CBI MARKET SURVEY

THE NATURAL COLOURS, FLAVOURS AND THICKENERS MARKET IN FINLAND

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Introduction
This CBI market survey gives exporters in developing countries information on some main developments in the natural colours, flavours and thickeners market in Finland. The information is complementary to the information provided in the CBI market survey 'The natural colours, flavours and thickeners market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1. Market description: industrial demand and production

Industrial demand
Industrial demand for natural colours, flavours and thickeners is small. Finland has a small food industry worth € 9.6 billion, accounting for 1.1% of the total turnover of the EU food industry in 2007. There are no production facilities of large manufacturers of colours, thickeners and flavours in Finland.

Table 1.1 presents the sizes of the sectors within the Finnish food industry. Compared to the EU average, Finland has relatively large sectors of meat and dairy products. When looking at sub-sector level, the largest sectors in Finland are meat and poultry products (24% of total food industry turnover), dairy and cheese (21%) and bread and fresh pastry (10%; falls under the category of other good products). This indicates demand for natural colours, flavours and thickeners used in these products are relatively large in Finland.

Table 1.1 Manufacturing of food products, beverages and tobacco in Finland

Food and drink industry sectors	Share in EU food industry, 2006	Share in Finnish food industry, 2006	Average annual change in Finnish food industry, 2003-2007
Total	**100%**	**100%**	****0.1%**
Meat	*19.1%	26.3%	1.8%
Dairy	12.7%	21.8%	2.3%
Beverages	14.1%	11.9%	3.3%
Animal feeds	*5.5%	5.5%	3.7%
Fruit and vegetables	5.6%	5.3%	1.2%
Tobacco	7.1%	n.a.	n.a.
Oils and fats	4.4%	2.7%	**3.1%
Grain mill products and starch	3.5%	*2.0%	-6.1%
Fish	2.4%	1.5%	7.2%
Other food products	24.7%	23.3%	2.4%

Source: Eurostat (2009)
* Data from 2005
** Growth rate between 2003 and 2006

Interesting subsectors that show a high growth rate in the period 2003-2007 was ice cream (241% annually on average) and mineral water and soft drinks (71%), although these sectors are still rather small. This implies a growing demand for natural flavours like citrus oil, which are widely used in the soft drink industry, as well as flavours used in the ice cream industry.

Furthermore, Finland has a relatively large confectionery industry. Consequently, demand for liquorice is relatively high in Finland. Moreover, the leading confectionery producer Oy Panda expanded its liquorice production in 2006, leading to more demand for the raw material. Another leading liquorice confectionery producer is Leaf (http://www.leaf.eu).

The Finnish food market is highly self-sufficient, as domestic production covers 81% of Finnish food consumption. Moreover, 85% of the raw materials used in the food production comes from domestic sources. Local berries from the forests, for example, are very popular, while in many other EU countries, consumers prefer more exotic fruits.

Although industrial demand is small, Finnish consumers have a general preference for products from natural raw materials. This was confirmed by the fact that azo colours were prohibited in Finland before the country’s entrance to the EU, which still accepts the use of azo colours in food. The preference for natural ingredients has a positive effect on consumer demand in Finland for natural colours, flavours and thickeners. Another factor contributing to the relatively broad use of natural colours, flavours and thickeners is the large consumption of processed foods, which often include additives. Moreover, consumption of processed foods is increasing.

An interesting fact about the Finnish food industry is that Finland is a global leader in the development of functional foods. Functional foods have health-promoting or disease-preventing properties, besides their basic function. In response to stricter EU regulation regarding functional food, Finnish food companies submitted some 600 health claims to the Finnish Food Safety Authority in 2007, one of the highest numbers in the EU. Raisio (http://www.raisiogroup.com), one of the largest food companies in Finland, also states that it strives to make the functional food market its core target market. Other industry sources have stated that the health trend, which is driving developments in much of the EU, is focused on functional ingredients in Finland. This differs from other Nordic markets, such as Denmark, where the health trend is more about organic products.

Demand for many natural colours, flavours and thickeners slowed down during the first year of the economic crisis, as traders and users reduced their stocks and working capital, and shortened their contracts. Since the second half of 2009, however, trade has picked up again, as inventories ran low and had to be replenished.

According to the Research Institute of Organic Agriculture, the Finnish retail market for organic food products amounted to € 62 million in 2007. The market share of organic products in the total Finnish food market was only 0.9%, while it was for example 6.0% in Denmark. Compared to 2006, sales of organic food products increased by 9.0%, which is a relatively low growth rate compared to other EU countries.

Trends in industrial demand

- Finnish consumers are becoming more health-aware, thus stimulating the demand for natural food ingredients, such as natural colours, flavours and thickeners.
- Increasing demand for organic food and vegetarian choices also stimulates demand for natural colours, flavours and thickeners.
- The Finnish market for functional foods is growing, faster than the conventional food market.
- Another trend is the increased interest of Finnish consumers in ethnic foods.

For more information on trends, please also refer to the CBI survey covering the EU market for natural colours, flavours and thickeners.

