products
- Barriers to the purchase of conversion-grade products

The price premia that consumers are willing to pay for conversion-grade products. Reading University completed the analysis and some of the main points emerging relevant to Ireland are summarised below.

- For the sample as a whole, 22% of Irish consumers (500) stated that they regularly purchased organic food products, while 46% did so at least sometimes.
- Consumers on average spend about 18 % of their food purchases as organic. This appears an overestimate as the Irish organic food market is valued at about 0.5 % of total food market. Confusion with free range products may partly explain the discrepancy.
- Household purchase food from two sources, mostly from supermarkets but also in the form of direct sales from farmers. There is no obvious relationship between the supermarket share of food purchases and the proportion of food purchases that are organic.
- Consumers were asked to forecast their likely organic purchasing patterns in the next two years. Asked whether they would buy more or less organic products than they currently do, a little over 23% in Ireland indicated that they intended to buy the same volumes as they currently did, while 71% indicated that they intended to buy more. The number that indicated that they intended to buy less is very small.
- Price (mentioned by 52%) and availability (21%) were the most important factors that deterred Irish consumers from buying more organic products. A lack of trust in certification and quality issues were mentioned by 5% and 6%, respectively.

- 71 % of Irish respondents agreed to some extent with the statement that conversion-grade products were no better than conventional, with some 40% in high agreement.
- 94% of Irish respondents indicated that they would be willing to buy conversion-grade products if they were available in food stores.
- The main reasons for their lack of interest in conversion-grade products was a preference for organic products (42%). Quality and use home grown produce were both mentioned by 11%. Other responses were a ‘lack of belief in the concept’ (5%).
- 75% of the 94% who indicated that they would definitely or possibly consider buying conversion-grade products indicated that they would be prepared to pay a price premium for these products.
- Only about 20% of Irish consumers strongly agreed that they would be willing to pay the full organic price for conversion-grade products as a way of encouraging more farmers to convert to organic methods of production.
- Using contingent valuation and based on a conventional price of €1.40/kg and an organic price of €2.50 it was found that Irish consumers were willing to pay €2.39 for conversion carrots. This is almost 96% of the full organic premium. The most commonly cited reason for a negative response to the bid was price (67%) followed by a stated preference for organic (9%).
- Based on a conventional price of €3.10/kg and an organic price of €7.00 it was found that Irish consumers were willing to pay €4.89 for a conversion chicken. This is almost 70% of the full organic premium. For chicken the main reasons for a negative response to the bid were price (46%) followed by a stated preference for organic (20%).

These results suggest consumers in Ireland would be both willing to buy conversion-grade products in preference to conventional and pay a premium.

3. PREMIA AND FARM BUDGETS - FARM CASE STUDY - FINANCIAL FEASIBILITY - WP5

Data on margins were fed back into the assessment of costs of conversion produced by the farm accounting exercise in WP2. This provided estimates of the likely impact on returns to farmers of conversion-grade products. The conversion premia used are shown below in Table 3.1.

Table 3.2: Conversion premia estimates from organic farm survey

Product	Premium %	Total No of observations	Of which number with premium=0
Meat	10	35	23
Cereals	57	8	2
Vegetables	8	12	6
Milk	10		
Fruit	Insufficient observations to justify calculation		
Eggs			
Fodder			
Farm products			

Note: Premia below are derived as follows

1. All those who stated they sold product as conversion product were identified.
2. A) If no premium was given it was assumed no premium was obtained. In these cases premium =0.
B) If premium was given amount stated was taken into account.
3. Both A and B were taken into account in calculation of average premium.
4. Thus premia considered varied from 0 to highest stated. The number who sold conversion products with no premium is also shown.

In case of fruit, eggs, fodder and farm products there were insufficient observations to justify calculation

The Farm Case Study was carried out on a sample of 27 farms in 2001/02. These were farmers who had expressed an interest in converting to organic production but were still in the decision making process. The breakdown of these farms was as follows: meat production 19, dairy 4 and tillage 4. This is broadly in line with organic production in Ireland where meat production accounts for 65% of producers and remainder involved in vegetables, poultry, and tillage and milk production. The Farm Case Study means farms were further subdivided into 3 meat groups on the basis of size (small, medium and large, with respective average sizes of 18, 36 and 82 ha. There was insufficient numbers of dairy and tillage farms to sub-divide into different size categories (Table 3.2).

Table 3.2: Product sector and size of case study farms (nr.)

