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EU MARKET SURVEY 2003

ORGANIC FOOD PRODUCTS

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CENTRE FOR THE PROMOTION OF IMPORTS FROM DEVELOPING COUNTRIES

CBI: YOUR EUROPEAN PARTNER FOR THE EUROPEAN MARKET

The CBI (Centre for the Promotion of Imports from developing countries) is an agency of the Dutch Ministry of Foreign Affairs. The CBI was established in 1971. The CBI's mission is to contribute to the economic development of developing countries by strengthening the competitiveness of companies from these countries on the EU market. The CBI considers social values and compliance with the most relevant environmental requirements to be an integral part of its policy and activities.

CBI offers various programmes and services to its target groups:

Market information
A wide variety of tools to keep exporters and Business Support Organisations (BSOs) in developing countries in step with the very latest development on the EU market.
These include market surveys and strategic marketing guides for more than 40 product groups, manuals on export planning and other topics, fashion and interior forecasts and the CBI News Bulletin, a bi-monthly magazine. This information can also be obtained from our website at www.cbi.nl For all information on non-tariff trade barriers in the EU CBI has a special database, AccessGuide, at www.cbi.nl/accessguide
And finally CBI's Business Centre is offering free office facilities, including telephones, computers, internet and copiers for eligible exporters and BSOs. Market reports, international trade magazines, cd-roms and much more can be consulted in the information section of the business centre.

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The company matching programme links well-versed suppliers in developing countries to reliable importing companies in the EU and vice versa. The online matching database contains profiles of hundreds of CBI-audited and assisted exporters in developing countries that are ready to enter into various forms of business relationships with companies in the EU, as well as many EU companies interested in importing or other forms of partnerships such as subcontracting or private labelling.

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EDPs are designed to assist entrepreneurs in developing countries in entering and succeeding on the EU market and/or in consolidating or expanding their existing market share. Selected participants receive individual support over a number of years by means of on site consultancy, training schemes, trade fair participation, business-to-business activities and general export market entry support. Key elements usually include technical assistance in fields such as product adaptation, improving production, implementing regulations and standards and export marketing and management assistance.

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Institutional support for capacity building for selected business support organisations.
The programme is tailored to the specific needs of participating BSOs and can include train-the-trainer assistance, market information systems support and staff training. CBI's role is advisory and facilitative.

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REPORT SUMMARY

This EU market survey profiles the EU market for organic food products. The emphasis of the survey lies on those products (coffee, tea, cocoa, grains, pulses, seeds, vegetable oils and fats, edible nuts, spices and herbs, dried fruits, fruit juices and concentrates, sugars and honey), which are of importance to developing country suppliers. More specifically, the product groups include most of those covered in CBI's Export Development Programme Organic Food Ingredients for Industrial Use. The major national markets within the EU for those products are highlighted.

The first part of the survey provides statistical market information on consumption, production, trade and information on the trade structure in the European Union. Moreover, Chapter 9 focuses on requirements for accessing customers, in order to formulate marketing and product strategies. Part B assists the exporter in analysing the target markets, sales channels and potential customers in order to formulate marketing and product strategies. Finally, in the appendices we give HS codes, detailed trade statistics, useful addresses and interesting Internet sites. This EU market survey serves as a basis for further market research: after you have read the survey, it is important to further research your target markets, sales channels and potential customers.

Organic products
Products labelled as organic are those certified as having been produced through clearly defined organic production methods. In other words, "organic" is a claim related to the production process rather than to the product itself. Hence, the product characteristics for organic products are not essentially different from the characteristics of conventional products.

Standards for organic food production and labelling in the European Union are laid down in Council Regulation (EEC) 2092/91. This regulation and subsequent amendments establish the main principles for organic production at farm level and the rules that must be followed for the processing, sale and import of organic products from third (non-EU) countries.

Consumption and trends
Growth rates are high in most EU countries, but have been slowing down in the last one or two years.
The sales of organic products still comprise a rather small share of the total food market. Germany is the largest market with estimated retail sales of more than € 3 billion in 2002, corresponding to a market share of 2.3 percent. Growth rates are highest in the United Kingdom, where retail value is set to break the € 2 billion barrier. In general, more growth is expected from emerging markets, such as Belgium, Greece, Ireland and Spain.

Consumers have become increasingly concerned about the quality of the food they are eating, especially following several food scares that have occurred in Europe. These scares prompted an increasing number of consumers to look for healthy products. The perceived health benefit of consuming organic food is reflected by strong growth in demand for certain product categories such as baby food and dairy products. Many consumers of organic food also belief that organic food tastes better. Some consumers are buying organic food based on their concern for animal welfare, impacts of intensive farming and genetically modified crops and other environmental and social issues. There is a trend for organic and fair trade to go together. Another trend is biodegradable packaging. There is also likely to be increased pressure on consumer choice from alternative "ethical" products. In general, developments on the organic food markets are characterised by a wider assortment and a better availability. Moreover, there will be more demand for organic convenience products.

EU production and trade
Organic land area in the EU expanded rapidly in the 1990s at the expense of conventional agricultural area. In 2003 22.6 percent of the total agricultural area was under organic agricultural production. Italy has most of the EU's organic farming area (27%). Domestic production of organic products in the EU is expected to rise within the next few years, but it is unlikely to meet demand for most products.

The UK market is the most import-dependent of all markets in Europe. In 2002, imports accounted for an estimated 65 percent of the organic retail value.
A substantial number of specialised importers is located in The Netherlands as the port of Rotterdam serves as a significant entry point for Europe. Many Dutch importers distribute a substantial part of their imports further down to the European hinterland. The port of Hamburg in Germany is also an important entry point.

Leading developing country suppliers of organic products are Argentina, Mexico, Brazil, Dominican Republic, China, India, Sri Lanka, and Turkey. Imports from Africa are smaller, but include supplies from leading African producers such as Tunisia, Morocco, South Africa, Egypt, Uganda and Zambia.

Imported products include fresh fruit and vegetables, coffee, tea and cocoa, grains, pulses and seeds, vegetable oils and fats, edible nuts, spices and herbs, dried fruits, fruit juices and concentrates, sugars and honey.

If an importer in the EU wants to import organic products from a non-EU country not recognised under Article 11 of Council Regulation 2092/91/EEC, he needs to apply for an individual permit for import. This application must be accompanied by documentation on the equivalence of standards and control measures.

Equivalency between production measures in the EU and the exporting country is documented through the use of certification bodies which have standards at least equivalent to those of the EU or a certification programme that ensures certification against standards equivalent to those of the EU. To ensure equivalency in the effectiveness of inspection and certification measures, certification bodies need to be accredited according to EN45011 or ISO65.

Distribution channels

The importance of individual marketing channels differs from country to country. Whereas in Germany direct marketing and the marketing via specialised shops dominated for a long time, the organic sector in Switzerland, Scandinavia and the United Kingdom concentrated on supermarkets at a very early stage.

In countries where organic foods are mainly sold via supermarkets, growth and market shares are higher than in those where specialised shops are the main marketing channels. Consumer premiums are lower in countries with a high involvement of general food retailers compared to countries with a high involvement of specialised retailers. One contributing factor is lower distribution costs; it is cheaper to transport larger volumes of organic products, together with conventional products, to bigger distribution centres and on to major retailers than it is to transport small volumes to small specialist organic food shops.

Since the organic consumer products in developing countries often cannot meet the specific and strenuous market demand, the most important distribution channel for exporters of organic products in developing countries is importers specialised in organic products. These importers serve more or less as intermediaries between the end user and the producer.

Opportunities

Domestic production of organic products in the EU is expected to rise within the next few years, but it is unlikely to meet demand for most products. Opportunities for producers and exporters in developing countries lie in the following areas:

- Products for which there is no or insufficient supply coming from EU member countries.
- Products that cannot be grown in European countries because of climate; counter-seasonal fresh organic temperate zone produce and non-temperate zone products. Producers geographically located near the EU (e.g. Turkey and Northern African countries such as Egypt and Morocco) are at an advantage.

Other more specific opportunities and threats are treated throughout this market survey.

Export marketing guidelines

Part B of this EU market survey aims at assisting potential exporters in the decision-making process whether or not to export to the EU. Market opportunities, suitable sales channels and other relevant external factors, and strong or weak internal resources and export marketing capabilities have to be matched to make this decision. Besides, Part B provides sector-specific knowledge and sources to enable the exporter to further investigate which marketing tools can be used to build up a successful business relationship. Co-operation with an European business partner has many benefits and helps to break down barriers faced by exporters in developing countries when targeting the EU.

INTRODUCTION

This CBI survey consists of two parts: EU Market Information and EU Market Access Requirements (Part A), and Export Marketing Guidelines (Part B).

Market Survey

Part A
EU Market Information and Market Access Requirements

EU Market Information *(Chapter 1-8)*	**EU Market Access Requirements** *(Chapter 9)*
Product characteristics Introduction to the EU market Consumption and production Imports and exports Trade structure Prices	Quality and grading standards Environmental, social and health & safety issues Packaging, marking and labelling Tariffs and quotas

Part B
Export Marketing Guidelines: Analysis and Strategy

External Analysis (market audit) *(Chapter10)*	**Internal Analysis (company audit)** *(Chapter 11)*
Opportunities & Threats	Strengths & Weaknesses

Decision Making
(Chapter 12)

SWOT and situation analysis:
Target markets and segments
Positioning and improving competitiveness
Suitable trade channels and business partners
Critical conditions and success factors (others than mentioned)
Strategic options & objectives

Export Marketing
(Chapter 13)

Matching products and product range
Building up a trade relationship
Drawing up an offer
Handling the contract
Sales promotion

Chapters 1 to 8 of Part A profile the EU market for Organic Food Products. The emphasis of the survey lies on those products, which are of importance to developing country suppliers. The major national markets within the EU for those products are highlighted. The survey includes contact details of trade associations and other relevant organisations. Furthermore, statistical market information on consumption, production and trade, and information on trade structure and opportunities for exporters is provided.

Chapter 9 of Part A subsequently describes the requirements, which have to be fulfilled in order to get market access for the product sector concerned. It is furthermore of vital importance that exporters comply with the requirements of the EU market in terms of product quality, packaging, labelling and social, health & safety and environmental standards.

After having read Part A, it is important for an exporter to analyse target markets, sales channels and potential customers in order to formulate export marketing and product strategies. Part B therefore aims to assist (potential) exporters from developing countries in their export-decision making process.

After having assessed the external (Chapter 10) and internal environment (Chapter 11), the (potential) exporter should be able to determine whether there are interesting export markets for his company.
In fact, by matching external opportunities and internal capabilities, the exporter should be able to identify suitable target countries, market segments and target product(s) within these countries, and possible trade channels to export the selected products (Chapter 12).

The subjects and outcomes of the different paragraphs of Chapter 13 can be used as input for the Market Entry Strategy and Export Marketing Plan.

The survey is interesting for both starting exporters as well as well as exporters already engaged in exporting (to the EU market). Part B is especially interesting for more experienced exporters starting to export to the EU and exporters looking for new EU markets, sales channels or customers. Starting exporters are advised to read this publication together with the CBI's Export planner, a guide that shows systematically how to set up export activities.

Part A
EU market information

1 PRODUCT CHARACTERISTICS

1.1 Product groups

Products labelled as organic are those certified as having been produced through clearly defined organic production methods. In other words, "organic" is a claim related to the production process rather than to the product itself. Hence, the product characteristics for organic products are not essentially different from the characteristics of conventional products. As organic products are produced according to certain principles (see EU Strategic Marketing Guide for details) consumers' attitude towards these products is that they are safe, healthy, tasting better and environment friendly.

Standards for organic food production and labelling in the European Union are laid down in Council Regulation (EEC) 2092/91. This regulation and subsequent amendments establish the main principles for organic production at farm level and the rules that must be followed for the processing, sale and import of organic products from third (non-EU) countries.

Organic food products encompass an enormous diversity of product groups. In this survey we will focus on a limited number of product groups that are interesting for exporters in developing countries. More specifically, the product groups include most of those covered in CBI's Export Development Programme Organic Food Ingredients for industrial use.

The main product groups discussed in this survey include:

- Coffee, tea and cocoa
- Grains, pulses and seeds
- Vegetable oils and fats
- Edible nuts
- Spices and herbs
- Dried fruits
- Fruit juices and concentrates
- Sugars
- Honey

Exporters interested in other processed fruits and vegetables than those mentioned above (such as frozen fruit and vegetables and dried vegetables) are referred to CBI's EU Market Survey 'Preserved fruit and vegetables for industrial use'. Processed fruits and vegetables are used in products like ready meals or jams. The markets for organic end-products are still under-developed and offer opportunities for growth.

Exporters interested in fresh fruit and vegetables are referred to the CBI's EU market survey "Fresh Fruit and Vegetables 2003) and the FAO study "World Markets for Organic Fruit and Vegetables - Opportunities for Developing Countries in the Production and Export of Organic Horticultural Products" which can be downloaded at **www.fao.org/docrep/004/y1669e/y1669e00.htm#Contents**. The study shows that sales of organic fruit and vegetables in a number of EU countries have grown fast at annual rates ranging between 20 and 30 percent during the last years of the 1990s, but this growth has slowed down more recently.

Characteristics of products groups discussed in this survey are briefly described below.

Coffee, tea and cocoa

Coffee

Economically the most important coffee varieties are Coffea arabica (Arabica) and Coffea canephora (Robusta). In comparision with Arabica, 30 percent higher yields are gained from Robusta, but the price is around 30 percent lower.

Raw coffee is made by processing the ripe, red coffee cherries of the bush-like coffee tree. Blending and roasting the raw coffee is mostly carried out in the importing countries. Processing includes dry or wet processing, dehulling, grading, cleaning, sorting and filling.

	Arabica	**Robusta**
Share of world production	ca. 70%	ca. 30%
Site requirements	High sites: fluctuations in annual rainfall and temperature	Low sites: steady high temperatures and rainfall
Main growing areas	Latin America, East Africa	Asia, Africa
Caffeine content	0.6-1.5%	2.0-2.7%
Diseases/pests	Susceptible to the berry borer and coffee rust	Resistant against the berry borer and coffee rust

Source: FiBL, 2002

Tea
The tea varieties that are cultivated are all hybrids of the original tea plant *Thea sinensis* and *Thea assamica*. Manufacturing of tea includes sorting, withering, rolling, fermentation, drying and sifting.

Tea is traded as black tea, green tea, Oolong tea and instant teas.
- Black tea: Fully fermented tea.
- Green tea: Certain enzymes in the fresh leaves are inactivated through heat treatment. Only then is the product rolled and dried. Fermentation is surpressed by deactivating these enzymes and the leaves retain their green colour.
- Oolong tea: The fermentation process is halted at an earlier stage (partly fermented tea).
- Instant teas: Instant teas are made either from low-quality teas (fermented and dried), or from non-dried tea in a special process directly after fermentation. Instant teas lose much of their aroma during the extraction and subsequent freeze-drying processes.

Organic cultivation of tea requires varieties with broad-scope resistances, and the ability to thrive under the shade of trees.

Cocoa
Three large groups of cocoa can be distinguished, each with several varieties and strains:
- The Forastero group, native to the Amazon region, is by far the most widely grown (ca. 80% of the total area under cocoa). Its taste, however, is relatively weak.
- With its strong, fine flavour the Criollo group produces the highest cocoa quality. However, its yield is low and it is therefore rarely cultivated.
- The Trinitario is a hybrid of Forastero and Criollo types. Its share of world production is roughly 10 to 15 percent.

Grains, pulses and seed
Grains
USA and Canada dominate the market for organic commodity grain products (e.g. wheat, maize and barley) and opportunities for exporters in developing countries to export these grains are limited. Commodity grains except for rice are not discussed in this market survey. Moreover, the specialty grain quinoa will be discussed.

A number of sub-groups, based on the kind of processing, of rice can be identified: paddy rice, husked rice, semi-milled rice, wholly-milled rice, and broken rice. The eco systems within which rice is grown are characterised by elevation, rainfall pattern, depth of flooding and drainage, and by the adaptation of rice to these agro ecological factors. Rice is grown in the following eco systems:
- Rainfed lowland rice eco system
- Upland rice eco system
- Flood-prone rice eco system
- Irrigated rice eco system

Pulses
Within this product group, the focus will be speciality beans including kidney beans, chickpeas and broad & horse beans. Although the trade in the mentioned groups is small, they are important for exporters from developing countries.

Seeds
The seeds discussed in this survey include sunflower and sesame seeds:
- Two types of sunflower are grown, those for oilseed production and non-oilseed for the home and birdfood markets. Seeds of the non-oilseed hybrids generally are larger than those of the oilseed types and have a lower oil percentage and test weight. The increasing production of sunflower seeds and the development of end-use markets have been supported by several factors, including the plant's agronomic characteristics (especially those of improved hybrids), its adaptability as an alternative crop (to flax or cotton for example), the increasing world demand for polyunsaturated oils and the wide acceptability of sunflower seed oil and meal.
- Sesame is a member of the Pedaliaceae family. It is native to tropical Asian countries. The oils extracted from pressed seeds are used as cooking oil, as a salad oil and in making margarine. The seeds are sprinkled on top of breads and other baked goods. There are different types and qualities of sesame seeds. The value of sesame seeds depends on their purity, expressed as a percentage, and oil content, which should exceed 50 percent. The highest-quality sesame seeds are found in Central America.

Vegetable oils and fats
Oil seeds are mainly processed, by crushing or solvent extraction, into vegetable oil. Groundnuts form the major exception. The kernels are mainly used in snacks and confectionery, used as bird feed and for processing into peanut butter, while the remainder is used for processing into arachide oil. Vegetable oils and fats constitute about 80% of total edible oils and fats production. They form major constituents of the food chain. Performance and use of vegetable oils is determined by the fatty-acid composition.

In this survey we focus on soya oil, palm oil and coconut oil which are important for exporters in developing countries.

Edible nuts
There are two segments for edible nuts: groundnuts (peanuts) and luxury (tree) nuts. The most important

types of the latter for the European trade are almonds, hazelnuts, pistachios, coconuts, cashew nuts, walnuts and Brazil nuts.

Spices and herbs
The main international trade for spices and herbs is dried and in crude form, cleaned but not further processed. It is estimated that about 85 percent of the trade is in this form. The remainder is for crushed or ground spices, essential oils or oleoresins.

For a more detailed description of each major spice/herb and its use, please refer to CBI's EU Market Survey "Spices and Herbs".

Dried fruit
Fruit, consisting of more than 80 percent of water, is dried in order to stop the multiplication of micro-organisms. Dried fruit can be divided into vine fruit and tree fruit and other fruit. The best-known vine fruit species are raisins, sultanas and currants, whereas apples, apricots, bananas, dates, figs, mangoes, papayas, peaches, pears and prunes are important tree fruits. Next to vine and tree fruit, there are others such as pineapple. This fruit is made up of berry-like fruitlets or "eyes" fused together on a central axis or core and is borne on a stem or stalk. Dried fruit is mainly used as a snack or a constituent for breakfast cereals, muesli, bakery products, dairy products and desserts.

Fruit juices and concentrates
In the country of origin, water is extracted from the fruit juice, in order to maintain the quality, to prolong shelf life, and diminish the transport and storage costs. The residue is fruit juice concentrate. In the country of destination, the juice is restored to its original properties by adding water up to the original juice strength. The best known and most-consumed fruit juice is orange juice. Apple, pineapple and grapefruit are other fruit species which are the basis for popular fruit juices.
Besides the beverage industry, the dairy, jam and confectionery industry take up considerable volumes of fruit juices and concentrates.

Sugars
Sugars are important ingredients in food supply. They can for example be used for sweetness to some foods; serve as preservatives in jams and jellies; use for increasing the boiling point or reducing the freezing point of food; add crispness to foods that have limited moisture content etc. While all fruits and vegetables produce sugar, the sugar cane and sugar beet plants contain the most accessible stores of sucrose.

The sugar that results from sugar cane and sugar beet processing is the same sucrose that is found naturally in the original plants and in fruits and vegetables. The raw sugar colour is removed by physical separation of plant materials and by carbon filters which absorb coloured impurities. Since the pure sugar crystals are naturally colourless, no bleaching or whitening is necessary.

A by-product of the cane and beet sugar refining process is molasses, which has a multitude of uses. Molasses is important as a raw material for the production of antibiotics, bakers yeast, rum and alcohol, as well as an animal feed supplement.

Honey
Honey is the sweet substance produced by the honey bee from the nectar of blossoms or secretions of or on living parts of plants, and which the bees collect, transform and combine with specific substances of their own and store and leave to mature in honey combs. Around 300 varieties of flower are suitable as floral sources for honey, and naturally produced honey reflects the local conditions and climate in a country. Five common types of honey are described below with the main producers in brackets:

- Acacia → A honey with a light taste and refined scent. It tends not to crystallise (China).
- Orange blossom → A honey with a refreshing bittersweet flavour (Mexico, U.S.A).
- Buckwheat → A honey with a strong smell and a taste similar to brown sugar (China).
- Lotus → A honey with a mellow, sweet flavour and a faint smell of flowers (China).
- Clover → The most widely produced and well-known type of honey (Canada, the U.S.A., Argentina, and Australia).

1.2 Customs/statistical product classification

On January 1, 1988, a unified coding system was introduced to harmonise the trading classification systems used world-wide. This system is called the Harmonised Commodity Description System (HS) and was developed by the World Customs Organisation (WCO). The system covers about 5,000 commodity groups, each identified by a six digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification.
The system is used by more than 177 countries and economies as a basis for their Customs tariffs and for the collection of international trade statistics. After the six-digit code, countries are free to use further subheadings. The trade data of Eurostat uses an 8-digit system. Most codes, however, end with two zeros, i.e. effectively only using 6 digits. In some countries, even 10 digits are sometimes used.

Appendix 1 gives the four-to-eight-digit list of the main HS codes for the food products included in this survey.

Please note that organic trade is not recorded separately in the HS system and is not registered by Customs. In Chapter 5, we will see that consequently data on organic trade are scarce.

2 INTRODUCTION TO THE EU MARKET

The European Union (EU) is the current name for the former European Community. Since 1 January 1995 the EU has consisted of 15 member states. Ten new countries will join the European Union in 2004. Negotiations are in progress with a number of other candidate member states.

In 2002, the size of the EU population totalled 379.4 million; the average GDP per capita amounted to approximately € 21,023 in 2002.

Overview 15 EU countries, 2002

Population	**379.4 million**
Area	**31,443,000 km²**
Density	**83 people per km²**
Languages	**15 (excl. dialects)**
GDP/capita	**€ 21,023**
Currencies	**€, UK£, DKr., SKr.**
Exchange	**€ 1 = US$ 0.99**

Source: The World Factbook 2002

Population and GDP of selected EU-countries, 2002

Countries	Population (million)	Age 15-64 (% of total)	GDP (€ billion)
Germany	83.3	68%	2,206
France	59.8	65%	1,556
UK	59.8	66%	1,485
Italy	57.7	67%	1,416
Spain	40.1	68%	836
The Netherlands	16.0	68%	417

Source: The World Factbook 2002

Within Western Europe – covering 15 EU member countries, Iceland, Liechtenstein, Norway and Switzerland – more than 20 million enterprises are active. Small and medium-sized enterprises (SMEs) accounted for the lion's share. In 2000, the average turnover per enterprise of SMEs and large enterprises amounted to € 600 thousand and € 255 million respectively.

EU Harmonisation

The most important aspect of the process of unification (of the former EC countries), which affects trade, is the harmonisation of rules in the EU countries. As the unification allows free movement of capital, goods, services and people, the internal borders have been removed. Goods produced or imported into one member state can be moved around between the other member states without restrictions. A precondition for this free movement is uniformity in the rules and regulations concerning locally produced or imported products. Although the European Union is already a fact, not all the regulations have yet been harmonised. Work is in progress in the fields of environmental pollution, health, safety, quality and education.
For more information about harmonisation of the regulations visit AccessGuide, CBI's database on European non-tariff trade barriers at **www.cbi.nl/accessguide**

Monetary unit: Euro

On 1 January 1999, the Euro became the legal currency within eleven EU member states: Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, The Netherlands, Spain, and Portugal. Greece became the 12th member state to adopt the Euro on January 1, 2001. In 2002 circulation of Euro coins and banknotes replaced national currency in these countries. Denmark, United Kingdom and Sweden have decided not to participate in the Euro.

The most recent Eurostat trade statistics quoted in this survey are from the year 2001. In this market survey, the € is the basic currency unit used to indicate value.

Trade figures quoted in this survey must be interpreted and used with extreme caution. The collection of data regarding trade flows has become more difficult since the establishment of the single market on 1 January 1993. Until that date, trade was registered by means of compulsory customs procedures at border crossings, but, since the removal of the intra-EU borders, this is no longer the case. Statistical bodies like Eurostat cannot now depend on the automatic generation of trade figures. In the case of intra-EU trade, statistical reporting is only compulsory for exporting and importing firms whose trade exceeds a certain annual value. The threshold varies considerably from country to country, but it is typically about € 100,000. As a consequence, although figures for trade between the EU and the rest of the world are accurately represented, trade within the EU is generally underestimated.

Furthermore, the information used in this market survey is obtained from a variety of different sources. Therefore, extreme care must be taken in the qualitative use and interpretation of quantitative data, both in the summary and throughout the text, as also in comparisons of different EU countries with regard to market approach, distribution structure, etc.

The survey focuses on the 6 major EU markets for organic food products. These are Germany, the United Kingdom, Italy, France, Denmark and The Netherlands. These EU member countries will be highlighted, because of their relative importance in terms of consumption, production, imports and exports.

For more information on the EU market, please refer to the CBI's manual Exporting to the European Union.

3 CONSUMPTION

In this Chapter, we first present a general overview of the market for organic products in Europe and a number of selected countries. Then, we turn to a presentation of information on the product groups discussed in Section 1.1. It must be noted that detailed statistical data on the organic market are scarce and that reliable figures are hard to obtain.

Organics & statistical market information

Stakeholders who benefit from growing markets issue a lot of data. Hence they are inclined to present optimistic figures about growth rates. At the other side, the more solid statistics available are outdated and thus often too low. While consumption estimates on the overall organic market are generally available, detailed consumption data on product groups or of countries alone are scarce or non-existent. However, in 2003 the European Information System for Organic markets has been established, carried out with financial support from the Commission of the European Communities. EISFOM aims to build up a framework for reporting valid and reliable data for relevant production and market data about the European organic sector in order to meet the needs of policy makers, farmers, processors, wholesalers and other actors involved in organic markets. For more information refer to www.eisfom.org.

Where no organic product consumption data are available, the description starts with data on the conventional market, subsequently trying to present some insight about what is happening in the organic segment. In Section 3.3 and Section 3.4 market segmentation and consumption patterns and trends are discussed.

Specific characteristics of the organic market
Constant product availability is a problematic characteristic of the organic market. In the short and medium term, a regular supply of sufficient supply of organic products will be the problem, rather than a lack of demand. Lack of availability due to a crop failure does occur more often in the organic market than in the conventional market. The lack of organic vanilla in recent years is a case in point, and applied to white pepper three years ago.

The costs incurred by manufacturers because of an organic ingredient becoming unavailable are considerable. A good example here is organic agave syrup. Agave syrup is extracted from the Mexican agave cactus. The agave cactus is also used to produce tequila, and the rapid international growth in sales of tequila has resulted in the cactus farmers selling their cactuses to the tequila industry rather than to the organic agave syrup producers. As a result, the supply of organic agave syrup was unexpectedly terminated earlier last year. Companies have now turned to alternative syrups.

Conversely, another concern is over-supply.
The problem with the market is that if a new origin for a product suddenly comes on stream, an oversupply situation can then occur. This has happened, for example, with wild-berry and with maple syrup. Although an expensive product in itself, organic maple syrup tapped from maple forests is often only 5% more expensive than conventional. Another example is the coffee market. Due to the dramatic low prices in the present world market, a lot of producers try to get a premium for their product by conversion to organic production. The increasing supply of organic coffee is putting pressure on the prices.

The rapid growth of the organic sector in the last few years has also created the potential for large amounts of money to be made by unscrupulous producers and traders selling non-organic products as organic. In 2001, there were reports of organic grain fraud in France and Germany.

3.1 Market size

In Europe, market developments have differed considerably from market to market as they have entered various stages of the product (life) cycle. Although the organic market is still growing, the fast growth rates of the last years seem to be over.
In general, the value of organic sales is growing at a fast rate. Moreover, these sales comprise a rather small share of the total food market. Table 3.1 on the next page shows that Germany and the United Kingdom are the largest markets for organic food products in the EU. It is expected that also in the future these two countries will remain the two biggest EU markets for organic food products.

In general, the former leading markets show less growth as opposed to the emerging markets, which used to run behind. Opinions are divided as to the future in Europe. At one side, for instance the retail chains, further growth of the organic market is expected. In the medium-term, market experts estimate approximately a 5 percent organic market share. Large multiple retail chains will retain a leading role in the development of the organic market. The constantly growing demand by consumers will be encouraged by their distrust of conventional production methods, particularly if conventional agriculture is unable to communicate a

Table 3.1 Overview EU markets for organic food and beverages (forecast), 2003

	Retail sales (million €)	Share of total food sales (in %)	Annual growth % 2003-2005
Total Europe	11,000	-	-
Germany	3,100	2.2	5-10
United Kingdom	1,750	2.0	10-15
Italy	1,400	1.5	5-15
France	1,300	1.5	5-10
Switzerland	775	3.7	5-15
Netherlands	475	1.5	5-10
Sweden	400	2.0	10-15
Denmark	375	2.7	0-5
Austria	375	2.5	5-10
Belgium	250	1.5	5-10
Ireland	50	<0.5	10-20
Other Europe*	850	-	-

Note that official trade statistics are not available. Compilations are based on rough estimates.
Sales figures are based on an exchange rate of US$ 1.00 = € 1.00.
* Finland, Greece, Portugal, Spain, Norway, Poland, Hungary, Czech Republic, Estonia, Latvia, Lithuania.

Source: Compiled by ITC, December 2002

clearer message. The other side is more sceptical about future growth.

In the sections below, we present an overview of the organic markets in the following selected EU countries: Germany, United Kingdom, Italy, France, Denmark and The Netherlands. Some of the data below may differ from the data presented in the tables above as a result of different sources. Please note that the distribution channels for organic food products are discussed in Chapter 7.

Market size by country

Germany

According to the Biologica EKO-monitor, the share of organic products of the entire food market was about 2.3 percent in 2002, corresponding to a turnover of almost € 3 billion. Between 2001 and 2002 the turnover increased by 10 percent. Although it is the largest EU market for organic food products, the German market stagnated and even declined between 1999 and 2000, at least in some food sectors and retail channels, although it has continued to grow in others. This was caused by recent food scandals involving contamination of organic food with Nitrofen and the issue of meat contaminated by hormones; the incidents caused substantial harm to the reputation of organic products in Germany according to poll data from June 2002. The per capita consumption is quite small at € 31 (FiBL).

The price premiums for organic products (in comparison with conventional products) vary a lot between 18-142%. The average price premium in Germany is above the European average, varying between 60-70%. The high price differences are a result

Table 3.2 Countries clustered by stage of organic market development in 2000

Mature market countries	Growth market countries	Emerging market countries
Austria	Finland	Belgium
Denmark	Italy	Czech Republic
France	The Netherlands	Greece
Germany	Norway	Ireland
Switzerland	Portugal	Slovenia
United Kingdom	Sweden	Spain

Source: OMIaRD, 2002

Table 3.3 Market shares of different organic products in 2002

Product	Market share
Potatoes	4.9%
Milk (excluding Aldi*)	3.1%
Eggs	2.8%
Vegetables	2.7%
Bread	2.4%
Fruit	1.9%
Meat	1.5%
Yoghurt (excluding Aldi*)	1.3%
Meat products	1.0%
Cheese	0.8%

* Aldi is a German discount supermarket chain with over 5,000 stores across the world.

Source: FiBL (2003)

of the small supply of organic products, high logistic costs because of the small volumes and very high depreciation of the retail chains. The price premium is one of the main barriers to buy organic products. Studies show that most consumers only accept a price premium up to 20% (FiBL).

Most studies report that the average buyer of organic produce in Germany is between 35 and 50 years. However, some studies also indicate that the age group of 25 to 34 years is the strongest buyer group. Affluent better-educated professionals from a technological-liberal background increasingly outnumber lower income organic customers. Actual purchases are predominantly by women from multi-person households. German organic consumers buy for egoistic reasons. They think organic products are healthier and safer. Environmental reasons are less important.

In Germany, many of the producer organisations have created their own brands and logos, guaranteeing the organic quality of their products. The trade sector regarded the lack of a common seal as the main limiting factor for the further development of the organic market. Such a seal, the Bio-Siegel (formerly known as Öko-Prüfzeichen), was launched in September 2001. This seal was developed by the government and has been heavily promoted. It has clarified the highly complex situation of almost 100 different organic labels in Germany and will certainly stimulate the growth of the organic market.

For market reports about the organic market in Germany please refer to:

- The country report on Germany at **www.organic-europe.net**
- Germany Organic Agriculture 1999 at **www.fas.usda.gov/gainfiles/199912/25546541.pdf** and German Organic market support at **http://www.fas.usda.gov/gainfiles/200203/135683621.pdf.**

United Kingdom

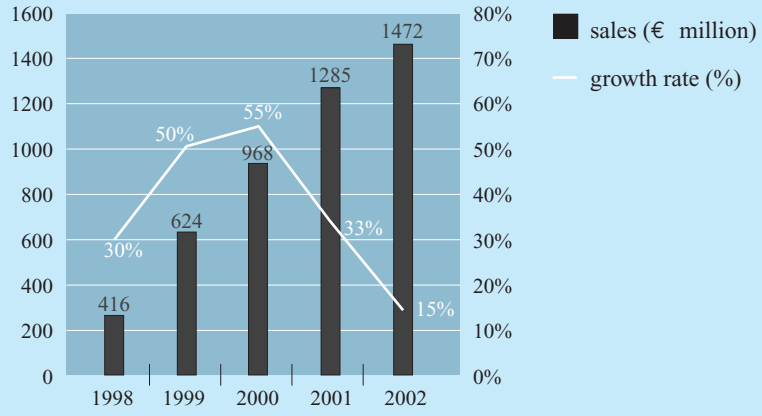
The organic food market in the United Kingdom has experienced very dynamic growth in recent years. In 2000, retail sales valued over £600 million (€ 984 million). Between 2001 and 2002 the UK organic market increased by up to 15 percent. The retail value of the UK organic market is set to break the € 2 billion barrier. Please note that while the growth rate within the organic segment is strong, the market share for organic food is estimated to range only between 1-2.5 percent of the total UK food market.

Figure 3.1 on the next page illustrates the dramatic expansion that the total organic category achieved as it expanded beyond its niche market roots. The chart also shows that market growth rates have slowed considerably, but organics still outperformed the low growth rates witnessed in total food sales and maintained its position as one of the fastest growing categories at the retail level. The UK remains one of the fastest growing organic markets in Europe, reflecting continued consumer demand for environmentally sound agriculture and high quality food.

Figure 3.2 on the next page illustrates the current retail expenditure on the organic category by sub-sector. Historically, fruit and vegetables have been the largest sub-sector in the organic food market, with the UK largely reliant on Europe to meet demand. However, the organic category is still relatively young and characterised by change. The growth in total organic sales has prompted a shift away from the traditional focus of the category on food fundamentals, such as fruits, vegetables, meats, dairy products and cereals. According to this figure, the grocery sector is now the leading sub-sector in organics. Examples of expanding products lines include breads, biscuits, cereals, soft drinks, baby foods and prepared/chilled foods.
The major supermarkets have responded to consumer demand by stocking vastly increased ranges of organic foods. Sainsbury's now offers over 1250 products, including frozen meals, vodka and pet foods.

UK consumers of organic produce are older (50-70) and wealthier than the norm. They have a strong enthusiasm for meal preparation, believe that organic products improve the quality and taste of meal, have an abundance of time to shop and prepare foods, have a high level of health consciousness and concerns over food safety. In addition to the affluent and older consumers, parents with young children have developed into a key target market for organic products. Organic

Figure 3.1 Retail value of UK organic sector and market growth rate, 1998-2002



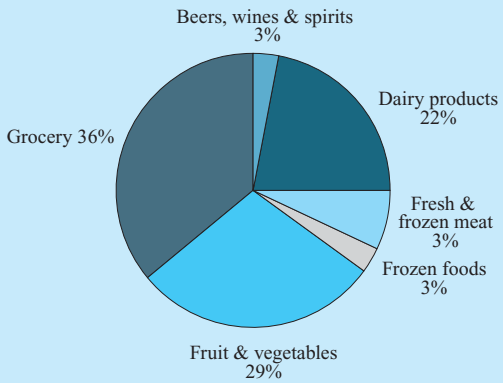
Source: USDA Gain Report, #UK3006
Note that sales figures are based on an exchange rate of US$ 1.00 = € 1.00.

baby food has seen phenomenal growth. Nearly 50 percent of all baby food sales are organic, compared to the approximate 2 percent share represented by organics in the total food market. Organics have also featured heavily in the retailer's Internet-based on-line shopping initiatives, again reflecting attention to the same target group.

Processing

Development of the UK market has led to considerable expansion in processing, to add value to organic commodities. The organic meat and dairy sectors have benefited from increased domestic production. This in turn has led to an increase in processing facilities across the UK. The number of businesses registered to process organic food increased, numbering almost 2,000 in 2002. Traditionally, relatively small, specialist organic companies have dominated the organic supply base. With the growing value of the organic sector, a number of large food manufacturers, such as Unilever, Nestlé, Mars and Heinz, have now entered the market. The appearance of organic variants of major brand names acts as an effective method of attracting occasional or non-users to the category.

Figure 3.2 Organic expenditure share by sub-sector in year 2002 (to January 5, 2003)



Source: USDA Gain Report, #UK3006

Food service sector

The growth of the organic category in retail market has not been matched in the food service sector. Early expectations of the rapid spread of organic HRI (hotel, restaurants and institutions) outlets have been countered by supply constraints. Also, a key barrier to expansion is how to verify claims made by food service outlets about their organic products. Restaurants and cafés selling wholly organic food are still limited in number and are mostly concentrated in London.

