Grolink "There is not one developed and one underdeveloped world, there is only one world that is badly developed."

Gunnar Rundgren

Organic Markets

"Entering World Organic Trade", Bangkok 28 Nov 2000

Summary- Organic World Market

The total value of the organic world market (consumer level) is above 14 billion USD. It has an average annual growth rate of about 25%, but varying from 10-50% in different markets. It should be noted that there are few countries with a reliable statistics on the organic markets.

Estimated value world market
Main markets – USD per year

United States	6600
Germany	1800
Japan	1500
France	750
Italy	750
U. Kingdom	700
Switzerland	580
Netherlands	350
Denmark	250
Austria	230
Sweden	188
Australia	130
Spain	83
Belgium	75

Source: Grolink

Consumer Profile

There are a lot of consumer surveys done among consumers. They all indicate that there is a keen interest in organic products. There are some differences in consumers' reasons for buying organic food. In some countries health and food safety are dominating reasons in others environment or ethics (especially in animal keeping) is dominating.

Swedish consumer surveys

There are a number of consumer surveys conducted regarding organic foods. They all show the same picture: There is a great willingness by the consumers to buy organic foods. A small proportion (>5%) of the consumers will by organic foods even with very high premium prices and low availability, and a large proportion (>50%) will by organic foods if these are of good quality, easily available and to reasonable premium prices (5-10%). 25% of the consumers claim that they regularly buy organic products and 66% that they do it occasionally.

The Swedish organic consumer differs not so much from the average Swedish consumer. Well-educated females would be the most enthusiastic group, while men in the age 40-60 the least interested. The Swedish organic consumer is less oriented to ”Natural” or ”Healthy” than their counterparts in continental Europe. In Sweden there is a good market for products like organic white bread or organic white (refined) sugar, while these products are very difficult to market in e.g. Germany.

US polls

- 31 percent of those polled nation-wide reported they purchase organic food at least once or twice a month. 85 percent strongly favour nation-wide labelling standards for organic food. 23 percent of shoppers use organic products twice a week or more often (up from 18 percent in 1990), according to a 1997 HealthFocus Trend survey. 69 percent are extremely or very concerned about pesticides in foods.
- 43 percent of consumers say they check a product's label for organic claims at least some of the time when making the decision to purchase the item for the first time.
- 46 percent of U.S. consumers claim to be interested in purchasing organic products. 80 percent of those polled listed healthfulness as a key criterion in making purchases, and 67 percent listed environmental friendliness as a key criterion.
- According to the *1998 Fresh Trends Report*, published by The Packer:
  -26 percent of shoppers have bought natural or organic produce in the previous six months;
  -Purchases of organic are highest among those aged 18-29 at 31 percent;
  -75% of organic buyers report they are extremely or very satisfied with their purchases.
  (OTA website: www.ota.com)