Size range	Hectares	Arable or Horticulture	Dairy	Meat
Small	<50 ha	0	1	13
Medium	51 - 150 ha	4	3	5
Large	>151 ha	0	0	1
TOTAL		4	4	19

The report "Conversion Farm Case Study Report for Ireland" outlines the financial implications during (i) conversion to organic production process (ii) organic production process and these were compared to the existing financial returns for conventional production.

The financial implications were derived from budgets and estimating by applying conventional and organic price to the reduced level of physical outputs resulting from the changeover to organic production.

More reliable data on price premia obtained by farmers for both in-conversion and organic produce were obtained in the Organic Farm Survey (OFS) carried out under WP3. Data from 217 questionnaires completed by organic producers showed premia received by farmers during the in-conversion and organic periods varied from product to product (Table 3.3).

Table 3.3: Premia received by farmers for in-conversion and organic produce

	In Conversion		Organic	
	Range	Mean	Range	Mean
		%		%
Fruit	-	-	10 to 40	20
Vegetables	0 to 40	8	5 to 50	26
Meat	0 to 100	10	5 to 100	33
Milk	-	10	20 to 25	23
Cereals	15 to 100	57	60 to 120	94

Source: Assessment of Marketing Channels for Conversion Grade Products WP3-Ireland.

The findings and results of Work Package 3 can now be used to generate more accurate financial projections for both the in-conversion and organic production process and the financial feasibility of converting to organic production.

The same methodology was used to assess impact on farm income as in the original Farm Case Study Report i.e. impact on Family Farm Income (FFI). Family Farm Income is defined and calculated on the same basis as for EU Farm Accountancy Data Network System (FADN). The effect of applying the price premia or FFI originating from WP3 are shown in Table 3.4 with previous estimated FFI also shown in brackets.

Table 3.4: Family Farm Income under the three scenarios - Feasibility (previous estimated FFI in brackets)

Farm type	Size	Family Farm Income /ha		
		Conventional	Conversion	Organic
Meat	Small	230	379 (364)	336 (314)
Meat	Medium	297	399 (373)	440 (409)
Meat	Large	257	355 (344)	337 (316)
Meat	All	261	386 (360)	375 (346)
Dairy	All	454	588* (483)	496 (475)
Cereals	All	808	820 (721)	1077 (1003)

Note: Figures in parentheses from WP 2.2. * Based on small number of observations

The data show increased margins in all cases. Family Farm Income for all meat farms in conversion increased by €26/ha due to applying the 10% price premium on in-conversion meat found in WP3, whilst the organic margin increased by €29/ha due to organic premium increasing from 20% used in WP2 to 33% based on WP3 findings. Family Farm Income for conversion and organic dairy farms increased by €105/ha and €21/ha respectively due to increased price premia resulting from WP3. Family Farm Income on cereal farms also increased following the introduction of WP3 findings - with FFI on in-conversion tillage farms increasing by €99/ha and by €74/ha on organic farms (Table 3.5).

Table 3.5: Change in Farm Family Income resulting from WP3 results

	FFI €/ha	
	In-Conversion	Organic
Meat	+26	+29
Dairy	+105	+21
Cereals	+99	+74

The main reason for the increase in the conversion FFI is that in the previous budgets in WP2, no price premium was allowed for during in-conversion. However, as a result of WP3 it is clear as shown in Table 3.3 that producers of in-conversion produce obtained price premia for their produce as shown in Table 3.3.

4. THE FINAL QUESTIONNAIRE TO CASE STUDY FARMERS

4.1 Introduction

This section deals with Workpackage 5.2 - Farmer Dissemination and Feedback. A postal and/or telephone survey of each the twenty-seven case study farms farmers who had completed a financial evaluation exercise was undertaken. The financial exercise was completed to assist them in deciding if they wished to convert to organic farming. They were then sent a follow-up questionnaire (Appendix 1), which was returned by twenty-five farmers. The objective of the questionnaire was to determine if the respondents had converted to organic farming and to ascertain the main factors that influenced their decision and similarly to understand why farmers choose not to convert to organic farming.

Of the farmers that responded, 18 were meat farmers, four were tillage farmers and the remaining three were dairy farmers. The respondents full-time/part-time farmer status was not recorded.

In the analysis respondents were divided into three groups: Group A, Group B and Group C. Group A are those farmers who have converted to organic farming, Group B farmers are still considering converting to organic farming and Group C farmers have decided not to convert to organic farming.

4.1.1 Conversion Rate

Two of the respondents were committed to converting to organic farming and had commenced conversion, a further six farmers are still considering organic farming and the remaining seventeen farmers rejected organic farming as an enterprise.

All of the respondents found the financial evaluation exercise helpful as part of their decision making process with almost one in three farmers describing the exercise very helpful.