For up-to date information on the United Kingdom please refer to **www.soilassociation.co.uk**, **www.fas.usda.gov/gainfiles/200303/145884996.pdf** and to **www.organic-europe.net**. Another good source of information can be found at the Internet site of the UK Department for Environment, Food & Rural Affairs (www.defra.gov.uk/farm/organic/default.htm).

Italy

The Italian organic market is estimated to be around € 1.45 billion and is growing fast. Organic food consumption in Italy is increasing between 20 to 100 percent per year, depending on the source used. There may not be consensus on the size of this sector's growth in the past, but everyone seems to agree on annual increases of up to 20 percent for the next few years.

Of the organic products purchased each year, over half of them are fruits and vegetables, followed by cereals, wine, olive oils, dairy products and vinegar.

Around 65 percent of organic food consumption occurs in northern Italy where there is high disposable income. Major traits of organic food consumers are: they are from upper-middle or above incomes, have an average education (high school graduates, some college) and are between 30 to 45 years of age. These same traits describe consumers of frozen and prepared food.

As in most other European countries, the food scare about mad cow disease led to an acceleration of the growth in organic food sales. It is therefore no surprise that the big national companies and the Italian subsidiaries of multinational corporations have shown great interest in organic agriculture and food trade, launching new lines of organic products or taking over businesses operating in this sector.

Many fairs and markets are now devoted to organic agriculture. The largest fair, SANA, is held in Bologna in September. After the BioFach, this is the most important fair in Europe for organic products. Italy is by far Europe's biggest supplier of organic commodities. Many national and local level markets are held throughout the country, mainly open air, from June to October. In some towns a market is held monthly or weekly, and is often associated with the traditional town market.

There are currently more than one hundred restaurants offering organic food, most of which are located in the northern and central regions and in the larger towns. For the greater part, they offer vegetarian or macrobiotic dishes. A growing phenomenon is that of organic school cafeterias. These cafeterias now serve more than 100,000 children from nursery to middle schools in metropolitan areas (Rome, Bologna, Turin, Padua) as well as in smaller towns. Beginning from 1999, budget law compels municipalities and hospitals to use some organic, typical and traditional food in their catering services on a daily basis (however there are no consequences to not following the law).

For up-to date information on Italy please refer to **www.organic-europe.net** and **www.fas.usda.gov/gainfiles**. A detailed description of the Italian market by Roberto Pinton (in Italian with an English summary) can be downloaded at the site mentioned.

Table 3.4 Turnover composition of organic product groups in 1.652 Italian supermarkets in 2001

Product	Market share
Grocery	29.0%
Dairy	27.5%
Fruits and vegetables	16.0%
Cereals	14.0%
Baby food	8.5%
Diet products	4.9%
Meat	0.1%

Source: FiBL (2003)

France

The organic market is still a niche market in France in terms of value, representing less than one percent of total retail food sales in comparison with other European Union (EU) countries such as Denmark, where the share is three percent. However, the market has been growing at a rate of twelve percent per year, and that rate is expected to reach 5-10 percent (or even more) per year in the future. In 2000, sales of organic food products in France were estimated at € 800-850 million. Current French production cannot meet demand.
In 1997 the French Government launched an action

Table 3.5 Overview of the sold organic volume shares and the market growth of some organic product groups in France in 2001

Product group	Percentage of Sold Volumes	Market Growth per Value
Fresh dairy	8.4%	+ 18%
Fresh products (excl. dairy)	6.2%	+ 44%
Cheese	1.4%	+ 16%
Frozen food	1.2%	+ 220%
Beverages	0.9%	- 2%
Dry assortment (salty)	3.9%	+ 4%
Sweet grocery	1.1%	+ 22%

Source: FiBL (2003)

plan involving subsidies to stimulate and improve organic production, distribution and sales. The goal of the French Government is to convert one million hectares of farmland to organic production. The estimate is that by 2010 the number of certified organic producers will grow from 9.260 nowadays to 25,000 and that organic food sales will grow from 0.5 to three or four percent of total retail food sales.

Growing demand, coupled with the government action plan, is expected to boost organic food sales. Nonetheless, the range of organic foods available in France is still relatively limited. Major domestically produced organic products include grains, prepared cereals, dairy products, fresh and processed fruit and vegetables, baby foods, meat, and poultry. In 2000, of the new products appearing on the shelves two thirds were of plant origin (baby food, juices, and soups). The new products of animal origin were mainly milk products and sausages. Currently, demand for soy products and animal feed is rising quickly.

Consumers of organic products fall into three main categories: the politically or ideologically motivated who are concerned about the environment and animal rights; the health conscious; and the switchers, who are easily swayed by the media and influenced by price and availability. Organic food retail sales are rising among the latter two categories. About half of the consumers of organic foods are managers or self-employed professionals between the ages of 25 and 49. In Paris, per capita expenditure on organic food products is higher and sales are more concentrated.

The average premium retail price for organic products is 20-30 percent above that of conventional foods. While retail prices differ from one outlet to another, organic specialised food stores price their items up to 50 percent more than supermarkets do.

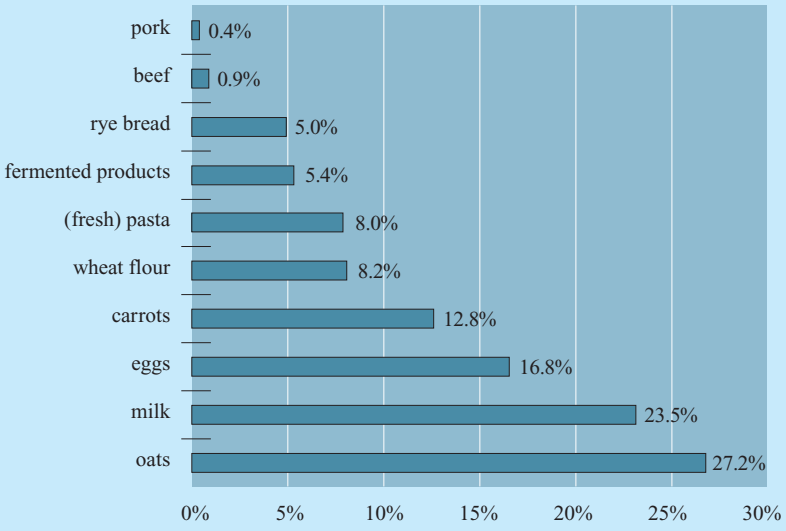
For up-to date information on France, please refer to **www.organic-europe.net** and to **www.pronatura.com**. A market report on the French organic food market can be found at **www.fas.usda.gov/gainfiles/200110/130682544.pdf**. Another organic survey of the French market has been issued by SECODIP. For details please refer to **www.secodip.fr/frames/gb/fgb_etude/fgbCO_etudBio.htm**.

Denmark

Denmark has the greatest experience within Europe in producing and selling organic products. A new report compiled by nine research institutions in Europe shows that Danes buy three times as many organic products compared to their Swedish neighbours. Also the German and British consumer lag behind their Danish counterparts when it comes to the organic effort on the consumer level. One of the reasons for the relatively high consumption of organics in Denmark is the support from the Danish authorities as well as a unique co-operation including farmers, producers and the retail trade. Supermarkets were active in sales of organic products in a very early stage. Therefore the Danish market is one of Europe's most mature markets for organic products.

In 2000, retail sales of organic products amounted to

Figure 3.3 Total market share of selected organic products in Denmark, 2002



Source: Organic Denmark, 2003

€ 380 million. In 2001, the market increased to € 445 million, resulting in 2.7 percent of total food sales. The Danish market largely stagnated in 2001, and as a whole, actually declined somewhat in 2002. This was mainly caused by the dairy sector. Other product sectors experienced growth. In Denmark € 72 per capita/year is spent on organic food, which means the highest amount in Europe. Sales campaigns have been an effective tool to increase market shares of organic products.

As figure 3.3 shows, especially organic rolled oats, milk, eggs and carrots have particularly high market shares. The largest organic sector in Denmark, the dairy industry, constitutes one third of the total milk sales. Another successful product is organic cereal, 27.7 percent of the rolled oats consumed in Denmark is organic. Consumption of organic vegetables is low but increasing steadily. Potatoes, carrots and onions dominate the sale of organic vegetable in terms of volume. Sales of organic meat are growing.

New figures from market research agency GfK show that the total market share for organic in Denmark increased to 5.6 percent in the first six months of 2003 compared with 5.4% in the equivalent period last year. Sales of organic meat, fresh fruit and vegetables in particular have risen significantly.

Concerning the Danish consumer, one may say that on average she/he is well educated, environmentally conscious, focused on health and can afford to spend a larger part of their budget on food.

For up-to date information on Denmark, please refer to **www.organic-europe.net** and **www.organic-denmark.com**.

The Netherlands

In 1999, the market for organic products in the Netherlands amounted to € 211 million. In 2000, the market increased to € 272 million, and in 2001 to € 364 million. This results in 1.5 percent of total expenditures on food and beverages in The Netherlands. Turnover of organic food products in the first quarter of 2003 amounted to € 100 million, compared to € 102 million in the same quarter in 2002.

Worried by a series of food scares, consumers are experimenting with organic foods. In 2002, Platform Biologica conducted a survey among purchasers of organic food about their reasons to buy organic. Issues mentioned were health (64% of respondents), the environment (51%), and support for organic agriculture (14%). The main consumers of organic food in The Netherlands are people under 35 without children. People over 55 are less interested in organic food products, partly due to their lack of knowledge about organic food. The Dutch Food Retail Organisation (CBL) is forecasting that 10 percent of Dutch consumers will frequently eat organic food products by 2010.

Consumers buy only organic vegetables, fruit, potatoes, spices and herbs, dairy products, eggs, bread, cereals, meat replacers and beverages. In addition, 48 percent of the consumers purchase organic meat on a regular basis. In the last couple of years, sales of organic dairy products and vegetables increased about 30 percent. The number and range of organic food products in the supermarkets in The Netherlands is minor compared to the UK, Germany and Denmark with an average of 52 organic products available.

Market growth of organic products in 2001 was particularly stimulated by the foot and mouth disease and by promotional activities of the leading supermarket, Albert Heijn, in The Netherlands. Further growth of the market for organic products, to over € 400 million, was expected in 2002. In the meantime, almost half of all organic food is sold through the supermarkets. In 2001, there was total of 381 special organic retail shops.

The growing demand has also resulted in a remarkable growth in the number of organic processors. Since 1996, 300 new processors have acquired a place in the organic market, amounting to 877 in July 2001.

For up-to date information on The Netherlands, please refer to **www.organic-europe.net** and to **www.platformbiologica.nl** and to the market report at **www.fas.usda.gov/scriptsw/AttacheRep/gain_display_report.asp?Rep_ID=135683347**.

Market size by product group

After focusing on the organic food market in the selected EU countries, this market survey subsequently reviews the EU market for each organic food product. As mentioned before, detailed consumption data on product groups are scarce or non-existent. Where no organic product consumption data are available, the description starts with data on the total market of the product group, conventional and organic together. Subsequently, available insights about what is happening in the organic segment will be presented. Moreover, FAO provides consumption figures based on the concept ‘domestic supply’ to indicate total consumption within a country. FAO’s definition of domestic supply is based on the net result of domestic production, plus imports minus exports plus changes in the stocks.

In general, the following development in the introduction of products on the organic market can be observed. At first only the basic food fundamentals (simple organic products), such as potatoes and (other)

fruits and vegetables, were found on the market. Later also cereals, dairy and meat products were introduced. Within these product groups, the development is also towards more specialised products, such as fresh organic herbs or assorted fresh salads. At present and in the future, processed and composed organic products are increasingly introduced, ranging from biscuits and candy bars to ice cream, (frozen) convenience meals and even pet food. The organic EU markets discussed are in different stages of this development.

Coffee, tea and cocoa

A good overview is the handbook by FiBL, SIPPO and Naturland "Organic coffee, cocoa and tea".
This handbook can be ordered at **www.fibl.ch/buehne/publikationen/pdfs/verzeichnisse/handbook-coffee.pdf** for € 38. Another interesting publication is "The State of Sustainable Coffee: a study of twelve major markets" published in 2003 by the World Bank, which can be downloaded at **http://lnweb18.worldbank.org/ESSD/sdvext.nsf/43ByDocName/SustainableDevelopment**.

Coffee

Consumers in the 11 major EU member states combined to use approximately 11.2 million kilograms of certified organic coffees in 2001 (see table 3.6, below). Of these, 5.3 million kilograms were double certified as both fair trade and organic, indicating a net total of more than 21 million kilograms sold in 2001. The European sustainable coffee markets are dominated by fair trade and organic, the former of which is the larger. Eco-friendly and shade-grown or bird-friendly certifications have just begun to reach Europe. Germany is Europe's largest market for sustainable coffees followed by The Netherlands and the UK. In Europe, total sustainable coffee accounts for 1.1 percent of total coffee sales. Market share is highest in Denmark (3.4%).

Although the price differential over conventional coffee is so great that the organic premium barely registers, the proportion of organic coffee is steadily growing. However, since more retailers and more brands offer sustainable coffees, competition will heat up the price. More than 80 percent of organic coffee is sold through the retail channel, 20 percent through the catering sector. Many of the speciality retailers including coffee shops, fair trade stores, health food stores. Independent grocers have consequently seen their market share of sustainable coffee eroded as supermarkets expand their participation.

Tea

The leading EU markets for organic tea are the UK and Germany, with consumption of 1,000-1,500 tonnes and 600-800 tonnes respectively. All other European countries consume a maximum of 100 tonnes of green or black tea per year. It seems that despite its traditional image as one of the world's largest consumers of tea, Britain's tea drinking habit is waning. However, the UK is in fact still the largest tea market in Western Europe, representing 86.9 percent in overall volume terms.

In Germany the bulk of organic tea is sold via organic shops or health food stores and Third World Shops, in the UK via conventional retailers. More recently, organic tea has also been marketed via special teashops. The sale of excellent and expensive tea specialities is currently less important in Europe. Traders confirm in interviews that even organic tea is affected by a certain consumer price consciousness, which hinders broader sales of high quality organic tea. However, from the consumer's point of view, it is very difficult to judge the right price for organic tea quality amid the mass of competing brands and varieties.

The tea market has seen a decline in sales of mainstream black tea bags, a slight increase in consumption of green, organic, and fair-trade teas and a growing interest in the fruit and herb segment.

Cocoa

The buyers of cocoa beans in the consuming countries are the processors and the chocolate manufacturers. A few multinational companies dominate both processing and chocolate manufacturing. The bulk of imported cocoa goes from processing firms via sellers to the organic food trade and shops. Although

Table 3.6 European market for sustainable coffee
Metric tons greens

Year	1999	2000	2001	2002 est.	2003 est.	2004 est.
Fair Trade	14.064	14.354	15.437	16.232	17.870	19.573
Organic	7.798	9.270	11.174	12.162	13.221	14.405
Organic & FT	4.074	4.071	5.346	5.660	6.101	6.590
Total	**17.787**	**18.923**	**21.266**	**22.733**	**24.991**	**27.388**

Source: World Bank "The State of Sustainable Coffee"

supermarkets have sold little organic chocolate so far, there is interest among some.

In the early 1990s, small companies focusing on a niche produced certified organic chocolate, and the products were sold primarily in health-food stores or speciality shops. Today, supermarkets also sell these specialised products, but production is still dominated by relatively small and medium-sized chocolate manufacturers with unique brands. Most of the large and traditional manufacturers of well-known branded products in Europe are just about to make their entry on the organic market.

The market for organic cocoa has developed very well to date. Annual market growth in the last three years reached 10-15%. In view of the persistent expectations of expansion of the market for organic cocoa, a shortage in supply was feared, especially after the hurricane George that hit the Dominican Republic, the world's largest producer of organic cocoa. Therefore some of the larger operators in the organic cocoa market saw the market opportunity, and bought considerable quantities in the 1999-2000 season to ensure availability. This year, a larger harvest of organic cocoa, in addition to stocks in warehouses, is causing downward pressure on the price for organic beans.

Grains, pulses and seeds

Grains

Grains are mostly used in the processing industry (bread and bakery products, muesli, rice cakes and cereal-based drinks). Besides, grains are used as consumer packs for retail sale and for animal feed. The USA and Canada dominate the market for organic commodity grain products (e.g. wheat, maize and barley) and opportunities for exporters in developing countries are limited. Except for rice, commodity grains are not discussed in this section.

Rice consumption in the EU is steadily increasing. In 2000, EU consumption of rice (milled equivalent) amounted to 2.3 million tonnes. Leading consumers are Italy, Spain, France and Germany, together accounting for some two-thirds of EU consumption. Over the years, there has been a noticeable gradual shift in demand for certain rice varieties. Demand for fragrant or aromatic rice varieties like the basmati types are on the increase especially in Northern countries. Furthermore, we see slight changes in consumption patterns in the Southern European area in favour of fast-cooking par-boiled types. Southern European countries show higher rice consumption levels than Northern European countries. In terms of per capita levels, Portugal's rice consumption is the highest in the EU, while in terms of total consumption Italy is leading, followed by Spain and France. There are no data on organic rice consumption. However, as consumers in Northern European countries are more organic-minded, it is expected that the consumption levels are higher in these countries than in Southern European countries.

The EU operates a licence scheme and import tariffs for imports of rice, in order to protect its own producers, which are located mainly in Spain and Italy. However, the EU applies a large reduction on the import tariff for Basmati rice from India and Pakistan, which provides good opportunities for exporters from these countries. Judging from the product offers presented by some leading European importers and wholesalers, it is clear red, round and long grain rice from Italy which is common on the organic market. However, Basmati rice from India and Pakistan and red rice from Thailand are also available on the organic market.

Quinoa is produced in Bolivia and Peru and is a grain commonly sold in the organic market. Information on this market is limited. According to GTZ (1997), approximately 400-450 tons of quinoa were imported into the USA in 1996. Quinoa has a large germ or embryo which gives it a superior nutritional profile as compared to other grains. Quinoa is non-allergic and can be used in a wheat free or gluten free diet.

Pulses

Pulses are mainly used for consumer packing for the retail trade, but also for bread spreads and convenience foods. Soy has numerous uses in virtually all food sectors; e.g. drinks, desserts, tofu, vegetable burgers.

In 2001 all EU countries together consumed about 5.6 million tonnes of pulses (see table 3.7). France is the leading consumer accounting for 24 percent of EU consumption, followed by Spain (18%).

The most interesting product group for exporters in developing countries is speciality beans. People are looking for non-animal foods that can provide the necessary proteins. Soybean is often used as a protein provider in the preparation of other food products, but kidney beans and lima beans and chickpeas can also serve as meat replacement. Often the beans are sold in cans. However, they are also used in ready chilli and Tex Mex meals and by the feed and pet food industry. According to import data, Italy and the United Kingdom are the leading markets for speciality beans.

Organic traders and wholesalers offer beans such as azuki beans, mung beans, pinto beans, and red kidney beans.

Table 3.7 Consumption of pulses by EU member states, 1999-2001 in thousands of tonnes

	1999	2000	2001
European Union	**6,254**	**5,686**	**5,607**
France	1,586	1,406	1,389
Spain	1,039	1,225	1,047
United Kingdom	697	701	959
Germany	854	577	696
Italy	530	547	536
Belgium-Luxembourg	548	479	331
Netherlands	510	264	195
Denmark	139	120	94
Sweden	88	73	83
Austria	66	70	73
Greece	79	74	69
Portugal	67	67	69
Ireland	42	67	53
Finland	11	14	14

Source: FAO (2003)

Table 3.8 Consumption of sesame seeds by EU member states, 1999-2001 in tonnes

	1999	2000	2001
European Union	**55,111**	**72,424**	**74,523**
Greece	12,492	18,434	17,851
Germany	13,319	14,761	16,022
Netherlands	9,656	15,819	14,685
United Kingdom	4,838	6,106	6,343
France	3,935	3,924	5,383
Italy	3,712	4,816	5,090
Austria	1,460	1,642	2,002
Sweden	1,189	1,705	1,982
Spain	1,027	1,935	1,825
Belgium-Luxembourg	1,340	1,331	1,393
Denmark	1,578	1,317	1,374
Finland	346	373	301
Ireland	180	211	212
Portugal	39	50	60

Source: FAO (2003)

Seeds

Seeds are supplied to, and further processed by, the food industry. Sometimes seeds are used for consumer snack foods. As the trade in these products is business-to-business trade, there are no direct consumption figures available for them. FAO, however, provides consumption figures based on production + imports - exports + stock changes.

According to FAO, consumption of sunflower seeds in 2000 amounted to 43 thousand tonnes and that of sesame seeds amounted to 75 thousand tonnes in 2001 (see table 3.8). France and Spain are the leading consumers of sunflower seeds. In 2001, consumption of sunflower seeds in Spain amounted to 42,520 tonnes. Greece, Germany and The Netherlands are the leading consumers of sesame seeds.

The kernels of sunflower seeds are appreciated for their nutritional value and their flavour. They are used in the manufacture of a large number of food products, including meals, desserts, cereals, confectionery, ice creams, salad toppings and snacks. Part of the production of confectionery sunflower seeds is used as bird feed.

Sunflower seed oil is widely used for commercial, as well as home, cooking. Almost all sunflower seed oil is used for margarine making, as salad oil, or for cooking purposes. Defatted sesame meal is almost entirely used in compounding balanced foodstuffs. In general, the market for sunflower seeds is good, especially for the black variety. The market for the imports of peeled seeds, used in food and snacks, has good potential since this may be cheaper than importing the seeds and peeling them in Europe.

Sesame seeds are much less traded than sunflower seeds, but the product is important for some developing countries. Sesame seeds are supplied to markets in North America, Europe, and East Asia by countries in Africa, Latin America, and South Asia. Cooking oil can be extracted from sesame seeds, and this is their main use, especially in Asia. In North America and Europe, raw sesame seeds are generally used for toppings on breads such as hamburger buns, bagels, bread sticks, and other baked goods. Restaurants and natural food store customers purchase sesame seeds for use in ethnic dishes. Middle Eastern countries use sesame seeds for tahini paste and halvah, as well as for oil.

Vegetable oils and fats

As the trade in these products is business-to-business trade, there are no direct consumption figures available for these products. FAO, however, provides consumption figures based on production + imports - exports + stock changes.

According to FAO, EU vegetable oil consumption amounted to some 13.8 million tonnes in 2000. The leading oils consumed include rape and mustard oil (22% of consumption), palm oil (18%), sunflower seed oil (15%), soybean oil (12%). Industries use animal and vegetable oils and fats as ingredients for a whole

	Human consumption	Compound feed	Industrial
Volume	684	488	178
%	50	40	10

Source: Commodity Board MVO, 2000

variety of food and non-food products, compound feed and industrial applications. To illustrate this, deliveries in The Netherlands to the processing industry (food, compound feed and industrial) show the following figures for 2000 (x 1,000 tons):

Eleven companies in The Netherlands refine vegetable and animal oils. The main end products are soy oil, palm oil, cocoa fat and sunflower oil. In 2000, 1.35 million tonnes of vegetable and animal fats and oils were put on the market. More than 80 percent is destined for human consumption. The market for these commodities is very competitive and large scale. Small and medium exporters in developing countries will more easily find more opportunities in special vegetable oils.

Leading oil products supplied by developing countries include soybean oil, palm oil and coconut oil. The widespread use of soybean oil and its acceptance for edible applications is attributed to three major factors: the plentiful and dependable supplies, its competitive price, and the recent improvements achieved in flavour and stability of both un-hydrogenated and partially hydrogenated forms of the oil. Indirectly, the rapid increase in the demand for compound feed has contributed considerably to the rise of soybean and soybean oil production.

Organic soya oil has had a slow start because of misplaced concerns by consumers on genetically modified (GM) organisms. Concerns are misplaced because organic legislation requires the absence of any GM material. Currently, there is a shortage of supply of organic sunflower seeds and the price of these seeds is high. Soya oil is a good alternative as it is in abundant supply, it is stable and it has a good nutritional profile. Organic soya oil is also very competitively priced - currently it is the least expensive organic vegetable oil.

The market for organic palm oil has grown in recent years, but is still very small compared to the conventional market. Production of organic palm oil is not too difficult, but the large-scale processing industry is generally not interested. The industry would have to process organic palm oil on a separate line, which brings extra costs. Palm oil is used in products like margarine and cosmetic application (in many cases replacing previously used coconut oil).

For more detailed information on the market for vegetable oils and fats, please refer to CBI's EU Market Survey "Food Ingredients for Industrial Use 2003".

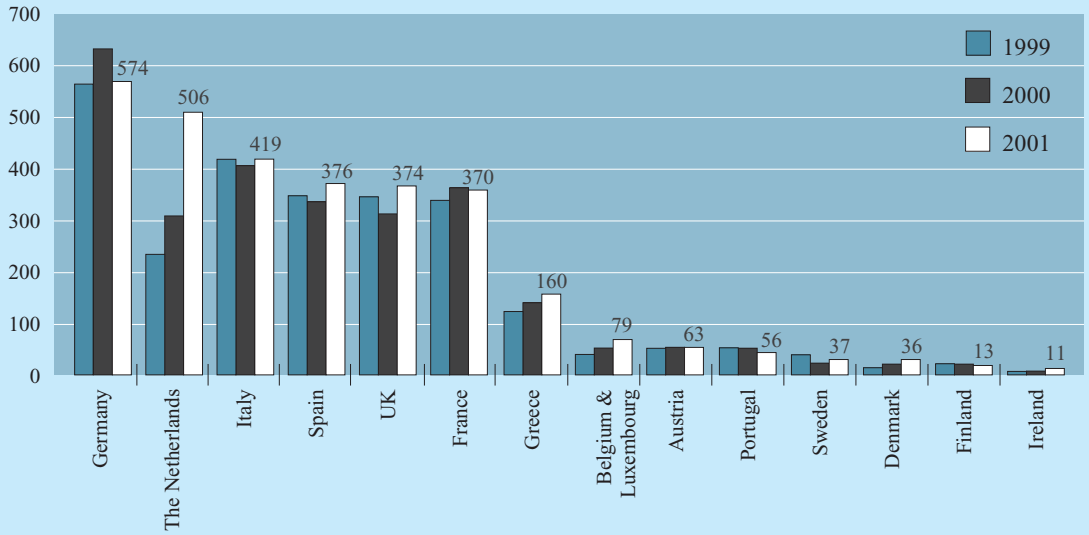
Edible nuts

During the past few years, the EU market for edible nuts (including groundnuts) increased from 2.7 million tonnes in 1999 to 3.1 million tonnes in 2001. In the latter year, Germany, The Netherlands and Italy were the leading nut consuming countries. The increased domestic supply of nuts in The Netherlands is mainly caused by the increased imports of groundnuts, as The Netherlands is a major re-exporter of groundnuts. Edible nuts are mainly used for industrial produce in peanut butter, other nut pastes, sauces, bakery products, snacks and muesli. Total EU consumption of groundnuts (shelled as well as in shell) was some 1.2 million tonnes in 2001, of which The Netherlands, UK, Germany and France accounted for almost 80 percent.

Judging from the product offers presented by some leading European importers and wholesalers of organic products, it is clear that a wide range of organic nuts is on offer. From these offers it appears that the leading organic nut products are hazelnuts, peanuts and almonds. Other products offered as organic include walnuts, Brazil nuts, cashew nuts and pistachios. Walnut consumption is traditionally concentrated during the Christmas season. Sales of shelled walnuts, consumed either as snacks or as ingredients for the confectionery industry, have increased in recent years. Cashew nuts and pistachios have become more common in supermarkets in recent years.

At **http://inc.treenuts.org** you can find a global statistical review for a number of nuts.

Figure 3.5 Consumption of nuts by EU member states, 1999-2001 in thousand tonnes



Source: FAO (2003)

Spices and herbs

The EU market for spices increased to 160 thousand tonnes in 2001. The leading consuming countries are Germany, the UK and Spain together accounting for almost two thirds of EU consumption.

The leading spices consumed are peppers and allspice (pimento), while leading herbs include thyme and oregano. The principal end users of spices and herbs in all EU markets can be divided into three end user segments. In almost all EU countries, the largest proportion, being 55-60 per cent of the total usage of spices and herbs, was consumed by the industrial sector. The retail sector consumed 35-40 per cent and the catering sector 10-15 per cent. In most markets, the ratio is moving towards higher relative usage by the industrial sector, reflecting the growing popularity of ready-to-use spice mixtures. Another reason is the increasing consumption of processed foods, which often rely on spices and herbs to retain and enhance the food flavour.

Table 3.9 Consumption of spices by EU member states, 1999-2001 in tonnes

	1999	2000	2001
European Union	**161,286**	**159,167**	**160,372**
Germany	42,101	44,174	45,039
United Kingdom	32,447	34,605	37,825
Spain	16,089	6,459	15,935
France	16,620	14,212	13,291
Netherlands	20,077	22,990	12,490
Belgium-Luxembourg	4,340	6,799	6,573
Italy	6,627	4,859	5,943
Sweden	4,503	4,873	4,794
Greece	4,047	5,508	4,488
Austria	5,175	5,434	4,382
Denmark	4,296	3,295	3,677
Ireland	2,093	2,325	2,495
Portugal	1,595	2,132	2,201
Finland	1,276	1,502	1,239

Source: FAO (2003)

A growing awareness of diverse cultural cuisine is helping to drive spice sales, according to manufacturers. People are starting to experiment with spices at home for, for example, a Thai curry, which they have tried in restaurants. Sales of individual ethnic spices and ethnic blends are increasing across the board. Individually, there has been a strong upswing in sales of organic cardamom and cloves.

For more detailed information on the market for herbs and spices, please refer to CBI's EU Market Survey 2002 "Spices and Herbs".

Dried fruits

The demand for dried fruit is positively influenced by increased usage as an ingredient in the food industry for breakfast cereals, healthy ready-to-eat bars or snacks and desserts. Bakeries and breakfast cereal mixers are one of the largest end users of dried fruit. The principal end users of dried fruit in all EU markets can be

divided into two end-user segments: retail and industrial sector. In most markets, the ratio is moving towards higher relative usage by the industrial sector, reflecting the growing popularity of ready-to-eat healthy snacks, muesli, and processed foods using more healthy ingredients like dried fruit.

Judging from the product offers presented by some leading European importers and wholesalers of organic food products it is clear that a wide range of organic dried fruits is on offer. The most popular dried fruits (mainly for industrial use) are sultanas, dates, raisins, prunes and apricots. Other products, but for which markets are smaller but promising, include dried banana, mango, papaya, and pineapple. The market for the latter group of dried tropical fruit is divided between the health food industry and retail food markets. Health food stores demand fruit that does not have any additives and is dried using natural processes. These products sell for a premium. Dried fruit that is sugared and treated with sulphur to ensure freshness is sold to large retail stores. According to European importers, health food stores sell more dried tropical fruits than do conventional supermarkets.

The leading markets for dried fruits are the United Kingdom, Germany, France, and The Netherlands. For a detailed survey on the US Market for Dehydrated Tropical Fruits please refer to **www.fintrac.com/shop/moreinfo/driedfruit2.htm** (price US$ 500).

Fruit juice/concentrate

An indication of the industrial consumption of fruit juice/concentrate can be obtained by looking at the end-consumption of fruit juice. Processed fruits and vegetables are largely used in fruit and vegetable juices, frozen and canned produce, conserves, pulp, pureés, soups, pizzas, baby food, fruit yoghurts and desserts. Price fluctuations, competition from other non-alcoholic drinks and warm/cold weather affect the juice consumption. Nevertheless, the fruit juice consumption is characterised by a high per capita consumption in West-European countries (in particular Germany) and low, but strongly rising consumption growth, in southern European countries. Germany is the largest market for organic fruit juices, accounting for 46% of sales in Europe, followed by France (16%) and the United Kingdom (12%) (source: Brazilian newspaper O Estado do Paraná, 17/9/2000). The production of fruit juices is concentrated mainly in Germany, which is not surprising since Germany has the highest per capita consumption of fruit juice and nectar in Europe.

Sugar

World sugar consumption is projected to expand to reach nearly 137 million tonnes in 2005. The EU accounts for some 10-15 percent of global sugar consumption. A large part of this consumption is supplied by EU subsidised sugar beet producers. The sugar market has been faced with recurring supply/demand imbalances that were reflected in extremely volatile prices on free markets. For most years in the past four decades, world production of sugar has been in excess of consumption, leading to low prices and stock overhangs. For the coming years, production is expected to keep pace with consumption. The developing countries are projected to account for most of the global increase, thus raising their share of world production from 63% in 1993-1995 to about 70% by the year 2005. Latin America and the Caribbean are expected to play the leading role in raising output. By contrast, the industrialised countries overall are projected to have virtually no net increase in their sugar production. EU sugar consumption amounted to 14.9 million tonnes in 2001.

In the UK, Equal Exchange and Traidcraft distribute Fairtrade labelled organic sugar. Sales amounted to 45,000 kg in 2001, which is five times more than the volume sold in 2000. In France, Alter Eco will launch brown organic sugar lumps and another Max Havelaar licensee will launch bagged organic sugar. In the Belgian market, Hygiena started distributing organic sugar from Paraguay in 2002. The Swiss market has once more shown its interest for labelled fair trade sugar. Coop is going to buy 150 tonnes of refined organic sugar from Otisa, a Paraguayan exporter (FLO 2002).

On the health food market sugar also faces competition

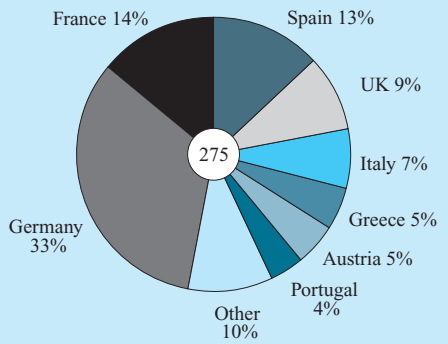
Table 3.10 Consumption of sugar by EU countries, 1999-2001 in thousands tonnes

	1999	2000	2001
European Union	**14,486**	**14,365**	**14,906**
Germany	3,358	3,410	3,724
France	2,394	2,332	2,402
United Kingdom	2,323	2,186	2,295
Italy	1,807	1,803	1,797
Spain	1,281	1,259	1,264
Netherlands	720	724	737
Belgium-Luxembourg	543	549	552
Sweden	407	409	416
Austria	362	367	392
Greece	337	347	365
Portugal	336	337	337
Denmark	261	283	270
Finland	203	192	187
Ireland	154	166	168

Source: FAO (2003)

from honey, a natural sweetener with a well developed organic production worldwide. Another factor explaining slow progress in demand for organic sugar is the "unhealthy" image of sugar in general, which makes it less appealing to health-conscious consumers. Nevertheless, demand for organic sugar has shown a remarkable growth in recent years. Sugar, as an important and, sometimes, irreplaceable ingredient in production of ice creams, jams, breads and confectionery, is starting to enjoy a fast growth in demand. It remains to be seen, however, whether demand for organic sugar will grow on a par with the organic market in general.

Figure 3.7 Share in total EU honey consumption, 2000, thousand tonnes



Source: Apiservices (2003)

Honey

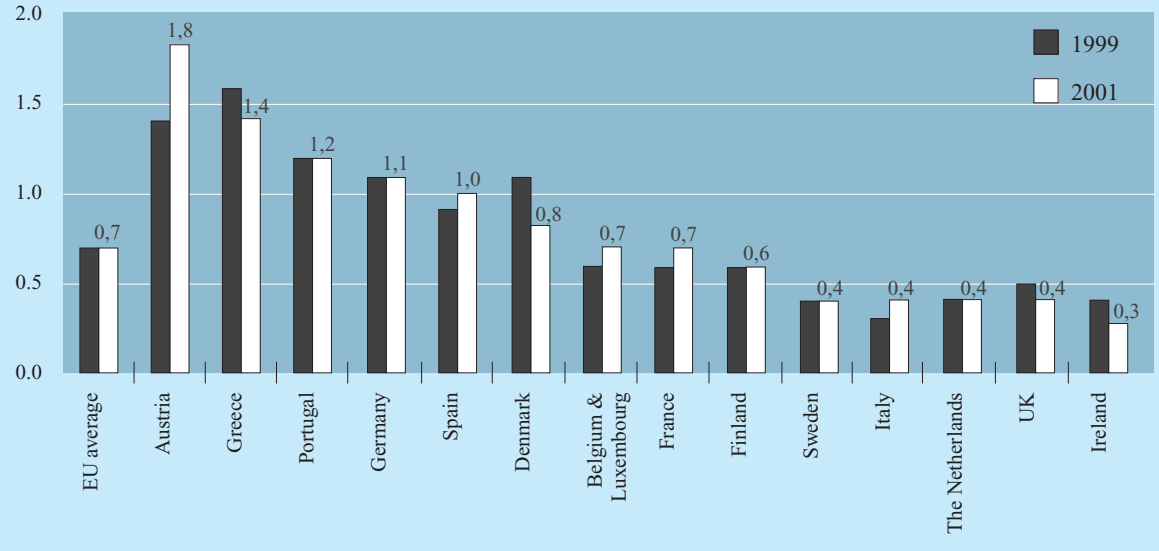
Total latest data available show that consumption of honey in the EU was estimated at about 274 thousand tonnes in 2000, representing an EU per capita honey consumption of about 0.7 kg. Consumption differs greatly between EU countries. Per capita consumption in Austria is 1.8 kg and in Ireland 0.3 kg.

The honey market has two major sectors: one is honey for household consumption and the other is honey for industrial use as a natural sweetener of bakery products, sweets etc. While the market share of these two sectors differs somewhat per EU country, it can be stated that, on average, 80 percent of honey is sold directly to consumers, while about 20 percent goes to the industrial user. The industrial market is sensitive to honey prices. The major substitutes for industrial honey are sugar, invert sugar syrup, corn syrup and high fructose corn syrup (a cheap and versatile substitute for honey, especially in products in which flavour is unimportant). Industries using honey are mainly the bakery, chocolate and baby food sectors.