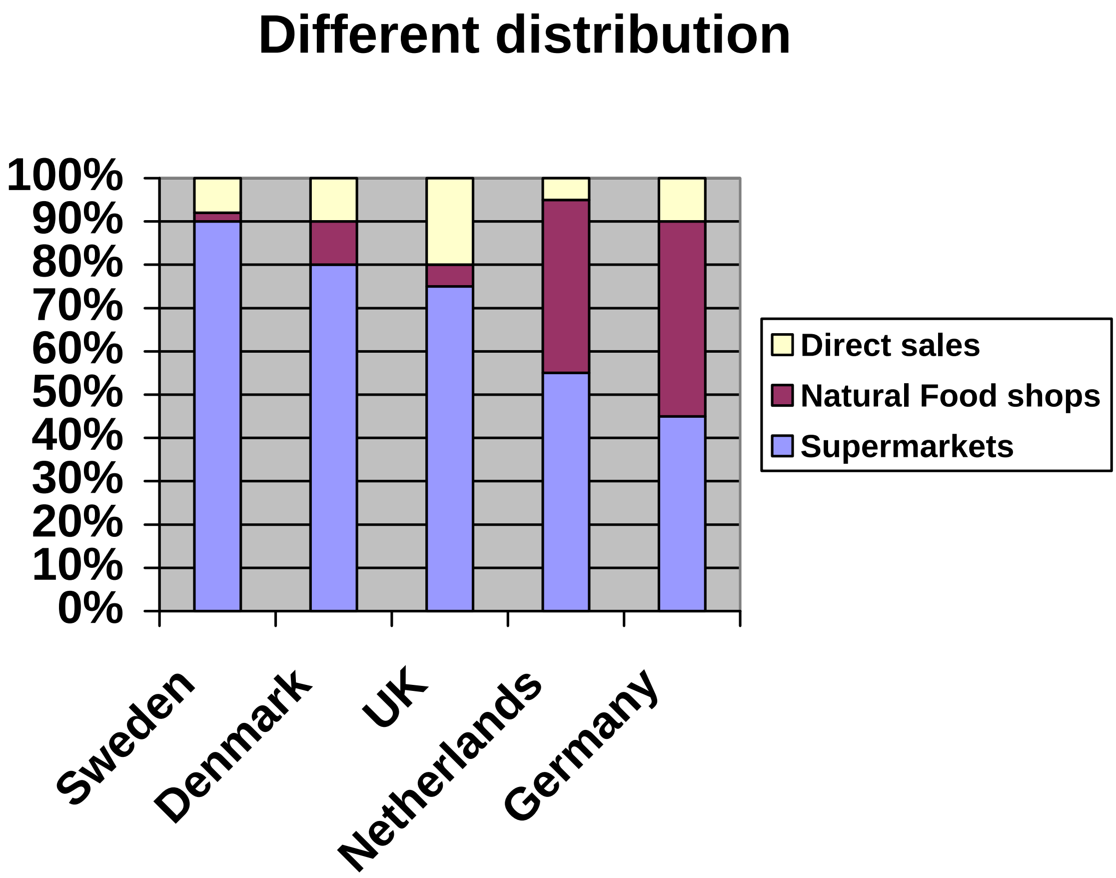
International Trade

The international trade in organic products is growing rapidly. The proportion of the organic products that are imported into the different markets is in average 15 percent and growing.
The graph shows estimates of the organic market and the proportion that is traded internationally (green). Today around 15% of the organic products are imported. With the expansion of the organic market into all segments of processed foods, convenient food and catering this will increase to 20% in the near future, representing a value of 8 billion Euro. The figures here are *conservative* estimates. A recent study at the University of Aalborg, Denmark predicts that the value of the global organic trade will be above 25 billion Euro year 2007.

Distribution in Europe

The organic market is following a similar pattern to that of conventional food, with the supermarkets becoming increasingly important. This is particularly true in the UK and Scandinavia (Denmark and Sweden) where a small number of multiple retailers dominate the food market - five retailers dominate the UK market (Sainsbury's, Tesco, Asda, Safeway and Somerfield) whilst only two dominate in Sweden (ICA and Konsum) and in Denmark (FDB and Dansk Supermarked). There are few specialist retailers in these countries - in the UK there are just two - Planet Organic and Out-of-this-World - but they only account for five shops between them

German supermarkets are dominated by 'discounters' (e.g. Aldi and Edeka) - these retail on price rather than added value and as such the majority of organic sales are passed through the specialist retailers (Reformhaus, Naturkost and independents). However, even in Germany the large multiple retailers such as REWE, Metro and Tengelmann have introduced organic lines and are also showing significant growth. In the late nineties a number of specialised organic supermarkets have been established. In central Munich the organic supermarket Basic has 2000 m^2 shopping space. The Swiss Co-op chain and Sainsbury's in the UK are the supermarket chains with the highest sales of organic products.