4.2 Results

4.2.1 Group A: Farmers who have decided to convert to organic farming

Of the two survey respondents who decided to convert to organic farming, one of is in his second year of conversion, the other is in the early stages of conversion and has not completed his first year of conversion yet. Both farmers propose to produce beef and lamb.

4.2.1.1 Influences on Decision to Convert:

Interestingly both farmers offered somewhat differing reasons for their decision to convert to organic farming. One farmer stated that the organic system was aligned to his core value system in that it was his *“belief that it is the only way we will sustain life on earth”* and practising such a farming method had the personal reward of *“more job satisfaction”*. The other farmer, however, had more pragmatic reasons for

conversion and stated his previous farming practices was broadly similar to the organic methods he was now using in that he had a “*low stocking rate*” and the farm “*did not use much fertiliser*”. However, ethical considerations were also an influencing factor in the decision making process and this farmer concluded his response by stating that he “*wanted to contribute to the environment*”.

4.2.1.2 Main Problems Encountered:

The problems facing the “in-conversion” farmers reflected their respective stages in the conversion process. The farmer in year two of the process had difficulty in “*sourcing organic or in-conversion stock*” while the farmer who was just beginning the process identified the lifestyle changes and learning requirements necessary for the process. He stated that he had “*to forget the wages I had in conventional farming and learn different methods of grassland management and animal husbandry*”.

4.2.1.3 Main Benefits:

Not surprisingly, the benefits that each of the in-conversion farmers derived from the process differed. These differences may be a reflection their differing stages of the conversion process. The farmer in year two thought that the farm was “*less labour intensive due to low stock numbers*” which resulted in “*less time spent at jobs such as spreading fertiliser and dosing (animals)*”. The second farmer stated that he derived “*better job satisfaction*” from this method of farming, however it may be too early in the conversion process to derive many benefits.

Only the farmer in year two of the conversion process completed the remaining questionnaire, as the questions were not applicable to the farmer in the early stages of conversion.

4.2.1.4 In-Conversion Products:

The in-conversion farmer sold lambs, cattle and ewes with only the ewes being sold as “in-conversion”. He received a 10% price premium for the ewes but he also paid a 10% premia when he bought ewes. He thought that formation of a producer group would aid marketing success. To-date the farmer had invested €16,000 to convert sheds. However, the farmer estimated that his farm income has increased by 35%.

The information sources considered most useful in assisting in the conversion process was provided by Teagasc both in terms of direct advice from the extension service and farm walks on existing organic farms.

This farmer argued that he should be allowed to “*feed meals (conventional concentrates) to in-conversion stock if they are not being sold as organic*”.

4.2.2 Group B: Farmers who are still considering converting to organic farming

Six farmers are still considering converting to organic farming, four of whom are meat farmers and two are tillage farmers.

4.2.2.1 Barriers to Conversion:

While there are only six respondents in this cohort, it is interesting to note that each respondent listed different barriers that have influenced them to-date in making a firm decision to convert to organic farming. Reasons for their in-decision vary from the personal, *“delay due to family circumstances”* to general financial concerns.

One farmer was concerned that *“there was not enough price difference between organic and non-organic products”*. This farmer felt that the consumer benefits of eating organic produce were not being communicated, he said he would *“need more information for consumers on benefits of organic food”*. This farmer was also concerned that because of small number of processors there was little competition in the market that could possibly lead to lower prices for the supplier. He felt that there was a *“need for more processors ...to create competition for farmers selling raw material”*.

Another farmer stated that there was a *“a lack of sufficient financial incentives”* while another farmer was influenced by the capital expenditure necessary to convert. Availability of land was also an issue for this farmer as was for a tillage farmer who rented most of his land. The tillage farmer felt he would *“need to change whole (farming) system”* and he felt he was not prepared to do this.

The proposed change in the premia system in 2005 was a disincentive for another farmer and he was *“waiting for decoupling”*.

The regulations attached to compliance was a concern for two farmers with one farmer stating that there were *“too many rules and technical problems”* while another farmer was more specific describing the *“rules regarding housing unjustified”*.

4.2.2.2 Types of Incentives Needed

Respondents generally agreed that improved financial incentives were necessary to encourage them to convert to organic farming but they differed in the type of incentives required. Two farmers listed capital grants for the conversion of farm buildings *“higher grant aid towards conversion of farm buildings”* while another farmer would be encouraged to convert if an *“extra good price were to be offered for the sale of stores by organic farmers who would finish (the cattle)”*. Two farmers felt they could be encouraged if they received *“financial assistance for the first 2-3 years of conversion”* and another thought that an *“improved premium for in-conversion”* would be helpful. The uncertain future in farming was voiced by two farmers with one farmer stating that *“the Fischler agenda will re-focus people to produce what is required”* and another farmer felt that the *“present premia system will change in 2005”* and he was *“waiting for decoupling”*.