Consumers show a preference for solid honey (70%), multiflower (94%) bought from supermarkets. Heavy honey consumers use honey as a spread on bread for breakfast. They are the 24-35 years old. Honey consumption shows an increase in winter as it used for its therapeutic qualities, and by children. It is also frequently used as a ingredient in dressings for salads.

There is an important market for organic honey, as honey is a typical health food product.
In Europe and Asia, pesticides are used against a

Figure 3.8 Per capita EU honey consumption, 2000, kg



Source: Apiservices (2003)

particular mite. This mite is not found in America, Australia and Africa. Organic honey, for which the use of pesticides is not allowed, can therefore, be more easily obtained from these regions. This offers good opportunities for producers of honey in developing countries. Currently, there is an EU ban on honey imports from China (see Chapter 5 for more information).

For more detailed information on the market for honey, please refer to CBI's EU Market Survey 2003 "Food Ingredients for Industrial Use".

3.2 Market segmentation

Since organic food already is a segment of the conventional food market, it is difficult to single out its market. Nevertheless, the market of organic food products can roughly be divided in the following three segments:

A) Organic food ingredients for industrial use (food processing industry);
B) Organic food products for direct consumption: consumer products (retail market);
C) Organic food products for the catering and institutional sector.

The first segment is the most important for exporters in developing countries. Producers/exporters of organic products do not often have complete market information. As a consequence, it is difficult for them to comply completely with the needs of the European consumer and with all legal requirements. Also, they are not in the position to compete with the existing European brands. Therefore, supplying to the European processing industry gives better opportunities for exporters in non-EU countries. Moreover, the significance of the food industry as an end-user of organic raw material is now growing fast because consumers are looking for an assortment of processed foods similar to that available from conventional production. There is increasing demand for convenience foods and ready meals. More information on the distribution channels of the market segment of organic products for industrial use can be found in Chapter 7.

Although more difficult to penetrate, it is important to be aware of developments in the second market segment of organic food products. Most developments are described in this chapter. A fast growing sub-segment of this part of the organic market is organic baby food. Higher educated consumers, who are aware of food safety, with higher incomes are particularly triggered by safe and healthy food products for their young children.

In general, consumers of organic food products can be divided as shown in the table on this page.

The catering and institutional use of organic foods has commenced in some European markets but has not developed extensively to date. In Denmark, Germany, Italy, The Netherlands and Sweden, some municipal and other public bodies have started to require official institutions like schools, hospitals, old people's homes, universities and administrative offices to offer organic menus and organic coffee and tea in their canteens. Restaurants specialising in organic foods are increasing in number. Some airline companies, e.g. Lufthansa and, in particular Swissair, offer organic on-flight meals.

3.3 Consumption patterns and trends

Before describing a number of factors contributing to, and factors discouraging, consumption of organic food products, we would like to point out the following:

- Firstly, among the different EU countries great differences exist in trends and development on the organic market;
- Secondly, keep in mind that the organic market remains a niche market with certain products

Categories of Dutch Organic Consumers

Heavy Buyers	Medium Buyers	Light Buyers
Called: "Post materialist"	Called: "Cosmopolist"	Called: "Average consumer"
Counter culturalist/idealist who values: - no use of chemicals - environmental friendly production - no additives	Someone with a higher than average income and education who values: - health - environmental friendly production - taste	Someone who is concerned about food safety who values: - health - food safety
☛ Buys mainly in natural food shops	☛ Buys in supermarkets as well as in natural food shops	☛ Buys in supermarkets

Source: Albert Heijn, 2001 in USDA 2002

wearing the badge better than others. Most consumers are not ready for full-scale conversion.

Continued growth
Continued shortages and problems with the supply of sufficient quantities of organic produce and raw materials are faced with growing demand from consumers and processors. There is a strong potential for vegetables, fruits, meat and poultry, and ingredients for processed products, like convenience, deep-frozen, snacks, sweets, confectionery and fish. However, some consumers of organics have a clear distrust of the authenticity of certified organic products. Therefore, the best chances are for products in off-season periods and products that cannot be grown in European countries (most tropical products). Some logos (e.g. AB-logo in France) do not allow organic products, imported from outside the EU, if they can be grown in Europe. Potential exists for increased sales to new consumer segments amounting to 25 to 35 percent of the population. Moreover, the expansion of the European Union to the east could also open up opportunities in a greater consuming EU market. However, opinions on future growth of the organic market are divided and sometimes sceptical.

Health and quality
Consumers have become increasingly concerned about the quality of the food they are eating, especially following several food scares that have occurred in Europe. These scares prompted an increasing number of consumers to look for healthy products. The perceived health benefit of consuming organic food is reflected by strong growth in demand for certain product categories such as baby food and dairy products. Parents are willing to pay higher prices in order to feed their children organically grown food. Many consumers of organic food also believe that organic food tastes better. The fresh foods –milk and milk products, vegetables, fruit, bread and meat - are key to the market expansion for organic products. This segment requires the greatest effort in terms of logistics, production (fruit and less hardy vegetables), and the labelling of unpacked goods. Since organic products must differ clearly from mass-produced goods in terms of flavour, they must be carefully handled during production, processing and transport.

☛ The increasing attention for health and quality has substantial implications for the role of importers and suppliers. They have to play a much more specialised role and are required to offer services such as managing availability, ensuring full traceability and assuring quality of raw materials 'from field to finished food'.

Please note that consumer concerns over food safety and personal well-being are driving the organic market but may not sustain growth. Consumer priority consist of health and food safety, not specifically organic food production.

Environmental and social issues
Some consumers are buying organic food based on their concern for:
- The effects of intensive farming on animals and poultry, on the countryside and on the environment in general.
- Animal welfare.
- The potential environmental impact of introducing genetically modified crops.
- Support for a more direct supply chain from producers e.g. through box schemes (weekly or biweekly home delivery of food boxes, with little choice as to what seasonal products are included) and farmers' markets. These distribution channels are also based on the wishes of some consumers to eat food 'from the season' and food 'from the region'.
- The environmental impact of the air transport, related to the import of fresh produce from outside the European Union.
- The working conditions on the plantations and farms (in countries outside the EU).

There is a trend for organic and fair trade to go together. Europe's leading fair trading house Gepa (Germany) is increasingly linking organic quality to a fair trade price. Some 60 percent of its products come from organic agriculture, including coffee, tea, cocoa, sugar and honey. The fair trade company Gepa completed its trading year 2001/2002 at the end of March with its highest growth rate since mid-1990. 60 percent of its turnover is now based on organic products. The organic & fair trade concept has proved to be especially successful in the supermarket sales sector.

Another trend is biodegradable packaging, in order to provide consumers with organic products which are packed in an environmentally friendly manner.

There is also likely to be increased pressure on consumer choice from alternative "ethical" products, which themselves have some of the key attributes of organic products, such as being welfare-friendly or guaranteeing traceability.

Product range and availability
Polls conducted at the end of the 1990s in the UK and Germany showed that availability of organic products proved a bottleneck for increasing consumer demand. Since these polls were conducted, the range of organic products available has increased strongly. Hence, the bottleneck may be less

severe by now than some reports still claim based on outdated polls. Moreover, a survey by the Soil Association conducted in the UK in 1999 shows that only a small number of people would be encouraged into buying by a broader range of products (Soil Association).

More processed and convenience products
As in the conventional food market, meeting consumer demand for convenience is increasingly a feature of organic food products, be it snacks or home meal replacement opportunities. Suppliers are keen to maintain the high quality of new products in order to support the category as a whole.
The influence of the multiple retailers and the entrance of established food manufacturers into organics mean continued new product development is to be expected. Activity will likely focus on convenience and luxury food items.
This reflects both the upmarket profile of organic consumers and the increasing saturation of basic organic foodstuffs.

Premiums go down
Organic products must be priced to interest both the producer and the trade. Consumers make a rough comparison between organic and conventional prices. Competition will ensure that producers, processors and middlemen rationalise and lower costs. Consumers are generally ready to pay price premiums of 20 to 30 per cent for organic products. Many items sell at much higher premiums, but when the price of the organic product is 50 per cent or more above that of a conventional one, the number of potential customers falls away substantially (Retail Intelligence, 2000).

Lack of knowledge
Consumers want more information about organic food and farming. They are interested, but the issues can be confusing. Accurate and accessible information would lead to an increase in purchasing.

☛ In general, the criteria for purchasing organic food are appearance, freshness, health and safety concerns, and taste. On the other hand, criteria for rejecting organic foods are inconvenience, lack of availability, high prices, lack of information about environmental benefits.

Conclusion: opportunities and threats
Although the overall picture looks highly positive, a number of potential risk factors should be borne in mind when evaluating future developments in the organic food business. For example, occasional oversupply of a given product (e.g. coffee, quinoa) may not only have immediate but also more long-term negative effects. Furthermore, other forms of environmentally friendly and sustainable agriculture are likely to result in increased competition in the future. Organic food's niche positioning may be eroded as new food safety measures enter the food chain. Reduced price premiums for organic produce and insufficient profitability among farmers and other operators are also factors to reckon with. Unfavourable press (e.g. fraud) and scare stories, whether justified or not, cannot be excluded either. Finally, there is a preference noted for local regional products and/or no air transport.

On balance, however, the world markets for organic food and beverages will continue to offer developing countries profitable export opportunities. All of the major markets under review offer good prospects for suppliers of organic products that are not produced domestically: examples are coffee, tea, cocoa, spices, tropical fruits, and vegetables and citrus fruits. However, there are also very good prospects for several products that are produced in the main markets themselves. Such opportunities exist not only for off-season produce (such as fruits and vegetables), but also for many other products like in-season fruits (e.g. apple and pears) and vegetables, cane sugar, grains, cereals, pulses and seeds, for the simple reason that the rapidly growing demand in most markets cannot be met by local supplies, at least in the short and medium term.

☛ For more information refer also to:
- **www.intracen.org/mds/sectors/organic/summary2.htm**. At this site you can read a summary of the publication 'Organic Food and Beverages: World Supply and Major European Markets'. The book analyses the major import and export marketplaces for products from organic agriculture.
- **www.fao.org/docrep/004/y1669e/y1669e03.htm#bm03**. Here you can read main findings and identified opportunities for developing countries from FAO's market survey for organic fruit and vegetables.

4 PRODUCTION

The information in this Chapter is largely based on the country reports presented at www.organic-europe.net, which are regularly updated.

At global level, almost 23 million hectares are managed organically. Oceania has the largest area under organic agriculture (10.5 million hectares), followed by Europe (EU plus other European countries). In countries such as Australia and Argentina, large extensive livestock systems are very suitable for dry land conditions which are very common in these areas.

Organic land area in the EU expanded rapidly in the 1990s at the expense of conventional area. This expansion has largely taken place since the implementation in 1993 of EC Regulation 2092/91. It defines organic crop production, and the widespread application of policies to support conversion to and continue organic farming as part of the agro-environment programme. It has been found that subsidising individual farmers is not a sufficient incentive for conversion and that subsidies can not guarantee the maintenance of organic farming methods in the end. Therefore, some European governments have developed action programmes in order to promote organic agriculture. As part of these action plans, marketing of organic products, advisory services and consumer information is supported.

Continent	Area under organic agricultural production (in percent)	Total number of organic farms (in percent)
Oceania	46.3	0.6
Europe	22.6	44.1
Latin America	20.8	19.0
North America	6.7	11.3
Asia	2.6	15.1
Africa	1.0	9.9

Source:SÖL, 2003

Table 4.1 **Number of organic farms and land area (including conversion area), and share of total farm and land area, 2001**

	Organic area (ha)	share of total (%)	Organic farms	share of total (%)
Italy	1,230,000	7.94	56,440	2.44
UK	679,631	3.96	3,981	1.71
Germany	632,165	3.7	14,703	3.28
Spain	485,079	1.66	15,607	1.29
France	419,750	1.4	10,364	1.55
Austria	285,500	11.3	18,292	9.3
Sweden	193,611	6.3	3,589	4.01
Denmark	174,600	6.51	3,525	5.58
Finland	147,943	6.6	4,983	6.4
Portugal	70,857	1.8	917	0.22
Netherlands	38,000	1.94	1,528	1.42
Greece	31,118	0.6	5,270	0.81
Ireland	30,070	0.68	997	0.69
Belgium	22,410	1.61	6,680	1.03
Luxembourg	2,141	1.71	48	1.6
Total EU	**4,442,875**		**146,924**	

Source: SÖL, 2003

Germany

In order to reach the ambitious government goal of 20 percent organic land by 2010, a set of measures was introduced in 2001, including the improved support of organic agriculture, the implementation of a federal programme for organic agriculture as well as the introduction of a national organic seal (called Biosiegel). Besides the direct support to farmers, the German government also supports marketing initiatives. Subsidies are granted for producer-based marketing organisations, for processing and for development of marketing concepts. The most important organic crops in Germany are cereals, legumes and oil plants. In Germany, the 'Stiftung Ökologie & Landbau' (SÖL) is a very important stakeholder in the development of the organic sector. Organic agriculture spread very quickly in the 1990s, encouraged by EU funding.
In 2001, there were 14,703 organic producers with 632,165 hectares under organic management. The share of organic farms of all agricultural enterprises amounted to 3.2 percent and the share of the organic of the entire agriculturally used surface amounted to 3.7 percent. 54 percent of the organic area is used as grassland and the remaining part for arable farming (grain, oats, etc.).

United Kingdom

Eight percent of the agri-environment budget is currently spent on organic farming (9.9 million Euro). This works out at 0.2 percent of the total UK spending on agriculture. The limited provision of funding for the schemes, which have been seriously oversubscribed, and the focus only on conversion subsidies (no maintenance payments) are both cited as examples of the UK's low commitment relative to most other EU member states. The Government counters these arguments by arguing that those entering the organic sector should not do so purely because of the subsidies and should enter because of market-driven factors.

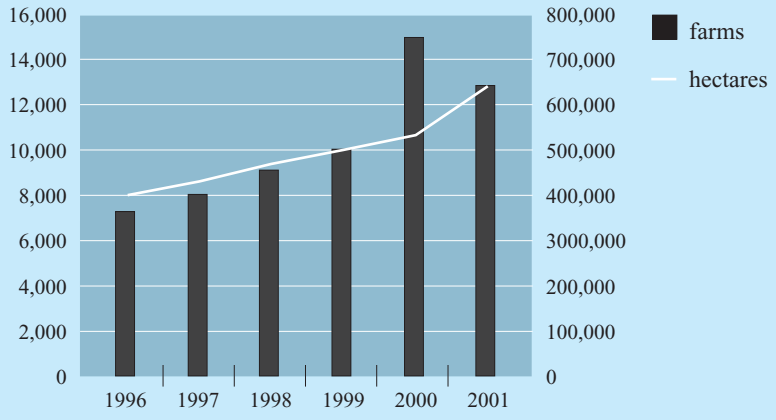
By April 1999 more than 240,000 hectares of land was registered and managed organically in the UK by 1,356 producers, representing 1.2 percent of the total agricultural land and 0.7 percent of the farmers. One quarter of this organically managed land had gained full organic status by April 1999 and was therefore able to produce organic food. The remaining 180,000 hectares was classed as being in conversion. By December 2001 more than 270,000 hectares of organic land was registered.

In April 1999, 79 percent of the 60,000 hectares classed as fully organic were grassland (permanent pasture, temporary leys and rough grazing). Only 21 percent or 12,600 hectares of organic land was classed as 'cropped' (arable, horticultural and fruit production). Whilst the area of organic crop production has grown significantly it is not increasing as fast as the area of grassland. The apparent reluctance of arable farmers to convert, combined with the large increases in organic livestock production, will further increase reliance on imported organic cereals.

Italy

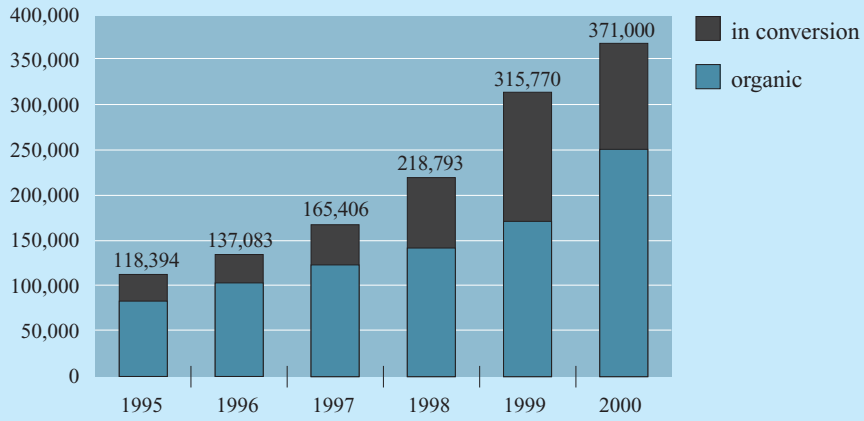
Italy has most of the EU's organic farming area (27 %), but the information is not very accurate as the information is mixed with vegetable production. More than two thirds of all organic farmers in the EU are located in Italy. It is the biggest supplier of organic products in Europe. In 2002, organic agricultural area and area in conversion amounted to 1.2 million hectare (8% of total agricultural area). At the end of 2002, 46 % of the organically managed land was used for forage and pasture, 23 % for grains and cereals, 18 % for fruit, olives, and vine and 6 % for vegetables and industrial crops.

Figure 4.1 Development of organic farming in Germany, 1996-2001



Source: www.organic-europe.net

Figure 4.2 Development of organic farming in France, 1995-2000



Source: www.organic-europe.net

France

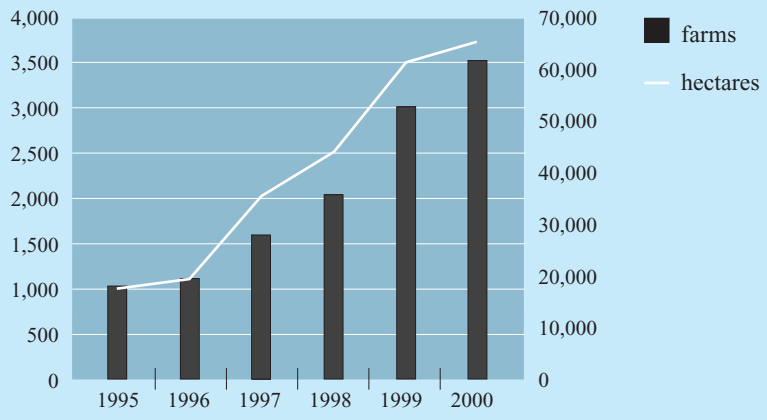
Presently, domestic demand cannot be met by French production. The goal of the French Government is to convert one million hectares of farmland to organic production. The Government estimates that by 2005 the number of certified organic producers will grow from 9,260 today to 25,000. In order to achieve this goal, financial support for farm conversion was increased, and support was extended to marketing initiatives as well as to training and research.
Figure 4.2 shows the first results of the French action plan. In France, some two-thirds of the production consists of pastures and another 15% of grains or cereals. An important growing product group is organic wine and protein plants.

Denmark

In Denmark, the intention to convert the entire agricultural sector to organic farming methods. Furthermore, there is a limit on the import of organic manure that does not come from organic farms.
For several years there has been a collaboration between the organic farmers and the Danish authorities, who have supported the organic agriculture in different ways. Since 1987 there has been a law on organic agricultural production. This law governs the state control label, funding to support farm conversion, research and market development.

Although Denmark is a comparatively small country with a population of only five million, it has a large farming sector and a long tradition of producing and processing farm produce. 2.7 million hectares or 63

Figure 4.3 Development in area and the number of certified organic farms in Denmark, 1995-2000



Source: www.organic-europe.net

percent of Denmark's land area is cultivated farmland. The 165,258 converted or under conversion in 2000 made up 6.2 percent of the total agricultural area in Denmark. In 1999, 59 percent of the organically managed land was used for grass crops, 28 percent for cereals and 2.3 percent for legumes.

The Netherlands

In September 2000, the government launched a support programme, which includes financial assistance to primary producers during the first years of conversion. The target of this policy is to have five percent of the total area under organic production by 2005.

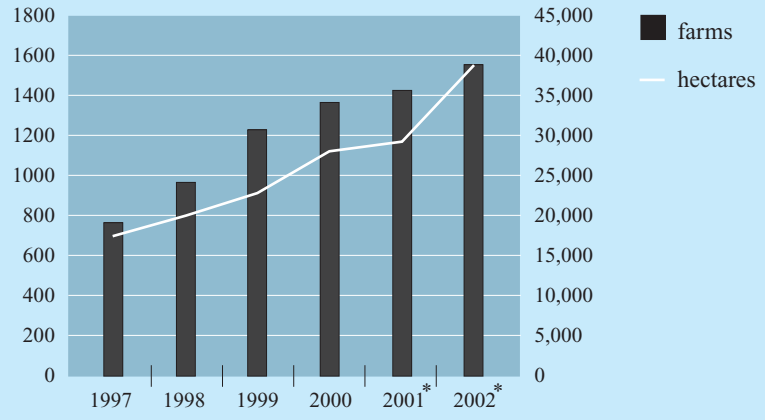
By April 2003, 43,100 hectares of land was registered and managed organically in The Netherlands by 1,556 producers. The organic share in the total agricultural surface in The Netherlands is relatively small (2.2%). Although in the nineties the growth of organic area increased considerably, in the last two years the growth rate dropped somewhat. In 2002, livestock accounts for the highest share (49%) of the area under organic production, followed by arable products (22%) and vegetables (22%).

Opportunities and threats for developing countries concerning EU production

Domestic production of organic products in the EU is expected to rise within the next few years, but it is unlikely to meet demand for most products. Opportunities and threats for producers and exporters in developing countries lie in the following areas:

- Products for which there is no or insufficient supply coming from EU member countries;
- Products that cannot be grown in European countries because of climate;
- Counter-seasonal fresh organic temperate zone produce and non-temperate zone products. For these products, producers who are geographically located near the EU have an advantage (e.g. Turkey and Northern African countries such as Egypt and Morocco);
- The expansion of the European Union to the east; the candidate countries must adopt the bulk of EU food legislation prior to membership, which will include adoption of EU organic crop and, ultimately, livestock production rules. This may help to overcome the supply difficulties in the short term, although in the long term it will increase competition among suppliers on the EU market, possibly forcing down prices. For exporters in developing countries, this means at on the one side more competition from countries close to the (West) European market. On the other side, in the long term the growing EU markets can serve as a new consuming market.

Figure 4.4 Growth of organic farms and land under organic management in the Netherlands, 1997-2002



Source: www.organic-europe.net and Platform Biologica

* Note that figures for 2001 and 2002 are from July in the said year. In 2002 there were 300 farms in the conversion period.

5 IMPORTS

5.1 Imports by selected EU countries

We have already pointed out that organic trade is not recorded separately in the HS system and is not registered by Customs. Data on organic trade are therefore scarce and, as they are always estimates, they must be interpreted and used with extreme caution.

Germany

Germany is by far the largest importer in Europe and it imports a wide assortment of organic products. According to ITC (1999), imports account for an estimated 38 percent of the value of raw materials for the German organic market, equivalent to about € 156 million, or about 10 percent of total sales at retail level. More than 40 percent of these imports is fruit and vegetable products. The main supplying countries for organic fruit and vegetables in Germany are Spain, France and Italy. Imports of organic tea, coffee and cocoa, typically from developing countries, amount to almost € 13 million.

United Kingdom

The UK market is the most import-dependent of all markets in Europe. The UK organic market has continued to be dominated by imports. In 2002, imports accounted for an estimated 65 percent of the organic retail value, signifying a decrease in import reliance. This slight drop can largely be attributed to improved domestic capacity to add value to UK commodities, as well as to increased output from the domestic sector.

It is noticeable that the import levels for meat and cereals have remained either static or increased. All categories continue to offer the potential for import substitution, but this is most clearly apparent for meat and cereals. On average, some 80 percent of organic fruits and vegetables is imported. Half of the imports of organic foods come from other EU countries. The major non-EU suppliers are currently the US, Egypt, Israel, Argentina and, increasingly South Africa and Central America. In July 2002, the government presented a programme to make the country less dependent on imports.

Italy

The growing Italian organic market increases the need for imports, and several companies have started co-operation programmes with non-EC countries. While the majority of organic farms is located in Southern Italy, ninety percent of importers is located in the Northern regions. Imports are quite important for processed goods, except for pasta and noodles (of which Italy is a net exporter), and fruit and vegetables. Direct imports are mostly bananas from Colombia. Recently, the import of milk has increased substantially.

Imports from producing countries are generally done triangularly with other European countries (The Netherlands). The reasons for this are manifold. For example, bureaucratic difficulties to obtain organic import certificates from the Italian Ministry of Agricultural Policies cause delays and refusals. Furtermore, most certifying bodies in Italy are to busy to cope with the Italian organic boom and consequently pay no attention to third countries' import trade.

France

According to USDA, total imports of organic foods into France in 1998 were valued at US$ 50 million and averaged 30,000 tonnes. Total imports accounted for about 10 percent of the organic food market in value. Most imports originated in Germany and the Scandinavian countries, while 40% of total imports come from third countries (extra-EU). France has the lowest import share in Europe. However, while domestic production of organic foods has not kept pace with consumer demand, there has been a sharp rise in imports. This applies not only to produce, which cannot be grown in France, but also to organic products where local supplies are not sufficient to meet demand.

The main imported products included certain fruit juices, dried fruits, exotic fruits, cereal based products (cereal bars and mueslies), processed organic products (i.e., ready to eat frozen foods and vegetarian meals). The main organic imports from non-EU countries included exotic fruits (avocado, mango, bananas, citrus fruits), coffee, tea, cocoa, nuts, spices, edible oils, cane sugar and cereals from African, South American and Asian countries as well as from North America. Besides, processed new-to-market organic products (i.e., ready to eat frozen foods and vegetarian meals) are also increasingly being imported.

Denmark

In 2000, total imports amounted to about 12,000 tonnes, corresponding to almost half of total sales in Denmark. Vegetable imports are somewhat larger than fruit imports, although it seems that growth has been strongest in fruits. Fresh fruit and vegetables constitute one of the most important organic product groups sold in Denmark. The most important products of imported fruit are citrus, apples and pears. The main import items of vegetables are carrots, potatoes, onions, tomatoes, cabbage, cucumbers, as well as salads/lettuce, which together may account for more than half of total vegetable imports. The Netherlands is probably the main supplier of these products, followed by France, Italy and Spain. There are relatively few suppliers in

developing countries, although some products are included in imports from The Netherlands (re-export).

Netherlands

The Netherlands is a major importer of organic food products. Dutch companies play an important role in import/export trade and large quantities (up to 80 percent) are re-exported, mostly to other European countries. For instance, the increased attention for food safety and organic products in the United Kingdom has made the country also a leading importer of organic fresh fruit and vegetables from countries such as Argentina and Zambia. Several of these organic products are, however, imported into the UK from The Netherlands (e.g. cocoa).

The Netherlands is a sizeable importer of organic fresh fruits and vegetables, grains, cereals, dried fruits, nuts and seeds, coffee, tea, spices and herbs. All types of fresh fruits and a wide range of off-season vegetables are imported. Supplies of organic produce from many developing countries, especially in Asia and Latin America, are making an increasing impact. Most imports are delivered in bulk for packing and/or processing in The Netherlands or other European countries.

5.2 Imports by product group

Conventional trade

In the box below we provide an overview of leading importers of selected product groups. Please note that these data include imports of both conventional and organic products (comprising a very small share of total trade).

In the box on the next page we provide an overview of the leading suppliers of selected product groups. Please note that these data include imports of both conventional and organic products. Another remark is that European suppliers are often trading in re-export.

Organic trade

General

In this section we focus on the supply of organic products by developing countries. This supply is dominated by a number of leading producers including Argentina, China, Mexico and South Africa. The off-

Leading EU importers of food products (conventional and organic) (share in EU imports in terms of value, 2001)

Coffee	→	Germany (30%), France (14%), Italy (14%), The Netherlands (7%)
Tea	→	UK (43%), Germany (15%), France (11%), The Netherlands (8%)
Cocoa	→	The Netherlands (40%), Germany (15%), UK (13%), France (13%)
Rice	→	UK (25%), France (22%), Germany (14%), Belgium (10%), Netherlands (9%)
Pulses	→	Spain (24%), Italy (23%), UK (16%), France (12%
of which:		
Kidney beans	→	Italy (25%), UK (22%), Spain (14%), The Netherlands (10%), France (10%)
Black & green grams	→	UK (29%), France (28%), The Netherlands (26%), Germany (4%)
Seeds	→	The Netherlands (26%), Spain (19%), Germany (18%), Italy (7%), Portugal (6%)
of which:		
Sunflower seeds	→	The Netherlands (26%), Spain (21%), Germany (18%), Italy (7%), Portugal (7%)
Sesame seeds	→	The Netherlands (28%), Germany (20%), Greece (17%), UK (10%)
Vegetable oils & fats	→	Italy (30%), Germany (15%), The Netherlands (14%), France (10%), UK (10%)
of which:		
Soybean oil	→	Belgium (36%), The Netherlands (11%), Germany (10%), France (9%)
Palm oil	→	The Netherlands (26%), Germany (18%), UK (16%), Italy (10%), France (9%)
Coconut oil	→	Germany (37%), The Netherlands (24%), Italy (7%), UK (7%), Belgium (6%)
Edible nuts	→	Germany (28%), The Netherlands (15%), France (12%), Italy (11%)
of which:		
Peanuts	→	The Netherlands (34%), UK (15%), Germany (14%), France (12%)
Cashew nuts	→	The Netherlands (40%), UK (17%), Germany (15%), France (10%)
Pistachios	→	Germany (31%), Spain (14%), Italy (14%), France (13%)
Spices & herbs	→	Germany (22%), The Netherlands (18%), France (14%), UK (13%)
Dried fruit	→	UK (25%), Germany (23%), France (14%), Italy (9%), The Netherlands (8%)
Fruit juice/concentrate	→	Germany (22%), The Netherlands (21%), France (14%), UK (11%), Belgium (10%)
Honey	→	Germany (45%), UK (12%), France (9%), Italy (6%), Spain (6%)
Sugars	→	UK (60%), Portugal (12%), France (7%), The Netherlands (6%)

Source: Eurostat (2002)

Leading EU suppliers of food products (conventional and organic)
(share in EU imports in terms of value, 2001)

Coffee	→	Brazil (22%), Colombia (10%), Germany (9%), Vietnam (6%)
Tea	→	Kenya (21%), India (14%), UK (12%), Sri Lanka (8%), China (8%)
Cocoa	→	Côte d'Ivoire (46%), Ghana (15%), Nigeria (11%), Cameroon (8%)
Rice	→	Italy (23%), Spain (11%), India (11%), USA (10%), The Netherlands (8%)
Pulses	→	Canada (23%), USA (13%), Mexico (12%), China (10%), Argentina (10%)
of which:		
Kidney beans	→	Canada (27%), Argentina (20%), USA (18%), China (15%), The Netherlands (6%)
Black & green grams	→	China (38%), USA (13%), Canada (10%), Myanmar (10%), Australia (6%), India (4%)
Seeds	→	Ukraine (19%), France (14%), USA (10%), Russia (10%), Hungary (7%)
of which:		
Sunflower seeds	→	Ukraine (22%), France (16%), USA (11%), Russia (11%), Hungary (8%)
Sesame seeds	→	India (39%), Sudan (15%), The Netherlands (10%), Guatemala (8%), Mexico (3%)
Vegetable oils & fats	→	Spain (21%), Indonesia (15%), Malaysia (13%), The Netherlands (11%)
of which:		
Soybean oil	→	The Netherlands (51%), Germany (26%), Belgium (7%), Spain (4%)
Palm oil	→	Malaysia (35%), Indonesia (27%), The Netherlands (16%), Papua New Guinea (8%)
Coconut oil	→	Indonesia (39%), Philippines (32%), The Netherlands (10%), Malaysia (7%)
Edible nuts	→	USA (23%), Turkey (17%), India (6%), The Netherlands (6%), China (6%)
of which:		
Peanuts	→	China (23%), Argentina (22%), The Netherlands (16%), USA (14%)
Cashew nuts	→	India (58%), Vietnam (14%), The Netherlands (10%), UK (7%), Brazil (4%)
Pistachios	→	Iran (45%), USA (21%), Germany (19%), Turkey (4%)
Spices & herbs	→	The Netherlands (11%), Indonesia (10%), Germany (8%), Madagascar (7%), India (6%)
Dried fruit	→	Turkey (34%), USA (21%), Tunisia (7%), France (6%), Chile (4%)
Fruit juice/concentrate	→	The Netherlands (19%), Brazil (15%), Germany (13%), Belgium (7%)
Honey	→	Argentina (20%), China (13%), Germany (12%), Mexico (9%), Hungary (7%)
Raw cane sugar	→	Mauritius (31%), Guyana (11%), Swaziland (10%), Fiji (10%), Jamaica (8%)

Source: Eurostat (2002)

season supply of fruits and vegetables is dominated by Egypt and Morocco, which profit from their close geographic location to the EU. These countries have developed the infrastructure to deal with the requirements for the supply of organic products and the increasingly complex and stringent regulations on food products.

To be able to export products as "organic" to the European Union, certification is required. When a producer or a group of producers applies for certification, several inspection missions follow in which the production system is judged and recommendations are made for improvement. Currently, certification for export from developing countries is mostly carried out by the certification bodies of the importing countries. Initially, inspectors usually come from Europe or the USA. However, international certification bodies now hire local inspectors, which has reduced costs. The investments during the conversion period from conventional to organic production only start to pay back after the first harvests have been sold as organic (in the case of products which are in high demand, a premium can sometimes also be obtained for products from systems in conversion). For many producers, the costs of certification are a major threshold to venturing into the international market.

Latin America

Despite the growing demand for organic produce in Latin American countries, the export market remains the main outlet for most crops. The trade in organic produce has been mostly oriented to the European, USA and Japanese markets. Organic products include coffee beans (leading supplier is Mexico), bananas (Dominican Republic, Costa Rica and Ecuador), sugar (Paraguay, Brazil), grains (quinoa, Bolivia, Peru) and meat (Argentina).

Besides Argentina, Brazil, Mexico and the Dominican Republic are leading exporters. Pineapple is a growing export possibility in Central America, organic bananas are exported from Costa Rica for baby food production. For an overview of organic production in Central America, please refer to **www.iica.int/comuniica/n_17**.

Asia

Among the significant producing developing countries of organic products are China, India, Sri Lanka and Turkey. A wide range of products is imported from Asia including cocoa, coffee, essential oils, herbs, spices, peanuts, rice, tea, vanilla, dried and fresh fruits and vegetables, and nuts. China, the leading Asian exporter of organic products, has established a local certification body and is exporting US$ 150 million of organic food products. At the moment, however, China is suffering from a European ban on animal products, including honey.

Although Japan is a leading market for organic products, in most Asian countries there are no or very limited local markets. Hence, most of their production is destined for export markets (Japan, Europe or USA) and most of the production is certified by foreign certification agencies.

Africa

The domestic market for organic products in Africa is limited because of low-income levels and the low level of organisation. Hence most of the production is destined for export to international markets (EU and to a lesser extent USA). In most cases, a number of farmers work together on one project in order to reach sufficient quantities for export. Although supplies are not big in terms of volume, they include a wide range of products from many countries in Africa. Leading producers are Tunisia, Morocco, South Africa, Egypt, Uganda and Zambia. In many African countries, certification does not make much economic sense due to its high costs (ITC, 1999). Inspection and certification are mostly carried out by foreign bodies, but local structures are now being set up in some countries. Using local structures reduces costs, so that certification may then become economically attractive. Moreover, many African farmers have remained loyal to the long tested traditional agriculture practices, adopting and adapting conventionally developed technologies to fit into their farming systems. This has resulted in dynamic farming systems that combine traditional farming technologies and practices with what is best from conventionally developed technologies. It is these types of traditional farming systems that render themselves to rapid organic conversion.

The wide range of products, the use of local structures and the relatively easy way of conversion give Africa opportunities in exporting organic products.

Product groups

Coffee

The leading importers of organic coffee are Germany, Sweden and The Netherlands. Table 5.1 presents data on the import of green organic coffee.

Coffee is one of the leading organic products exported by developing countries. It is produced mainly in Latin America. There are no data on country of origin of the European imports mentioned in Table 5.1. To give an indication of the leading organic coffee suppliers we provide data on the leading suppliers of Fair Trade organic green coffee in Table 5.2. Please note that these imports are only a part of the total supply of organic coffee and that certified fair trade coffee is not available in all EU countries.

Table 5.1 Green organic coffee imports per European country, 2000 in tonnes

	Arabica	Robusta
Germany	3,200	320
Sweden	3,200-3,500	0
The Netherlands	2,300-2,900	85
Denmark	1,700	100
France	200	500
United Kingdom	434-454	50
Belgium	295	0
Austria	150	0
Italy	150	0
Switzerland	120	18
Norway	62	0
Spain	17	0
Europe total	**12,000 (rounded off)**	**1,000 (rounded off)**

Source: SIPPO, 2002

Table 5.2 Sources of Fair Trade organic green coffee for Europe, 1998-2000 tonnes

Country	1998	1999	2000
Mexico	1,662	2,646	2,551
Peru	138	289	1,071
Nicaragua	63	173	615
Guatemala	110	174	583
Indonesia	0	0	424
Bolivia	17	181	203
Colombia	14	0	38
Cameroon	0	72	36
Tanzania	0	17	36
Costa Rica	0	17	13
Honduras	0	55	12
Dominican Republic	0	0	7
Total	**2,004**	**3,624**	**5,592**

Source: FLO-International

In 2001/02 trade sources estimated world production of organic coffee at some 48,000 tons, a total that therefore exceeds estimated current consumption. As long as the major coffee roasters in Europe and the USA do not include organic coffee in their range of major brands (which by mid-2002 they did not yet do), it is unlikely that any substantial increase in supply can be readily absorbed (ITC, 2002).