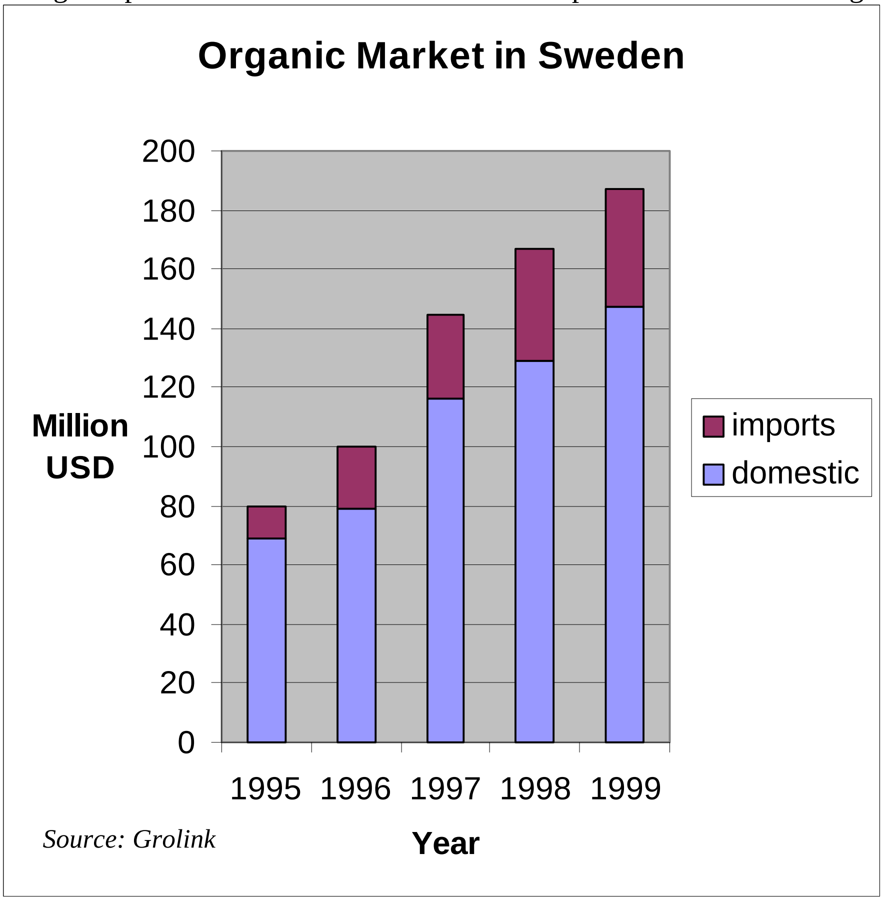
Ten years ago organic retail sales were dominated by specialist shops (i.e. natural food/ farm shops) and although these will continue to have their place, especially in Germany and the Netherlands, their year-on-year growth is fairly stagnant compared to that of supermarkets, who are just beginning to realise the potential for organic foods. In Austria, Belgium, Denmark, Switzerland, Sweden and the UK, supermarkets account for well over 50% of the organic trade - and their share is increasing. The density of organic retail outlets, for all countries, is strongest in the cities - where there are a large number of affluent consumers.

The UK also sells organic product through mail order schemes known as 'box schemes - customers order a 'mystery' box of fruit and vegetables, either over the telephone, by fax or through the Internet. The boxes are made up with seasonal products and then delivered straight to the home. In the Netherlands the 'bag scheme' operates - bags of fruit and vegetables are made up for pre-paid customers - these are delivered to small supermarkets, greengrocers or natural food shops where they are then -collected by the customer. Odin was the first company in the Netherlands to do this - they now have 25,000 customers.

The Swedish market for organic foods

History

The organic market is Sweden has developed rapidly from the early eighties. At that time organic sales were confined to farm shops and special health food shops. 1983 the first large-scale supermarket sales of organic products started based on a close co-operation between the organic farmers' marketing co-operative - Samodlarna and the consumer co-operative Konsum chain. At that time the product range was constituted by simple unprocessed foods like vegetables, potatoes and flours and flakes.



The establishment of an independent certification mechanism and a distinct labelling of organic products (KRAV) 1985 made a further expansion possible.

Retail market

All major retailers are distributing organic products. The market shares differ a lot between the retailers and between different areas. The product groups that have reached highest market shares are vegetables, grain products, milk and baby food, but the development is rapid in most areas. Meat sales are not very well developed, due to lack of supply.

Gröna Konsum - consumer co-operative retail chain with 450 shops. Gröna Konsum claims to have the highest share of organic foods in any supermarket chain in Europe: 4,5%. They have been pioneers and are currently substituting the best selling bread to a fully organic version. KF has developed the "Änglamark" private brand for organic products for all the chains affiliated to the consumer co-operative movement (Gröna Konsum, Konsum, OBS, B&W etc.).