One farmer was quite despondent and stated that *“30 years of trying to make small farmers viable was wasted”*. He thought that farmers would only survive *“providing that farming is not a full-time job”* and he felt that *“incentives should be given to organic farmers and premia should match (farmers’) needs during conversion and afterwards”*.

4.2.3 Group C: Farmers who are not Prepared to Convert to Organic Farming

Seventeen respondents decided not to convert to organic farming. Of this group two are tillage farmers, three are dairy farmers and the remaining twelve are meat farmers.

4.2.3.1 Barriers to Conversion:

Those farmers, who chose not to convert to organic farming, fall into two distinct groups, the four farmers who listed their part-time farming status as an influencing factor in not adopting organic farming and the ten farmers who did not use this reason for their decision. While respondents were not asked in the questionnaire about their full-time/part-time status, four volunteered this information as part of their reasoning in rejecting organic farming. The other ten farmers may or may not be part-time farmers.

A further two farmers are leaving farming as an occupation, one of whom is planning to retire and does not intend to change his enterprise while the other farmer considers his farm to be *“too small”* and has *“got a full-time job and will let the land”*. Another farmer feels he is not in a position to convert to organic farming, as the lease on his land will expire in three years.

Both full-time and part-time farmers shared common concerns over the adoption of organic farming. These included greater demands on time (labour), local labour shortages, unnecessary bureaucracy, winter housing, increased financial investment and additional costs, uncertainty over the market, poor price differential, concern over losing present entitlements and the requirement to join REPS

Not surprisingly, those who gave part-time farming as a reason for not converting expressed concern over the extra time commitments they perceived would be demanded from adopting organic farming practices. It was perceived that extra time was needed for, cleaning, completion of paperwork and travel to specialised marts. *“I am a part-time farmer and do not want to spend any more time farming than I do already. With organic farming there is more paperwork sending off samples, cleaning out and extra travel to marts”*. One farmer stated that he had *“started teaching and was not available for full-time farming”* while another stated that he *“lacked manpower, as the day-job is the main income earner”*. The remaining farmer who was part-time expressed doubts about the future of farming and proposes to adopt a *“wait and see what happens after decoupling”* strategy. He feels if *“stock prices improve [I] would be better off to remain conventional. If stock prices fall, I will have to look further at the possibilities”*.

It would appear all farmers agree that organic farming requires higher labour inputs. While the part-time farmers explicitly stated that their off-farm job and resulting lack of time was a crucial barrier influencing their decision not to convert, the other farmers also perceived that extra labour was necessary for an organic enterprise. One full-time farmer believed that organic farming required *“too much labour”* while another farmer judged that *“the amount of extra labour involved was not available around here”*.

There was general concern over the level of bureaucracy, the extra paperwork required, and the additional inspections required for compliance. Farmers thought that there is *“too much paperwork”* and generated *“another layer of bureaucracy”*. Farmers thought there were *“too many rules and technical problems”*. Other farmers thought that there were *“too many inspections”*.

Winter housing in particular appeared to be an issue for some, particularly as they judged these restrictions as unnecessary, *“rules regarding housing which I feel are not justified”*. Those farmers who have modernised their existing animal housing with slatted sheds appear to be particularly disappointed in not being able to use these sheds and these same farmers are reluctant to make the investment to renovate the sheds. One farmer stated that he had *“good sheds already with slatted floors which won’t be suitable”* and another stated that he was *“not prepared to invest in new buildings”* while another says he *“does not want to change again”*.

One farmer thought the *“cost of straw too high”* and *“extra labour for cleaning”* was needed. Another described the cost of straw as *“prohibitive”* estimated that the cost of a bale of straw was €15 and was *“expensive”*. Extra costs such as *“vet costs and IOFGA registration”* and the *“need [for] a lot of investment for slurry and stock”* were deterrents for two farmers. One farmer stated that while he could *“see the logic behind the three year plan if you were using fertilisers and chemicals”*. However, as he only used *“minimal amount [of fertiliser] in farming”* coupled with the fact that *“farming is only a minimal part of the overall income so the cost of conversion rendered the idea less attractive”*.

Four farmers expressed concern over the market for organic produce. The *“uncertainty of the market for organic milk”* was of concern for one dairy farmer, while another farmer was stated that he was reluctant to convert to organic production because there was *“no set price for farm sales”*. Interestingly, while one farmer thought that the *“price difference was not enough”*, another thought it would be *“very difficult to sell at a dearer price”*. Distance from the market was an issue for some farmers, two farmers were concerned that *“there was no local market for lamb or beef”* while a part-time farmer was concerned that his farm *“was 50 miles from the nearest organic mart”*.