Tea

The number of organic tea producers and the volume of organic tea traded on the world market has increased substantially over the last few years. This development can be explained by a number of factors. In the first place, tea farmers have become more aware of environmental problems (erosion, pesticide residues in tea plants) and severe health hazards connected with an intensive system of tea production. A further reason for the rise in organic tea can be explained by the fact that the demand for organic tea has grown constantly as a result of increased consumer awareness of pesticide residues and heavy metals in conventional teas.

Table 5.3 presents an overview of world-wide organic tea production. The main producers of organic tea are India, China, and Sri Lanka. Other developing countries with (very marginal) tea production are located in Tanzania, Vietnam, Bolivia, Argentina and Indonesia.

Table 5.3 Number of hectares of certified organic and in-conversion tea areas world-wide, December 2001

	Organic tea Area in ha	In-conversion Area in ha
India/Sri Lanka	4,300	3,040
China	1,940	1,009
Other countries	1,025	540
Total	**7,265**	**4,589**

Source: SIPPO, 2002

As there is little or no domestic demand for organic tea, the tea is mostly exported to western countries. Leading destinations in Europe are Germany and the UK.

Cocoa

Germany and The Netherlands are the leading importers of organic cocoa. There is only a very limited number of importers in Europe. Netherlands importers re-export the majority of their imports to other European countries.

In the table below, we provide data on production of organic cocoa. As markets for organic products in developing countries are still limited, the majority of this production is exported to western countries.

Cuba also has organic cocoa production of some 400 tonnes. Several countries are reported to have production in conversion or are preparing themselves otherwise for certification. Among these are Brazil, Cameroon, Côte d'Ivoire, Ecuador, Ghana, Guyana, Haiti, Honduras, Indonesia, Panama, Peru, the Philippines, Sao Tomé, and Togo. Some might already have commenced production and export.

For more details on cocoa trade practices, please refer to ITC's publication 'Cocoa: A guide to trade practices'.

For more information on organic coffee, cocoa and tea, refer also to the publication of SIPPO, 2002.

Grains, pulses and seeds

The EU operates a licence scheme and import tariffs for imports of rice, in order to protect its own producers, which are mainly located in Spain and Italy. However, regarding Basmati rice from India and Pakistan the EU applies a large reduction on the import tariff, which provides good opportunities for exporters in these

Table 5.4 European imports in tonnes of certified organic cocoa, 2000

Country	Import	Comments
Germany	3,600-4,675	Some re-export
Netherlands	3,100-4,100	80% is re-exported to European countries
Italy	850-870	Some import from Germany
Belgium	Limited direct import, if any	A large proportion reported to be imported from Barry Callebaut, CH
United Kingdom	Limited direct import, if any	Most beans bought elsewhere in Europe
France	1,200	
Spain	200	Some import from Switzerland

Source: FLO-International, ITC, FiBL

Table 5.5 Annual production in tonnes of certified organic cocoa beans by country, 1999/2000

Country	Annual production (tonnes)
Dominican Republic	6,000
Madagascar	1,200
Tanzania	1,000
Uganda	600
Bolivia	600
Panama	500
Vanuatu	500 (est.)
Mexico	300
Nicaragua	300
Costa Rica	200
Peru	100
Belize	30
Fiji	50 (est.)
Total	**11,680**

Sources: SIPPO et al., 2002

countries. Judging from the product offers presented by some leading European importers and wholesalers, it is clear that red, round and long grain rice from Italy is common on the organic market. However, rice from India and Pakistan (Basmati), and from Thailand and the Philippines is also available on the organic market.

Quinoa is a type of grain cultivated in, and imported from, Bolivia and Peru. Latin American producers are trying to enter the export market. Due to the limited market size, they are facing difficulties. Worldwide annual exports (Bolivia, Peru, Ecuador) of quinoa (conventional and organic) are estimated at 1,500 tonnes.

Judging from the product offers presented by some leading European importers and wholesalers, it is clear that a wide range of pulses is on offer. These also include beans like adzuki beans, lima beans, mung beans which are generally supplied by developing countries. China is a leading supplier of special beans.

Importers source organic sesame seeds in developing countries like Burkina Faso, Sudan, Uganda, Sri Lanka and the Central American region. According to Naturland (2000) ecological sesame cultivation exists in Peru, Mexico, El Salvador, Nicaragua, India, Sri Lanka, Turkey, Uganda and China.

Vegetable oils and fats

Organic soya oil has had a slow start because of concerns by consumers about genetically modified (GM) organisms. These concerns are misplaced because organic legislation requires the absence of any GM material. Currently, there is a shortage of supply of organic sunflower seeds and the price of these seeds is high. Soya oil is a good alternative, is in abundant supply and is competitively priced.
The Dutch importer Tradin started producing organic soya oil in Bolivia, because it saw potential for organic soya meal as organic animal feed. To get organic soya meal, the organic soya oil is pressed out. Organic soya meal is imported from Bolivia, Brazil, Paraguay and recently also from China.

The market for organic palm oil is still small. Production of organic palm oil is not particularly difficult, but the large-scale processing industry is generally not interested. The industry would have to process organic palm oil on a separate line, which entails extra costs. In Brazil, however, production of organic palm oil has increased significantly in recent years and the country is now a main supplier of the product. The oil is used in products like margarine. Argentina and Colombia also supply organic palm oil. However, prices of organic palm oil are under pressure and importers are looking for cheaper supplies in the Far East. The trade is not merely in containers but in tank ships and volumes range between 1,000 and 2,000 tonnes. Tunisia is supplying organic olive oil. The Dominican Republic is a leading supplier of organic coconut oil. A Dutch importer is setting up organic cocoa oil production in Mozambique.

Edible nuts

Judging from the product offers presented by some leading European importers and wholesalers, it is clear that a wide range of nuts is on offer. These offers indicate that the leading organic nut products are hazelnuts, peanuts and almonds. Other products offered as organic include walnuts, Brazil nuts, cashew nuts and pistachios.

Turkey dominates the hazelnut trade and accounts for more than 80 percent of global trade. The majority of its exports go to the EU. These exports also include organic hazelnut. The USA, China and Argentina dominate EU imports of conventional peanuts. The export of peanuts grown in organic farms has been discontinued in many countries, owing to problems with aflatoxin. The further development of exemplary, organic cultivation systems has stagnated in many countries and cultivation for export is limited to only a few countries among which USA, China, Egypt, Zambia and Israel.

Suppliers of other organic nut products include, among others, China (walnuts), India (walnuts), Tunisia (almonds, pistachio), Bolivia and Colombia (Brazil nuts), Sri Lanka, Brazil and Central American countries (cashew).

Spices and herbs
Spices and herbs contain a very wide group of products. Sales of individual ethnic spices and ethnic blends are increasing across the board. Individually, there has been a strong upswing in sales of organic cardamom and cloves. Organic importers are always on the look out for new reliable suppliers of certified organic spices and herbs. African, Latin American and Asian countries are supplying organic spices and herbs to the European Union. Egypt is a leading supplier, substantial production also takes place in Tanzania, Malawi, Sri Lanka, Peru, Ecuador, Argentina, Brazil and India. There are many other developing countries producing spices and herbs.

Dried fruits
Judging from the product offers presented by some leading European importers and wholesalers of organic products, it is clear that a wide range of organic dried fruits is on offer. The most popular dried fruits (mainly for industrial use) are sultanas, dates, raisins, prunes and apricots. Turkey (sultanas) and Tunisia (dates) are leading developing country suppliers.

Other dried fruits, with smaller markets, include banana, mango, pineapple and papaya. The leading supplier of dried banana is Ecuador, accounting for over half of extra-EU imports, followed by Thailand (11%) and the Philippines (10%). The Netherlands and Germany serve as significant entry points for products into the European hinterland. Products are re-exported to the United Kingdom and France, which are leading consumer markets. Mango, pineapple, and papaya imports into the EU generally come in 10- to 20-kilogram cartons. European importers often package and mix the fruit in their own facilities. Suppliers of dried mango and papayas to the EU include Thailand, the Philippines, Sri Lanka, and Burkina Faso. Imported dried papaya is usually dehydrated, treated with sugar, and diced into 8- to 10-millimeter pieces or crushed. Thailand and the Philippines are the predominant suppliers of dried pineapple to Europe.

Fruit juice/concentrate
The leading imported product is orange juice.
The leading supplier of organic orange juice is Brazil (just as it is for conventional orange juice). The other leading suppliers of organic pineapple juice are India and Ghana.

The leading markets for organic fruit juices are Germany, followed at a distance by France and the United Kingdom. The port of Rotterdam in The Netherlands is the leading entry point for fruit juice concentrates originating outside the European Union. Products are distributed from Rotterdam to the European hinterland.

Cane sugar
Organic cane sugar is primarily grown in South America. Paraguay is a leading supplier, but Brazil and Colombia also supply organic sugar. Other suppliers include Mauritius, the Philippines and the Dominican Republic. Over the last three years, Cuba has also made significant strides in its attempts to raise productivity in its sugar industry. The country is also supplying organic sugar.

Mauritius is a leading supplier of conventional cane sugar but, due to a number of constraints producers gradually lost interest in organic sugar and only one estate, out of the original three, is still involved. The use of organic fertilisers, because of their variable and heterogeneous composition, can lead to over or under fertilisation. Manual weeding was found to be expensive and ineffective. On the processing side, juice clarification was a major problem as clarifying aids are not permitted. Sucrose recoveries were consistently low. Some of these constraints can be overcome, e.g. fertilisation and weed control, but some may prove difficult to surmount, e.g. that of low sucrose recovery during processing (source: Mauritius Sugar Research Institute).

Organic sugar prices are under pressure and have halved during recent years (from around US$ 800 to US$ 400 per tonne). Cane sugar needs to be supplied in substantial amounts. Trade takes place not merely in containers but also in tank ships; volumes range between 1,000 and 2,000 tonnes.

Honey
Since January 2002, when the European Commission decided to ban honey imports from the world's biggest honey exporter China, it is still not possible to import honey from this country. The ban was decided after a mission of the EU's Food and Veterinary Office (FVO), which revealed serious deficiencies in the Chinese residue control system. Another trade restriction influencing the honey market is the USA anti-dumping duties on honey from China and Argentina.

The EU import ban on Chinese honey is not the only factor, which is limiting supplies. A number of producing countries (e.g. Mexico) is suffering poor seasons, or political instability (e.g. Argentina) leading to a continuing worldwide shortage of honey. EU importers have found it difficult to fill the gap and, currently, honey prices are rising and in some cases they have doubled. Prices for honey vary widely depending on type, origin and quality. In general, honey prices are US$ 2,000 per tonne and lower, while organic honey starts from US$ 2,000 and up. Presently, the premium for organic honey is around 15%.

The shortage also abounds in the organic market. A common requirement in the trade included specifications and analyses of the composition of the honey. Due to the ban on honey from China, the requirements on specifications and analyses are currently very strictly followed by importers.

The regulations for organic honey do not allow the use of pesticides. In Europe and Asia, pesticides are often used against a particular mite that is not found in America, Australia and Africa. Organic honey, therefore, can be more easily produced in these three regions. This offers good opportunities for producers of honey in developing countries especially in Latin America and Africa. Leading suppliers of organic honey include Mexico, Guatemala, Argentina, Uruguay and Chile. Chile is suffering a very poor season, while political instability in Argentina is not contributing to stable trade flows from that country.

Opportunities and threats for developing countries concerning EU imports

- Germany and the United Kingdom are the biggest importing countries of organic products in the EU. The Netherlands is also a major importer and plays a role in the re-export of (processed) organic food products.
- Important organic products that are imported in the EU are coffee, tea, sunflower seeds and soya oil. Apart from basmati rice, there are protective measures for grains imported in the EU.
- Organic products are imported from developing countries from all over the world. The wide range of products, the use of local structures and the relatively easy way of conversion give Africa opportunities in exports organic products.

6 EXPORTS

Organic food production in many EU countries is primarily aimed at domestic demand and to a much lesser extent, destined for export markets (mainly USA and Japan).

Organic trade is not recorded separately in the HS system and is not registered by Customs. Data on organic trade are therefore scarce and, because they are always estimates, they must be interpreted and used with extreme caution.

Table 6.1 provides an indicator of what percentage of all organic sales was diverted into exports, as opposed to being sold on the domestic market. Whilst not the largest volume exporter, Spain exported almost all of its organic cereals sold as organic in 2000.

Germany

Organic food production in Germany is primarily aimed at domestic demand. Germany was the largest potato exporter in quantity, although this accounts for only 13.3 percent of what was sold as organic.

United Kingdom

Organic food production in the United Kingdom is primarily aimed at domestic demand. According to Freshinfo, the UK does not export organic foodstuffs (www.freshinfo.com, 24/7/2001).

Italy

Italy is the EU country with the highest number of farms and the biggest area under organic management. It is the largest supplier of organic products in Europe. Export demand has driven Italian production in recent years. Export products include domestic produce such as olive oil and rice. Italy, the largest volume exporter, exported 68.8 percent of its total organic cereals sold as organic. The country also exported more than half of all its organic wine.

France

Of the EU countries, France has one of the highest export percentages, exporting almost half of its organic oilseeds that were sold as organic. French exports consist mainly of added value grain products destined for Germany and Scandinavian countries. However, due to the growing self-sufficiency in Germany, French export of organic products has dropped considerably. France exported also more than half of all its organic wine.

Denmark

Exports, including re-export of organic food and beverages, amounted to about € 31.1 million in 2000 and are expected to rise considerably (ØLC). Fruits and vegetables, including fresh and processed, constituted the third largest export item. With respect to milk, Denmark exported the highest share of its domestic

Table 6.1 Exports as a share of plant and animal production sold as organic in 2000 in percents

	Cereals	Oil-seeds	Po-tatoes	Vege-table	Fruit (incl. nuts)	Wine	Milk (pro-ducts)	Beef	Sheep and goat	Pork	Poultry	eggs
Austria	7.7	5.0	23.8	11.0	7.7	41.7	15.0	2.7	-	-	-	5.0
Belgium	104.2	500.0	10.2	233.3	140.0	-	17.6	36.4	-	5.0	-	-
Germany	29.1	17.6	13.3	8.5	4.9	1.0	10.0	2.2	-	-	-	5.3
Denmark	11.1	-	11.0	26.7	25.0	-	18.5	2.3	3.5	3.6	0.3	17.1
Spain	90.0	-	-	74.2	77.1	36.7	-	-	0.0	13.2	22.7	
Finland	36.1	-	-	-	23.1	-	0.0	-	-	-	-	25.8
France	43.0	40.6	2.9	22.7	42.9	61.5	0.8	-	-	-	29.2	-
Greece	14.3	-	50.0	33.3	50.0	3.3	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-	-	-	-	-
Italy	68.8	-	-	50.0	60.0	70.0	2.4	18.4	-	-		
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-
The Netherlands	583.3	-	27.5	162.5	43.2	-	17.1	-	-	20.2	46.7	33.3
Portugal	-	-	-	0.5	-	-	-	-	-	-	-	-
Sweden	8.3	0.0	0.0	0.0	0.0		0.0	25.3	0.0	24.9	0.0	0.0
United Kingdom	-	-	-	-	-	-	-	-	-	-	-	-

Source: OMIaRD

organic milk sold as organic. The main export markets for organic fruits and vegetables are the United Kingdom, Germany and Sweden.

The Netherlands

The Netherlands is one of the leading EU exporters of organic food products. The country serves as a significant entry point for organic products, which are re-exported into the European hinterland. There is a number of organic traders in The Netherlands accounting for a large share of EU imports which are then re-exported to other European countries. With figures exceeding 100 percent for both The Netherlands and Belgium, it confirms that they exported more than was domestically sold as organic.
Traders of organic products in The Netherlands are significant exporters of vegetables (of which the majority is domestically produced), fruits (about 80% is re-export), dairy products (mainly cheese), grains and cereals (mainly re-export) and spices and herbs. Finally, about half of the consumer-packed organic products manufactured in The Netherlands is exported.

Opportunities and threats for developing countries concerning EU exports
As follows from the export information, total EU export of organic food products is relatively low. Organic production is primarily aimed at domestic demand. Since supply of organic products cannot always meet EU demand, EU export is not a threat for exporters in developing countries. As mentioned, The Netherlands is an important importer to re-exports of organic food products. Dutch importers were the first to import organic and related products, both fresh and dry, which they then resold to their European neighbours, but German and French importers are becoming involved as well. Several importers manage their own production project in emerging countries to ensure good product quality.

7 TRADE STRUCTURE

7.1 EU trade channels

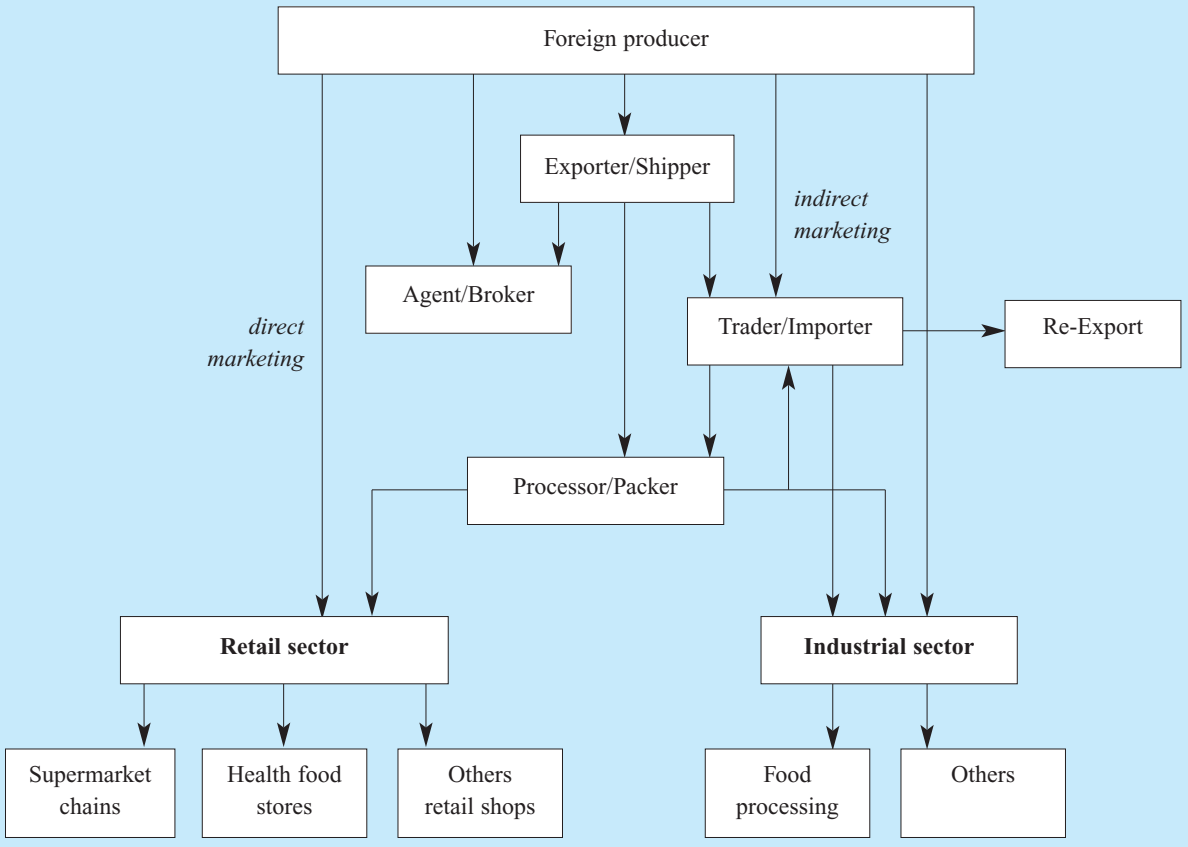
In this chapter, we will discuss a number of distribution channels in the EU market for organic food products. Some of these distribution channels, such as supermarkets, are commonly known in the food retail markets. Others, such as health food and natural food stores and direct marketing are more specific to the organic trade. As an introduction, we will first give a short explanation of these more specific channels. Producers can market their products directly or indirectly at various levels.

Using indirect marketing, producers and exporters supply their organic products to importers in the EU. Distribution of imported organic foods through a specialised importer and/or a processor/packer is the most usual form of distribution. In each market and for each of the major product groups a few specialised organic traders tend to be the dominate customers for foreign exporters. They import on their own account and sell to packers, processors and food manufacturers. The latter do not often import directly from outside Europe, though it is likely that this will increase, especially as more conventional food manufacturers begin to set up organic product lines.

Please also refer to the EU market survey "Food Ingredients for Industrial Use" 2003 for more information on indirect marketing for food ingredients for processors and manufacturers.

With direct marketing, farmers take greater control of marketing by bypassing traditional channels and supplying directly to consumers at the local and regional level. Foods that do not require much processing before consumption like fruits, vegetables are ideal for one-on-one marketing. Direct marketing includes things such as farmers' markets and box schemes (weekly or biweekly home delivery of boxes containing a selection of organic products). Direct sales from foreign exporters to the central purchasing units of retail chain stores are still rare, but are likely to be of growing interest to the multiples as their organic volumes and their uptakes of new organic products increase.

Figure 7.1 Distribution channels



Health food stores (also called 'Reform shops') market products which are (perceived to be) healthy. Leading products supplied by these shops are food supplements and natural medicine products. Because organic products are perceived to be healthier than conventional products, these are also sold in health food stores.

Natural food stores predominantly offer organic products in their assortment. These stores profile themselves with organic products and the assortment commonly consists of fresh produce. There are exceptions such as whole-food stores in the UK, of which only a small share of their assortment consists of fresh produce.

The importance of individual marketing channels differs from country to country. Whereas in Germany direct marketing and the marketing via specialised shops dominated for a long time, the organic sector in Switzerland, Scandinavia and the United Kingdom concentrated on supermarkets at a very early stage.

In countries where organic foods are mainly sold via supermarkets, growth and market shares are higher than in those where specialised shops are the main marketing channels. Consumer premiums are lower in countries with a high involvement of general food retailers, compared to countries with a high involvement of specialised retailers. One contributing factor is lower distribution costs; it is cheaper to transport larger volumes of organic products, together with conventional products, to bigger distribution centres and on to major retailers than it is to transport small volumes to small specialist organic food shops.

Below, the distribution channels for the six major EU markets are discussed.

Germany

The share of the different distribution channels in retail sales of organic food products in Germany is shown in Table 7.2. These data are based on statistics as well as estimates of numerous market players.

In 2001, 42 new, large organic food stores and organic supermarkets were opened in Germany. This indicates a boom in specialised stores with more than 200 m^2 of sales space. The number of new stores and store extensions has distinctly increased since 1999 (just under 20) and 2000 (just under 30). The total number of large specialised stores throughout Germany is probably meanwhile over 100. One of the leading companies is Alnatura. In September 2002, the company opened its 13th organic products supermarket. Alnatura had a turnover of € 65 million in the trading year 2001/2002 and employs a workforce of 450.

Table 7.2 Share in organic retail sales by distribution channel in Germany, 2001

Distribution channel	Value in € billion	Share in retail sales
retail trade	0.66	33%
natural food shops	0.56	28%
reformhauser	0.20	10%
direct marketing	0.35	17%
butchers and bakers	0.15	7%
others	0.10	5%

Source: www.organic-europe.net

In 2000, the German organic food retail trade grew by 7 percent. German stores in the size category from 75 to 150 m^2 expanded most by plus 30 %. Organic supermarkets with over 300 m2 sales space recorded turnover growth of 18 %, with 10 % for stores of 150 to 300 m^2. Only the small shops with less than 75 m2, which still make up the bulk, performed more modestly with 1 % growth.

An increasing drive/impetus can be determined in the growth of the companies processing organic products. Altogether more than 18 thousand companies operated in the organic sector in Germany in 2001. The processing sector grew by 15 percent in 2000 and by another 20 percent in 2001.

United Kingdom

The structure of sales by outlet type shifted significantly as the organic category expanded. Supermarket chains now dominate organic sales. This emphasises the current importance of the organic category to the mainstream UK food market. It also illustrates the rapid expansion of organic food beyond its niche market origins. As organic goods have become mainstream purchases, these stores have captured more of the market, and are now responsible for 70-80% of sales by value.

While supermarkets have taken an active role in supporting domestic production recently, the most significant reason for large grocery stores gaining the lion's share of sales is the general dominance in the UK of one-stop shopping. This trend, which has been developing in the United Kingdom for up to 20 years, is likely to continue as larger stores continue to offer more products, and as the stores continue to develop their use of the Internet to conduct business.

Table 7.3 Share in organic retail sales by distribution channel in the UK

Distribution channel	1996/97	1998/99	1999/2000
Grocery multiples	60	70	74
Local and direct sales*	20	17	13
Independents	12	10	13**
Health-food/ whole-food shops	4	1	
Other***	4	2	

* i.e. Farm gate sales, box schemes, and organic farmers' markets

** Independent and health food shops combined

*** Includes market stalls not specialising solely in organic produce and other stores

Source: MINTEL, Organic Food and Drink, Market Intelligence, November 1999. Soil Association for 1999/2000

In 2001, supermarkets further increased their proportion of market share from 74 percent to 80 per cent. Consequently, direct sales and sales through independent and health food shops declined as a proportion of the total market value. Supermarket price wars have continued to threaten the integrity of the market by driving down returns to producers.

Waitrose, primarily based in the south east of England, has been at the forefront of the development of the organic market in the UK and states that nearly 15% of its produce sales (fruit and vegetables) and 60% of baby food sales are currently organic. Waitrose reported an average of approximately £2 million each week for organic sales at the supermarket's 136 branches in September 2000.

Sainsbury is also leading the development of the market and in 2000 took the title of Organic Retailer of the Year from Waitrose at the Soil Association's annual awards. Sainsbury's sales of organically grown food have more than doubled in a year. The company said its customers spend £ 2.5 million (US$ 8 million) a week on organic produce. Sainsbury is primarily based in the south east of England and is acknowledged to have developed strong supplier relationships. Moreover, it is a strong supporter of the UK's largest certification body.

In 2000, Tesco, the largest supermarket group in the UK, decided to give organics a higher profile strategy. Tesco will sell more tonnes of organic food this year than anyone else and is also the leader in terms of on-line grocery sales.

The supermarket chain Iceland, which was the first to remove GM ingredients from its food range, has now committed itself to sell organic produce at little or no extra cost over conventional foods to its customers, using profits from other products to subsidize lower-cost organic produce.

Aside from the major supermarket chains and health-food stores that sell organic foods as a part of their lines, there is a number of specialist retailers that are expanding their UK operations. Perhaps best known is Planet Organic, based in London, which was established in 1995 and which opened its second shop in 2000. Currently with a turnover of around £4 million a year, it is believed to have ambitious plans to open 35 to 50 stores across the country over the next 10 years.

Fresh 'n Wild and Greenways Natural Food Stores, both London-based are perhaps the next best known. Fresh 'n Wild has plans to expand to six stores by the end of 2001 from the current three.

Direct sales have increased significantly in recent years, especially through home delivery box schemes and organic farmers' markets. The box schemes work on the principle that consumers pay for weekly or biweekly delivery of the boxes, but have little choice as to which seasonal fruits and vegetables will be delivered.

There are also over 100 organic farmers' markets throughout the United Kingdom that sell their produce directly to consumers.

Italy

Until 1993, organic fruit and vegetables in Italy were sold only in specialised organic produce outlets through direct farm sales and in occasional organic open-air markets. Few supermarkets sold organic convenience foods, such as wholemeal pasta, tomato sauce, etc. Nowadays, more than one third of all organic food sales in Italy go through specialist retailers. Only 25-35 percent is distributed through multiple outlet retailers. There are about 1,000 smaller shops in Italy that specialise in organic food, two thirds of which are located in the north of the country. These retailers are usually found in the wealthier sections of town and often carry natural cosmetics as well as selling food and drink through a bar and/or restaurant. There are also larger outlets (between 200 and 500 square metres) and about fifty franchise shops of regional or nation-wide chains. The most important franchiser is Naturasì with about 30 franchisee superettes. Most other chains that sell organics do not separate them from their non-organic counterparts.

France

Sales via small specialised natural food and health-food shops were important up until the 1990s. Today, however, supermarkets are gaining more and more importance for the marketing of organic products. Furthermore, the Superettes, small specialised bio-supermarkets with self-service and a surface of 200-500 m^2, partially replace, but also supplement, the small specialised shops. Many of them and other sales persons are members of the association Biocoop which organises the distribution of organic produce in France. It has 170 selling points in the whole country and has given itself special standards.

Today nearly half of the organic food is sold through supermarket chains, whereas the rest is sold through health food stores, direct sales, and open-air organic food markets. Most of the supermarket chains have their own organic food label, carrying an array of products from dry foods to dairy products to meat and fresh products.

Table 7.4 Share in organic retail sales by distribution channel in France

Distribution channel	Share in retail sales (%)
specialty shops	43
retail chains	47
others	10

Specialty shops include natural food stores and health-food stores
Source: Synergie, 2002

Processing

The organic food-processing sector traditionally consists of small and medium-sized artisanal enterprises, which produce one to two speciality products and sell them locally.

Large agri-food companies are investing in organic foods and using their names to launch brands available nation-wide. There are around 700 organic food processors, most of which process milk or grains. Grain processors include millers, bakers, breakfast cereal producers and cookie manufacturers. The organic food-processing sector is growing at an average annual growth rate of 17.5 percent, and there are now more than 5,000 companies processing organic foods.

Denmark

It is estimated that supermarket chains sell the majority of organic food products. Co-op Denmark (FDB), IRMA (also owned by FDB) and the Dansk Supermarket A/S are the most important retail and distribution organisations in the organic food trade. Sometimes the supermarkets import the products directly from abroad, but mostly the products are bought from Danish producers and importers. SuperGros A/S is the country's largest wholesaler in daily goods, including foodstuffs, supplying a number of independent supermarkets and other retailers.

Although organic food products are of relative importance for the catering and institutional sector, this sector is expanding. Several distributors are now organised to exploit the potential in this sector. Trade sources also indicate that there is a lack of products, specially prepared and packed for the sector, e.g. salads and vegetables, as well as semi-processed items.

The Netherlands

In 2002, 39% of the organic products in The Netherlands was sold through health food shops. In the last six years, the increasing interest of the consumer has led to an annual growth in turnover of the organic food shops of five to eight percent.

Table 7.5 Turnover of the different distribution channels in The Netherlands 2001-2000 million €

Outlet	2001	2002	market share 2002
Supermarket	160	180	48%
Health food stores and other speciality shops*	138	145	39%
Others	45	50	13%
Total	434	375	100%

* reform shops and organic butchers
** farm sales, markets, HRI etc.
Source: Platform Biologica, 2003

The interest of supermarkets in organic products has increased sharply over the last few years. Since Albert Heijn (AH) - the market leader in The Netherlands - introduced its own organic house brand at the beginning of 1998, sales through the supermarkets have risen sharply. The market share of the supermarkets has grown in five years time from 19 to 48 percent (€ 160 million).

The other sales take place through health-food stores and other specialty shops and through a diverse range of other channels.

The number of organic farmers' markets more than doubled between 1996 and 2001. Subscribers to a vegetable box scheme receive a bag with fresh (mainly

regionally grown) fruit and vegetables every week. The box can be arranged directly via organic farms or via organic food shops and is very popular. While ten years ago it was an unknown phenomenon in The Netherlands, in 2001 the boxes were sold to 45,000 households.

The growing demand for organic products has also resulted in a remarkable growth in the number of processors of organic products, from some 642 in 1999 to almost 922 in July 2002, indicating a growth of 9.4 percent compared to 2001. Processors include industrial and artisan processors, importers and the service-providing sector.

7.2 Distribution channels for developing country exporters

As mentioned, the best way for exporters in developing countries to market their organic products is indirect. Since the organic consumer products in developing countries often cannot meet the specific and strenuous market demand, the most important distribution channel for exporters of organic products in developing countries is importers specialised in organic products. These importers serve as intermediaries between the retailer and the producer. A substantial number of specialised importers is located in The Netherlands as the port of Rotterdam serves as a significant entry point for Europe. Many Dutch importers distribute a substantial part of their imports further down to the European hinterland. The port of Hamburg in Germany is also an important entry point.

Business partners can be found by making use of several directories of contact details, such as **www.organicts.com** or **www.biofach.de** The Biofach trade fair in Germany can give you a good idea of what is happening in the organic sector and about future trade partners.

Internet sites of importers of organic products (for example found at **www.linksorganic.com**) generally give detailed information about the products on which they are focus.

Trends in distribution channels of organic food products

- *Professionalisation*
  The tendency is generally that supermarket chains are taking over the organic market from the specialised health-food shops. Some major supermarkets (e.g. Germany, Italy, Belgium) are opening small, totally organic supermarkets. The health-food shops in their turn, try to organise themselves and aim at a more professional way of marketing. The supermarkets cannot afford to be out of stock or to have deviations in quality, nor can they afford to be confronted with certification problems or questions about labour conditions in their own companies or their supplying companies.
- *Partnership between supplier and importer*
  When exporting through a joint venture, it means that the exporter can use the existing sales network of its European partner. The latter will always try to sell as much products as possible from its own joint venture. This construction also minimises the risks of non-payment by the buyers and guarantees fair prices. Moreover a partnership can lead to better logistic systems, better purchasing conditions for packaging, combined promotion actions, lobbying etc. It is therefore increasingly used as a successful approach for exporting and importing organic products.
- *E-commerce*
  Sales through the Internet, often combined with box schemes, are growing in importance. Internet has provided many opportunities as a new means of communication between businesses and people. E-commerce means doing business over the Internet selling goods and services which are delivered online. E-commerce can be very useful for finding and making the first contact with a business partner. Internet poses only low barriers to entry as set up costs are low. An example of an Internet site on which buyers and sellers of organic products can meet online is www.organicts.com or www.greentrade.net
- *Fair Trade*
  Fair Trade organisations have become an important distribution channel for organic products in Europe, particularly in Germany, Switzerland and The Netherlands, but also in a number of other markets. The primary concern of the fair trade movement is the social and economic situation of farmers and producers in developing countries, rather than organic agriculture as an ideal. However, the two movements tend to converge, as both contribute to genuine sustainability. Fair trade distribution is of great consequence for a number of product groups from developing countries, especially bananas, cocoa, coffee, honey and tea.

8 PRICES

8.1 Price developments

Only a little and partial information is available on prices for specifically organic products. However, generally, it can be said that almost all organic products command a higher price than conventional products. Premiums generally range between 15 and 25 percent, depending on the type and quality of product and the current market situation.

The price differential between conventional and organic products, however, has decreased during recent years and competition in the organic sector is increasing. The import price of sugar, for example, has halved in recent years from US$ 800 to around US$ 400. Increasing trade and competition has also forced processors and distributors to cut down costs of handling. Trade in bigger quantities for some products (e.g. palm oil and sugar) has led to economies of scale in shipping, and in processing and distribution systems.

Importers mostly trade on annual contract terms in which prices are fixed. Importers are generally interested in a long-term stable relation with a supplier. However, price pressure in the organic market has increased. Due to this pressure, importers are more easily inclined to change to other cheaper suppliers at the end of a contract period.

For some agricultural products, for example coffee and cocoa, the producer prices are linked either to conventional prices plus a premium fixed in absolute value or in percentage. For other products, for example grains, most of the production is contracted in advance at an agreed price. In such cases, it is quite possible that at certain periods of the year the value of organic products is cheaper than conventional ones. Generally, the price difference is less for processed products.

Table 8.1 shows retail prices in The Netherlands for conventional and organic products. Although compared to two years ago, prices of organic products have dropped, the differences between conventional and organic products prices is still remarkable. In conventional food outlets, customers are clearly more aware of price, since in the same shop they can compare organic and conventional prices directly. Customers who shop in health food shops are used to high prices, yet demand for some products could still be dramatically increased if prices for certain basic products were brought below specific threshold levels.

Table 8.1 Retail prices in € (incl. VAT) in The Netherlands for conventional and organic products

	AH conventional	AH organic	Health food shop
potatoes	1.69	2.49	2.50
milk	0.65	0.90	1.00
bread (1/2)	1.41	1.90	1.67
cane sugar (kg)	0.93	1.29	2.70
eggs (4 pcs.)	0.97	1.49	1.20
coffee	1.49	1.69	2.70
banana (kg)	0.33	-	2.95
baby food	0.79	-	1.09

AH: Albert Heijn, the leading supermarket in The Netherlands, August 2003
Source: Albert Heijn and EkoDirect on-line foodstores, August 2003

8.2 Price information

For international conventional commodity prices including peanuts, coffee, cocoa, tea, coconut oil, sugar and rice, please refer to FAO: **http://apps2.fao.org/ciwpsystem/ciwp_q-e.htm**. The information on conventional products can serve as a background for price calculation of organic products. As mentioned, organic products command a higher price than conventional products. Premiums generally range around 20 percent, depending on the type and quality of product and the current market situation.

Sometimes, importers of organic products publish wholesale prices of their products on their company Internet site.

Useful Internet sites of conventional product prices

apps2.fao.org/ciwpsystem/ciwp_q-e.htm	FAO, prices of conventional commodities.
www.p-maps.org/mns or www.intracen.org	ITC, prices from the Market News Services for fruit and vegetables, spices, rice and for fruit juices.
www.public-ledger.com	Public Ledger's Commodity Week provides prices for an extensive range of commodities including beans, vegetable oils and fats, dried fruit, nuts, sugar, spices, herbs, honey and seeds.
www.oilworld.de	Oil World provides prices of vegetable oils.
www.ipcnet.org	The International Pepper News Bulletin gives prices of pepper.
www.ico.org	Update prices of conventional coffee.
www.icco.org	Daily prices of conventional cocoa.
www.todaymarket.com	Daily wholesale prices of conventional herbs, fruit & vegetables.
www.foodnews.org	Foodnews, regular information on world prices of various food items.