Market shares for various products in Gröna Konsum

Product	Percent of sales (1998)
Bananas	3,5%
Coffee	6%

Milk	11%
Potatoes	6%
Wheat Flour	11%

Source: Grolink

ICA - shop owners' co-operative with 2100 shops - the largest retail chain in Sweden has the goal to have 10% organic products by the year 2000. Market shares for different categories of products 1999 were:

Product	Percent of sales (1998)
Potatoes	3%
Fruit and veg.	1-8% depending on season
Wheat Flour	3%
Coffee	1%
Baby Food	6%

Source: Grolink

The small chain Hemköp (90 shops) has last year made major efforts to become a leader in the marketing of organic products. They sell 8% organic bananas and around 10% organic milk. Most other retailers, including many convenient stores, will have a limited supply of organic foods.

Restaurants, catering

This sector is less developed than the retail market, but last year there has been a strong development. Some examples:

- 27 percent of the municipalities had started to serve organic foods in schools or hospitals 1997. 1999 this figure was 71 percent. This doesn't mean that they serve only organic foods, but that some organic products are purchased, typically carrots, potatoes and milk.
- McDonald's in Sweden has changed all their milk to organic as well as all the coffee. They also buy organic meat, but there is not sufficient supply.
- The train restaurant cars are serving organic coffee and milk and occasionally organic dishes. Organic coffee is sold at the airports and railway stations.

Limiting factors in the market

There are several factors that are limiting the market for organic products among others:

- limited supply
- high prices
- wrong qualities

Production, distribution and trade channels

Product Range

KRAV publishes a catalogue of all certified products, in total more than 3 000 products. It is put on the Internet.

Marketing primary products

Sweden has a strong tradition in co-operative marketing organisations. This is also reflected in the organic sector: Vegetables and potatoes are marketed either directly from the growers to distributors, or more commonly through the organic co-operative Samodlarna. Milk is sold to the (conventional) diary co-operatives. Eco Trade, a company owned by the farmers co-operative buys almost all grains. Most meat will be sold to Scan/SQM, also a farmers co-operative.

Processors

Almost all major food processors in Sweden have taken up organic products. KRAV has almost 500 processing units within its control. Some examples:

- Wheat flour from the major mills has been available since mid eighties.
- The market leading crisp bread manufacturer Wasa (owned by Sandoz) started organic crisp bread in the early nineties.
- The company with the largest share of the total organic production is the dairy Arla (having approx. 60% of the total Swedish milk market). A total of 3,5% of all milk they sold 1997 was organic. In some regions organic milk is over 10%. Because of lack of raw materials the range of products has not been so large, but they are now offering butter, cheeses and some yoghurts.
- The company Göteborgskex- market leader in biscuits and wafers - introduced organic ”Digestive” June 1997. It had by April 1998 taken 15% of the market. The organic sales came on top of the earlier sales, resulting in a total expansion of sales.
- Danisco, a Danish company having monopoly in the Swedish and Danish sugar production, has had an organic sugar project (from beet root) for four years. Because of supply problems they have increased the organic premium to the growers from 50% to 80%.
- All but one of the Swedish coffee roasters are marketing organic coffee.
- Heinz has launched organic ketchup in Sweden as the first country in the world

Specialised organic companies

Initially specialised companies did all organic processing. Some of these companies have developed themselves along with the development of the market and has managed to keep a large market share, even after the entrance of large companies in the market.

Limiting factors in organic food processing

The organic standards themselves limit the use of certain additives and processing aids and methods, which may be a restriction. The requirements for separation of organic and conventional products may also create problems. The major problem in most sectors is still the lack of reliable sources of raw materials.

Imports

Imports of organic products have been taking place for more than a decade. The imports are oriented to products that are not produced or not available in sufficient quantity in Sweden. In the pioneer phase all imports went through a couple of specialised firms, but currently organic imports are often taking the same channels as non-organic products. Major exporting countries to the Swedish market are the Netherlands, Denmark, Italy, USA, Israel and Argentina. American organic products that have been imported for a longer time are raisins, seeds, beans, small grains and apples.