The general *“disillusionment with farming”* added to the reasons for not converting to farming for one meat farmer. Another farmer had *“doubt about the future of farming and would prefer to wait and see what happens after decoupling”*.

4.2.3.2 Types of Incentives Needed to Convert

The farmers who put an emphasis on their part time status provided few suggestions on what type of incentives would encourage them to convert to organic farming. Two farmers offered no suggestions while of the other two, one stated he would reconsider if *“stock prices fall”* while the other would be encouraged if *“the rules re housing were changed to allow use of present housing system”*. However, this farmer also added that because farming income represented a minor part of the overall household income the overall cost of conversion was not attractive to him.

The other farmers had little difficulty in nominating incentives, with all the respondents offering at least one opinion. While few farmers noted market conditions as a barrier to conversion, it is interesting to note that eight farmers nominated either price control or some form of controlled market would encourage them to convert. Some farmers simply wanted a *“higher price for product”* while another *“wanted a bigger price difference”*. One farmer wanted a *“guaranteed market place”*, while another farmer who was more specific is asking for *“guaranteed market for young and old stock”*. It was important for one farmer to have *“a guarantee of a market [that would] to pay a premium for organic beef”*. One dairy farmer simply wanted a *“contract for [the] supply of organic milk”*.

Financial incentives in the form of *“investment grants”* or *“better grants for buildings”* was suggested by three farmers.

While restrictive regulations surrounding organic practices was considered a major barrier to conversion only five farmers suggested relaxing the “rules”. Among the suggestions were, *“different housing requirements, less straw and more slats”* and the other farmer wanted *“sheds I have to remain in use and acceptable”*. While another farmer was less specific and simply wanted *“less bureaucracy”* while another wanted *“less restrictions”*.

Another farmer stated he *“would need a guarantee of not losing any present entitlements”*, however he did not state what those entitlements were.

One farmer suggested softer supports in the form of developing a *“local support network”* and *“information and help in farming organically, taking into account local conditions”*.

4.3 Discussion

Reaching conclusions from this small sample is difficult. However, the study does provide valuable insights into the decision making process of the farmers in the survey and flags both genuine and in some cases, unfounded concerns of farmers that need to be addressed by policy makers who are charged with the development of the organic sector.

While only two farmers have committed to organic farming, it is interesting to note that both farmers appear to share a common belief system. They both conclude that organic farming not only provides personal satisfaction but also provides benefits to society and the environment. This suggests that farmers who share these belief/value systems may be pre-disposed to adopting organic farming. While the questionnaire did not include questions on respondent’s value systems, it may be useful to explore such issues in future research to determine if holding these personal values play a role in the determining if a farmer farms organically.

Interestingly, the in-conversion farmers reported that the main benefit from conversion was not financial gain but greater job satisfaction and an increased sense of purpose from their personal contribution to the environment. This “job satisfaction” experience achieved by organic farmers seems to be at odds with a number of respondents who expressed both a sense of disillusionment and despondency in their present conventional farming system. It is regrettable that the

personal and societal benefits of organic farming experienced by the in-conversion farmers cannot be shared with these disaffected conventional farmers. Perhaps, in the promotion of organic farming it may be worth highlighting not only the financial returns but also the personal rewards that can be attained from adopting organic farming practices.

Respondents raised a number of barriers to conversion including concerns on the sustainability of the market (achieving adequate price returns and a continuing demand for organic produce), funding of necessary investment and coping with unnecessary bureaucracy. To understand if farmers concerns are legitimate, it is worth comparing the actual problems that the in-conversion farmers encountered with the perceived barriers that influenced both those farmers who are still considering conversion (non-rejecters) and those who have rejected organic farming (rejecters).

There is a common perception among the non-rejecters and rejecters that an organic farming enterprise demands high labour inputs. This is of particular concern to farmers who perceived their part-time status as a reason for not converting. These are among a growing group in the Irish farming sector. It is interesting to note that this is contrary to the experience of in-conversion farmers who reported using less labour because of lower stock numbers and not having to spread fertiliser or dose animals. Of course this may only be a feature of organic livestock farming and may not being applicable to tillage or dairy farming.

There is a general concern among rejecters that the provision of compliant winter housing for an organic enterprise would require substantial investment. This appears to be a legitimate concern as the year two in-conversion farmer has already invested €16,000 in converting sheds. Calls for financial aid appear to be justified to support this investment requirement.