Useful Internet sites of organic product prices

www.zmp.de/produkte/fax_online/gbg_oekomarkt.htm	ZMP provides an Internet service of prices of organic fruit, vegetables and grain. Prices are provided at the level of the farm gate, wholesale and consumer level. Costs of this service are € 21 monthly. You can test the service without charge for a period of three weeks.
www.organic-europe.net	In the country reports on this website, prices are mentioned between the lines.
www.newfarm.org/opx/index.shtml	The New Farm® Organic Price Index™ (OPX), is a comparison of terminal market, other wholesale and selected large-scale retail prices for organic and conventional foods and sustainably raised meats. It is updated on Tuesday of each week and represents prices for products gathered on Monday of the same week from markets on the east and west coasts of the United States. These prices can serve as an indication of European prices.
www.certifiedorganic.bc.ca/rcbtoa/services/prices.html	The Internet site provides a searchable list of recent British Columbia (Canada) market prices and pricing trends for organic produce. These prices can serve as an indication of European prices.

☛ For methods and terms of payments, please refer to paragraph 13.4 Handling the contract.

9 REQUIREMENTS FOR ACCESS

This chapter principally deals with legislation on organic food products, with requirements for specific selected product groups and with some trade related general aspects that are important for exporters to Europe. However, because many requirements for conventional food products also apply to organic food products, highlights of those for conventional food products will also be included.

9.1 Non-tariff trade barriers

Exporters in developing countries wishing to penetrate the European Union should be aware of the many requirements of their trading partners and EU governments. Standards that are being developed through legislation, codes, markings, labels and certificates with respect to environment, safety, health, labour conditions and business ethics are gaining importance. Exporters need to comply with legislation in the EU and also have to be aware of the many market requirements.

CBI's AccessGuide provides clear information on these standards and their implications. AccessGuide is CBI's database on European non-tariff trade barriers, specially developed for companies and business support organisations in developing countries. Registered companies and organisations have free, unlimited access to AccessGuide information.

☛ For more information please refer to **www.cbi.nl/accessguide**

This chapter will only deal briefly with the relevant issues within this subject. References to other relevant information sources will be made.

9.1.1 Quality and grading standards

In recent years, regulation on food products has become more complex and stringent. Regulation EC 178/2002 was adopted in 2002. It lays down the general principles and requirements of food law, establishing the European Food Safety Authority and specifying procedures in matters of food safety. The regulation is commonly known as the General Food Law, although it is in principle not a law but a regulation.

General rules for food hygiene are laid down in the Directive 93/43/EEC. Hygiene is defined as all measures to ensure safety and wholesomeness of foodstuffs. The new regulation states explicitly that foodstuffs cannot be placed on the EU market if they are unsafe. This was, at least implicitly, already regulated through national food law, but now there is a EU-wide explicit regulation. Moreover, the regulation stipulates that it is necessary to establish a comprehensive system of traceability within food businesses. Due to increasing consumer attention to food safety, the industry had already started initiatives to pay attention to chain management and labelling systems through which products can be traced back to the producer. Legal measures have now also been taken by the European Commission to deal with the issue of food safety.

The core aspects of the General Food Law will only take force as from January 2005. Therefore, despite harmonisation efforts, exporters should realise that differences still exist between EU member states. Therefore, their products should still comply with the legislation of the separate EU member states.

Moreover, there are regulations concerning packaging and labelling, product composition, additives, contaminants, environments and, for a number of product groups, regulations concern the product itself.

☛ Integral text of the directives and regulations mentioned can be found at **www.europa.eu.int/eur-lex/en/search.html**. For information on EU pesticide residue legislation refer to **http://europa.eu.int/comm/food/fs/ph_ps/pest/index_en.htm** and for EU regulations on pesticides and other contaminants to **www.useu.be/agri/pesticides.html**

Standards for organic food products

Products labelled as organic must have been certified as having been produced through clearly defined organic production methods. In other words, 'organic' is a claim to the production process, rather than the product itself. If, for instance, the product is free from pesticide residues, this in itself is no proof that the product has been produced organically.

IFOAM

The International Federation of Organic Agriculture Movements (IFOAM) is the global umbrella organisation for the organic agriculture movement world wide, which represents organisations involved in production, certification, research, education and promotion of organic agriculture. It has more than 600 member organisations in over 100 countries around the world. Its "Basic Standards for Organic Agriculture and Food Processing" have been adopted as the basis for organic standards throughout the world. Please refer to: **www.ifoam.org** for the text of the latest standards. The IFOAM website, moreover, is a general source of useful information. IFOAM was a major contributor to the organic standards of the EU adopted in Regulation 2092/91 and to the Codex Alimentarius guidelines.

It is important, however, for exporters to be aware that agricultural units, processors and their products must be certified by EU recognised control bodies, to confirm that they meet the required EU or specific national standards before their products can be offered for sale in EU markets. It is very important for an exporter to check whether the certifying organisation, which he wants to hire to certify his organic products, is accepted in the countries he wants to export to.

Codex Alimentarius
The Codex Alimentarius Commission (**www.codexalimentarius.net**), a joint FAO/WHO Food Standards programme, developed (in 1999) standards for production, processing, labelling and marketing of organically produced foods. FAO and WHO have officially declared that international guidelines on organic food products are important for consumer protection and information. Moreover, they facilitate trade. They are also useful for governments wishing to develop regulations in this area, in particular developing countries and countries in Eastern Europe. The Codex guidelines take into account the current regulations in different countries, in particular the EU 2092/91, as well as private standards, especially the IFOAM general standards.

The Codex guidelines for organic agriculture can be downloaded from:
www.fao.org/DOCREP/005/Y2772E/Y2772E00.HTM

The FAO has a website specifically on organic agriculture: **www.fao.org/organicag**/.

EU regulation for organic food production and labelling
The main requirement to market organic products in the EU is that products must comply with Council Regulation (EEC) 2092/91 and its subsequent amendments. This regulation specifies the principles for organic production at farm level and the rules that must be followed for the processing, import and labelling of products to be marketed as organic in the EU. It also covers inspection measures that should be in place. Organic standards for livestock production are included in Council Regulation 1804/1999. These will not be further discussed, as meat is not included in the product groups of this survey.

The manner in which EU Regulation 2092/91 has been implemented varies from country to country within the European Union; further information can be obtained from the national Competent Authorities (usually, the member country's Ministry of Agriculture or an agency under this Ministry), from certifiers or from IFOAM.

If an importer in the EU wants to import organic products from a non-EU country not recognised under Article 11 of the EU Regulation (see list of 8 countries in the box on this page), he needs to apply for an import permit for the specific exporter and specific product and he needs a 'certificate of inspection' for each consignment he actually imports.

This application must be accompanied by documentation on the equivalence of standards and control measures:
The importer must provide evidence that the product has been produced in accordance with production requirements equivalent to those laid down in article 6, that control measures are as effective as those set out in articles 8 and 9, and that these control measures are effectively and permanently implemented. Equivalency between production measures in the EU and the export country is documented through the use of certification bodies having standards at least equivalent to those of the EU or a certification programme that ensures certification against standards equivalent to those of the EU. To ensure equivalency in the effectiveness of inspection and certification measures, certification bodies must satisfy the requirements of standards EN 45011 or ISO/IEC Guide 65:1996. In other words, these certification bodies need to be accredited according to EN45011 or ISO65 standards.

The exporter's certifying organisation must issue a 'certificate of inspection' for each consignment to be exported to the EU, stipulating exact quantities of each separate product of the consignment. This control certificate should be included in the original shipping documents and is checked and endorsed by the Customs in the EU. If the importer has no import permit or a control certificate is missing, the consignment cannot be cleared through EU Customs.

Local certification bodies, where these exist, can also carry out organic certification provided that the authorities of the EC accept them. Experience to date shows that this can be a difficult and costly process.
To obtain certification, organic producers usually pay a package fee consisting of a fee for registration (once), a fixed yearly fee, a variable yearly fee (depending on the time needed for inspection), and additional fees for specific services and activities. Another system is a licence fee, based on the turnover of the producer.

Please refer to Appendix 2 for some examples of certification bodies in developing countries which have managed to obtain EU accreditation. Because accreditation of certification bodies in developing countries is difficult, local bodies tend to develop partnerships with international certification agencies.

Besides the issue of local certification bodies, the issue of small-scale production has received a lot of attention in recent years. A substantial number of products from

Standards of EU regulation

The principles of organic production on agricultural holdings

The fertility and biological activity of the soil is maintained through the cultivation of legumes, green manure or deep-rooting plants in an appropriate multi-annual rotation programme and through the incorporation of organic material. By-products from livestock farming and other organic and mineral fertilisers are mentioned in an approved list. Plant diseases and weeds are combated through the careful selection of naturally resilient species, appropriate rotation, mechanical cultivation procedures, protection from pests and flame weeding. Only a limited number of plant protection products is authorised for immediate treatment of crops.

Food products obtained by processing organic agricultural products

The Regulation restricts the ingredients of non-agricultural origin (e.g. additives, micro-organism and enzyme preparations, minerals, vitamins) and the processing aids which may be used for preparation of foodstuffs labelled as organic: only natural or nature identical products that are considered not to "degenerate" the organic production method followed for the production of the agricultural ingredient may be used during processing. The Regulation includes a list of approved non-agricultural ingredients and processing aids. The use of ionising irradiation and of genetically modified micro-organisms in the preparation of foodstuffs is prohibited.

Inspection system

There is a complete and specific inspection regime to which all operators in the sector are submitted. The organisation of the inspections comes under the responsibility of each Member State of the EU. Each has designated one or more official inspection authorities or must approve private inspection bodies, and supervise their inspection activity.

Imports

Products from third (non-EU) countries can be sold as organic only when it has been demonstrated that they come from a country where the rules applied to organic farming are equivalent to the Community rules laid down in the Regulation. At present, such equivalence has been recognised for Argentina, Australia, Costa Rica (since March 2003), Czech Republic, Hungary, Israel, New Zealand and Switzerland under Article 11 of the Regulation.
Importers may be authorised to import products from non-EU countries that do not appear on the list under Art. 11, provided they submit to the competent authorities the required information giving evidence of equivalent production standards and inspection arrangements. The authorisation applies only to the specific product being imported. Such an import permit is generally issued without many problems, when an EU-accredited certification body has certified the products.
Each consignment of organic products from non-EU countries must be accompanied by a 'certificate of inspection' up to the place of delivery in the EU, issued by the inspection body of the exporter. Organic products imported from outside the EU must be in closed packaging bearing a reference to the importer and details of the product matching those on the inspection certificate accompanying the consignment. This control certificate has to be endorsed by Custom Authorities in the EU-port of entry, before the products can be imported as organic.

Labelling

The Regulation stipulates detailed labelling rules to ensure that the message on the "organic" nature of the product is correctly passed on to the consumer. Specific rules apply to the following categories:

- unprocessed agricultural products;
- foodstuffs containing more than 95 percent of organic ingredients (related to total agricultural ingredients): these products may be labelled "organic" as long as the non-organic ingredients are on the EU approved list;
- foodstuffs containing between 70 percent and 95 percent organic ingredients: these products may not be called "organic" but the word organic may be used in conjunction with the constituent organic ingredients provided these are listed clearly in order by weight.

developing countries is sourced from small producers. While, previously, certification programmes had difficulties in including these producers, recent programmes have made special provisions for certification of smallholder growers organised in associations or co-operatives: the so-called Internal Control System (ICS). With a proper internal control system, only a random sample of the total number of

producers has to be inspected by the independent certifying organisation.

Important EU inspection organisations operating internationally include Skal (Netherlands), BCS and Naturland (Germany), Ecocert (Germany, France, Belgium, Italy), KRAV (Scandinavia) and the Soil Association (United Kingdom). IMO of Switzerland also operates according to the EU regulations and certifies internationally. Please refer to Appendix 2 for a list of the major accredited certification bodies in Europe and developing countries.

"Certification of organic foodstuffs in developing countries" is a very complete source of information, which can be downloaded at **www.gtz.de/organic-agriculture/en/lit/lit02.html#1**
Here, you can also find the US and Japanese legislation on organic food. At the end of 2002, ITC updated chapters 1 and 2 of its study: Organic food and beverages: World supply and major markets (1999). This can be downloaded at:
www.intracen.org/mds/sectors/organic/welcome.htm

It is important to note that certifiers sometimes do not recognise each other's certification, because they have their own, private standards, slightly different in some details from the EU 2092/91. This might create problems for exporters. To avoid unnecessary and expensive double certification, it is very important to verify whether the certifying organisation that is targeted to certify the products of an exporter, will be accepted in the countries to which the exporter wants to export. It is also truly worthwhile to check whether the certifying body is accepted in the US and Japan.

The dilemma described above was a major reason for the establishment of IFOAM's Accreditation Programme. Certification bodies engaged in inspection and certification and/or processing operations can submit themselves for evaluation against internationally agreed criteria, thereby enabling them to gain accreditation status. Accredited bodies in developing countries include those in Argentina, Bolivia, Brazil and Thailand (see **www.ioas.org**). At the end of 1998, IFOAM-accredited certifiers agreed to mutually recognise each others certificates.
However, since the EU Regulation only accepts certificates of organisations, which have been recognised by the government of the EU country concerned, many certifying organisations do not find it necessary to submit an application for IFOAM accreditation. Consequently, there is still a long way to go in bringing together certifiers, thus smoothening the institutional setting for production of and trade in organic products.

Organic legislation and genetic modification
The Council Regulation amendment (EC) Nr. 1804/1999 includes the consideration that 'Genetically modified organisms (GMOs) and products derived therefrom are not compatible with the organic production method; in order to maintain consumer confidence in organic production, genetically modified organisms, parts thereof and products derived therefrom should not be used in products labelled as coming from organic production'.

All companies involved in organic production must demonstrate production without the use of GMOs. If a company only applies organic raw materials and processing aids, this demand is met automatically. However, when also some non-organic raw materials or processing aids are applied, it must be demonstrated that these materials are produced without the use of GMOs. This legislation applies to all sectors, i.e. vegetable and animal production, feed, and food. It implies that none of those products, for which GMOs have been used in some way or another, may be used in organic production. However, the Council Regulation does not indicate to what extent this must be verified backwards in the production chain.

The consolidated text of the EU basic Regulation 2092/91 can be downloaded at **http://europa.eu.int/eur-lex/en/consleg/pdf/1991/en_1991R2092_do_001.pdf**
Alternatively go to:
www.defra.gov.uk/farm/organic/default.htm You can download here separately:
The Regulation 2092/91, the Annexes and recent amendments to the Regulation.
Another interesting document is IFOAM's comparison of the EU Regulation 2092/91 and the National Organic Program Rule 7CFR Part 205 of the USA.
The publication is available on CD-Rom from IFOAM for € 28.

9.1.2 General standards for selected product groups

In this subsection, we will focus on some individual product groups. In principle, the same quality standards are relevant for organic products as for conventional products. There is only one standard more to reckon with: legislation for organic production, processing and labelling. The EU legislation 2092/91 has been explained above.

A good source for the agricultural *production* method and specifications of organic products are Naturland's info pages. These are available for 18 organic products including among others coffee, tea, cocoa, sesame, Brazil nuts, macadamia nuts, peanut, cashew nuts, hibiscus, pepper, vanilla, coconut palm and sugar cane.
☛ For details please refer to **www.gtz.de/organic-agriculture/en/lit/lit01.html#2**

As for *processing*, the most important general remark is that organic and conventional produce should be clearly separated during processing and storage; risks for mixing up should be avoided, as well as contamination with conventional produce or other inorganic substances. Further, it is of the utmost importance to maintain a very good administration of all production practices, inputs and outputs, during production, processing, packing and exporting. This will be checked during the regular inspections by the certifying body. Moreover, this will be a good tool in a Quality control system. Note that fumigation with toxic agents is not allowed for organic products.

Labelling will be dealt with hereunder in 1.1.4.

Food products: HACCP
The Hazard Analysis Critical Control Point (HACCP) system applies to the food-processing industry in the EU. The EU Directive on Hygiene for Foodstuffs (93/43/EC), which became effective in January 1996, stipulates that: 'foodstuff companies shall identify each aspect of their activities which has a bearing on the safety of foodstuffs and shall ensure that suitable safety procedures are established, applied, maintained and revised on the basis of the HACCP system'.

All food processors in the EU are legally bound to have an HACCP system in place or they must be working on implementing an HACCP system. The HACCP system is applicable to companies which process, treat, pack, transport, distribute or trade foodstuffs. These companies are forced to understand (and act against) the possible hazards associated with food production at all stages, from growth, processing, manufacture and distribution, until the point of consumption. This includes macro-biological (vermin), micro-biological (viruses, bacteria, moulds), toxicological (chemical contamination with pesticides), or physical (wood, metal, glass, plastic or fabric) risks.

The HACCP regulation is of importance to exporters, because importers of food products in the EU will be legally held responsible for any negative consequences. Therefore, the food industry in the EU will be reluctant to do business with food processing companies in developing countries that do not have an HACCP system in place. Companies sourcing processed food products or food ingredients will insist on HACCP implementation by their suppliers. Companies can seek the assistance of accredited organisations to help them with the implementation of an HACCP system and to become HACCP certified.

Coffee, tea and cocoa
A very good overview of the organic market for coffee, tea and cocoa can be found in the handbook by FiBL, SIPPO and Naturland "Organic coffee, cocoa and tea" (2002). This handbook can be ordered at **www.fibl.ch/buehne/publikationen/pdfs/verzeichnisse/handbook-coffee.pdf** for € 38. The handbook includes an overview of product specifications and quality requirements.

Coffee
An excellent reference for conventional coffee is ITC's: Coffee, an Exporter's Guide (2002); it contains a chapter on organic coffee. The guide can be ordered for US$ 28 at **www.intracen.org/eshop/welcome.htm**.

ICO, the International Coffee Organisation in London, is trying to implement minimum export standards for coffee (see resolution 407, February 2002 on **www.ico.org**). Its Coffee Quality Improvement Programme calls on producers to no longer export arabica coffee with more than 86 defects and robusta coffee with more than 150 defects per 300g samples. Moisture content should be between 8 and 12.5%.

EurepGap, the European Retail Protocol for Good Agricultural Practice (**www.eurep.org**), has developed a code of practice for coffee. This code is relevant for exporters wishing to export to Europe's major retail chains. This code is based on the guidelines, developed by the Utz Kapeh ('Good Coffee') Foundation (**www.utzkapeh.org**). These codes cover also social and environmental aspects. The European coffee industry is also working on a code of conduct for the purchase of raw coffee: Information to be found on: **www.sustainable-coffee.net**

Tea
The use of synthetic and/or nature identical aromas is not permitted in organic foodstuff. Natural flavourings are permitted only if they are in accordance with EU Directive 88/388/EEC.

Legal requirements for pesticide residues are laid down for tea. These requirements are too detailed to discuss in this survey but can be found at **http://europa.eu.int/comm/food/fs/ph_ps/pest/09-99.pdf**
According to EU2092/91, there are no specific requirements on residue levels for organic products. Nevertheless, consumers generally expect that organic products have lower levels than conventional products. There is a continuous debate on this issue, especially in Germany.

Cocoa
An excellent reference for conventional cocoa is ITC's: Cocoa, a Guide to Trade Practices (2002); it contains a chapter on organic cocoa. The guide can be ordered for US$ 28 at: **www.intracen.org/eshop/welcome.htm**

Quality characteristics of cocoa depend largely upon correct processing, which starts already with the

harvesting process and ends with the storing of the processed product. The steps of harvesting and processing include grading and opening of pods, removing beans, fermentation, drying, cleaning by sieving, winnowing, bagging, storing and transporting. All these steps have to be conducted with the utmost care. For details please refer to the FiBL study.

Grains, pulses and seeds
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Food Ingredients for Industrial Use.

Grains
Food products (including grains and pulses) destined for the end-user have to comply with the requirements of the Council Directive 89/395/EEC (amending Directive 79/112/EEC) and any subsequent legislation concerning the labelling, description and advertising. This legislation is, however, more relevant for importers than for exporters of grains and pulses, as grains and pulses are generally traded in bulk and are not directly exported to the end-users.

The trade in rice exported to the EU is determined by definitions and descriptions of rice laid down in the EU nomenclature. Moreover, the EU has laid down limits for mycotoxins. Mycotoxins are naturally occurring chemicals produced by moulds growing on foodstuffs, including rice. Mycotocins in rice include aflatoxins, ochratoxin A, sterigmatocystin and Fusarium toxins (fumonisins, trichothecenes and zearalenone). The EU legislative limits for cereal products for direct human consumption are 2 (g/kg aflatoxin B1 and 4 (g/kg total aflatoxins. As of April 5, 2002, an EU-wide maximum level of 5 (g/kg applies to ochratoxin A in raw cereal grains (including rice) (Commission Regulation 472, 16 March 2002). The proposed EU action limit for trichothecenes is 500 (g/kg.

One of the leading associations in the field of rice standardisation is the Grain and Feed Trade Association (GAFTA; **www.gafta.com**), which has produced a code of practice safeguarding the reputation of rice as a pure wholesome food and condemning attempts to adulterate rice or make incorrect claims about its geographical and botanical origin. Most EU rice importers/ millers observe these guidelines and code of practice.

Regulations concerning the EU market organisation of rice can be found at **http://europa.eu.int/eur-lex/en/lif/reg/en_register_036058.html**

Pulses
So far, there are no specific quality standards for pulses. Currently, there is a lack of agreement on nomenclature, or what to call various types and market classes of pulses. Moreover there is no common approach for measuring quality. Both these issues create trade difficulties. The International Pulse Quality Committee is now trying to develop common, international standards for identification and testing of such pulse crops as peas, beans, lentils and chickpeas. Quality parameters include colour, size and shape, dehulling efficiency and cooking and canning quality. Representatives, however, only include western stakeholders. For more information please refer to the Canadian Grain Commission (**www.cgc.ca**).

Legal requirements for pesticide residues are laid down for pulses. These requirements are too detailed to discuss in this survey but can be found at **http://europa.eu.int/comm/food/fs/ph_ps/pest/09-99.pdf**.
The issue of genetically manipulated foodstuffs also falls under EU quality standards.

Seeds
There are no fixed EU quality standards for the oil seeds. In practice, importers have defined their own quality standards, and are willing to pay more for better quality. Shipments will usually be subject to FOSFA (Federation of Oils, Seeds and Fat Associations; **www.fosfa.org**) rules. These cover items such as sampling and analysis, insurance and claims arbitration. FOSFA is the major association in the oil seeds trade. It draws up contract terms for most of the oil seed commodities and these are periodically revised in order to ensure that they fully meet trade requirements. FOSFA contracts attempt to reflect the interests of the buyer and seller equally. The arbitration clause is an important aspect of the FOSFA contracts.
Legal requirements for pesticide residues are laid down for oilseeds. These requirements are too detailed to discuss in this survey but can be found at **http://europa.eu.int/comm/food/fs/ph_ps/pest/09-99.pdf**

For further details, please refer also to the product profile on sesame seed in Section 10.6.

Vegetable oils and fats
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Animal and vegetable oils and fats.

Organic vegetable oils and fats should always be cold-pressed; solvent extraction is not permitted.
The process is not as efficient as using heat and hexane, but the oil issuing from organic cold pressed seeds, nuts or vegetables has no trace of chemicals, no hexane molecules, no poisonous trans-fatty acids.

The worldwide oils and fats trade has established its own set of grading and quality standards. These are laid down in a range of standard contracts issued by the

Federation of Oils, Seeds and Fats Associations Ltd. (FOSFA) in London. Contracts include well-defined product descriptions for each type of product. It is recommended that exporters have samples tested prior to submitting offers. Further information can be obtained from FOSFA and your broker or trader. Examples of FOSFA contracts can be ordered from the organisation. A manual including all contracts is also available. An example of a FOSFA contract is given in Appendix 13 of CBI's EU Market Survey *"Animal and Vegetable Oils and Fats for Industrial Application"*. For more information on standards for vegetable oils and fats, please refer to the CBI Marketing Guide *"Animal and Vegetable Oils and Fats for Industrial Application"*.

Spices and herbs
The European Spice Association (ESA), representing spice associations in EU countries, has developed an "ESA Contract" which indicates minimum quality standards for imported spices, methods of arbitration and enforcement procedures. For an overview of ESA specifications of and details on quality minima for spices and herbs, please refer to **www.indianspices.com/html/s1490qua.htm**

The ESA specifications of quality minima for spices and herbs are the proposed legal minimum standards for selling into the EU. Nevertheless, it must be emphasised that the quality requirements of traders in major northern European markets (Germany, The Netherlands, United Kingdom and France) are generally much stricter.

As of April 5, 2002, EU-wide maximum levels apply to aflatoxin in the following spices: Capsicum spp, Piper spp, nutmeg, ginger and turmeric. The maximum levels for aflatoxin are listed in the Commission Regulation 472 (16 March 2002). The harmonized sampling plan for aflatoxins was published in Commission Directive 98/53/EC. Sampling methods for aflatoxin in spices, to be applied as from February 28, 2003 onwards, were added to Commission Directive 2002/27/EC.

The EU wide maximum levels set are 5 (g/kg for aflatoxin B1 and 10 (g/kg for total aflatoxins.
The European Commission will review the maximum limits for aflatoxins by the end of 2003 and, if appropriate, reduce them to take account of the progress of scientific and technological knowledge.

It is important to bear in mind that most European importers at this moment refuse to accept any traces of aflatoxin in organically produced products.
Further, fumigation and irradiation is not allowed in organic products; alternatives are: deep freezing, steaming or pressurising in autoclaves.

For more detailed information, please refer to CBI's Strategic Marketing Guide 2002: Spices and Herbs. For further details, please also see the product profile on oregano in Section 10.6 of this survey.

Dried fruits and edible nuts
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Food Ingredients for Industrial Use.

Ochra- and aflatoxin
As of April 5, 2002, a EU wide maximum level of 10 (g/kg applies for ochratoxin A in dried vine fruits (currants, raisins and sultanas). The maximum level is listed in the Commission Regulation 472 (16 March 2002). Sampling methods for ochratoxin A in foodstuffs, to be applied from February 28, 2003 onwards, were added in Commission Directive 2002/26/EC.

The EU Commission in Brussels has stipulated the Directive 98/53/EC, meaning that three 10 kg samples must be taken and analysed when controlling the quality of bulk raw nuts. The total aflatoxin content of any of the samples must not exceed 4 (g/kg - that is equivalent to a concentration of 4 (g/kg for total aflatoxin or 2 (g/kg for aflatoxin B1 in both the end product and in nuts destined for consumption without any further processing. The Commission also specified firm tolerance limits of 5 (g/kg of aflatoxin B1 and 10 (g/kg of total aflatoxins in a raw product. If a higher level is found in any single sample, the whole consignment has to be rejected.

The European Commission will review the maximum limits for ochratoxin A in dried vine fruit by the end of 2003, with a view to including a maximum limit for ochratoxin A in green and roasted coffee and coffee products, wine, beer, grape juice, cocoa and cocoa products and spices, taking into account the investigations undertaken and the prevention measures applied to reduce the presence of ochratoxin A in these products.

Fruit juices and concentrates
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Food Ingredients for Industrial Use.

Although the main focus is on fresh produce, a good source of information for this group of products is: World markets for organic fruit and vegetables – Opportunities for developing countries – CTA/FAO/ITC – 2001.

EU Directive 93/45/EC specifies a definition of fruit juice and nectar. Fruit juice comprises 100 percent juice

i.e. no additions of water or other ingredients. Fruit nectar consists partly of fruit juice and partly of water and sugar. The proportion of fruit juice depends on the kind of fruit and varies between 25 percent and 50 percent. These definitions apply in all European countries. Fruit juice drinks are not covered in the EU fruit juice directive, and legislation may vary from country to country. Usually they are required to contain a minimum of 25 percent of comminute/crushed/squeezed fruit and they may contain sweeteners, flavourings, colourings and sometimes added vitamins.

Sugars
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Food Ingredients for Industrial Use.

Two Directives are of importance for sugar: 73/437/EC and 2001/111/EC. Regulations concerning the EU market organisation of sugar can be found at: **http://europa.eu.int/eur-lex/en/lif/reg/en_register_036060.html**.

ICUMSA (International Commission for Uniform Methods of Sugar Analysis) is a worldwide body, which brings together the activities of the National Committees for Sugar Analysis in more than thirty member countries. The organisation is concerned solely with analytical methods for the sugar industry. ICUMSA ratings are used in international trade. This rating is a unit expressing the purity of the sugar in solution, and is directly related to the colour of the sugar. Please note that there are different types of ICUMSA units. For Brazilian sugar, the lower the ICUMSA figure the whiter the sugar. However, this is not the case in the EU for some unknown reason, and this has been the subject of much discussion. ICUMSA issues the Methods Book (latest version 2000) which is available at € 240 at **www.bartens.com**.

Honey
We will only very briefly cover this product group; more information can be found in CBI's Strategic Marketing Guide 2002: Honey and beeswax.

In December 2001, Directive 74/409/EEC was recast in order to make rules on the conditions for the production and marketing of honey more accessible and bring them into line with general Community legislation on foodstuffs, particularly on labelling, contaminants and methods of analysis. The most important quality standards in the EU Directive 2001/110/EC, which became effective as of August 2003, concern the composition of the honey. The most important change related to the previous Directive is the maximum level of HMF content laid down for honeys from regions with tropical climate. Other requirements such as the condition of honey, packaging and labelling must also be taken into account.

9.1.3 Trade-related measures

Environmental aspects of products have become a major issue in Europe in recent periods. Depending on the product group in question, environmental aspects can play a vital role in preparing for exports to the European market. Besides governmental actions (legislation and regulation), a strong consumer movement is noticeable especially in the northern parts of the EU (Scandinavia, Germany, The Netherlands and the United Kingdom). "The environment" is more than a trend. It is a lasting issue seen for all products and nowadays even services. Therefore, growers and manufacturers have to view their products and production processes not just by looking at traditional aspects like price, quality, customer demands and standards, but also at the environmental aspects. It is the objective of this section to briefly highlight several aspects that currently play a major role in the EU. Exporters must be aware of these considerations of European customers and governments and try to satisfy their needs by offering products, which comply with both legislative and market requirements.

Financial instruments in the EU
Besides legislation, one of the instruments of the EU to promote environmentally sound products is the awarding of (tariff) preferences or the levying of so-called 'environmental taxes' on products. An example of preferential systems is the General System of Preferences (GSP) encouragement regime. Under the GSP, developing countries are exempted from the main WTO principles of reciprocity and non-discrimination. Since May 1998 the GSP, includes an encouragement regime to stimulate developing countries to establish and implement trade-related social and environmental policies (Regulation EC 1154/98). Import tariffs for countries, producing in an environment-friendly and humane way, may be reduced by 15-35 percent for a selection of products. For countries that already receive maximum preference, the encouragement regime may not prove to be a direct incentive. More details on GSP, can be found in CBI's Guide 'Exporting to the European Union'.

The EU is trying to promote cleaner production through the awarding of financial incentives. On the other hand, in the EU, and in some member states in particular, various financial instruments are being used to discourage the entrance of polluting products in the market. This happens through the establishment of specific taxes. A very specific tax is the so-called 'ecotax', which is placed on energy consumption. These taxes can apply to both private households and to companies.

An overview of EU Environmental Legislation can be found at **http://europa.eu.int/scadplus/leg/en/s15000.htm and CBI's AccessGuide**.

A list of environmental taxes in the EU, plus Norway and Switzerland, can be found at: **europa.eu.int/comm/environment**.

Sustainable development for businesses
The concept of sustainable development, adopted by nearly all the countries in the world which participated in the 1992 Rio de Janeiro Conference, represents the philosophy that economic development should automatically take into account the issue of the environment, recognising the fact that polluting activities now will have great (negative) impacts on the way future generations can live. In this respect all parties, including the general public but also growers, are asked to accept their social responsibility and minimise the environmental impact of their activities.

In recent years, issues such as (environmental) Life Cycle Assessment (LCA) of products, Cleaner Production (CP) and Ecodesign have all become important tools for companies to improve on the environmental performance of their products and production processes. These tools enable companies to analyse where the environmental impacts are the largest and how they could improve on these points. This can lead to both internal (improved efficiency) and external (perceived image) advantages.

Results of applying the above tools can be company-internal improvements in environmental performance. However, in order to be able to use the environmentally sound approach of a company towards its products and production processes, 'green' marketing tools such as ecolabels (for products) and environmental management standards (for the whole organisation) have been created both by governments and private parties.

Ecolabels
The hallmarks for environmentally sound products are normally referred to as Ecolabels. Such a hallmark indicates that the product (including its full production process) has a reduced impact on the environment, compared to similar products. Ecolabels have been developed at various levels. Examples are the EU Ecolabel, applicable throughout Europe, and national labels such as the Netherlands Milieukeur, the German Blue Angel and the Scandinavian White Swan. Participation in such an ecolabel scheme is on a voluntary basis. Labels, referring to the organic production (see section 9.1.4.) of food could also be considered ecolabels. Organic production is the strictest of the environmentally sound agricultural practices. As a consequence, if your product is already labelled for organic production, (other) labels with less strict requirements will in most cases be less interesting when marketing the product in the European market.

Environmental standards
The ecolabelling procedures are purely aimed at the products (not at the manufacturing process) and indicate that the product with a label has a reduced impact on the environment. If a manufacturer wants to indicate to external parties that he is manufacturing in an environmentally sound way, then he can comply voluntarily with the following standards:
- ISO 14001
- EMAS.

Both standards are based on the ISO 9000 series of standards for quality management. The relevance of the ISO 14001 standard for the future can be clearly seen by following the development and use of the ISO 9001 and ISO 9002 quality standard. Although voluntary, customer pressure is resulting in the ISO 9001 and IS0 9002 quality standard becoming increasingly necessary to do business around the world. Similarly, the ISO 14001 environmental management standard may become a de facto requirement for being able to compete in many regions of the global marketplace.

Another environmental management standard, which is also operational in the EU, is the Environmental Management and Audit Scheme (EMAS). This scheme was set up by the Comité Européen de Normalisation (CEN) in 1993. As it only applies to companies with production facilities within the EU, it is usually not relevant for manufacturers in developing countries. The EMAS scheme has regularly been criticised as being too difficult, bureaucratic and expensive and it is therefore expected that - also in Europe - companies are favouring ISO 14001. On a global scale, there are more than 8,000 companies ISO 14001 certified. In comparison, some 2,000 companies are EMAS certified.

A general overview of environmental and other standards can be found in the AccessGuide, which refers to other relevant links and information. Information on developments in international management systems (such as ISO 14000) can be found at the download plaza of **www.cbi.nl**.

Fair Trade and social responsibility
In most Western countries, more and more attention is paid to the social conditions of the producers of the goods that are imported. The Fairtrade Labelling Organisation (**www.fairtrade.net**) has established a fair trade labelling system for: coffee, tea, bananas and other fruit products, cocoa, sugar, honey, rice and even sports balls. The goal is to assist small producers to gain direct access to the export markets and to guarantee decent working conditions on plantations and

in factories. A uniform European logo for these products was introduced in the beginning of 2003.

The success of the Fairtrade Labelling system has resulted in pressure on the larger retail chains and food manufacturers in Western countries to pay more attention to social issues in their purchase policy. For instance, EurepGap (see also page 67) pays attention to working conditions, and major multinationals are formulating and implementing their company policies on social issues.

Social issues also play a major role within the organic movement. This has resulted in the adoption of a separate chapter on social justice in IFOAM's Basic Standards.

9.1.4 Packaging, marking and labelling

Apart from the safety aspects and the protection against damage, the focus of packaging is definitely on environmentally friendly transport - as well as sales-promotion packaging. This means, among other things, that it should be considered whether recyclable systems could be used on a much greater scale than before.

The basic requirements for the packaging and labelling of organic foods are laid down in EU Regulation 2092/91. Besides, exporters must always check the specific requirements of national organic symbol schemes in the country to which they are selling. The local importer is usually the best source of information in this regard.

Packaging

The operators shall ensure that organic products are transported to other units, including wholesalers and retailers, only in appropriate packaging, containers or vehicles. These should be closed in such a manner that the risk of contamination by conventional products is minimised.
The label should state, without prejudice to any other indications required by law:

- the name and address of the operator and, where different, of the owner or seller of the product;
- the name of the product, including a reference to the organic production method;
- the name and/or the code number of the inspection body or authority to which the operator is subject; and
- where relevant, the lot identification mark according to a marking system either approved at national level or agreed with the inspection body or authority.
- for products transported in bulk, the information can also be presented on an accompanying document, if such document can be undeniably linked to the packaging, container or vehicle of the product. This accompanying document shall include information on the supplier and/or the transporter.

Labelling

Article 5 of Regulation 2092/91 deals with rules for labelling products as organic. Of course, the most important rule is that the operator, who wants to label a product as organic, has to be certified by a recognised body.

Regulation (EC) No 331/2000 regulates the use of a European Union wide logo for organic farming in the European Union, for the purpose of identifying organic farm products produced in the EU of both plant and livestock origin. The objective of this logo is to make organic products more noticeable to consumers and to give producers a marketing tool. However, so far, this logo is not very well accepted.

Below you find an overview of logos used in different EU countries to guarantee to the consumer that the particular product is produced according to the standards for organic production laid down in Regulation 2092/91. Some logos are government owned, others are private. Some have additional requirements: The AB logo in France, for example, cannot be used on organic products imported from outside the EU, if they can be grown in the EU.
Some logos, for instance KRAV and Soil Association, are based on private standards that are stricter on some issues than the EU-regulation. As consumers are familiar with the seals of these organisations, operators in these countries feel obliged to use these seals on their consumer packages. This leads sometimes to re-certifications and extra costs.

United Kingdom

Belgium

Germany

The Netherlands

Denmark

Sweden

Austria

France

Norway

Italy

Finland

Germany

Packaging waste

The European Commission presented the Export Packaging Note in October 1992, in line with the effort of the European Union to harmonise national measures concerning the management of packaging and packaging waste. A Directive followed the packaging note in December 1994 (94/62/EC). The directive emphasises the recycling of packaging material. No later than 30 June 2001, the member states (excluding Ireland, Portugal and Greece) were supposed to reprocess between 50 and 65 percent of the packaging waste. Member states are allowed to set higher percentages as objectives, as long as intra-EU trade is not hampered.