Production

The climatic conditions in Finland limit production of many raw materials for natural colours, flavours and thickeners. According to the information available, Finland does not produce any menthol, liquorice, locust bean (gum), guar, gum Arabic, agar, pectins, carrageenan or manioc starch.

However, Finland is an important producer of carboxymethylcellulose (CMC), due to the presence of the company Noviant, which accounts for around 30% of the world production of CMC. In 2001, Noviant was acquired by the US company Huber (http://www.huber.com). The CMC product cellulose gum is used by the food industry in ice cream, yoghurt and bakery products.

Furthermore, Finland has a considerable production of starch. Finland has a potato starch quota of 53,178 tonnes annually or 2.7% of the total EU quota. However, according to the Finnish starch industry, the quota is still not sufficient to meet domestic demand. One of the manufacturers of (potato) starch is Finnamyl Ltd (http://www.finnamyl.fi). As of 2000, this company has also been producing organically-certified potato starch. Production amounts to around 23,000 tonnes per year.

Laihian Mallas Ltd (http://www.laihianmallas.fi) is a leading manufacturer of special malts and malt extracts. In general, malts provide a light to brown colour and/or a caramel or cocoa taste. They are used in bakery, candy bars, breakfast pastries, cereals, herbal teas, sauces, soups, and spice blends.

Trends in production

- Food manufacturers are changing from synthetic to natural ingredients.

For more information on trends, please also refer to the CBI survey covering the EU market for natural colours, flavours and thickeners.

Opportunities and threats

\+ Health, organic and natural food trends in Finland offer opportunities for exporters of (organic) natural colours, flavours and thickeners, which are perceived to be healthier.
\- Finland has a small food industry, and consequently has little demand for natural food colours, flavours and thickeners. Moreover, Finland relies heavily on its domestic industry for food production and has a rather low demand for food ingredients from other countries.
\+ However, sectors of opportunity could be confectionery (liquorice), meat, dairy, ice cream and soft drinks. Exporters could find opportunities in colours, flavours and thickeners used in these industries.
\+ The potato starch quota limits production of potato starch in Finland, which provides opportunities for suppliers of manioc starch.
\- The production of CMC forms a threat to DC suppliers of similar ingredients which are used in the ice cream, yoghurt and bakery industries.

Exporters should take into account that the same trend can be an opportunity for one exporter and a threat to another. Please, review these opportunities and threats according to your own situation. Chapter 7 of the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' presents an example of an analysis of whether a trend/development is an opportunity or a threat.

Useful sources

- Finfood - http://www.ruokatieto.fi/tasteoffinland - Information on the Finnish kitchen
- Organic Food Finland - http://www.organic-finland.com – Information on organic food in Finland

2. Trade channels for market entry

Finland is a relatively small market. There are hardly any producers or processors of natural colours, flavours and thickeners and supplies mostly go through other countries or through distributors. The multinational flavour manufacturers and traders sell their products on the Finnish market through local sales offices or use local agents and distributors. The number of agents and distributors active in the trade in natural colours, flavours and thickeners in the Finnish market is around 7-10. Interesting players are:

- Celego - http://www.celego.fi - distributes colours, flavours and thickeners. It is, amongst others, a distributor of the products from Sensient Food Colors Europe (http://www.sensient-fce.com). Sensient Technologies is the second largest producer of colours in the world and sixth largest flavour company.
- Bang & Bonsomer - http://www.bangbonsomer.com - distributes chemicals (synthetic ingredients).
- Norfoods - http://www.norfoods.se - Sweden-based supplier of natural colours, flavours and thickeners; has an office in Finland.
- Labnet - http://www.labnet.fi - distributes natural colours, flavours and thickeners.
- Univar Food Ingredients - http://www.univareurope.com – distributor of colours, flavours and thickeners.

Multinationals with sales offices or agents in Finland are: Givaudan, Danisco, and Cargill. Companies which serve the Finnish market through sales offices in other countries include Chr. Hansen and Döhler.

Some Internet sources providing more information on trade partners in Finland (importers, agents and processing industries) are the following:

- The Food World: http://www.thefoodworld.com
- IngrIDnet: http://www.ingridnet.com (for ingredient suppliers)
- Europages: http://www.europages.com (EU business directory)

Note that many food manufacturers prefer to deal with local agents or distributors instead of dealing directly with suppliers in developing countries. They need advice about product applications and related EU legislation. It is generally difficult for an exporter in a developing country to provide this service, as the distance to the market is too big. If this is the case, it would be best to work through agents or distributors.

3. Trade: imports and exports

Imports

Finland is a small-sized importer of natural colours, flavours and thickeners, accounting for only 0.7% of total EU imports in 2008. Between 2004 and 2008, Finnish imports of natural colours, flavours and thickeners increased by 2.2% annually on average in terms of value. In 2008, total imports amounted to € 14 million or 3.5 thousand tonnes. The increase in imports could follow from the health trend, which stimulated demand.