Concerns over organic price premia may also be legitimate as the in-conversion farmer was achieving a 10% premium on his in-conversion ewes but was not getting any premia on either his lambs or cattle. This farmer has also paid a 10% premium on stock purchases. Interestingly, the in-conversion farmer indicated that his farm income has increased by 35% as a result of his decision to convert. Presumably, this increase in income also included REPS payments and other related payments. It is worth noting that the in-conversion farmer advocated the establishment of a producer group to assist in the marketing of animals. To satisfy the concerns of aspirant organic farmers, assistance in the development of producer groups may be justified.

The farmers who perceived their part-time status as a reason for not converting offered no suggestions on how organic farming could be made attractive to them. It would appear that these farmers have rejected organic farming comprehensively and are not prepared to entertain organic farming as a viable option. These farmers may be the most difficult farmers to engage in discussions on organic farming potential.

There is a common perception among respondents that compliance with organic farming was unnecessarily burdened with bureaucracy. While neither in-conversion farmer noted this as a problem, it cannot be assumed that this was not an issue for them.

The year two in-conversion farmer highlighted that the most useful sources of information were the farm extension service provided by Teagasc and the farm walks. There is little doubt that visits to organic farms and listening to the personal experiences of organic farmers may be the best way of engaging conventional farmers in discussion on the potential opportunities in organic farming. It may be only through these discussions that farmers are made aware of the potential financial and personal rewards of organic farming.

5. IRISH WORKSHOP

The project concluded with a one-day workshop, held in Mullingar, Co. Westmeath in November 2003. The workshop involved policy-makers, representatives of agricultural producers, food manufacturers and food retailers and consumer groups. All participants were sent a summary of the results of the study prior to the workshop. The workshop discussions were tape recorded to help further analysis. In addition, a one-day workshop was held in Brussels to which representatives of the European Commission and other member states as well as representatives of interested organisations were invited. Views expressed are outlined and summarised below.

5.1 Marketing channels and industry and consumer views

The market evidence shows that conversion market is weak and there was strong view that efforts should be concentrated on developing the organic market rather than the in-conversion market. It is therefore, better for in-conversion products to be sold at local market and for the producer to get a premium. There has been a significant growth in farmers markets across Ireland and the development of trust is a very important relationship between the producer and the consumer. Participants felt that sales at local markets and direct to the consumer were based on the fact that initially consumers buy because they knew the farmer was organic and that assures them and they form a relationship built on trust with the producer.

The organic market needs to be developed by ensuring that the full organic products are labeled in a way that is clear and simple in order to increase sales. Conversion will only further confuse the issue. It is therefore important to develop the market and as such concentrate on the full organic market and have a full symbol product before looking at the conversion market. In-conversion will not benefit full organic products, as having a halfway product will be counterproductive and will only confuse the consumer even more.

Trade Margins are very high and many consumers cannot afford to pay a premium. Consumers need to be encouraged to see the quality attributes associated with organic food and not to see food simply as a commodity product. This would help to develop the market potential and develop overseas markets. The development of the export market is important. Based on the survey all farmers said that there was a need for consumer education and government funding for generic issues. There is a need for a general education programme, aimed at consumers, highlighting the benefits of organic products. This would not only involve the use of an Irish symbol but also government sponsorship to promote organic and highlight the health and environmental benefits associated with it. The environmental benefits of organic farming are undeniable and easy for the government to highlight.

5.2 Farmers – financial and attitudinal aspects

The figures presented at the workshop on conversion costs were compiled on the basis on data from 2002. The general agreement was that these figures were reasonable but that there may be a need to re-do the figures to take specific farms or farm types into account. The figures were seen to be similar to those found by Nick Lampkin in his work on organic conversion. In addition, the cost savings accrued in-conversion offset the increased production costs and reduced yield. Overhead costs factored in

the need for increased labour and increased management time requirements. They also included the need for additional buildings, fences, and machinery. In the case of tillage some farmers were going to change their mix and may introduce some stock onto their farms. The horticulture side of organic farming was not addressed due to sample constraints and this needs further research. While no premia was used in the calculation for in-conversion produce, those in-conversion made more money per hectare than conventional farmers. As the increased in-conversion figures included the extra compensation payment to assist the farmer during the conversion phase it would appear that this payment is achieving its purpose. While the view was that Rural Environmental Protection Scheme was supportive and assisted farmers during the conversion phase the consensus was that farmers needed a lot more assistance in the administration required to secure grants. In the past farmers have not availed of grant aid, as the system was very bureaucratic. In addition, grant aid to the sector needs to include a wider variety of equipment. Participants also believed that grant aid of 40% is required for horticultural products if any in roads are to be made into organic horticulture. It is also important that REPS be made available to larger farmers especially large cereal producers if they are to be attracted to organic farming. Support is also needed to assist in the finishing of animals.