Exporters in developing countries targeting the European market have to be aware of these agreements and take appropriate measures in order to become or remain interesting trade partners for European businesses. The environmental requirements will be transposed to the exporter. That means that packaging (transport packaging, surrounding packaging and sales packaging) materials should be limited and be re-usable or recyclable. Otherwise, the importer will be confronted with additional costs, thus reducing the competitiveness of the exporter.

Since changes in the environmental policy follow each other at a rapid pace, exporters are advised to ask the importer about the latest regulations and/or requirements related to packaging. For more information about environmental regulations concerning packaging methods, please also refer to ITC.

9.2 Tariffs and quota

9.2.1 Custom duties

In general, all goods entering the EU are subject to import duties. The level of tariffs depends on:

- country of origin; and
- product.

In June 2001, the European Commission adopted a proposal for revision to the Generalised Scheme of Tariff Preferences (GSP) for the years 2002 to 2004. The regulation is designed to simplify the GSP regime and target the benefits more effectively. It also intends to improve the effectiveness of special incentives to promote core labour and environmental standards. The new Regulation complements and fully incorporates the recent “Everything But Arms” (EBA) initiative in favour of Least Developed Countries. The GSP grants developing countries tariff preferences. In June 2001, the European Commission adopted a proposal for revision to the Generalised Scheme of Tariff Preferences (GSP) for the years 2002 to 2004. The regulation is designed to simplify the GSP regime and target the benefits more effectively. It also intends to improve the effectiveness of special incentives to promote core labour and environmental standards. The new Regulation complements and fully incorporates the recent “Everything But Arms” (EBA) initiative in favour of Least Developed Countries. In order to benefit from GSP treatment, exporters have to provide a ‘Form A’ certificate or EUR 1 certificate (ACP countries), which is issued by the appropriate authorities in the respective country.

Note: there are no differences between import duties on organic and non-organic food products.

The proposed GSP can be downloaded from: **http://europa.eu.int/comm/trade/miti/devel/ngsp_reg.htm** Information on the current applicable tariffs for products from your country can be found at: **http://europa.eu.int/comm/taxation_customs/customs/information_notes/tariff/taric_en.htm**

9.2.2 Value Added Tax (VAT)

Although fiscal borders between EU countries were, in theory, eliminated from 1 January 1993 onwards, in practice, harmonisation of VAT (tax levied at consumer sales level) rates has not yet been achieved. Table 1.2 summarises the VAT rates applied in the different EU member states for foodstuffs in general. Please refer to the Ministry of Finance of the respective country for specific information on the relevant rate applied to organic food products.

Table 1.2 VAT rates (in %) applied to foodstuffs in the EU, May 2003

	Standard Rate	Reduced Rate
Austria	20	10
Belgium	21	6
Denmark	25	-
Finland	22	8/17
France	19.6	5.5
Germany	16	7
Greece	18	8
Ireland	21	13.5
Italy	20	10
Luxembourg	15	6
Portugal	19	5/12
Spain	16	7
Sweden	25	6/12
The Netherlands	19	6
United Kingdom	17.5	5

Source: DGXXI, European Commission (2003)

Thus far, the previous part of this market survey – Part A – provided market information on the EU market for organic food products and on the requirements for market access. The next part – Part B – aims at assisting (potential) exporters in developing countries in their decision-making process as to whether to export or not.

Useful Internet Sites

CBI's AccessGuide	www.cbi.nl/accessguide
Environmental taxes EU, Norway, Switzerland	europa.eu.int/comm/environment
EU Environmental Legislation	europa.eu.int/scadplus/leg/en/s15000.htm
EU pesticide residue legislation	http://europa.eu.int/comm/food/fs/ph_ps/pest/index_en.htm
EU regulations on pesticides and other contaminants	www.useu.be/agri/pesticides.html
EurepGap	www.eurep.org
EUR-LEX (official documents and legislation)	europe.eu.int/eur-lex
Fair Trade	www.fairtrade.net
Food and Agricultural Organization	www.fao.org
Generalised Scheme of Tariff Preferences	http://europa.eu.int/comm/trade/miti/devel/ngsp_reg.htm
International Federation of Organic Agricultural Movements	www.ifoam.org
International Trade Centre	www.intracen.org
Naturland's info pages on organic production	www.gtz.de/organic-agriculture/en/lit/lit01.html#2
Netherlands Custom Services	www.douane.nl/taric-nl
TARIC Database	http://europa.eu.int/comm/taxation_customs/customs/information_notes/tariff/taric_en.htm
The Codex Alimentarius Commission	www.codexalimantarius.net

Part B
Export marketing guidelines: analysis and strategy

PART B

How do you get involved in the international marketplace of organic products? How much time and money will it take? Should you make exporting part of your business plan? These common concerns are what Part B is all about. It helps you evaluate whether or not to get involved in international business, and learn how to go about exporting.

The first Chapters 10, 11 and 12 aim at assisting potential exporters in the **decision-making process** whether or not to export to the EU. By matching external opportunities and internal capabilities, the exporter will be able to identify suitable export products, target countries, market segments, and possible trade channels.

Subsequently, Chapter 13 provides sector-specific knowledge and sources to enable the exporter to further investigate what to export, to which markets, through which channels, and at what prices. In other words, which **marketing tools** can be used to build a successful business relationship.

The information provided in the previous part A of this survey is an essential ingredient in conducting the analysis and formulating a clearly targeted export strategy. Where applicable, reference will be made to the related sections in Parts A and B. Keep in mind that the export marketing process is integrated; each individual part is inter-linked.

For general information on export marketing and how to conduct market research, please refer to CBI's Export Planner and CBI's new manual on market research.

10 EXTERNAL ANALYSIS: MARKET AUDIT

The external analysis assists the exporter to identify market opportunities, suitable sales channels and other relevant external factors.

10.1 Market developments and opportunities

As a first step towards the identification of the most suitable export markets, the exporter needs to research the importance of potential markets and understand the ongoing developments that shape the market structure. As we have seen in Part A of this survey opportunities for organic food products in the EU can be found, for instance in the following situations:

- In the case of some organic food products a shortage of supply and a growing demand, for example honey, fresh and processed fruits and vegetables (e.g. deep frozen and purees for baby food);
- Products from countries other than those of the EU are often imported into Europe as raw goods and only then processed and packaged. Most organic products imported cannot be cultivated or produced in Europe and/or are not available in season (for example fruit and vegetables, but also exotic fruit juices);
- A steadily growing demand for value-added organic food products such as organic meals or nutrition bars, such as convenience products, snacks, sweets, confectionary.

In general, importers are interested in new supplies but do not mention specific product groups. Internet sites of importers provide an overview of the products these importers are involved in. Important requirements for the product and the supplier are:

- Quality (meeting organic and phytosanitary standards)
- Competitive price
- Reliability
- Communication, agreements & logistics
- Solid organisation
- Quantity (some products are only traded in big volumes, e.g. sugar or palm oil)

Finding these opportunities and developments should be accomplished by means of a systematic method of market research, involving a preliminary screening of potential markets followed by a more detailed assessment of the targeted markets. Markets can be researched using primary or secondary data sources. Primary market research means collecting data directly from the foreign marketplace through (informal) interviews, surveys, and other direct contact with market participants. Primary research has the advantage of being tailor-made to meet your company's needs and provide answers to specific questions, but this data collection can be very time-consuming and expensive.

For a global scan of the market, most companies make use of secondary data sources, such as trade statistics, to focus their marketing efforts. This type of research is a valuable and relatively easy first step. Specific market developments as described in Chapters 3, 4, 5, 8 and 9 and references made in this market survey can be used as a starting point for your export market research.

Results of the research inform the company of the largest markets for its product, the fastest growing markets, market trends and outlook, market conditions and practices, and competitors and their products. Based on all the information, a company must decide which markets are the most promising.

Questions that need to be answered:

- Market size: What is the (estimated) market size for your potential export products? Try to first focus on your product group, then on your specific products.
- Market developments and trends: How has the total market volume developed during the last 3-5 years? If there is no information available on your specific organic product, then try to obtain information on the development of the market for a higher level. For example, the market for finished products or the product group of which your product is part.
- Imports: How have imports developed during the last 3-5 years? Again, there probably is no information on all specific products available.
- Are importers and potential business partners in the EU interested in new suppliers of your particular products?

Where to find information?

- ⓘ The market information described in Part A of this market survey can be very useful as a starting point for your export market research. Where applicable, also the sources for this market information are mentioned in the specific chapters.
- ⓘ For more general information, you can use the EU statistics bureau Eurostat: **http://europa.eu.int/comm/eurostat**
- ⓘ An impression of supply and demand can be obtained at: www.greentrade.net. This is a website for e-commerce in organic products.
- ⓘ As mentioned in Chapter 3 of this market survey the European Information System for Organic Markets aims to build up a framework for reporting valid and reliable data for relevant production and market data about the European organic sector. It is expected to find more and more information at their Internetsite in the future (www.eisfom.org).
- ⓘ In some cases, trade associations are able to assist you with more specific information on product trends. For a list of trade associations please refer to Appendix 2.
- ⓘ To get a good overview of trends in the (organic) food sector it is a good idea to visit Trade Fairs. The most recommended trade fair by European importers is the Bio Fach, held once a year in Nuremberg, Germany. Please refer to Appendix 2 for a list of the most important trade fairs for (organic) food products.
- ⓘ Trade press
  Useful sources for information on market developments are (international) trade magazines, which can be relevant for exporters who want to develop a better insight into the EU markets. Some of the most interesting magazines for exporters of organic products are:
  Biofach newsletter (on-line, free newsletter)
  World Organic News (**www.agra-net.com**)
  Organic Business (UK) (**www.organicTS.com**)
  Ecology and farming (IFOAM)
  Foodnews
  Food Engineering and Ingredients
  International Food Ingredients
  ☛ Please refer to Appendix 2 for a more extensive list of names and addresses of publishers.
- ⓘ Last but not least, Internet provides you easily more and more direct market information. In this survey several examples of useful Internet-sites are given.

Market access requirements

Quality standards, other non-tariff barriers and tariff barriers

Section 9.1 of this survey described a wide array of non-tariff barriers, which could be applicable to exporters of organic food products. It is important to determine which standards and regulations apply to your situation. Not all standards are compulsory or widely recognised by your potential customers. The EU Regulation 2092/91 defines principles for organic agriculture, including a conversion period of three years (can be less depending on the crop).

Section 9.2 dealt with current tariffs on imports of organic food products. Exporters should not only look at the current tariff, but also try to ascertain whether the tariff will remain the same for the coming years. It is also important to bear in mind that changes in the level of import tariffs applicable to other countries may influence your competitive position.

Keep in mind that regulations and standards are continuously changing. Therefore, it is recommended that you stay up-to-date on developments in politics and decisions in this matter. As will be explained later, a partnership with an EU company can solve weak points and have many benefits.

Organic certification is an essential part of the quality standards of organic food products. It is very important to select the right certifying organisation. Sometimes certifiers do not recognise each other's certification, because they have their own, private standards, slightly

Questions an exporter should answer are:

- What standards are set on the quality of products?
- To which country (-ies) are you planning to export and what is the local required certification?
- What standards are set on the quality of your company (ISO)?
- How vital is the importance of environmentally sound production methods?
- What is the importance of a Fair Trade label for your product?
- Are there import restrictions that limit sales opportunities?
- Which import tariffs apply to your export products?

Where to find information?

- ⓘ One of the most important and useful information sources is European importers, but also colleague exporters and local export/business support organisations.
- ⓘ In Chapter 9 of this survey, you can find information on quality standards; trade-related environmental, social and health & safety issues; packaging, marking and labelling, and on applicable import tariffs. It is important regularly to check databases like the CBI's AccessGuide. This section also provides Internet sites that are helpful in finding product specific information (EU, IFOAM etc.).

different in some details from the EU 2092/91. This might create problems for exporters. To avoid unnecessary and expensive double certification, it is very important to verify whether the certifying organisation that is targeted to certify the products of an exporter, will be accepted in the countries to which the exporter wants to export. It is also very worthwhile to check whether the certifying body is accepted in the US and Japan.

☛ For more information on conversion and organic certification please refer to Section 11.2 'Product standards, quality, USP and production capacity'.

10.2 Competitive analysis

Competitors and their pricing will have a direct effect on the potential success of your trade opportunities. It is therefore important to learn more about your competitive environment. Basic requirements for success include a more competitive product and price while meeting at least the organic and phytosanitary standards and providing the same quality as conventional products.

As an initial step towards understanding your competition better, you should prepare a list of all the competition and then pinpoint who your main competitors are. To learn more about competition, you can do secondary research by asking customers and suppliers for their opinions. You can also prepare a list of your main competitors' strengths and weaknesses.

Constantly check with customers and suppliers to see if they have heard of any new businesses. These sources may also give you some insight into where and how the competition is selling its products. Which trade channels are used by your competitors, and why?

Useful information can also be found in this survey: Chapter 4 gives you insight into production of organic food products in the EU; Chapter 5 describes the major suppliers from outside the EU.

Trade shows can of course be helpful for gaining contact with new customers and learning about market developments. They can however also be used for finding out more about competition. Take the time to attend industry trade shows to check out your competition.

☛ In many cases, organic producers in developing countries benefit, among other advantages from their often conventional production method that is close to that of organic production, lower labour costs and low raw material prices. These are often the most important factors that positively distinguish your company from competitors in other countries, particularly in Europe. Other positive factors already mentioned are low or zero import duties and sometimes less strict environmental regulations. Even assistance from local or European governments through development programmes for organic production can be seen as a competitive advantage.

☛ Other factors can weaken your competitive position. European companies for instance have the advantage of being, both in a geographical and cultural context, close to their customers, which in general makes marketing of products and communication easier. In addition, producers in other developing countries represent an important group of potential competitors. You can find useful information in Chapter 5 of Part A on product streams originating in these countries. Moreover, several weak points of organic producing companies in developing countries, that have to compete with better organised companies in the world, are given in the internal analysis of Chapter 11.

Important questions to be answered are:

- How many suppliers are currently active in the market? (local and foreign suppliers)
- Who are your main competitors? What are their strengths and weaknesses compared to your company?
- To what degree is the industry in the target market supported by the local government?
- What do we offer that the competition does not offer?
- What do we have that the competition has, but ours is better?

10.3 Sales channel assessment

☛ *The information provided in Chapter 7 of Part A should be used as a starting point for this Section.*

Once a detailed market analysis has been completed, your company should develop a strategy of market entry. The trade channel is the path the product takes from the producer to the end user. There are several methods, which may be used alone or in combination.

In general, the product can be exported directly or indirectly:

- Direct exporting is the term applied when the producer himself does the exporting.
- Indirect exporting is when the producer commissions an exporter to handle the export for him.

When deciding whether to market indirectly or directly, you should consider the following factors: size of your company, nature of your products, previous export experiences and expertise and foreign market conditions. The two types of trade relations can both be found in the international organic food industry. The preferable method also depends on the trade structure in the country of origin.

More specifically, five different forms of export trade channels can be distinguished:

1) Filling orders from domestic buyers who then export the product
   In this sales channel, someone else decides whether the product in question meets foreign demand. That party takes all the risk and handles all of the exporting details, in some cases even without the awareness of the original seller. Nevertheless, it is a good opportunity to adapt your product to foreign standards.
2) Seeking out domestic buyers who represent foreign end-users or customers
   These buyers are a large market for a variety of goods and services. In this case, a company may know its product is being exported, but it is still the buyer who assumes the risk and handles the details of exporting.
3) Exporting indirectly through intermediaries
   Using this approach, a company engages the services of an intermediary firm capable of finding foreign markets and buyers for its products. Export management companies, export trading companies, international trade consultants and other intermediaries can give the exporter access to well-established expertise and trade contacts. Yet, the exporter can still retain considerable control over the process while achieving other benefits, such as learning more about foreign competitors, new technologies and other market opportunities. The indirect method of exporting is usually used when companies do not have sufficient know-how in this area or lack the export connections.
4) Exporting directly
   Exporting directly is one of the most common forms of exporting and means selling products to importers or wholesalers. This approach can be seen as the most ambitious and difficult, since the exporter personally handles every aspect of the exporting process, from market research and planning to foreign distribution and collections. Consequently, a significant commitment of management time and attention is required to achieve good results. However, this approach may also be the best way to achieve maximum profits and long-term growth.

5) Exporting through joint venture
   Exporting through a joint venture means that the exporter can use the existing sales network of its European partner. He will always try to sell as much products as possible from his own joint venture. This construction also minimises the risks of non-payment by the buyers and guarantees fair prices. It is therefore a successful approach.

☛ Organic products are mainly exported to importers, processors or importing wholesalers. Consequently, producers of organic products often sell directly to importers, who are themselves often processors or wholesalers, and they then resell the goods to other processors. If the importer is not a wholesaler as well, the next trading stage is the wholesaler, who then delivers to the retailer or industrial sector.

Exporting through a joint venture applies more and more to the organic sector. In a joint venture, the (European) processor or importer can directly influence the quality of the product and assist in the certification process. Some bigger importers in The Netherlands have set up agricultural projects in countries such as Bolivia, Mozambique and Bolivia. The goal of these partnership programmes is twofold: obtain premium quality certified organic products and provide quality for the farmer's life.

It is very important to choose the correct trade partner, as the exporter/producer's success essentially depends on how well the importer is established and able to market the goods in the target market. Trade partners must also be conscientious and honest, so that one can build a long-term contact and achieve success for the exporter/producer.

Important questions to be answered are:

- Which potential sales channels exist (in the EU as well as in your own country)?
- Which channel best suits your export product?
- What are the most important requirements of the identified sales channels?
  - What quality standards do the sales channels demand?
  - What kind of packaging is used in the various sales channels?
  - What are the requirements concerning production process (organic, environmental, ISO etc.)?
- More specific questions about an importer as a business partner:
  - How strongly is the importer represented in the market? (For example, number of clients and turnover.)
  - What range of products does he sell?
  - How is the sale of these products developing?
  - Through which distribution channels does the trading partner sell the products?
  - How are these trade channels developing? (For example, supermarkets is a growing sales market.)
  - What image does the importer have?
  - How effective are the importer's operations in the fields of logistics, storage, business dealings, customer service etc.?
  - What prices does he offer the exporter?
  - What are his standards regarding payment behaviour?
  - Can he be trusted, i.e. are his business dealings in the health-food trade said to be respectable and honest?
- Is a joint venture an alternative?
- Is sales via Internet (e-commerce) an alternative?

Where to find information?

ⓘ Refer to Chapter 7 for information on potential sales channels.

ⓘ To get in touch with an European partner (for a joint venture, for example) it is recommended to contact a local embassy of the country to which you want to export, the local European delegation, a local Chamber of Commerce or Export Development Board. These organisations can also give you information on when trade delegations from the EU are visiting your country. Direct matchmaking is also possible through for example the CBI News Bulletin, in which you can offer products and proposals. Of course, through the Internet you also encounter possible trade partners. Green Trade Net (www.green-tradenet.de, not to be confused with the trading platform www.greentrade.net), an information network on organic raw materials, offers free subscription for exporters in developing and Eastern countries for direct business contacts.

ⓘ Again, customers, importers or colleague exporters are useful information sources!

10.4 Logistics (external)

When transporting products overseas, the exporter ideally looks for the fastest and most efficient mode(s) of transportation that will deliver the product in perfect condition at the lowest possible costs. The actual selection will be a compromise among these factors.

In the case of organic food products, three types of international transportation can be recognised: ocean cargo, air cargo and truck cargo.

- Ocean transportation takes longer than airfreight, but the costs of transportation are usually lower. This kind of transportation is most suitable for dried raw materials. Because organic food ingredients are usually transported as bulked goods, the containers of ocean transportation are most suitable for exporting organic products. Standard 20 ft or 40 ft reefer containers are used. For export to The Netherlands the port of Rotterdam and of Antwerp in Belgium are most often used. Generally, organic soy is transported through the port of Zeebrugge (Belgium).

- Due to the fast in-transit time, air shipment is often used for products that are easily perishable. However, the cost for moving product by air tends to be higher than the cost of ocean transportation. LD3 containers are used, which contain, depending on packing and species, between 1,300 to 1,500 kilo. The shipment should be more than 800 kilo. Under this weight, freight rate per kilo increases very fast. The weight of a shipment is calculated on the actual weight (in kilograms), including packing and ice.

- Truck cargo in the EU can only be used for imports from nearby located countries such as Turkey and Morocco. Different options of formats etc. exist for this method of cargo.

Freight rates also vary depending on the product being shipped, its value, level of service provided, destination, weight, and seasonal variations in demand for cargo space. Please pay attention to which system is being used: the metric system (used in most EU countries) or Anglo-American (used in the United Kingdom).

Freight forwarders
It is a good idea to use a freight forwarder to arrange transportation services on your behalf. They can simplify the shipping process because they are familiar with import and export regulations. It is better to use a forwarder that is experienced in handling organic food products or perhaps food products (as long as the conventional and organic products are separated), as well as one that is experienced in the destination country. Freight forwarders can also assist you in handling all the documents. Freight forwarders are cost effective to use, because they can negotiate the best rates with airlines. They usually operate on a fee basis paid by the exporter, and this is part of the cost price.

In the logistic chain, the following requirements are very important to keep in mind:
- The storage of the goods should be adequate. Storage areas must not be treated with chemicals, which might contaminate the goods. The organic produced goods may lose their qualification and be rejected, if chemical residues are discovered. Storage areas must be maintained at a temperature and humidity that maintain product quality. Goods requiring different storage conditions may not be stored together.
- The cooling chain of the fresh organic export product should be unbroken.
- Adequate transport must be ensured. Sea and airfreight should adapt cooling to perishable products. Containers must be clean and not treated with chemical or synthetic agents, but only with substances allowed by the EU Regulation, such as common pyrethrum or neem. One common problem is that containers are often leaky, so that moisture-sensitive goods are damaged. Dry products should therefore be packed in hermetic packaging as well.

Because of the above-mentioned points, suitable and reliable partners must be selected for transport, and preliminary planning must ensure that shipment and other deadlines are met.

The problem mentioned most by European importers is the absence or incompleteness of documents, especially the 'certificate of inspection' (refer to Chapter 9). Apart from that, common problems such as delays, quality problems and bad communication were mentioned.

☛ In Chapter 9 and Section 11.3 several methods of packaging for organic products are described.

The exporter should always discuss the preferred type of packaging with his European trading partner or organisation.

Important logistic questions to be answered are:

- How often does the sales channel require delivery? What cycles of delivery does this channel require? Are you able to deliver this often?
- What lot sizes does this sales channel demand? What lot size are you able to produce?
- What formalities (i.e. certification documents) does the sales channel require to be handled by the exporter?
- What are the typical costs of logistics? (Check with freight forwarders)
- Is it profitable to co-operate with other exporters?

Where to find information?

ⓘ Airfreight forwarders and air carriers are the best sources for obtaining freight rates. There are also companies that specialise in publishing air cargo tariffs. These publishing companies charge a fee for their services.
ⓘ International Federation of Freight Forwarders Association (FIATA): **http://www.fiata.com**
ⓘ Directory of Freight Forwarding Services: **http://www.forwarders.com**
ⓘ International Air Transport Association (IATA): **http://www.iata.org**
ⓘ Extensive lists of freight forwarders can be found at: **http://www.cargoweb.nl and http://www.shipguide.com**

10.5 Value chain analysis: example of organic black tea

Value chains are primarily concerned with the overall efficiency and cost of performing the key activities of the chain, because this is how value is created.

The value chain covers the full range of activities required to bring a product from its conception to its end use and beyond, covering research and development, raw material supply and all activities of production, marketing and sales to international buyers, and beyond that to disposal and recycling. Activities that comprise a value chain can be contained within a single company or divided over different companies, and can cover a single geographical location or be spread over wider areas.

The value chain approach is a systematic approach for designing strategy with respect to buyer requirements and market conditions (market access regulations, standards and consumer preferences) to which a company has to conform, in order to gain access to a market and be competitive.

The value chain approach builds upon sustainable supply chain management, by providing a framework to:

- improve efficiencies within the existing supply chain (thereby enhancing sector competitiveness);
- capture and retain a higher proportion of the product's final market value within the existing value chain;
- increase the sector's added value by establishing new value chains within the sector;
- improve the sector's contribution to development objectives.

From a company perspective, the value chain approach offers more than a theoretical concept. It is a very practical tool for analysing linkages in the supply chain and assessing potential for capturing, retaining and adding value to the company's product, keeping in mind its final user.

Guiding thevalue chain analysis at company level

a. Try to note all the steps required to get from raw materials to end-users.
b. Make this list as detailed as possible since one of the objectives of value chain analysis is to understand where, when and how to simplify or adjust the chain.
c. Determine the value each step adds to the final product from the point of view of the end user.
d. Once this chain is clear you can explore avenues to increase your profitability as well as increase the benefits to the end user; for example:
   - → identify which steps can be combined to more efficiently add value;
   - → determine which steps are not adding any value but just adding costs;
   - → determine better communication flows in both directions to assist rapid change to market factors;
   - → determine your own "value niche" along this chain.

It is important for an entrepreneur to understand where and how he fits within the supply chain, to ensure that he optimises his position with respect to his suppliers and to his customers and customers' customers. The value chain can be a useful tool to help in this process.

The following figure provides an example of a value chain analysis for organic black tea, covering previously discussed market developments, competitive analysis, sales channel assessment, logistics and prices & margins. Please note that costs and prices mentioned are only indicative estimations.

The figure on the next page illustrates each link in the value chain, its function, and its linkages with prior and subsequent stages. Moreover, it shows exactly how much value is added at each stage. With such an overview, one can determine one's function in the value chain. Besides, one can determine if there are any stages or linkages missing or if they are efficiently or inefficiently (wasteful or uncertain) used. Furthermore, by improving inefficiencies of the value chain, total costs of the end product can be reduced. In the end, this will lead to a better competitive position in the value chain.

For example:

- → At the bottom of the figure, high costs are made by the plantation (where often also the tea factory is located) for the certification of the organic production process. Other costs consist of cultivation, plucking and the whole processing of tea leaves to tea.
- → Further linkages are the exporter, the European importer, the tea-packer, the distributor and the organic shop or supermarket where the tea will be sold.
- → The tea-packer adds most value to the product by putting the tea in small one-cups bags, re-packing and marketing the organic black tea. The value of 1 kg tea is doubled from € 4.30 to € 8.60.
- → At the end of the value chain, the customer will pay approximately € 25.00 for one kilo of organic black tea, converted into € 1.00 for a box of 20 bags of 2 grams each.

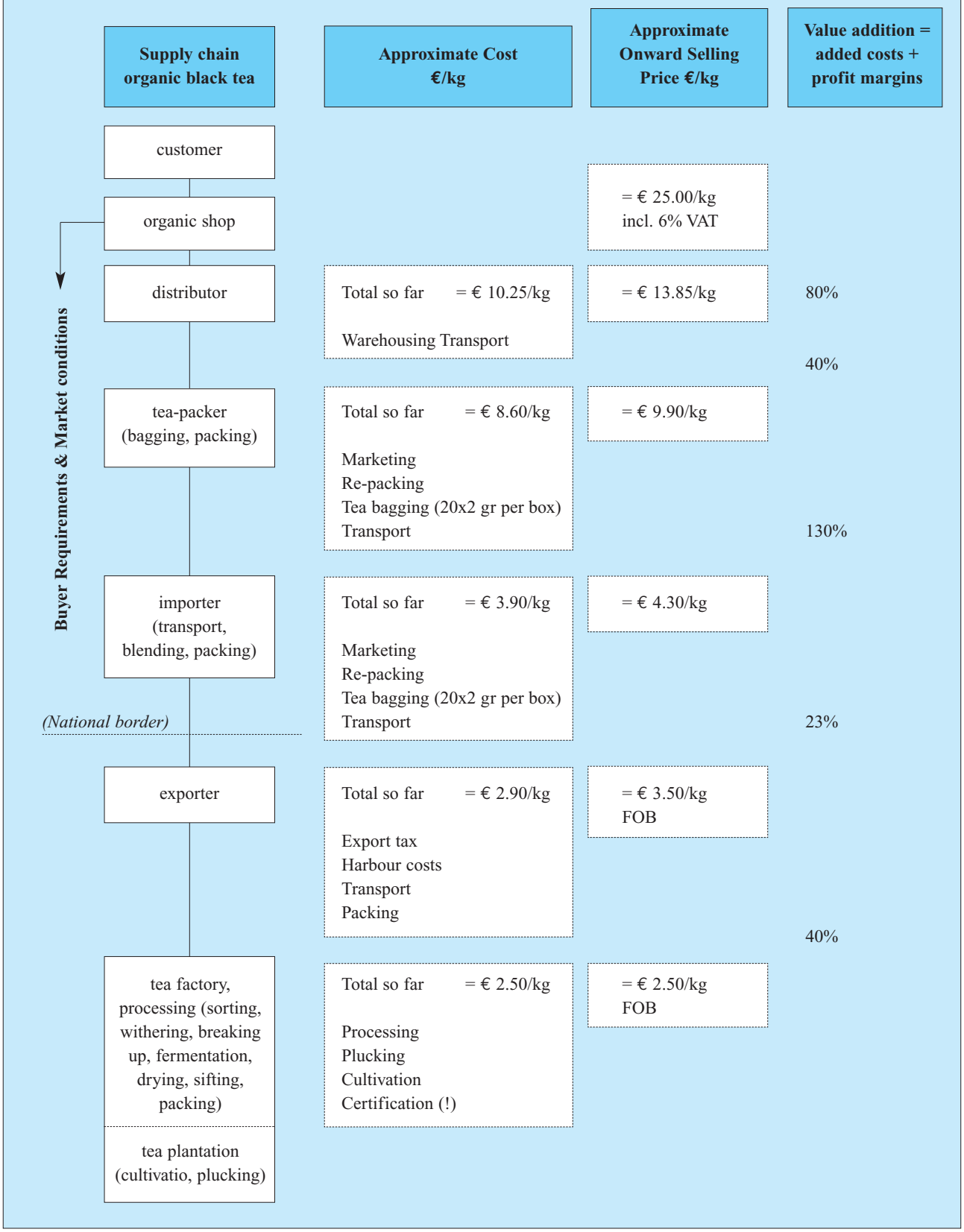
Retail prices of organic tea are also affected by a fluctuating market price and fluctuating labour costs at the tea-packer. As for the margins, these vary greatly depending on the type of product, the distribution channel and the continuous changes in supply and demand and the resulting price fluctuations. It is impossible to draw up a schedule of actual margins for every product/market combination. It is estimated that the importers need a trade margin of some 5-20 percent to cover business costs and risks. Competition in the EU market prevents excessive trade margins, although in some cases the gross margins may rise to a limit of 25 percent.

Building relationships and value adding

Value chain management, or in other words, building relationships is vital to the organic industry. In this sector, it is so important to ensure the integrity of all inputs, transport and handling, processing and final product. The issues of consistent quality supply are repeatedly being raised by buyers, including retailers, processors and wholesalers. Being part of a producer group will allow you to build supply capabilities and ensure consistency. Value chains assist in information sharing and problem solving. There is a number of

existing alliances in the organic industry which have been very successful at producing and marketing their products on a product on regional basis. A national or sectoral export initiative, in which the different actors of the chain are brought together, could be necessary to achieve this.

Figure 10.1 Example of a value chain of organic black tea



Value adding and innovation is also important to successfully market organic products. Consumers are demanding the same range of organic products, as they are getting in conventional, if not more. It is important to recognise that simply being 'organic' may not sell your product. If your product does not have some other attributes that consumers are looking for such as taste, packaging, convenience, health, or otherwise, there may be other more attractive alternatives. Adding value does not necessarily mean processing. It may mean ensuring product freshness, providing after sales service, or simply washing your produce. Moreover, the organic market is relatively underdeveloped in terms of value-added products which indicate potential opportunities for value-added organic food products.

☛ Factors that contribute to success are: niche products for niche markets, moving up the value chain through processing and design, responding to the ever-rising demand from consumers for higher quality standards, entering brand new markets like services, or shortening the distribution chain to capture a greater market share.

Please also refer to Chapter 8 and Section 13.3 for information on developments of prices and price setting.

10.6 Product profiles

This section gives two product profiles: oregano and sesame. The product profiles stand model for the product profiles the exporter should develop for his own (prospective) export products. By constructing an overview of the most important products, exporters are better able to determine which products are most suited to export to the EU.

☛ At www.gtz.de/organic-agriculture/en/lit/lit01.html#3 product profiles of 18 different organic products can be ordered.

PRODUCT PROFILE OREGANO

1. Product name: Oregano, marjoram

Main varieties: Origanum vulgare L., O. Heracletium, O. Hirtum, O. Onita, O.Majorana

2. Market requirements:

Council regulation 2092/91/EEC lays down European Union standards for organic food production and labelling (for details see section 9.1)

Quality standards:

- presentation: oval formed leaves with intense fresh green colour, without colour loss; particle size sifted to mesh according to specification (usually 4, 2,5 or 1 mm)
- smell: aromatic, not musty, no off-flavour
- purity: free from foreign matter, i.e. sand, dust, insects, etc., sticks and stems max. 3%, free from food additives
- specific essential oil content: min 1.0%
- minerals/ash: total max 12%, acid insoluble max 2.5%
- residues: pesticides, bromide, ethylene oxide not detectable
- micro-organisms: total plate count max 1x105 cfu/g, yeast and moulds max 1x104 cfu/g, E. coli max 1x103 cfu/g, Salmonella neg. in 25 g
- heavy metals: lead max 2.0 mg/kg, cadmium max 0.5 mg/kg
- no gas decontamination treatment, no irradiation applied

3. Market structure:

Harvest and processing according to growing area often three harvests/year, demand throughout the year. Prices are relatively stable.

Oregano is widely used as a culinary herb (soups, sauces, tomato salads) and in herbal mixtures for pizza. It is also processed to aromatic essential oil, used in flavour industry. Because of its antioxidant activity it is also applied in herbal medicines; also antimicrobial activity has been reported (especially hydrosols from O. onites and O. majoram)

Price indication
(organic, August 2003):
US$ 2,40 – 3,10/kg CIF European port.

Market trends:

Consumption of convenience and ethnic foods is expected to increase because more and more people are eager to try the new and varied taste of foreign foods. However, there is still a great lack of knowledge about the use of spices and herbs, and about their origin. Also the immigrant population is expected to grow further, particularly in developed countries. The usage of spices and herbs by consumers is increasing because

4. Main suppliers:

Main suppliers of oregano are Peru, Chile, Turkey. Also some EU countries (Greece, Spain and Portugal) grow oregano.

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Packaging:
Oregano intended for export is usually packed in three-layer paper bags with vapour-impermeable polyethylene liner or in sealable foils (e.g. polyethylene, polypropylene). Before sealing, nitrogen can be added as an inert gas.
Labelling:
The transport packaging should display details of the following:
- name of the product and its quality class
- year harvested
- net weight
- identification (name and address) of manufacturer/packer and country of origin
- batch number, identifying batch of production
- visible indication of the organic origin of the product

Storage:
Packaged oregano should be stored in a dark place at ambient 15-20°C (optimum 5°C) and a maximum relative humidity of 60% (at a higher relative humidity moulds may grow and probably produce aflatoxins). Storing both organic and conventional products together should be avoided.

they are appreciated as natural, rather than artificial additives. Apart from being directly used by the industrial and catering sectors as well as consumers, they are also the starting points for the production of many flavours and components of flavours.

5. How to improve the quality:
Growing and processing should take place under ideal clean, hygienic conditions:
- Equipment as well as working and drying surfaces, preparing and storage rooms should be cleaned regularly
- Personnel should be healthy and have the possibility to wash themselves, at least their hands, and wear clean washable garments
- Water used for cleansing purposes must be free from faecal and other contamination
- Animals or animal faeces must not come into contact with the products
- Proper separation of dust and foreign particles; metal detector.

PRODUCT PROFILE SESAME

1. Product name: sesame seeds (sim-sim, beniseed)

Main varieties: Sesamum indicum L.

2. Market requirements:

Quality standards:

Council Regulation 2092/91/EEC lays down European Union standards for organic food production and labelling (for details see Section 1.1)

Small (2-3 mm) flat, oil-containing seeds, yellow-white or brown. Seeds should be homogeneous in colour. The standard quality of sesame seeds should contain at least 40 percent of oil and not more than 8 percent moisture. There are two grades, determined by the use of the seeds (on food products, in food products, or for oil production). Both grades are used in food products, but for the one grade the colour and shape of oil seeds are important; for the other grade the colour and shape are less important. The quality of the shipment has to be indicated by the percentage of impurities (such as small stones, little pieces of wood, and dust etc.). This percentage is called the Fair Average Quality (FAQ), and can vary from year to year.

- Taste and smell: According to variety, fresh, not rancid, not stale
- Purity: Free of foreign matter, i.e. sand, stones, plant stems, insects etc.
- Water content: max. 5-7 %
- Residues: Pesticides, bromide and ethylene oxide not measurable
- Heavy metals: Cadmium (Cd) max. 0.80 µg/kg
- Micro-organisms: Total number of parts max. 10.000/g; Yeasts and fungus max. 500/g; Enterobacteria max. 10/g; Coliforms max. 10/g; Escherichia coli Not measurable; Staphylococcus aureus max. 100/g; Salmonella Not measurable in 25 g
- Mycotoxins: Aflatoxin B1 max. 2.0 µg/kg; Total aflatoxins B1, B2, G1, G2 max. 4.0 µg/kg

3. Market structure:

Harvest and processing according to growing area, demand throughout the year.

Price indication (conventional) (August 2003):

Guatemala hulled 99.9% purity ex-store (£p/lb): 56
Guatemala cif Europe ($/mt): 1066
Nigerian natural 98% cleaned fob Lagos ($/mt): 780
Nigerian natural 99.95% cleaned ex-store UK (£/mt): 600
Sudan natural cif Europe ($/mt): 920
Indian natural cif Europe ($/mt): 535
Indian origin mechanically hulled & sun dried 99.9% pure ($/mt): 900
Id organic: 1100

Market trends:

Sesame seeds are used in both sweet and savoury dishes. The little ivory coloured seeds can be lightly toasted to enhance the flavour. Sesame seeds are often used as a topping on breads and other bakery products.

