



Organic - part of the solution!

## EXTERNALITIES: the true price of a product

Costs and values associated with economic activities that are not captured by market prices are known as externalities. For many agricultural products, consumer prices do not represent whether a product has damaged, preserved or enhanced natural capital in its production process. The bill for environmentally damaging production methods is generally not paid by the producer or consumer but instead left to the taxpayer. Organic products represent greater value-added and fewer hidden costs. Their prices have internalised more externalities: they give a fuller account of the product history.

### Buying organic means investing in natural and social capital

Some external costs internalised by the organic sector are easily quantifiable, in particular those associated with the maintenance of natural capital. Organic agricultural practice incorporates pro-active investment in environmental health, and can thereby achieve **significant savings in public costs**. A few examples:

- **Preserving water resources.** Organic farming does not pollute water with agrichemicals and thereby does not contribute to the **millions that are now spent on cleanup activities**; the UK alone has to spend an estimated £120 million per year mitigating pesticide damage to water resources.
- **Preserving soil productivity.** Organic soil management is designed to **secure long-term productivity** by building up robust soil structures that also prevent erosion. The logic of this approach is evident when we look at the **drastic effect of soil degradation on agricultural output**: the UNEP's Global Environmental Outlook report found that worldwide, 680 million hectares of pasture and rangelands have been degraded by overgrazing and 550 million hectares of cultivated land have been degraded by agricultural mismanagement.
- **Preserving biodiversity and ecosystem functionality.** Biodiversity maintenance is at the heart of organic farming practice, and **high biodiversity comes with economic benefits**. For example, the commercial value of bees' pollination is estimated at €228 million per year in the UK and €10 billion in the US. Organic practices provide good conditions for bees by avoiding agrichemicals and increasing plant biodiversity.

Other aspects of the value-added provided in organic farming are not as easily assigned a quantified market value. They include a diverse landscape; rich wildlife populations; and resilience of natural and farm ecosystems. These benefits are important for our quality of life, for a viable tourism industry, and, where climate and ecosystem functions are concerned, for no less than our survival.

### EU policies should promote more accurate pricing systems

Environmental and social externalities in agriculture have to be internalised, so that price can become a fairer indicator of cost and value associated with agricultural products. As a first step, a system for quantifying and attributing the societal and environmental costs currently externalised needs to be established. On this basis, CAP support needs to recognise that sustainable farming systems such as organic reduce costs that would otherwise accrue to society. Payment for environmental measures and enhanced cross-compliance are two channels which could be used for this purpose. At the same time, agricultural producers should be made liable for environmental and social costs they cause. A carbon tax will be an important step in this direction. Also, the EU should introduce a harmonised system of taxation on agrichemicals and monocultures.