5.3 Support services/barriers

In discussing barriers to conversion sources of information were seen to be poor, with little interest among farmers in the use of the Internet and discussion groups. It was believed that farmers did not perceive the benefits of a discussion group but this is something that may improve with the increased use of technology. Research was seen as a very important issue. Farmers needed to know how they could protect their crops and fertilise them.

To-date some farmers have been encouraged to go organic purely for financial reasons. This resulted in a number of farmers entering REPS for the five years based on financial reasons and then they realised that there were a number of inspection issues and so they stopped farming organically. It is therefore important that farmers are encouraged to convert for a number of reasons and that finance is only one reason.

Farmers markets and consumer co-ops need to be developed. Local markets need to be developed and building locally integrated food markets that bring the producer and consumer into a meaningful relationship. The Fischler reforms offered a number of options to farmers. In addition, de-coupling may lead to an increase in the number of organic producers, at the very least more farmers may consider organic farming as an option. It will be important to make conventional farmers more aware of the environmental issues.

5.4 Summary

Generally participants at the Irish workshop agreed that efforts to develop the sector should concentrate on the organic sector rather than the market for conversion products and programs should focus on educating consumers and farmers about organics in particular. Education should focus on benefits of organic farming and health benefits for the consumer of eating organic food. As the conversion market is very small the best approach to market these products is direct sales and farmers markets. The market may grow as a result of growth in the organic market. However, as resources are limited they should be used to develop organic symbol.

Participants considered the estimates on profitability reasonable. In the case of horticulture there may be a need to look at data on a case by case basis. In regard to Fischer proposals perhaps more support maybe forthcoming for the organic sector. Some farmers may be in conversion for the wrong reasons and are likely to exit again once REPS payments cease. Generally participants felt the whole idea of farming environmentally was a problem as it costs more. Premia expected were seen as reasonable and in some cases expected premia were less than farmers were getting, in particular for cereals.

To encourage entrants financial support for in conversion farmers should be increased. This is particularly the case for horticultural producers.

6. DISCUSSION AND RECOMMENDATIONS

6.1 Market

The organic market in Ireland is relatively small and the conversion consumer market almost non-existent. Although in recent years a number of farmers have gone into conversion, almost no new farmers have decided to convert in the last two years. Livestock and meat production are the most important organic areas for Ireland with vegetables important for direct sales.

Most conversion products are more likely to be sold as conventional and thus no premia attains. Intermediaries (including manufacturers, wholesalers and distributors), and retailers indicate that conversion products only get a premium if sold directly. Thus, although there are few examples of products labelled as conversion, farmers selling directly can benefit with a premium above conventional and there is a general agreement that conversion products can attain a premium if sold directly to consumers or in the case of cereals to meat producers.

Most of those interviewed do not believe there is a market for conversion products except for fresh direct sales. They also think labelling products as conversion will cause confusion. On the other hand most intermediaries consider the market for organic product has growth potential and will continue to grow. The participants at the workshop also felt there is no long-term market for conversion products and efforts to develop the sector should concentrate on organic products and focus on educating consumers and farmers about organics.

6.2 Consumers

Consumers have a positive perception of organic products although premia are a barrier. They are more positive about conversion products than intermediaries. Although they have no knowledge of the concept they could be interested if products were available and information supplied. Both focus group consumers and survey participants suggested they would prefer organic but some are willing to buy conversion rather than conventional products. They are also prepared to pay a premium for both conversion and organic products. For conversion products premia are only slightly below those they are prepared to pay for organic products. They buy for reasons of health and safety and for their children because they believe its good for the environment and taste reasons.

It also appears that while Irish consumers have positive attitudes to organic and conversion products this is not reflected in sales of organic products. Thus their willingness to pay for both types of product must be exaggerating the likely reality.

6.3 Benefits

In terms of benefits of organic farming one of the farmers converting was attracted by the possibility of higher prices and income. In general case study farmers felt the main benefits of organic farming are improved environment, better animal welfare, new market opportunities and better quality food.

It appears that sharing a common belief system in terms of environmental benefits and job satisfaction can be important for farmers who convert.

6.4 Barriers

The workpackages identified a number of barriers to development of the organic sector. Previous studies found sourcing supplies a difficulty for intermediaries. Lack of information among the stakeholders, lack of development of the supply chain and an underdeveloped processing sector were among the difficulties identified as facing the sector.