4. Main suppliers:

The leading supplying countries of sesame seeds are India, China, Sudan, Guatemala, and Venezuela.

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Labelling:
The transport packaging should display details of the following:
- Name and address of the manufacturer/packer and country of origin
- Description of the product and its quality class
- Year harvested
- Net weight, number
- Batch number
- Destination, giving the trader's/importer's address
- Visible indication of the organic source of the product

Packaging:
Expensive sesame seeds are often shipped in containers, which are filled with paper or jute bags of 25 or 50 kg each. One container will carry about 18 to 20 tonnes of seeds.
Low-cost seeds are generally shipped in large quantities (hundred of tonnes per consignment) in bulk, without packaging.

5. How to improve the quality:
Harvesting: care should be taken in harvesting and processing to avoid damaging the seeds, and to eliminating foreign particles, dust and other contamination.
The optimum time for harvesting (physiological ripeness) has been reached when:
- The first, lowest capsules turn brown and begin to pop open,
- The stem turns yellow,
- The leaves begin to fall off,
- Blossoming has finished,
- The leaves have turned yellow.

Storage: Packaged sesame should be stored in a dark place at low temperatures (below 18°C) and low relative humidity. Under optimum storage conditions, sesame can be stored for up to 1 year. However, because high levels of humidity can cause sesame to take on moisture again and go mouldy, it is recommended that storage is only for a short while, and/or in air-tight containers.

11 INTERNAL ANALYSIS: COMPANY AUDIT

The internal analysis is a review of the company's strengths and weaknesses in terms of internal resources and export marketing capabilities. As a result of this internal analysis, you will be able to assess the extent to which your company is able to take advantage of the opportunities identified in the former chapter.

11.1 Product range

A supplier can only select a suitable business partner (and vice versa) when armed with correct information about the range that he or she is able to offer. A precise review of the product range, therefore, aims at matching products on offer with market opportunities. A product range can consist of several product groups (range width), each with several different products (range depth). Again, one product can consist of several varieties (see example). Keep also in mind that varieties are sometimes known under different trade names overseas.

Questions an exporter needs to answer:

- Which products are you currently producing? How comprehensive is your product range?
- Which products do you consider to be the main products you are specialised in?
- Can you offer large enough quantities?
- What new products would you be able to collect / cultivate / produce / processed?

Enter in the list below all products you produce, together with their varieties. Furthermore, state their size, the period in which you are able to supply and the packaging method.

11.2 USP, product standards, quality, and production capacity

USP

In understanding your own company, developing an Unique Selling Proposition, or USP, is very helpful. Your USP is what differentiates your product or service from your competitors. Your chances in the market greatly increase when you have a USP!

There are two major benefits in developing the USP. First, it clearly differentiates your business in the eyes of your current and potential customers or clients. Some European importers mentioned that exporters from developing countries easily copy each other. Second, it focuses your staff on delivering the promise of the USP, thus helping to improve your internal performance.

Product standards: conversion, planning and certification

Careful planning is required if a producer decides to convert from conventional to organic agriculture. As mentioned, the EU Regulation 2092/91 defines principles for organic agriculture, including a conversion period of three years or less depending on the crop. This long conversion period requires long-term planning. The producer thus has to weigh the market opportunities and the expected increase in returns (higher prices for organic products after the conversion) against the increased costs (smaller yields during conversion and possibly after).

Example of a company's product range

product range (range width)	products (range depth)	variety	availability	packaging
Grain	Flour	Buckwheat whole flour, Ambercontent	All year round	Netto 25 kg per paper bag 66 x 41 x 12 cm
Grain	Rice	Basmati rice white	All year round	Netto content 25 kg per PP bag
Sweeteners	Sugar	Cane sugar Golden	All year round	Netto content 25 kg per more layer paper bag 70 x 40 x 11
Pulses	Beans	Soybeans China	All year round	Netto content 30 kg per paper bag 75 x 39 x 16 cm

Source: Do-It, www.organic.nl

What a USP could look like:

- One sentence.
- Clearly written, so that anyone can understand it.
- It should be believable.
- Composed of one benefit that is unique solely to your company or product.

Two possible examples of USP's:

- Good communication;
- If you can, apart from organic black tea (which many other exporters besides you can supply), you should also supply organic green tea and other products. This will reduce time and costs for the exporter and importer. Moreover, the importer can expand by offering special products. You have even a better USP, if you can offer a very special variety of green tea no one else is able to offer.

How to develop your USP? Sit down with a notebook and:

→ Brainstorm.
→ List all the benefits your company or product can offer to a customer.
→ Prioritise those benefits in order of what is the strongest, and most unique to your business.
→ Write one sentence that conveys the first benefit on the list.

☛ Thinking about what happens with your export product, after the importer has received it, can help you find new ideas.

If a positive decision is taken, the producer has to cease the use of artificial fertilisers and synthetic chemicals and select a certification organisation. It is important to register with a certifying body before commencing the conversion period so as to demonstrate compliance through auditing and monitoring during conversion.

Before entering an agreement with a certifying organisation, it is of vital importance to check whether the certifier is accredited in the EU. Some accredited certifiers are better accepted in the respective EU countries than others. Therefore, if the target EU countries are known, the best certifying organisations in those countries can be selected. If, for instance, France is the target country, Ecocert is better accepted than Skal.

If deciding to export to different continents (Europe, USA and Japan), certification bodies which are accredited in the respective markets must be chosen. It makes sense to choose a certification body that is accredited in the different target markets, in order to avoid multiple certifications and, consequently, higher certification costs.

☛ *It happens often that a company in a developing country thinks it is certified, but in fact it is not. Therefore, be clearly informed about certification and its procedures! Please refer to Appendix 2 for a list of accredited certification bodies in Europe and developing countries. An interesting publication is Certification of organic foodstuffs in developing countries, which can be downloaded at* ***www.gtz.de/organic-agriculture/en/lit/lit02.html#1***

Another fundamental requirement is the availability of know-how on organic farming and organic inputs. Organic farming is generally more labour intensive and requires a high level of management attention in order to avoid contamination and pests. According to FAO (2002), some organic producers state that the highest initial costs of converting towards organic farming were not so much the costs of certification and control, but the huge losses during the first harvests, resulting from insufficient knowledge and capability to protect the crops from pests and plagues.

☛ *Please refer also to GTZ's training module for tropical and subtropical farming at* ***www.gtz.de/organic-agriculture/files/modul_organic_farming_en.pdf****. The modules provide an overview of the principles of organic agriculture in the tropics and subtropics (location, cultivation techniques and post-harvest management practices).*

However, since this market survey is about exporting organic food products to the EU, the focus will not be on certification. Therefore, for more information on conversion and certification please refer to the above given addresses or to consultancy agencies such as Agro Eco, GroLink, Advice, etc.

Quality

Quality is probably the main competitive factor in every business. It is an absolute requirement for European importers to receive organic food products that comply totally with EU regulations. It is therefore obvious that it is also the key issue when looking for suppliers in

developing countries. Particularly for organic products counts that the product must have the quality of 100% organic.

Good post-harvest handling (e.g. cold storage), good infrastructure and logistics (including harbour/port or airports) will enable products to arrive in sound condition in the country of destination. Limited transport possibilities put a constraint on organic exports, and quality problems can lead to discontinuation of the exports.

Generally, importers trade on annual contract terms in which prices are fixed and other requirements are also laid down in the field of quality, delivery and food safety. In recent years, regulation on food products has become more complex and stringent. The requirements regarding food safety have, in particular, become more demanding. This has led to the introduction of chain management and labelling systems, through which products can be traced back to the producer.

Supermarkets are the fastest growing sales outlet for organic products. For some product groups (in particular fresh fruit and vegetables), larger supermarkets in developed countries specify the requirements for price, quality, delivery and food safety for products originating in developing countries, in order to guarantee year-round supply. Because of the increasing importance of supermarkets as a sales outlet for organic products, it is expected that they may establish similar commodity chains the in international organic trade as well.

Quality refers not only to product quality, however, because management quality is just as important. In the case of co-operation agreements, it is the general impression of a company's management that often determines whether the European importer decides to enter into a long-term relationship.

Check your current quality standards with the voluntary and compulsory standards described in Chapter 9. Also refer to Chapters 9 and 10 for information on the importance of the various quality standards for your product-market combinations.

Questions an exporter needs to answer:

- What quality standards does your product and production process comply with?
- What is the general level of your product quality compared to other products in the identified market?
- In case environmental labelling could significantly improve the competitiveness of your export product, which one is the most interesting for your situation?

Production capacity

The foreign buyer is seldom looking for a 'spot' purchase. Instead, he is looking for a quality product at a fair price backed by continued availability. If you are merely seeking to market your sporadic surplus capacity, then entry into the foreign trade market will probably be a great disappointment. On the other hand, if your company is willing to devote even 10 percent of its production capacity to foreign markets and the servicing of these accounts, it can reasonably expect to build substantial and permanent trade in those markets suited to its products.

☛ *Keep in mind that, often, the volume of the product marketed is not as important as a* consistent *and* reliable *supply of the actual product. As said in Part A of this survey, the organic sector is still characterised by an overflow (coffee) or on the contrary, a shortage of supply. Other critical points are high/low spoilage of raw material and seasonality of organic food products.*

Questions that need to be answered:

- Do I have sufficient supply?
- Can I offer consistent quality?
- How efficiently is the present capacity being used?
- Will new export activity hurt domestic sales?
- Is it possible to expand your production capacity if necessary?
- What will be the cost of setting up additional production capacity?
- Is it possible to produce more efficiently and have less spoilage of raw material?
- Is it possible to keep out of seasonality of your organic product?
- What cycles of production apply to your products and how does this match up to the demand in the target market?

11.3 Logistics (internal)

Exports of organic products become successful when the logistics are well organised, adapted to the product and ensure good quality of the end-product. When transporting products overseas, the exporter ideally looks for the fastest and most efficient mode(s) of transportation that will deliver the product in perfect condition at the lowest possible costs. It depends also strongly on the type of food product you want to export. The actual selection will be a compromise among these factors. Please also refer to Section 10.4, in which the external aspects of logistics are discussed.

☛ *Because of lower export volumes, logistics of organic food products logistics can give more problems than conventional products. Moreover, to*

keep the price of your organic product low, it is strongly advised to co-operate with other local exporters of the same organic food product.

Packaging

Packaging is used for hygienic purposes and to protect against mechanical damage. It is an essential factor in determining the product's quality. However, according to the way in which packaging sometimes is applied in developing countries, it can also be a risk to quality, due to bruising and less than optimum conditions of temperature. Moreover, organic products, having no chemical or synthetic post-harvest treatment, are less robust than conventional products.

The packaging has to satisfy conditions in the field of handling. The transportation volume must be as efficient as possible and a high level of uniformity is desirable. Packaging design should take the following into account:

- Proper storage and transport;
- Standard packaging sizes;
- Recyclable materials or two-way systems.

Packaging should be of good quality, even if expensive. The packaging must be sturdy enough to protect the product. It must resist outside pressure and high humidity. Packaging sizes are standardised and adjusted to the respective pallet systems. Packaging must allow for sufficient ventilation. Untreated fruit and vegetables, for example, are more prone to mould formation than conventional goods.

Environmental aspects should also be taken in consideration. As little packing material should be used as possible, and all materials should be recyclable. Sustainable packaging material are specifically required for organic products. The material must be free of pesticides, colours, solvents, or cleaning agents that might contaminate the products. For this reason, new products should never be packaged in used sacks.
A trend is to use biodegradable packaging, in order to provide consumers with organic products which are packed in an environmentally friendly manner.

☛ *The exporter should always discuss the preferred type of packaging with his European trading partner or organisation.*

Two examples illustrate the necessity of this:

- Some big importers in The Netherlands mentioned paper bags as the only right packaging material for dry organic food ingredients (such as pulses, grains and sugar). The bags should be sealed carefully and weight no more than 50/60 kg, the weight which the European law for labour conditions has determined.

Points of interest when choosing the right packaging:

Have your customers ever complained about the quality of your products?
Look for possible causes:

→ Unsuitable packaging material (avoid unnecessary re-packing by the customer)
→ Insufficient cooling during transport
→ Too many damaged boxes on arrival
→ Differences in weight mentioned and actual weight
→ Other causes

In the case of marine transport, different kinds of products shipped together in one container should have compatible:

→ Temperature needs
→ Relative humidity needs
→ Airflow characteristics

Does your importer use special transport packaging?

→ Perhaps you could use this special transport packaging as well? Using the wrong packaging size can have a negative effect on your business.
→ Maybe you could make use of the importer's packaging expertise.

Fully recyclable packages must be used when trading with certain business partners.

→ Colouring materials, used for printing, should not be harmful to the environment.
→ Do not use metal clips for the cartons.
→ Avoid waxed boxes or any combined packaging materials

☛ For packaging details of specific organic products, refer to the publications of Naturland "Organic Farming in the Tropics and Subtropics', downloadable at http://www.gtz.de/organic-agriculture/en/lit/lit01.html. Chapter 9 of this survey also describes several methods of packaging.

- As some of the exported organic products are directly forwarded to the producer or end-user (supermarket), the importing company might want to have the printing work on boxes done already in the export country.

11.4 Marketing and sales

How do you sell to current (export) markets?
What works in one market is generally likely to work in another, subject to refinement based on market intelligence and knowledge about specific trade channel requirements.

What existing contacts does the company have in the target markets - relatives, friends, suppliers, etc? It is an advantage to have some local presence in the target market, to gather information, monitor progress and follow up leads.

A serious export marketing campaign requires substantial management time to execute it properly. Therefore, the company needs to be realistic as to how much time can be devoted to export marketing.

A well-functioning sales department is an absolute prerequisite for successful market participation. Marketing and sales form the commercial department responsible for all export activities to EU countries. Whether to employ different persons for marketing and sales depends entirely on the size of the company, the capabilities of the relevant emplyees and the possibilities to invest in the commercial department.

☛ *More information on how to make use of your marketing tools to foster your export activities will be described in Chapter 13.*

Questions that need to be answered:

- Does your company have people specifically assigned to marketing and sales activities?
- Does your company need re-organisation of the sales, marketing etc. departments in order to be successful in exporting?
- Which persons do you know in the target markets?
- What sales support material is available?

In order to assess marketing and sales functions as part of the internal analysis, the responsibilities of both functions are given below:

Marketing
- Familiar with all non-tariff and tariff barriers relevant to the export of the company's products to the EU.
- In co-operation with production and finance departments, adjustment of products and packaging to EU requirements.
- Preparation of promotion material like brochures and product specifications.
- Installation of communication tools like internet sites and e-mail.
- Organisation of participating in EU trade fairs.
- Carry out market research.
- Preparation of MES and EMP.
- In co-operation with sales and finance departments, the preparation of annual budgets.

Sales
- Selection of potential trade partners in the EU.
- Contacts with trade partners.
- Familiar with all export documentation to ship products to EU markets.
- Familiar with sales contracts, payment and delivery terms.
- Negotiation with trade partners in the EU.
- Responsible for the margins made on exports to EU destinations.
- Negotiations with logistic service suppliers (transporters, shipping agents, custom agents,inspection bodies).

An essential tool used in the sales department is a detailed and up-to-date customer database. The customer database contains basic data on the customer (long-term data such as name, address, telephone number, e-mail etc.) and changing data on the customer (data resulting from business with the customer such as telephone calls, offers, sales statistics, etc.). For an example of a customer database refer to Section 13.5.

Although it appears from above-mentioned description that different employees should occupy both functions, a combination of both functions in one position is quite possible. Much depends on the complexity of the work, the number of export destinations and the selected trade partners in the EU.

☛ More information on how to make use of your marketing tools to foster your export activities will be described in Chapter 13.

11.5 Financing

Export marketing is expensive. If financial resources are limited, then marketing plans will have to be modest. It is no good developing five new markets if the company only has the money to develop one. The company should not only have access to sufficient funds to invest in adaptation of products, packaging and possibly production equipment, but also the company's credit facilities should be large enough to cover extended payment terms. Moreover, the company should have sufficient financial funds to withstand commercial risks (quality problems, non-payment, late delivery, etc.) that are often inherent to the start of exports to new destinations.

Local banking systems in developing countries are sometimes insufficient to handle exporting. It is therefore recommended to use an international bank, which is also located in the importing country. Moreover, this will also simplify the payments between you and your business partner. Each country has a list of their local banks with their corresponding banks in other countries or special relationships with financial institutes outside their country. Choosing the right bank can facilitate and speed up money transfers considerably.

External financing is often necessary for product and process adaptation to EU standards. More specifically, converting from conventional to organic products requires extra investments. It is recommended that you obtain information through the EU or other international business supporting organisations (for example CDE, The Centre for the Development of Enterprise) about international organic financing programmes. Development organisations or financial institutions in The Netherlands, such as Hivos, Cordaid and Triodos Bank, provide commodity financing and/or are active in the field of organics and biodiversity.

☛ For methods and terms of payments, please refer to paragraph 13.4 *Handling the contract.*

For the internal analysis, the following financial aspects should be assessed:

Investments
- Product development (adjustment of products to EU standards)
- Packaging
  - Adjustment of content
  - Adjustment of packing material
  - Packing for long-distance shipments
  - Labelling requirements (barcodes, information)
- Human resources (qualified export staff)
- Production equipment
- Certification (organic, ISO, HACCP)
- Promotion (participation in EU trade fairs, travel to EU countries, brochures, etc.)

Payment terms
- Credit terms, for example payment 60 days after receipt of goods
- Local interest rates
- Bank charges, for example confirmation of Letter of Credit, handling of documents
- Non-payment risks, for example with 'open account' payment

Commercial risks
- Claims, for example in case of late delivery and quality problems
- Consignment shipping, for example selling price is below cost price
- Insurance premiums, for example credit insurance

Miscellaneous costs
- Export documentation
- Inspection certificates
- Stationery for export purposes
- Communication expenses

Questions that need to be answered:

- What amount of money can be allocated to setting up new export activities?
- What level of export operating costs can our company support?
- How are the initial expenses of export effort to be allocated?
- What other development plans are in the works that may compete with export plans?
- Is outside capital necessary to support efforts?

11.6 Capabilities

Apart from the subjects mentioned above, the following capabilities should be assessed as part of the internal analysis

Human Resources
Knowledge of exporting (organic) food ingredients to EU countries is a basic requirement for a company. This knowledge does not only apply to technical matters regarding exports (documentation, export calculations, shipping possibilities, etc.) but also to knowledge about EU requirements and market developments relevant to food ingredients in the EU. This knowledge is necessary to negotiate with your trade partners in the EU on the same level. Ignorance on the part of the exporter is often (mis) used by trade partners to extract more favourable trading conditions at the expense of the exporter.

Commitment to export
It is important to consider whether the company has staff who are sufficiently educated/able to sell and develop an international business. The company should be able to generate the physical and administrative infrastructure to deal with increased activities related to exporting - not only in dealing with orders but also with processing Customs and shipping documentation. If this type of infrastructure is limited, then it is a weakness in developing sustained export activities.

Questions that should be answered are:

- What kind of commitment is the top-level management willing to make to an export effort? How much senior management time should be allocated? How much could be allocated? Is it worth to invest in the necessary education?
- What organisational structure is required to ensure that export sales are adequately serviced? Who will be responsible for the export activities (export department's organisation and staff)?
- What are the management's expectations of the effort?

Export experiences
It is important to learn from past experience. If the company has tried and failed to penetrate an export market previously, this can be analysed to determine where things went wrong.

Questions that should be answered are:

- In which countries has business already been conducted?
- From which countries have inquiries already been received?
- What general and specific lessons have been learned from past export experience?

Language skills
When dealing with European trade partners in organic food products, English is the most commonly used language. Although European trade partners will not be English native speakers themselves, the vast majority speaks English fluently. In almost all cases, foreign language skills, particularly English, are essential when entering the European market. When dealing with France, knowledge of the French language is a distinct advantage. If you can communicate in Spanish, you have a competitive advantage if you address the Spanish market.
On the few occasions when correspondence and documents in English do not suffice, exporters can usually find sources of translation capabilities for the more popular European languages (Spanish, French, and German). Language capability can be advantageous since it facilitates cultural and social relationships.

Questions that should be answered are:

- Which language skills are necessary when dealing with your selected markets?
- Which language capabilities are available within the export company?

12 DECISION MAKING

12.1 SWOT and situation analysis

Answers to the questions mentioned in Chapters 10 and 11 can help an exporter not only to decide whether or not to export but also determine what methods of exporting should be initially used. A SWOT analysis can be used as a tool to analyse the identified opportunities and threats and the company's identified relative strengths and weaknesses. Carrying out an analysis using the SWOT framework helps an exporter to focus his activities into areas where he is strong and where the greatest opportunities lie.

☛ Simple rules for successful SWOT analysis

- Be realistic about the strengths and weaknesses of your organisation.
- Analysis should distinguish between where your organisation is today, and where it could be in the futures.
- Be specific. Avoid grey areas.
- Always analyse in context to your competition i.e. better than or worse than your competition.
- Keep your SWOT short and simple.

An example of a SWOT analysis for an exporter of organic food products in developing country is given in Table 12.1. It should be noted that the matrix should be treated as an example and that it should be adapted to the exporter's own situation.

A distinction can be made in the SWOT figure between internal factors (strengths and weaknesses) and external factors (opportunities and threats). Nevertheless, factors

Table 12.1 Example of a SWOT analysis for exporters of organic food products in developing countries

INTERNAL FACTORS

Strengths
- Low raw material prices
- Low labour costs
- Tropical climate and tropical products
- Access to natural resources
- Diverse agricultural base
- Conventional local production method is close to that of organic production
- EU qualified certifier has started inspection of another company in the region

Weaknesses
- Lack of knowledge and skills (marketing, language, communication)
- Lack of information on regulations, prices etc
- Most farm production is small scale, limiting export quantities and would require certification of all farms connected to each processor
- Low level of organisation in the industry
- Limited access to finance / banking systems
- Inadequate hygiene conditions in processing plants
- Record keeping standards not developed adequately for international certification
- Difficult export distribution channels
- International certification expensive relative to farm income

EXTERNAL FACTORS

Opportunities
- Enlargement of EU
- Growing and more extensive demand on the EU market
- Potential of exotic and seasonal products
- Assistance from EU governments through development programmes
- Contribute to stabilisation of rural sector by developing new and profitable domestic and export markets
- Potential for cost sharing of certification between agribusinesses and international agencies

Threats
- Entrance of East European countries to the EU
- Price premiums under pressure
- Air transport no longer accepted by consumer
- Technical trade barriers, especially for agricultural products into the EU
- High investments needed, especially for conversion and international certification process
- Lack of transparency and access to accurate research data, especially on agricultural and health issues

of sectoral and of company level are both found under the internal factors in this figure. For example, "lack of marketing knowledge" and "low level of organisation of the industry" are both internal factors, although the first is at company level and the latter at sectoral level.

Such an analysis should be adapted to your personal circumstances since the factors differ for each exporter in the world. While for one exporter of organic food products to Spain "language skills" is a weakness, for another exporter this problem does not exist.

Please note that, also within a company, a threat or weakness can change into an opportunity or strength. A good example concerning this matter is "certification". The path to organic certification can be a threshold for exporting to the EU. However, when an exporter has walked through the conversion process and adapted the export product to EU standards, he will have access to the EU market. In this way, the factor of technical trade barriers can be seen as an opportunity instead of a threat.

Be aware that success in export is by no means guaranteed by taking into account all the factors mentioned so far. Your environment consists of other critical conditions and success factors, that are often more difficult to influence as an individual company, than changing for example internal factors. Some of the critical conditions such as low level of organisation in the industry and financing have already been included in the figure above. However, other (sector-specific) factors at which the exporter should also pay attention are:

- sector policies;
- availability of sector/branch organisations;
- clustering/co-operation within the sector, organisation of supply and production, value chain management (please also refer to Section 10.5);
- know-how and technical assistance;
- foreign trade assistance;
- financing.

☛ Inquiring of local business support organisations or colleague exporters can be a good starting point in being aware of other critical conditions for successful exporting.

12.2 Strategic options and objectives

Through of conducting the external analysis (market audit) and internal analysis (company audit) (Chapters 10 and 11), you will be able to come to a decision whether or not to export.

- ☑ You have identified products suitable for export development. Also, you know what modifications, if any, must be made to adapt them to overseas markets.
- ☑ You know what countries and market segments you are going to target for sales development and/or co-operation agreements.
- ☑ You have identified the best sales channel (direct exporting or co-operation agreements).
- ☑ You know what special challenges pertain to the selected markets (competition, import controls etc.) and what strategies you will use to address them.

Once a company has determined that it has exportable products, it must still consider whether the development of an export business adheres to the company objectives. In order to arrive at this conclusion the management should ask itself the following questions:

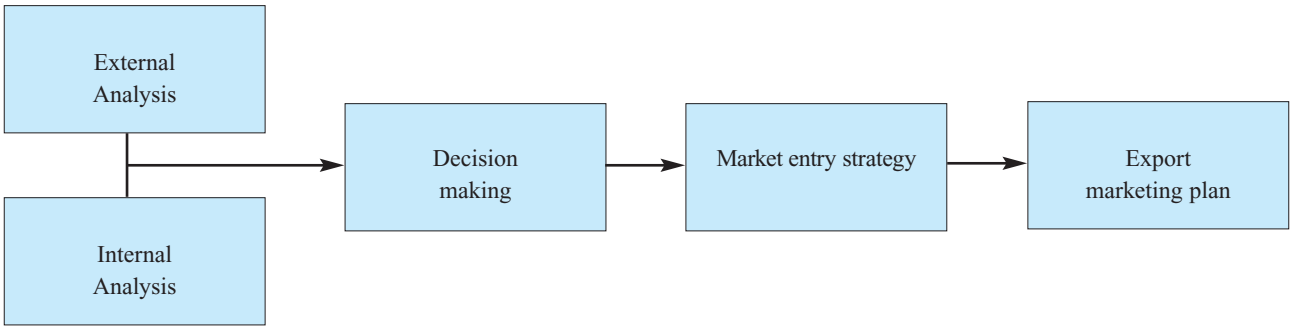
- What does the company want to gain from exporting?
- Is the goal of exporting consistent with other company goals?
- Are the benefits worth the costs or would company resources be better spent developing new domestic business?

Companies can waste a lot of time and money attempting to enter markets which do not have potential or for which their product is not suitable. To be

☛ **Advantages and disadvantages of exporting**

Advantages	**Disadvantages**
• enhance domestic competitiveness	• develop new promotional material
• increase sales and profits	• subordinate short-term profits to long-term gains
• gain global market share	• incur added administrative costs
• reduce dependence on existing markets	• allocate personnel for travel
• exploit corporate technology and know-how	• wait longer for payments
• extend the sales potential of existing products	• modify your product or packaging
• stabilise seasonal market fluctuations	• apply for additional financing
• enhance potential for corporate expansion	• obtain special export licenses
• sell excess production capacity	• …
• gain information on foreign competition	
• …	

successful in export marketing, exporters need to focus on specific products and markets and be prepared to deal with all foreseeable situations. Therefore, several possible strategies have to be considered.



The above figure could be summarised in the following strategic steps:

- External analysis (market audit, Chapter 10) and internal analysis (company audit, Chapter 11)
- SWOT (Chapter 12)
- Decision making & formulation objectives (Chapter 12)
- Elements which can be used as inputs for the Market Entry Strategy and Export Marketing Plan (Chapter 13).

If you have come to the decision to export, the next phase of the export marketing process is to draw up an Export Marketing Plan (EMP) which defines a marketing strategy stating how the company is going to penetrate the identified market. The marketing strategy is designed around the information collected in the internal and external analysis and the marketing tools will be described in the following chapter.

☛ **An international business plan should define your company's:**

- readiness to export
- export pricing strategy
- reason for exporting
- potential export markets and customers
- methods of foreign market entry
- exporting costs and projected revenues
- export financing alternatives
- legal requirements
- transportation method
- overseas partnership and foreign investment capabilities
- corporate commitment to the exporting process

Formulating an export marketing strategy based upon sound information and its proper assessment increases the chances that the best options will be selected, resources will be utilised effectively, and efforts will consequently be carried through to completion.

For assistance in writing an EMP and formulate answer on the questions asked in this chapter, please refer to the CBI's "Export Planner".

13 EXPORT MARKETING

Which marketing tools are available to you to help build up your export business? This Chapter will provide you with insight and give tips on how to make use of your marketing tools to promote the sales of your products and to build a favourable trade relationship.

13.1 Matching products and the product range

In the company audit (see Section 11.1), the exporter reviewed the company's product range and product characteristics. The aim of this review was to enable the exporter to match market opportunities with the company's products on offer. This review can also be used as a starting point for considering opportunities for improving the exporter's product range.

In most cases, exporters will find out that the current product range does not match the demand of the identified market segments and sales channels.
The cause of this mismatch can, for example, lie in the fact that currently produced varieties are outdated.

In the case of exporters who are looking for varieties to improve their product range, a couple of possible sources exist:

- ⓘ **Trade magazines** like the mentioned Biofach newsletter, World Organic News, Organic Business, Foodnews etc.
- ⓘ Visiting **trade fairs** is also a good way of becoming informed about potentially interesting varieties.
- ⓘ From more **detailed trade statistics** (for instance auction sales), you can often determine which varieties are most popular in the target markets.

Note that one of the most important issues in selecting new varieties is the question whether or not the variety can be successfully produced under your production circumstances.

13.2 Building up a relationship with a suitable trading partner

Possible weak points concerning companies offering organic food products in developing countries can be solved for the greater part with the help of a business partner. Co-operation with a European partner may have the following benefits:

- Direct access to the EU market through the network of an European partner;
- Moreover, in such a way, the risk of a debtor is covered;
- Access to up-to-date information (market, prices, trends and EU regulation);
- Control of the value chain from the producer all the way to the consumer;
- Educational opportunities;
- Fewer communication problems.

It is better to have one long-term trade contact than several scattered and unsteady relations. Once you have build up a relationship with an European trade partner, stick to the strategy both of you have chosen.

☛ It is understandable that exporters want to get an indication from the importer as to the amount of purchase/supply per year. However, because of large fluctuations of supply and demand on the international organic market, it is often difficult for the importer to give an accurate indication.

One of the most ominous obstacles for exporters can be the search to contact, attract and secure a good importer or trade partner. Many avenues are available for locating trade partners. You should employ any and all, which seem appropriate for your product-market combination. **Confidence** between the trade partners is the most important condition on which one selects the other.

How to find a potential trading partner
In order to export successfully, good and reliable relations with an importer in the target market are vital. Importers have experience with organising production, trade and sale to end-users. Moreover, they have up-to-date information on the latest market developments.

The main ways European importers use to look for new suppliers from developing countries are the following:

- Searching on Internet;
- Visiting the country in which one intends to set up/expand production capacity;
- Recommendation by someone he knows; and
- International trade fairs (e.g. BioFach).

The best ways for exporters in developing countries to approach potential European customers are:

- Direct mail: You can write a letter (post, fax or e-mail) directly to a European company.
  Most companies will respond that they are not interested or that they already carry a competitive line. However, only a few positive replies are needed to continue your search and evaluation of prospective distributors.
- Indirect by an Internet site of your company.
  A simple Internet site with the products, vision and address of the company suffices. You can also make use of export directories where you can register or

publish your company information (for example **www.green-tradenet.de** (free subscription), **www.greentrade.net** or **www.linksorganic.com**). If you leave an address of a website of your company in the direct mail of the previous point, the European company can immediately check for an example of information on your offered products.
- Personal visits: Once you have received a number of interested replies, plan a trip to that market. Additionally while travelling, stop in other potential markets to assess the situation as well as attempt to make contacts. Many times a personal visit will pay for itself in terms of the benefits gained.
- Invite EU importers or potential business partners to visit your company. Due to the strict terms for organic products, it is more common that an importer visits an exporter than vice versa. Moreover, the importer can assist in the conversion and certification process.
- Build a network in order to extend your contacts.
- Visit international trade fairs, such as BioFach. Because the organic market is relatively small, it is quite easy to get to know the players in this market. Not only trade fairs for only organic food products are recommended, but also for related food products.
- To find a business partner, exporters can make use of several directories giving contact details, such as www.organicts.com or www.biofach.de. IFOAM's directory of member organisations and associates provides a good starting point for contacts in the organic sector in almost 100 countries world-wide.

Also refer to the recently published CBI manual "*Your Image Builder*".

In the case of organic food products, a number of European importers came in touch with exporters of organic food products in developing countries through a programme financed for example by the EU or the local government, in which the production and trade in organic products is supported. Another good advice from one importer is trying to make direct contact with the trade of the importing company. He or she is able to make the decision concerning import.

How to identify the most suitable trade partner?
Evaluate the potential trade partners on which you have obtained information, using the following criteria:
- ☑ Is the information complete? (full address, telephone /fax number, e-mail address, contact person)
- ☑ Is the importer active in the country you selected?
- ☑ What kind of trade relation is the potential trade partner interested in (arm's-length, co-operative agreement, joint venture)? Does this correspond with your preferred type of relations?
- ☑ What is the position of the potential trade partner in the market?
- ☑ What is the financial status and credibility of the company? Although difficult to find out, an annual report and a personal visit can give you some insight into the financial status of a company. It is also possible to take out an insurance on credits.

Using these criteria, draw up a priority list of the contacts you have received.
Going by the priority list, you must identify the trade partners who best match your own company profile, product range and export strategy. Particularly in the

Cultural differences

The single most common reason for export failure is inattention to cultural factors, a maxim frequently repeated in international business literature. People choose service providers and strategic business partners with whom they feel at ease, and this comfort level is dictated initially by cultural factors. National cultures are numerous, and subcultures are even more so. Increased travel has resulted in a large group of people socialised in more than one culture, and widespread television access gives exposure to different cultural values.

The factors that can affect cross-cultural business include:
- who speaks first
- attitude to God and nature
- decision-making time
- thought patterns
- personal space
- social behaviour
- material possessions
- family relationships
- risk avoidance
- competitiveness
- short- and long-term planning

For example in Germany, first names are reserved for family members and close friends. Moreover, in German business culture, it's not uncommon for colleagues who have worked together for years not to know of each other's first names.

☛ It is important to be aware of and deepen yourself in cultural differences between your country of origin and European countries. By the way, even great varieties in cultural behaviour exist between the EU countries themselves! An overview of the business culture in the UK, The Netherlands, France, Germany and Belgium are given in Appendix 5.

case of future long-term close co-operation, it is important to gain a clear picture of the company you are dealing with and understand their business activities.

13.3 Drawing up an offer

After establishing contacts with potential trade partners in the EU, the exporter might be requested to make an offer to an importer or directly to a food processor. The preparation of an offer should be done with great caution. An offer without escape clauses, but which has been accepted by an EU trading partner, is a legally binding document requiring the exporter to deliver, even when the trading conditions are unfavourable to him.

There are two different kinds of offers; general offers or a company introduction and specific offers.

(A) Drawing up a general offer

- The purpose of a general offer is to make the first contact with potential trading partners not yet personally known to the supplier.
- A general offer consists of sending a short profile of your own company and a summary of your product range.
- In a personal letter, briefly introduce your company and what you have to offer.

(B) Drawing up a specific offer

A specific offer is legally binding for a certain period. You must therefore be capable of fulfilling the terms of contract. You should make up a specific offer only when you know the business partner personally or after you have made the initial contact.

Before making a specific offer, the exporter should verify the following items:

- It is important to check whether the trade partner requesting an offer is well established and has a good reputation. Sources to check are:
  -Branch organisations in the EU (see Appendix 3)
  - Trade registers in the country of the trade partner, for example the Chamber of Commerce
  - Commercial organisations, which can supply company profiles like Dun & Bradstreet, Cofaz and Graydon. Although the provided information is extensive, reports from these organisations can be quite expensive.

- Rules, regulations and quality standards, which can be found in Chapter 9 of this market survey.

- When making an offer, the following elements should be included:
  -Date of quotation and reference number. This number can at a later stage be used on contracts, payment and shipping documents as easy reference to the consignment in question.
  - Full names and addresses of both parties
  - Product and product specifications
  - Packaging specifications
  - Quantity in kgs, litres
  - Price per kg/litre, currency and total amount
  - Delivery terms (Incoterms 2000)
  - Delivery period
  - Payment terms
  - Validity of the quotation. The period of validity depends very much on the volatility of market prices. In very volatile markets, the validity of the quotation might only be 24 hours.
  - Waiver. A very important element of the quotation. The waiver gives the exporter an escape clause not to honour the quotation, even when accepted by the EU trade partner. A waiver in the offer is quite customary and can be worded as follows:
    "This quote is subject to our confirmation."
    "This offer is without any obligations."
    "This offer is subject to confirmation by means of a sales contract."
    An offer made without waiver and accepted by the buyer obliges the exporter to deliver the goods according to the quotation

- Referral to the general sales conditions of the exporter. General sales conditions apply to all offers and contracts and stipulates items like:
  - Retention of title of the goods (in case of non-payment)
  - Product liability
  - Force majeur (when an exporter cannot supply due to circumstances beyond his control like strikes, fires, political unrest, perils of the sea)
  - Resolution of disputes
  - Delayed payment, late/non delivery
  - Inspection procedures
  - Exclusion of Value Added Taxes (VAT) in price quotations
    Please remember that the general sales conditions of an exporter might conflict with the general purchasing conditions of an importer.

- In case a sample of the product is required:
  - Product samples must correspond to the goods available for delivery (if they do not, this can have a lasting negative effect on business relations).
  - State the treatment methods used. If possible, provide quality certificates from an internationally recognised inspection company.

☛ Some more tips to increase the effectiveness of your offer:

- A telephone call to ask whether the offer (and the samples, if applicable) has arrived.
- An invitation to visit your company.
- Possibly, propose a visit to the country of destination. In that case:
  - If necessary, hire an interpreter.
  - Ask your own consulate, business support organisation, or other intermediary for assistance in planning your visit.
- First-time exporters should start with small samples, rather than large high-value commercial shipments. An exporter should be able to use the sample to test whether his products meet the phytosanitary requirements, transportation routing, handling and packing methods.

