

DOES ADOPTION OF ORGANIC AGRICULTURE INCREASE FARMERS' PROFITS?

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Abstract:

Agricultural policies in several countries are experiencing a strong trend to become more ecologically-friendly. In response to the increasing demand for sustainable agriculture, a myriad of technical and institutional alternatives have been developed, such as adoption of organic farming (OF). The economic literature has relatively largely investigated the factors determining OF adoption and its environmental performance. Nevertheless, few scholars have focused on the economic gains from OF adoption. Moreover, these studies do not give clear-cut conclusions. While some authors argue that organic production allows relatively high price premiums, others argue that OF is not more profitable than conventional farming. The aim of this paper is to fill this gap by investigating the impact of organic farming on private economic gains of farmers.

Using an original database on French farmers located in the *Provence* region, we investigate the impact of organic farming on farmers' profits. The originality of our contribution is at least fourfold: first, we consider an exhaustive panel data-set (around 25,000 observations per year between 1999 and 2007) on farm structure. Second, unlike previous literature who mainly uses data on a specific sector, that is, olive production, horticulture, etc., this paper considers data in several sectors. Third, in order to avoid selection bias, we use a counterfactual analysis with matching. Fourth, as far as we know, this paper is the first one using such methodology conducted on French agriculture.

We show that organic farming is likely to constitute a win-win strategy. However, this overall positive effect is mainly explained by the wine sector effect. Indeed, the relation between OF adoption and profits is negative for the other sectors. This unexpected result can be explained by the fact that OF adoption might be driven by non-market values that can compensate for the income decrease. Moreover, as stressed by several scholars (see Koesling et al., 2008), when choosing a farming method, a farmer's economic objective is more to obtain 'reliable and stable income' rather than 'maximize profit'.