The case study farmers identified technical issues such as animal sickness, lack of market outlets and inadequate marketing while the farmers surveyed identified a lack of formal business arrangements. When revisited, the case study farmers, undecided about converting, cited prices, lack of financial incentives, lack of processing facilities and land availability as issues. Those who had decided not to convert identified many of these barriers. These included greater demands on time (labour), local labour shortages, unnecessary bureaucracy, winter housing, increased financial investment and additional costs, uncertainty over the market, poor price differential, concern over losing present entitlements and the requirement to join REPS.

The intermediaries identified many barriers. These included a lack of communication along the supply chain, high prices, poor availability of products (including lack of Irish supplies), quality issues and low recognition of logos by consumers. They also have a perception of lack of support by agencies and supermarkets.

Consumers in the focus groups felt prices were too high and felt that there were issues about origin, packaging and quality the need to be addressed. The price and availability issues emerged as major barriers for the consumers who participated in the consumer survey.

6.5 Financial

The financial analysis shows higher than conventional family farm incomes (FFI's) for both the conversion and fully organic phases. Workshop participants felt these estimates were reasonable.

The second stage analysis, based on the premium survey farmers indicated they actually attained for conversion and organic products, suggested actual FFI's may be even higher. In the original estimates no premium was allowed for in conversion products. Despite these relatively positive financial analyses, farmers are hesitant

about converting with only two of the 27 farmers having decided to convert and six still undecided.

6.6 Incentives and needs

Farmers generally think more incentives are needed if more conversion is to occur. The main incentives identified by those undecided about conversing included more financial support either for capital investment or as direct payment and they also saw a need for more price support. It should be noted that farmers could benefit from 40% grants towards capital investments. Those not converting saw a need for less regulation particularly in regard to housing rules. They pinpoint market conditions with a need for guaranteed markets and prices as probable conditions for entry. The case studies also highlighted the view that consumer education is needed for market development. Technical information is also essential and farm walks and can contribute to increasing farmer interest and knowledge.

The farmer survey suggested more government promotion as well as EU support and provision of market information are key needs for the development of the sector. Equally a need to ensure quality standards of organic products compared to conventional emerged as an important issue.

Consumers consider premia too high and also have difficulties in finding organic products at retail outlets. On the other hand farmers perceive the need for higher premia and these two conflicting needs appear difficult to reconcile.

The EU has recently published an action plan for the organic sector. An action plan for the Irish organic sector is also being implemented. The recommendations below should be consistent with these action plans. The EU action plan puts emphasis on facilitating market development and more focus on informing the consumer. On the other hand it is recognised that farmers should be supported by direct payments and price support for delivering public good benefits in terms of improved environment and rural development.

Thus, the main proposals in the EU Action Plan concentrate on:

- an information-led development of the organic food market, by increasing consumer awareness, providing more information and promotion to consumers and operators, stimulating the use of the EU logo, including on imported products, providing more transparency on different standards, and improving the availability of production, supply and demand statistics as policy and marketing tools;
- making public support for organic farming more effective by encouraging Member States to make a more coherent and greater use of the different rural development measures, for example, by means of the national action plans, and by strengthening research on organic farming.

The Irish plan envisages that appropriate investment in marketing and promotion will be put in place to facilitate development of the sector.

Provision of technical and market information and quality assurance are among the areas that both plans seek to progress. Market premia are expected to play a role in development for organic but not for conversion products.

6.7 Recommendations

Although consumers are more positive about conversion products than intermediaries the market for conversion is limited; thus efforts to develop the sector should be concentrated on the fully organic sector rather than conversion products.

However, farmers with conversion products should where possible use direct sales for conversion products as some premia may be attained.

Ways of allowing producers and the trade to formalise business arrangements need to be put in place. These could include contracts for agreed amounts and prices.

Resources to develop the organic sector should be concentrated in reducing barriers and providing incentives.

Barriers for farmer entry and consumer purchase can be reduced in a number of ways:

Making farmers aware of financial and personal rewards of organic farming

Provision of marketing information so that available supplies can be co-ordinated

Increasing consumer awareness and educating consumers on benefits of organic farming and health benefits for the consumer of eating organic food. In this regard the need to create consumer recognition of symbols is very important

Provision of technical support, setting up discussion groups and visits to demonstration farms

Research into better understanding cost drivers so that farmers can minimise their cost disadvantage.

Incentives for farmers and processors could include:

Incentives to develop the processing sector as supplies increase

Financial support by way of capital grants for producers and processors and direct payments for conversion farmers.

This report is available at www.agriculture.gov.ie under the organic farming and food heading.