Price setting

To establish an overseas price, you need to consider many of the same factors involved in pricing for the domestic market. These factors include market conditions (competition and demand) and operating costs in producing the product (production, packaging, transportation and handling, promotion and selling expenses).

Generally the exporter is confronted with the reality of having to accept the given market price. In such cases, the exporter must work backward from this market price to establish the profit margin that will remain for himself after expenses. However, in the case of some products, like speciality products, you will be able to set your own export price.

There are two common methods of calculating your price for exports:

- Domestic Pricing is a common but not necessarily accurate method of pricing exports. This type of pricing uses the domestic price of the product as a basis and adds export costs, such as packaging, shipping and insurance. Because the domestic price already includes an allocation of domestic marketing costs, prices determined using the method might be too high to be competitive.
- Incremental Cost Pricing determines a basic unit cost that takes into account the costs of producing and selling products for export, and then adds a mark-up

Questions to ask when setting your price

How much does it cost to make your end product?

→ Production costs not only include costs for growing and processing, but also for certification, financing, packaging, distribution and promoting your products.
→ The costs of unsold products also should be included.

What are your profit goals?

→ A profit goal states how much a business should earn.
→ You can set the profit goal as a percentage (margin) above the product costs or set the total profit figure for the entire business.
→ A profit goal can guide decisions on the amount of your production and the price you will charge.

How will you market your product?

→ Are you producing on a contract basis for a European importer or processor?
→ Do you sell your products on an arms-length basis to customers in Europe?

What price do competitors charge?

→ Try to gain an industry focus on your pricing by researching your competitors' price levels.
→ By walking through the steps indicated in Section 10.2, you will know the prices competitors charge and why they charge what they do. Use the competitive analysis to develop the upper limit of your price range. Be sure you compare your products to comparable competitors.
→ If competition is intense, you should price at the lower end of the price range unless you can distinguish your product through quality or a unique selling feature.

What is the customer demand for my product?

→ How unique is your product?
→ To price according to demand you have to know more about the size and nature of your customer base and their feelings about pricing.
→ You will need to keep an eye on general market trends, particularly if your product range has many substitutions. See also Chapter 3.
→ Who is responsible for rate differences? You sell in foreign currency and buy from farmers in local currency. Understanding banking with regard to currency can increase profit.

to arrive at the desired profit margin. To determine a price using this method, first establish the 'export-base cost' by stripping away profit mark-up and the cost of domestic selling. In addition to the basic cost, include genuine export expenses (export overheads, special packing, shipping, port charges, insurance, overseas commissions, and allowance for sales promotion and advertising) and the unit price necessary to yield the desired profit margin.

☛ A good method to set the maximum selling price of your product is to take part in a trade fair such as BioFach. Trade fair participation is expensive and requires long-term preparation, but CBI may possibly be able to support you.

How you price your product is worth a good deal of thought and effort since it directly affects your ability to make a profit. Take some time to research the management questions on the previous page.

Understanding how to price your product is an essential step in developing your business. You must continually monitor your price including your costs of production, your competition and your customers and be prepared to make adjustments.

Below, you find an overview of the way you can calculate the price of your export product (for information on Incoterms see the next Section).

Export price calculation

Total costs per unit
+ Profit
+ Commissions
+ Domestic banking fees
+ Palletisation / export packing
+ Freight forwarding and documentation fees
+ Other direct expenses related to special shipping requirements such as temperature recorder charges
= EXW price (Ex Works)
+ Inland transportation
= FAS price (Free Alongside Ship)
+ Terminal handling charges
= FOB price (Free On Board)
+ Ocean freight charges
+ Ancillary charges
= CFR price (Cost & Freight)
+ Insurance
= CIF price (Cost, Insurance, Freight)

13.4 Handling a contract

When handling a contract, you should consider the contract terms and the fulfilment:

Terms of payment
There are various methods of receiving payment for your exports. The most commonly used terms in the trade of organic food products are documents against payments (D/P). Exporters prefer a Letter of Credit (L/C), but, due to the risks importers are not very keen on it. For long-term contacts and contracts, it is normal that the payment term will change into an open account.

- *Documents against payments*
  Also known as cash against documents (CAD). The buyer takes possession of the goods only after payment. Although this method is not very popular, it is very safe and the costs amount to one pro mille. One can also make use of a 'documents against acceptance of a bill of exchange'. However, the bill of exchange is not commonly used in the European Union and it does not guarantee that the bill will be paid; it is less secure than the D/P.

- *Open Account*
  Selling on open account carries the greatest risk for the exporter. Under this method, the buyer does not pay for the goods until they have been received. If the buyer refuses to pay, the only recourse by the exporter is to seek legal action in the buyer's country. Thus, the open account method should only be utilised when there is an established relationship with the buyer and the country of the buyer possesses a stable political and economic environment. If your sales must be made on open account, the date upon which the payment is due should be stipulated. Ask for a bank guarantee and request references.

- *Payment in advance*
  This method is the most desirable from the seller's standpoint, because all risk is eliminated. While cash in advance may seem most advantageous to you, insisting on these terms may cost you sales. Just like domestic buyers, foreign buyers prefer greater security and better cash utilisation. Some buyers may also find this requirement insulting, especially if they are considered credit worthy in the eyes of the rest of the world. Advance (partial) payments and progressive payments may be more acceptable to a buyer, but even these terms can result in a loss of sales in a highly competitive market.

In the case of co-operation agreements with overseas companies, payment terms could also include periodical payments.

Terms of sale
Export terms of sale determine what costs are covered in the price of the cargo. They also indicate at what point ownership transfers to the buyer and at what point responsibility for the cargo is transferred. International commercial terms (Incoterms) provide "the international rules for the interpretation of trade terms."

The most commonly used trade term is:
- *FOB (Free on Board)*
  Under this term, the seller quotes a price for goods that includes the cost of loading at the port of departure. The buyer arranges for transportation and insurance.

Other trade terms less frequently encountered are:
- *CFR (Cost and Freight)*
  For shipments to designated overseas port of import, the seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation. The buyer is responsible for the cost of insurance. This is referred to as C&F in the old Incoterms. The seller pays for the cost of unloading cargo at the port of destination, to the extent that they are included in the freight charges. If the charges are separate, they fall to the account of the buyer.
- *CIF (Cost, Insurance, Freight)*
  Under this term, for shipments to designated overseas port of import, the seller quotes a price for the goods, including insurance costs and all transportation and miscellaneous charges, to the point of debarkation from the vessel or aircraft. The seller pays for the cost of unloading cargo at the port of destination, to the extent that they are included in the freight charges. If the charges are separate, they fall to the account of the buyer. European buyers prefer this type of trade terms as FOB increases the costs for freight very much.

Contract fulfilment
It is important that an exporter discusses the 'what ifs' with his trade partner: what if there is a problem with inspection, what if a claim is necessary because the organic products are mishandled during transport by a third party, and what if your customer has a problem with product quality after arrival.

Important issues are:
- ❏ Procure the delivery documents in good time.
- ❏ Comply strictly with all parts of the supply agreement. If you cannot comply with any part of the agreement (e.g. delivery delays or quality problems), inform the customer clearly and in good time.
- ❏ Co-operate on a partnership basis and seek a common solution even if conflicts arise.
- ❏ Fulfilling the contract should have a high priority, particularly when delivering for the first time.
- ❏ Regarding risks such as destruction or sending back freights, it is important to make clear agreements with the customers.

Other more practical questions that should be asked are:
- ❏ When is the shipment needed?
- ❏ Does the customer have a preferred freight carrier?
- ❏ Which ocean port (or airport) is most convenient?
- ❏ Does he have an agent to clear the shipment through Customs?
- ❏ Does the customer want to pay the shipment to be insured?

To get more insight in different payment conditions and terms of delivery please refer to "*CBI Export Planner*".

13.5 Sales promotion

One of the major critical success factors for exporters of organic food products to the European Union is attention to customer requirements and the ability to maintain good relationships with their European business partners. Sales promotion revolves around developing and expanding these customer relations and thereby maintaining and increasing sales quantities.

Some tips for developing customer relations:
- Take good care of existing contacts. This includes for example expressions of thanks to business partners, regular information on the company developments like product range, quality improvements, etc.
- Always answer a letter of inquiry. If you cannot supply this contact, say so, explaining that you will get in touch with him for the next campaign.

Communication
In general, European business partners understandably appreciate clear communication. In practice it is advisable to commence with communication measures, which only require a small amount of planning and co-ordinating, such as revising the company's standard printed matter:
- Standardise all printed paper used outside the company (letterheads, visiting cards, fax form, etc.);
- A brochure of your company (including photos of production sites and produce) can be useful for promoting new contacts and sales;
- A company Internet site with information on the products, contact details and possibly a request form.

Constant, prompt and reliable communication is a vital prerequisite for maintaining a long-term business relationship with your customers. If possible, smaller firms should also try to be reachable by (mobile) phone during office hours.

Sales organisation
The term 'sales organisation' refers to the organisational system that carries out the sales of the company's products. A sales organisation usually consists of back office and sales force.

As most sales are conducted by telephone, fax or e-mail, having well functioning sales staff is an absolute precondition for successful market participation. This also applies to smaller companies where one person has to fulfil different (sales) functions.

An essential tool used in sales is a detailed and up-to-date customer database. This database can vary from a simple collection of customer data sheets to an advanced customer relation management system.

However, the customer database should at least contain the following information:
- Basic information on the customer: name, address, telephone numbers, etc.
- Changing data on the customer: data resulting from business activities with the customer, such as telephone calls, offers, sales information, preferences etc.

The customer database should give the sales person a quick review of the most important customer information when making or answering a telephone call or planning a visit. If possible, the database should be computerised, because this simplifies changes, updating, sorting and selection procedures, etc. If computerisation is not possible, the customer database should be on file cards.

Example customer data sheet

General information

Company name:	Customer no.:
Postal address:	First contact date: _ _ / _ _ / _ _ _ _
Street address	Customer class*: *A B C D*
Country:	Customer type: *(manufacturer, importer, agent)*
Telephone:	Other info:
Fax:	
E-mail:	
Contact name:	

Sales information

Sales realised: *(last year)*
Sales planned: *(this year)*
etc..

Contact record

No. 1 Contact date: _ _ / _ _ / _ _
Contact type: *(telephone, visit, fax, etc.)*
Information:

No. 1 Contact date: _ _ / _ _ / _ _
Contact type: *(telephone, visit, fax, etc.)*
Information:

No. 1 Contact date: _ _ / _ _ / _ _
Contact type: *(telephone, visit, fax, etc.)*
Information:

* Classify your customers by importance to your company (sales, quality of relation, etc.)

Internet
As a source of information and means of communication, Internet is generally considered to have many opportunities for companies in developing countries. The main advantages of the Internet are:

- Low cost of communication;
- Fast delivery of information;
- Independence of distance and timeline;
- Multimedia possibilities.

Besides one-to-one communication by E-mail, Internet offers opportunities for presentations, (market) research, distribution, sales and logistical improvements. If your target group consists of importers/processors in overseas countries, you can advertise for (new) customers on your Internet site, showing your company, product range and indicating the production circumstances. Please be advised about the do's and don'ts of an Internet site. It is better to have a simple but clear site than a comprehensive but unfinished one.

☛ Exporters should realise that the Internet is an important medium in sourcing of organic food products. A number of traders of organic food products mentioned that they use the Internet in order to find new suppliers, especially when they are referred in an introducing e-mail of the exporter.

Trade fairs
Although trade fairs are not the one and only solution to finding your European trade partner, visiting or even participating in a trade fair abroad can be an efficient tool for communicating with prospective customers. It provides more facilities for bringing across the message than any other trade promotional tool. It can also be an important source of information on market developments, production techniques and interesting varieties.

Important motives for companies visiting European trade fairs are:
- Establishing contacts with potential customers;
- Orientation on the European market;
- Gathering information on specific subjects.

Especially for the relatively small market of organic food products, international trade fairs are one of the best opportunities to show your product and meet potential buyers.

Although significant costs are involved, actually participating in a trade fair could be interesting for a

Trade fairs	Where?	When?	What?
Anuga	Cologne, Germany	biennial, October 2003	Food and drink industry
BioFach	Nuremberg, Germany	annual, February 2004	Organic and natural products and relevant services
Food Ingredients Europe (FI)	Frankfurt, Germany	biennial, November 2003	Food products, product development and quality control
Health Ingredients Europe (HI)	Amsterdam, The Netherlands	biennial, November 2004	Food products, product development and quality control
IFE	London, United Kingdom	biennial, March 2005	International food and drink exhibition
Natural Products Europe	Amsterdam, The Netherlands	annual, June 2004	Organic and natural products and food supplement industries
NATEXPO products	Paris, France	biennial October 2003	Organic, health food and ecological
SANA	Bologna, Italy	annual, September 2003	Health products, nutrition, environment-friendly agriculture
Sial	Paris, France October 2004	biennial,	International food and drink exhibition

number of companies to meet, for example, European companies interested in setting up organic production facilities in third countries. One of the major advantages of participating in a trade fair is the ability to present your company and products in a more extensive way (3-D presentation, company video, and product displays).

Trade fairs are organised in many European Union countries. The most relevant fairs for exporters of organic food products are listed in the box below. The contact addresses of these and other trade fairs are listed in Appendix 2.

For additional information on trade fair participation, please refer to CBI's Handbook "*Your show master - a guide for selection, preparation and participation in trade fairs*."

Assistance with market entry

Local business support organisations

Before approaching organisations abroad, an exporter should first check with local business support organisations (trade promotion organisations, Chambers of Commerce, etc.) and foreign representatives in his or her country.

Import Promotion Organisations

In most EU countries, there are organisations that promote imports from developing countries through specific export promotion activities:

- They supply information on: statistics and other information on national markets, regular news bulletins, importer databases, and market opportunities;
- Individual assistance is offered: management training, testing products by display and adaptation services; and
- They can establish contacts: collective trade fair participation and selling missions.

Branch organisations

As is probably the case in your own country, in most European countries, producers, wholesalers and often retailers are also organised in so-called branch organisations. These organisations can be of use to new exporters to the EU. An example is BNN (www.n-bnn.de), a German branch organisation for the natural food sector. In The Netherlands, the Association for Organic Processors and Traders can be contacted (**www.vbpbiologisch.nl**).

Information how to reach other organisations can be found in Appendix 2.

☛ **CBI export development programmes (EDP)**

(CBI export development programmes (EDP)
On the basis of the results achieved in previous programmes and on the basis of expected market opportunities, CBI has initiated a new Export Development Programme for companies that manufacture or produce organic food products. Only companies in a number of selected countries in Latin America, Asia and Africa are eligible for participation.
A step-by-step approach provides intensive support for selected exporters in developing countries, so that they can secure a firm footing on the EU market. Programmes are made to measure, demand-driven and flexible, combined with fixed elements such as:

- pre-selection of candidates based on kick-off workshops;
- technical assistance during company visits and distance guidance by CBI branch experts;
- export marketing training (for instance through the EXPRO seminars);
- market entry (for instance via participation in European trade fairs);
- market consolidation by way of follow-up support, further technical assistance and/or repeat market entry activities.

☛ For more information please refer to CBI's Internetsite: **www.cbi.nl**

Appendices

APPENDIX 1 DETAILED HS CODES

HS code classification of selected food products

HS code	Food description
	Coffee, tea and cocoa
0901	Coffee
0902	Tea
1801	Cocoa beans, whole or broken, raw or roasted
	Grains, pulses and seeds
1006	Rice
0713	Pulses
0713 20	Chickpeas
0713 31	black & green grams
0713 32	small red beans
0713 33	kidney beans, including white pea beans
0713 39	other beans
0713 40	Lentils
0713 50	broad and horse beans
0713 90	other leguminous vegetables
	Oil seeds
1206	Sunflower seed
1207 40 90	Sesame seeds (excl. for sowing)
	Vegetable oils and fats
1507	soybean oil, raw and processed
1509	olive oil, raw and processed
1510	other oil, raw and processed, exclusively derived from olives
1511	palm oil, raw and processed
1513	coconut oil, raw and processed, not chemically modified
	Dried fruits
0804 10 00	dates (fresh and dried)
0804 20 90	figs
0806 20 12/92	sultanas
0806 20 18/98	other dried grapes
0813 10 00	apricots
0813 20 00	prunes
0813 30 00	apples
0813 40 10	peaches, including nectarines
0813 40 30	pears
0813 40 50	papayas
0813 40 60	tamarind fruit
0813 40 70/95	other dried fruit
	Fruit juices (incl. grape must) and vegetable juices, unfermented and not containing added spirit
2009 11	frozen orange juice
2009 19	sunfrozen orange juice
2009 20	grapefruit juice
2009 30	juice of any other single citrus fruit
2009 40	pineapple juice
2009 50	tomato juice
2009 60	grape juice (including grape must)

2009 70	apple juice
2009 80	juice of any single fruit or vegetable
2009 90	mixtures of juices
	Edible nuts
1202 10 90	groundnuts (in shell)
1202 20 00	groundnuts (shelled)
2008 11 92/ 11 96	roasted groundnuts
0801 11	desiccated coconuts
0801 19	fresh coconuts
0801 21/22	Brazil nuts (para nuts / amazonia nuts)
0801 31/32	cashew nuts
0802 11 10/12 10	almonds, bitter
0802 11 90/12 90	almonds, sweet
0802 21/22	hazelnuts
0802 31/32	walnuts
0802 40	chestnuts
0802 50	pistachios
0802 90 10/20/30	areca, cola and pecan nuts
0802 90 50	pine nuts
0802 90 60	macadamia (Australian) nuts
0802 90 85	other nuts
0813 50 31	mixtures exclusively of coconuts, cashew nuts, Brazil nuts, areca “betel” nuts, cola nuts and macadamia nuts
	Spices and herbs
0904 11	pepper of the genus Piper, whole (black/white)
0904 12	pepper of the genus Piper, crushed or ground (black/white)
0904 2010	dried paprika (sweet peppers) of the genus Capsicum or Pimenta, whole
0904 20 31/35/39	dried fruits of the genus Capsicum or Pimenta, whole (red/green peppers and chillies)
0904 20 90	paprika powder of the genus Capsicum or Pimenta
0905	Vanilla
0906	cinnamon and cinnamon-tree flowers
0907	cloves: whole fruit and stems
0908 10	Nutmeg
0908 20	Mace
0908 30	Cardamoms
0909 10	anise or badian seeds
0909 20	coriander seeds
0909 30	cumin seeds
0909 40	caraway seeds
0909 50	fennel or juniper seeds
0910 10	Ginger
0910 20	Saffron
0910 30	turmeric – curcuma
0910 4011/13/19	thyme
0910 4090	bay leaves
0910 50	Curry
0910 91	mixtures of two or more of the products of different headings
0910 99	other spices
	Sugars
1701 11	raw cane sugar
1703 10	cane molasses resulting from the extraction or refining of sugar
	Honey
0409 00 00	natural honey

APPENDIX 2 USEFUL ADDRESSES

2.1 Certifying organisations

A list of bodies or public authorities in charge of inspection and certification is included in the Official Journal of the European Communities of 9 December 2002. This list can be found through **http://europa.eu.int/eur-lex/en/search/search_lif.html** (2000/C 354/05). A similar overview is provided at **http://www.organicts.com/organic_info/certification/bodies/index.html**.

Below we present a (non-exhaustive) list of European certification bodies which are active in developing countries.

GERMANY

Ecocert International
E-mail: info@ecocert.de
Internet: www.ecocert.de

BCS Öko Garantie GmbH
E-mail: info@bcs-oeko.de
Internet: www.bcs-oeko.de

Demeter-Bund e.V
E-mail: info@demeter.de
Internet: www.demeter.de

Naturland e.V
E-mail: naturland@naturland.de
Internet: www.naturland.de

THE NETHERLANDS

Skal
E-mail: info@skal.nl; info@skalint.com
Internet: www.skal.com; www.skalint.com

SWEDEN

KRAV
E-mail: info@krav.se
Internet: www.krav.se

SWITZERLAND

IMO - Institute for Marketecology
E-mail: office@imo.ch
Internet: www.imo.ch

UNITED KINGDOM

Soil Association
E-mail: info@soilassociation.org
Internet: www.soilassociation.org

Certification bodies in developing countries (not falling under Article 11 of Regulation 2092/91/EEC) accredited according to EN45011 or ISO 65

BOLIVIA

Bolicert
Telephone: +591 (0)2 310846
Fax: +591 (0)2 310846
E-mail: bolicert@coord.rds.org.bo

BRAZIL

Instituto Biodimanico
E-mail: ibd@ibd.com.br
Internet: www.ibd.com.br/

EGYPT

Centre of Organic Agriculture in Egypt (COAE)
Telephone: +20 (0)2 281 8866
Fax: +20 (0)2 281 8866
E-mail: coae@gega.net

Egyptian Centre of Organic Agriculture (ECOA)
E-mail: info@ecoa.com.eg
Internet: www.ecoa.com.eg

PERU

Biolatina (headquarter, also offices in Bolivia, Colombia and Nicaragua)
E-mail: biolatin@amauta.rcp.net.pe
Internet: www.biolatina.com

2.2 Sources of price information

Food and Agriculture Organization (FAO)
(FAO Internet site providing international conventional commodity prices for peanuts, coffee, cocoa, tea, coconut oil, sugar and rice)
E-mail: FAO-HQ@fao.org
Internet: http://apps2.fao.org/ciwpsystem/ciwp_q-e.htm

International Trade Centre (ITC)
Publisher of 'Market News Service for Services'
E-mail: mns-subs@intracen.org
Internet: www.intracen.org

GERMANY

Ista Mielke GmbH
Publisher of 'Oil World'
E-mail: info@oilworld.de
Internet: www.oilworld.biz

ZMP
E-mail: info@zmp.de
Internet: www.zmp.de

INDONESIA

International Pepper Community
Publisher of 'International Pepper News Bulletin'
E-mail: ipc@indo.net.id
Internet: www.ipcnet.org

UNITED KINGDOM

Agra Europe Ltd.
Publisher of 'The Public Ledger' and
'World Organic News'
E-mail: marketing@public-ledger.com
Internet: www.public-ledger.com

Foodnews
E-mail: marketing@agra-net.com
Internet: www.foodnews.co.uk

2.3 Trade or branch associations

AIAB
(Associazione Italiana per l'Agricoltura Biologica)
E-mail: aiab@aiab.it
Internet: www.aiab.it

BEO
(European Office of organic processors and distributors)
Telephone: 32 16470198
Fax: 32 16470199
E-mail: leen.decadtprolibia-unitrab.be

BNN
(German Association for Natural Foods and Products)
E-mail: BNN.Herstellung@n-bnn.de
Internet: www.n-bnn.de

European Spice Association
E-mail: mcista@fdf.org.uk
Telephone: +44 020 7420 7107
Fax: +44 020 7836 0580

FEEDM (Federation of European Honey Importers and Packers)
E-mail: info@waren-verein.de
Internet: www.warenverein.de

FOSFA
(Federation of Oils, Seeds and Fats Associations Ltd.)
E-mail: contact@fosfa.org
Internet: www.fosfa.org

SÖL (Foundation Ecology & Agriculture)
E-mail: info@soel.de
Internet: www.soel.de

2.4 Trade fair organisers

ANUGA
E-mail: anuga@koelnmesse.de
Internet: www.anuga.de

Bio Fach
E-mail: info@biofach.de
Internet: www.biofach.de

Food Ingredients Europe
E-mail: fi@cmpinformation.com
Internet: www.fi-events.com; europe2003.fi-events.com

Health Ingredients Europe
E-mail: fi@cmpinformation.com
Internet: www.hi-events.com

IFE
E-mail: ife@freshrm.co.uk
Internet: www.ife.co.uk

Natural Products Europe
E-mail: refer to website, contact
Internet: www.expoeurope.com

NATEXPO
E-mail: info@comexpo-paris.com
Internet: www.natexpo.com

SANA
E-mail: info@sana.it
Internet: www.sana.it

SIAL
E-mail: gsaintgeorges@sial.fr
Internet: www.sial.fr

2.5 Trade press

Biofach newsletter
E-mail: info@biofach.de
Internet: www.biofach.de

Biofood Magazine
E-mail: info@biofood-magazine.nl
Internet: www.biofood-magazine.nl

BioPress
E-mail: info@biopress.de
Internet: www.biopress.de

Ecology and farming (IFOAM)
E-mail: HeadOffice@ifoam.org
Internet: www.ifoam.org

Ekoland
E-mail: administratie@ekoland.nl
Internet: www.ekoland.nl

Foodnews
(English language)
E-mail: marketing@agra-net.com
Internet: www.foodnews.co.uk

Food Engineering and Ingredients
E-mail: info@foodinternational.net
Internet: www.fei-online.com

International Food Ingredients
(English language)
E-mail: aemmens@cmpinformation.com
Internet: www.ifi-online.com

2.6 (European) Business Support Organisations

INTERNATIONAL

International Trade Centre UNCTAD/WTO (ITC)
Telephone: +41 (0)22 7300111
Fax: +41 (0)22 7334439
Internet: www.intracen.org

AUSTRIA

Austrian Federal Economic Chamber
E-mail: aw-online@aw.wk.or.at
Internet: portal.wko.at

DENMARK

Danish Import Promotion Office for Products from Developing Countries (DIPO)
E-mail: dipo@commerce.dk
Internet: www.dipo.dk

GERMANY

BfAI, Federal Office of Foreign Trade Information
E-mail: info@bfai.de
Internet: www.bfai.com

ITALY

ICE
Italian National Institute for Foreign Trade
E-mail: ice@ice.it
Internet: www.ice.it

THE NETHERLANDS

CBI, Centre for the Promotion of Imports from developing countries
E-mail: cbi@cbi.nl
Internet: www.cbi.nl

NORWAY

Norwegian Agency for Development Co-operation (Norad)
E-mail: sk@norad.no
Internet: www.norad.no

SWEDEN

Swedish International Development Co-operation Agency - Department for Infrastructure & Economic Co-operation (SIDA)
E-mail: sida@sida.org.se
Internet: www.sida.se

SWITZERLAND

SIPPO, Swiss Import Promotion Programme
E-mail: info@sippo.ch
Internet: www.sippo.ch

2.7 Other useful addresses

Agro Eco
Consultancy specialised in organic agriculture
E-mail: office@agroeco.nl
Internet: www.agroeco.nl

CBI / Accesguide
(CBI's database on European non-tariff trade barriers)
Email: Accessguide@cbi.nl
Internet: www.cbi.nl/accessguide

FiBL (Forschungsinstitut für biologischen Landbau)
E-mail: admin@fibl.ch
Internet: www.fibl.org

Food and Agriculture Organization (FAO)
Telephone: +3906 57051
Fax: +3906 57053152
Internet: www.fao.org/organicag

IFOAM (International Federation of Organic Agriculture Movements)
E-mail: HeadOffice@ifoam.org
Internet: www.ifoam.org

International Chamber of Commerce
E-mail: icc@iccwbo.org
Internet: www.iccwbo.org

Institut für Honiganalytik (Institute for Honey Analysis)
Telephone: +49 (0)421 508044
Fax: +49 (0)421 594771

Organic Monitor
Strategic Research & Marketing Consulting
Telephone: +44 (0)20 8567 0788
Fax: +44 (0)20 8567 7164
Internet: www.organicmonitor.com

APPENDIX 3 USEFUL INTERNET SITES

www.allorganiclinks.com/
A comprehensive listing system for the organic industry with categories of information including associations, importers/exporters, eco-marketplaces.

www.organic-europe.net
This organic industry portal site is an extremely useful resource. It includes, among others, organic country reports for 25 European countries, a database with organic addresses in Europe, news, a list of EU accredited certifiers, and an overview of organic legislation of the European Commission.

www.foodstandards.gov.uk
A good site for current news on food legislation in the EU (see media centre).

www.foodfirst.co.uk/organics.htm
A directory of producers, wholesalers and retailers specialising in Organic food & drink

www.biofach.de/
This is the site of the organic tradefair BioFach. You can subscribe to the BioFach newsletter and find past issues. It provides an exhibitors' database and product reports.

www.gfrs.de/em/progfrs.html
At this site you find information on a project conducted by GfRS aimed at information provision to small-scale farmers in developing countries. If you click "on organic" world you find an overview of organisations involved in organic agriculture in the developing world that can provide assistance.

www.green-tradenet.de
An information network on organic raw materials from developing and Eastern countries for direct business contacts. As a matter of principle GTN services to producers are free of charge. Extra services besides contact information will be charged.

www.organic-research.com/
This is an online community for organic farming and food of particular interest to those actively involved in organic farming research and development. It provides access to a searchable database with informative abstracts of articles from research journals, conference proceedings, reports and books. You can also subscribe to a free monthly newsletter to keep up to date on the latest organic research and news.

www.organicts.com
This site is an organic industry portal. The site provides an online Marketplace, news and information, and a directory of suppliers of organic products.

www.irs.aber.ac.uk/omiard/welcome/index.html
OMIaRD is a research project lasting three years as from January 2001 funded under the European Union's 5th Framework for Research and Technological Development. The project will examine all aspects of the marketing of organic food in Europe, with a focus on rural development. The project has published the report Analysis of the European market for organic food. The report covers all important aspects of the organic market, including production, consumption, foreign trade, supply deficits, prices and premiums.

www.eisfom.org
European Information System for Organic markets that aims to build up a framework for reporting valid and reliable data for relevant production and market data about the European organic sector in order to meet the needs of policy makers, farmers, processors, wholesalers and other actors involved in organic markets.

APPENDIX 4 LIST OF DEVELOPING COUNTRIES

The list of developing countries as applied in this market survey, is the OECD DAC list of countries receiving Official Development Assistance (Part I). The list used is the one as at 1/1/2003.

Afghanistan
Albania
Algeria
Angola
Anguilla
Antigua and Barbuda
Argentina
Armenia
Azerbaijan
Bahrain
Bangladesh
Barbados
Belize
Benin
Bhutan
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Chile
China
Colombia
Comoros
Congo, Dem. Rep.
Congo, Rep.
Cook Islands
Costa Rica
Côte d'Ivoire
Croatia
Cuba
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia
Georgia
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras
India
Indonesia
Iran
Iraq
Jamaica
Jordan
Kazakstan
Kenya
Kiribati
Korea, Republic of
Kyrghyz Republic
Laos
Lebanon
Lesotho
Liberia
Macedonia
Madagascar
Malawi
Malaysia
Maldives
Mali
Marshall Islands
Mauritania
Mauritius
Mayotte
Mexico
Micronesia, Fed. States
Moldova
Mongolia
Montserrat
Morocco
Mozambique
Myanmar
Namibia
Nauru
Nepal
Nicaragua
Niger
Nigeria
Niue
Oman
Pakistan
Palau Islands
Palestinian Administrated Areas
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Rwanda
Samoa
São Tomé & Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
South Africa
Sri Lanka
St. Helena
St. Kitts-Nevis
St. Lucia
St. Vincent and Grenadines
Sudan
Surinam
Swaziland
Syria
Tajikistan
Tanzania
Thailand
Timor, East
Togo
Tokelau
Tonga
Trinidad & Tobago
Tunisia
Turkey
Turkmenistan
Turks & Caicos Islands
Tuvalu
Uganda
Uruguay
Uzbekistan
Vanuatu
Venezuela
Vietnam
Wallis & Futuna
Yemen
Yugoslavia, Fed. Republic
Zambia
Zimbabwe

Note: Eurostat figures do not include figures for St. Kitts-Nevis

APPENDIX 5 CULTURAL DIFFERENCES IN THE EU

A profound knowledge of the prevailing business culture in the country of the trading partner is one of the main keys to a durable relationship. In spite of all modern communication tools, the personal relationship with a trading partner often decides a durable co-operation. The first meeting with a trading partner in the EU is the most crucial, as the first impression a trading partners gains during this encounter is usually decisive for future co-operation.

In order to assist the exporter in the preparations for his first meeting with a EU trading partner, the business culture of five EU countries is described below:

United Kingdom

- Polite, direct with an understated use of language;
- Treats counterpart as equal but expects respect for achieved status/position. Wait till your counterpart assigns you a seat;
- Extremely task-oriented – 'hello, nice to meet you' and then straight to the point – confuses exporter, who thinks his trading partner is relationship building. Questions are purely ritual and over very quickly;
- A British trading partner will give the exporter the opportunity to sell himself, his company and his products;
- He will be interested in the track record/achievements of your company and your products;
- When convinced, he will be prepared to give it a try on the basis of a trial shipment;
- He becomes slightly irritated by small talk and formalities and likes to get down to business; do not talk about politics, religion and private/family matters;
- He expects his counterparts have their own opinion and voice it, even when he does do not agree with it;
- He expects counterparts to take initiative and expects assertive communication.

The Netherlands

- They are rather informal and are quick to use first names;
- They treat their counterparts as equal and are friendly in their communication;
- Direct in their approach and they do not like to beat around the bush;
- Often they do not have a secretary to bring coffee; instead they ask you to accompany them to the coffee machine somewhere in the corridors; coffee is offered throughout the day;
- Dutch trading partners expect you to take the initiative in the conversation: what do you have to show or tell me? They like to ask questions and take a pro-active attitude;
- Dutch counterparts are empowered by their organisation to make decisions there is no need to refer to their bosses; responsibilities are delegated to purchasers;
- They are very task oriented and do not like extensive social talk; they like to come straight to the point; being very price conscious, Dutch importers will be quick to ask the price;
- Showing off is frowned upon; Dutch people do not like a display of wealth (Rolex watch, expensive car, tailor made Saville Row suits, etc.). 'Act normal' is their way of doing business. Therefore expensive and colourful brochures are often counterproductive: Dutch purchasers think that eventually they pay for all this;
- Dutch purchasers like to work with strict deadlines: 'when can you get your proposal tome?' and they expect you to stick to the agreed date.

France

- French are formal, polite and not too direct;
- They like shaking hands, both at the beginning and the end of a meeting;
- French companies are very hierarchical; your counterpart is probably not empowered to make any decisions;
- Instead they want to gather as much information as possible about your company and your products, so they can report back to their superiors;
- French are rather chauvinistic; they prefer you to conduct the conversation in French and that you are familiar with French culture;
- French buyers can be rather arrogant and can treat you as much lower in status than themselves;
- Do not expect to come to business during the first meeting; the building of a relationship between you and your French counterpart is essential before any business can be done;
- Patience is an important virtue in dealing with the French; it takes a rather long time to commence business; however, when the relationship is established they are rather loyal customers;
- Dress correctly and conservatively; no flashy and contrasting colours;
- French remain formal to their business partners; first names are not used.

Germany

- Germans are formal and never use first names;
- They like to be addressed by Herr (Mr.), Frau (Mrs) or Fraulein (Ms) and their last names; important is to check beforehand whether your counterpart has a title: in this case titles should be used also: Herr Doktor Schmidt or Frau Ingenieurin Albrecht;
- German purchasers like to come quickly to the point and are well prepared for the meeting; as they want to eliminate uncertainties as much as possible so they will ask a lot of details;
- Offer your German counterpart 'certainties': assurances, guarantees, references to check you and your company out; company background, expertise and track record are very important elements for Germans in their search for certainties;
- Dress correctly and formally; avoid flashy and contrasting colours and expensive watches, rings, bracelets, etc.;

- Come strictly on time; German purchasers usually have very tight agendas and many meetings on one day; they usually inform you how long the meeting will last and the points they want to cover;
- They require detailed planning and concrete arrangements and expect you to adhere to them; prepare yourself in detail for this meeting: mistakes or inability to reply to questions will not be tolerated and mean the end of a possible business relationship;
- Try to get friendly with the secretaries; they have a lot of influence in scheduling the appointments for their bosses; here again, never address them by their first names.

Belgium

- Be aware of the bi-lingual and bi-cultural situation in Belgium. In the Flemish part of Belgium, Flemish (similar to the Dutch language) is spoken. In the Walloon part, French is spoken. Brussels is bi-lingual;
- The Flemish are polite and easy to communicate with. They are quite formal; first names are never used. English is widely spoken in the Flemish part of Belgium;
- Walloon trade partners are rather French in their business dealings. The use of the French language is very much appreciated and often necessary.

Although there are large cultural differences in dealing with trade partners from different EU countries, in building up a good relationship, trade partners in all the EU countries place particular value on the following aspects:

- Open and prompt communication. When asked questions or in case of enquiries, an answer within 24 hours is highly appreciated;
- Timely information in case of problems. For example, if shipments will be delayed, please inform your trade partner in time. He will be able to take the necessary measures on his side. Even when you only expect possible problems, advise your trade partner;
- Reliability is a key issue to build up a durable relationship. As the supply chains are getting more integrated and chain partners are becoming more interdependent, reliability forms an important pillar under the integrated chain.

APPENDIX 6 INTERESTING ORGANIC PUBLICATIONS

Other organic market surveys that are of interest to exporters in developing countries include:

- The handbook 'Organic coffee, cocoa and tea' by FiBL, SIPPO and Naturland which can be ordered at **www.fibl.ch/buehne/publikationen/pdfs/verzeichnisse/handbook-coffee.pdf** for € 38.
- 'The Organic Market in Switzerland and the European Union' by SIPPO and FIBL which can be downloaded at **www.sippo.ch/cgi/news/publications.asp?mode=6#organic**.
- The ITC study "Organic Food and beverages: World Supply and major European markets" can be ordered at **www.intracen.org/mds/sectors/organic/abstract.htm**. It is free for exporters in developing countries.
- USDA organic country reports at **www.fas.usda.gov/htp/organics/attache.htm**.
- Fair Trade market reports (some including organic sections) can be downloaded from **www.fairtrade.net**.
- The project Organic Marketing Initiatives and Rural Development (OMIaRD) has published "Analysis of the European market for organic food". This report includes some data on trade but mainly focuses on products that are produced in the EU.
- The in 2003 published "The World of Organic Agriculture, Statistics and Future Prospects" gives a general overview of all organic markets in the world. It can be downloaded from the Internet at **www.ifoam.org** and **www.soel.de/inhalte/publikationen/s/s_74.pdf**.