Trade Margins and Pricing Structure

Premium prices

Almost all organic products will have a premium price. The following tables of such premium prices will give an indication. For processed products a comparison is more difficult to make since pricing is less transparent and products more difficult to compare. Generally there will be less price difference for processed products.

For some of the agricultural products, especially milk the producer prices are linked to the conventional prices with a fixed premium in crowns or percent. For other products like grains most of the production is contracted in advance with an agreed price. For other products, especially fruits and vegetables, prices are fluctuating very much.

For processed products there is a wide span in the pricing. Some products may have more or less the same price in organic or conventional quality, and occasionally they are cheaper. This is especially the case for products with low costs for raw materials. Sometimes also the pricing policy of the retailers may favour an organic product. Other products may be very costly.

Consumer Prices of a sample of processed products (June 1998)

Product	KRAV-certified (SEK/Unit)	Conventional (SEK/Unit)
Orange marmalade	(320g) 20.90	(360g) 19.00
Peanut butter	(360g) 40.00	(340g) 28.80
Ketchup (500g)	16.50	12.50
Apples Golden 1kg	35.50	17.90
Cheese 1kg	81.00	73.00
Yoghurt 1l	20.90	16.90
Frozen Broccoli 500g	28.50	11.90
Frozen peas 500g	14.90	14.90
Hamburgers 1kg	98.00	61.25
Bread ”formbröd” 1kg	31.25	31.25
Bread ”grovt” 1kg	33.60	29.80
Biscuits, ”digestive” 400g	19.50	16.90
Corn Flakes 500g	19.90	20.50
Canned tomatoes 400g	9.90	4.40
Spaghetti	14.90	10.90
Coffee 500g	39.90	33.90

Grolink: From shops of Hemköp and Gröna Konsum

			Producer prices June 1998
Product	**Conventional price**	**Organic price (SEK/kg)**	**Premium**
Milk	3,06	3,56	16%
Beef	23,00	28,50	23%
Lamb	28,00	32,00	14%
Pork	11,00	21,50	95%
Egg	7,50	20,00	166%
Grain for bread	1,00	1,70	70%
Grain for feed	0,92	1,52	70%
Sugar beet	0,41	0,78	90%
Potatoes	1,64	2,80	70%
Rape seed (Canola)	1,93	3,00	55%

Note: for vegetable there is no reliable statistic and the premium price will fluctuate from 0-100%. *Source: Jordbruksverket, Mål för ekologisk produktion 1999*

Denmark

Denmark is the country with the highest per capita sales of organic products in the world, followed by Sweden and Austria. The market development in Denmark was in the earlier stages carried by vegetables, but last years this has been taken over by milk.
Market shares mid 1998 in Denmark:

Product	Market Share
Milk	20%
Cheese	2%
Egg	15%
Beef	2%
Pork	0,9%
Carrots	11%
Onions	4%
Wheat flour	11%

Source: Danish Organic Produce Overview, 1999

Japan

In Japan there is a booming market for organic products. The marketing structure in Japan differs quite a lot from the one in Europe and the United States: The sales of organic products are estimated to be divided in three equal thirds:

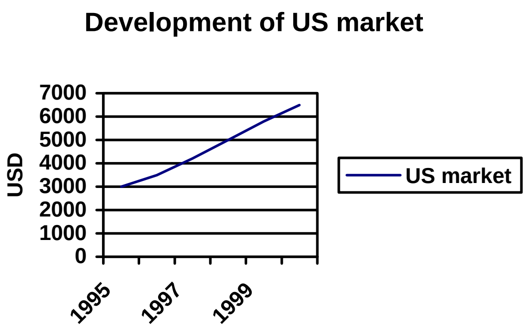
- Teikei systems (see more in box)
- Home delivery systems
- Normal supermarket sales

In addition, certification is a rather recent phenomenon in Japan and most organic product are not certified at all.

The company Radish Boya in Japan organise 50 000 consumers and 2 000 farmers in one distribution system with home deliveries. Their annual turnover is in the range of USD 100 million. There are several other similar organisations.