Developing countries accounted for a share of 11% in Finnish imports of natural colours, flavours and thickeners, which was much lower than the EU average of 37%. Finland does not have significant colour, flavour or thickener industries and consequently imports very little raw materials for these products. As developing countries mainly supply raw materials, Finland imports little from developing countries. However, imports from DCs increased by 20% annually on average during the review period, which resulted in an increased share in imports.

The leading developing country supplier was Sudan, accounting for 5.7% of total Finnish imports. Sudan supplied gum Arabic to Finland. Finnish imports from Sudan increased by 28% annually on average between 2004 and 2008. Other developing country suppliers were Indonesia (1.7%), which emerged during the review period, India (1.6%) and China (0.9%). Imports from India declined by 5.4% annually during the review period, while imports from China increased by 88% annually on average.

Finnish imports of natural colours, flavours and thickeners consisted of gum and seaweed thickeners (61%), menthol, liquorice and locust beans (20%), colours (11%), essential oils (7.7%) and manioc starch (1.4%). The most important groups of thickeners are pectins (40%) and guar (24%). Imports of pectins decreased by 2.2% annually between 2004 and 2008, while imports of guar increased by 1.2% annually on average in this period. According to industry sources, guar gum currently has a poor image in Finland, due to quality problems with Indian guar gum. This affects guar gum imports. Liquorice is the most important flavour in imports, accounting for 96% of Finnish flavour imports. Between 2004 and 2008, imports of liquorice increased by 6.2% annually on average.

Exports

Finland is one of the smallest EU exporters of natural colours, flavours and thickeners, accounting for a negligible share in total EU exports. Between 2004 and 2008, Finnish exports decreased by 11% annually on average, amounting to € 0.4 million / 37 tonnes in the latter year. The main countries of destination are Russia, Estonia and The Netherlands.

The composition of exports provides more details on the production of natural colours, flavours and thickeners in Finland. The exports consisted for 62% of essential oils and for 29% of gum and seaweed thickeners. Further analysis of the exports of essential oils shows that Finland mainly exported a remaining group of essential oils, which includes essential oils of berries and other local products.

Opportunities and threats

+ The share of developing countries in Finnish imports increased during the review period, indicating there are increasing opportunities for DC suppliers.
- Finland is a small importer of natural colours, flavours and thickeners. Moreover, developing countries account for only a small share in these imports, compared to other EU countries.
+ An interesting product group for developing country exporters could be liquorice, since Finland has a relatively large demand for this product. While accounting for only 0.7% of the total EU imports of natural colours, flavours and thickeners, Finland accounted for 3.9% of the total EU imports of liquorice. Moreover, imports of this product group increased during the review period.
- The food industry is mainly supplied through other EU countries, thus opportunities for developing countries to supply raw materials for natural colours, flavours and thickeners directly to Finland are limited.

Exporters should take into account that the same trend can be an opportunity for one exporter and a threat to another. Please, review these opportunities and threats according to your own situation. Chapter 7 of the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' presents an example of an analysis of whether a trend/development is an opportunity or a threat.

Useful sources

- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu/
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu
- Understanding Eeurostat: Quick guide to easy comext ➔ http://epp.eurostat.ec.europa.eu/newxtweb/assets/User_guide_Easy_Comext_20090513.pdf

4. Price developments

Please refer to the CBI market survey covering the EU market for prices of natural colours, flavours and thickeners. The price indications given there are the best reference point for prices in Finland. If any price differences exist, they are the result of differences in transport costs and individual buyer preferences for product origin, quality, packaging, etc. These differences are considerable, both between countries and within countries. Nonetheless, global market prices as mentioned in the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' are the basis for price calculations in every country including Finland.

For more detailed information on prices, refer to the survey covering the EU or to:
- The Public Ledger (http://www.public-ledger.com): Prices for selected colours, flavours and thickeners
- MCX India (http://www.mcxindia.com): Prices for menthol and guar
- Quarterly Review of Food Hydrocolloids (http://www.hydrocolloid.com): Prices for hydrocolloids

5. Market access requirements

As a manufacturer in a developing country preparing to access Finland, you should be aware of the market access requirements of your trading partners and the Finnish government.
For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select 'food ingredients' and 'Finland' in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packaging/packit.htm

Information on tariffs and quota can be found at http://exporthelp.europa.eu

6. Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. For more information on doing business in Finland, visit the following websites:

Trade associations
- The Finnish Food and Drink Industries' Federation (FFDIF) - http://www.etl.fi. Part of this federation is the Starch Manufacturers' Association.
- Health Product Wholesalers' and Manufacturers' Association in Finland - http://www.luontaistuotetukut.net
- Finnish Food Safety Authority - http://www.evira.fi/portal/en

Trade fairs
- PacTec-FoodTec - http://www.finnexpo.fi/pactec/?code_language=en – the next fair will be held in September 2010.

Trade press
- Aikakaus - http://www.aikakaus.fi - this website provides information on the media in Finland, such as interesting newspapers and magazines.
- Maku - http://www.maku.fi - Food ingredients and preparation.
- Pirkka –http://www.pirkka.fi - Food innovation and Health.
- Trade magazine: Kehittyvä Kauppa - http://www.k-kauppiasliitto.fi/index.phtml?s=26

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