US data

- Natural Business' 1998 Financial Market Overview reported that organic food sales were $4 billion for 1997, and that natural foods are the fastest growing segment of the retail market.
- Based on statistics from Natural Foods Merchandiser, the organic industry has posted double-digit sales growth of 20 percent or greater for the ninth consecutive year.
- Packaged Facts, a New York City-based market research firm, predicts that sales of organic foods and beverages will increase by more than 150 percent to $6.6 billion by the year 2000.
- According to a 1995 Food Marketing Institute's "The Food Marketing Industry Speaks:"
  -Percentage of mainstream stores carrying organic produce: 42 percent
  -Percentage of shoppers who buy natural or organic foods at least once a week from supermarkets: 25 percent
  -Percentage of senior management who believe that organic and natural foods are an upcoming trend: 75 percent



Organic markets in developing countries

Introduction

It is an almost impossible task to try to give a true picture of the markets for organic food in developing countries. There are numerous projects for organic agriculture that are not market oriented but where organic products are an obvious output of the system. There are other projects that are completely export oriented and where no organic products are sold domestically. There are developing countries with huge exports with literally no domestic market development (like Mexico and China) and there are others with nicely developed domestic markets and exports. In countries like Brazil there are all kind of markets existing: Export projects, local production for local markets, national trade, imports etc. It is clear that there is a certain positive correlation between successful organic markets and the level of income and education this is not a rule that makes organic marketing hopeless in other situations.

Examples

Argentina

In Argentina approximately 1 500 tons of products are sold domestically. Products are vegetables and fruit, olive oil, yerba mate (a very popular herb tea), rice, honey, milk, meat, egg etc. Sales in supermarkets do take place, but specialised stores, telemarketing and door-to-door deliveries are driving the market.

South Korea

In South Korea the total sales of organic products through department stores is estimated at around USD 120 million with an annual growth of 30-40 % (this may have changed because of Asian crisis). Direct marketing is mainly organised by the consumers' cooperative union. (Ecology and Farming, no10 1995)

Egypt

In Egypt the organic sector is organised in two main groups: One around the SEKEM farm, which has a number of farms associated to it, and one growers' association UGEOBA.

The SEKEM initiative is the bigger with a total of 1700 hectares. The UGEOBA associated farmers have increased their cultivation from 146 ha 1995/96 to more than 600 hectares 1997/98. 1999 the total organic area in Egypt is around 3000 hectares.

The SEKEM project has had success with the domestic marketing of cotton products and tea, which is sold in thousand of shops. Export is however a driving force for organics in Egypt:

Consumer response in developing countries

There are not so many surveys done regarding the acceptability of organic products for consumers in developing countries. It is however clear that the situation differs widely from country to country.

A consumer survey in Turkey

A survey of 1005 randomly selected households showed the following:

- 75 % of the consumers emphasised nutritional value and absence of residues when making food purchasing decisions. Only 12% thought that price is the primary factor when purchasing food (47% of the respondents had monthly incomes below USF 400).
- 9 percent of the respondents had heard about organic food.
- Between 1 and 10 (depending on which crop/product) percent preferred organic food.
- Income, age and education were positively correlated to willingness to pay extra for organic food.
- Household size was negatively correlated to willingness to pay.
- Consumer health risk perception is a significant determinant of the willingness to pay.

Source: Sedef Akgüngör, Ege University, Izmir, Turkey (14-23 June 1999)

Consumer response to organic foods in India

SEWAK and IVRI in India made trials with sales of organic foods in two different locations; Location I was 'elite' in terms of education and income while Location II was a small town of poor incomes. In Location I consumers were ready to pay a small price premium for organics while at Location II the sales didn't work at all (it should be noted that the trial was with vegetables and that the people at Location II has a very low vegetable consumption due to low income. 200 consumers at Location I answered to a questionnaire exploring their attitudes to organic vegetables. 2,5 percent were willing to pay a price premium. Freshness, Taste and Nutrition were indicated as the main reasons for buying organics.

According to another study in Madras 70 % of the respondents (a total of 200) were willing to pay premiums of 20-50% for organic products. 71% had the perception that organic vegetables are tastier and healthier. However only 54% knew what organic vegetables was, indicating that some precaution shall be taken before relying too much on these responses.

Source: Consumer Response to organic production, Chander and Tewari. 1997