Opportunities for the Export of Organic Sesame seed from Uganda

Summary of a market study

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Market Size and Characteristics

The market for organic sesame is relatively large and shows medium growth (around 5 percent). Unfortunately, it is oversupplied, which has caused prices to fall with as much as 50 percent. The conventional market also shows a downward trend, but not as bad. The difference between the organic and the conventional price has decreased. Still, organic sesame is traded at a premium, which was estimated at 100 to 150 US$ per ton in April 2002 (for coloured, natural sesame). This is equivalent to a mark-up of 20 to 30 percent on the conventional price.

The low prices will be painful for the producers of organic sesame. They do not automatically present a problem for organic traders. This applies to both exporters and importers in a similar fashion. In a buyers' market the traders may benefit from low purchasing prices and they can (and will) be more demanding about quality. These benefits may eventually trickle down to the consumer, and will then stimulate the market to grow. But until this happens, traders will benefit from higher margins. For traders, the problem is rather the uncertainty about the market prices. This is a problem of increased price risk. Another serious problem or threat associated with low prices is that exports will become altogether impossible. This happens when the export price drops below the domestic price. Since in most producer countries the domestic sesame market is much more important than the export market, this seems particularly relevant. A similar problem occurs if farmers would decide to abandon the crop, in view of the lower prices.

In a changing market traders should be very careful with their price fixing, and should try to minimize their exposure to price risks. Especially in a falling market, there is a risk that the purchasing price turns out to be too high. Price risks can be managed, but this requires intelligent strategies. Exporters may try to sell "back to back"[1], divert part of the price risk to the producers (payment after a sales price is fixed), or simply reduce the quantities that are being traded at a time. More advanced methods to manage price risk involve the use of options and futures. These are not widely available in low income countries like Uganda, however, nor are they commonly practiced in the organic trade. Institutions such as World Bank and Unctad are trying to improve the availability of price risk management instruments to farmers.[2]

In the present market, it will be harder to find new customers, unless price and quality are very competitive. Still it must be tried. Importers know that the market will eventually change, and may want to establish a relationship if this seems beneficial.

[1] Back to back means that the purchasing price of a commodity is directly covered by the sales price. So in practice, when the purchasing price is fixed, the sales price for that particular lot is already known. An important detail here is that the quality should exactly meet the requirements of the end-buyer.

[2] Further information can be obtained at: www.itf-commrisk.org.

Conclusion and recommendation

It is not recommendable to approach the market (the end-users) from many different sides, but rather a clever selection of importers and processors should be made. If too many importers are chosen, none of them will earn sufficiently to take interest in the supplier. In addition to this, the market will be confused, and the impression of a second rate product and of a less professional approach will be created. Important criteria for a selection of prospective customers are:

a. Quality requirements in relation to the quality that the supllier can offer;
b. The market segments and geographic area that are covered by the importer;
c. The size of his business and its growth potential;
d. Prices and other conditions he offers;
e. The openness and flexibility to discuss other aspects of importance for the exporter.

There may be some gain in trying to address processors (oil mills) and packers directly. This, however, should be done carefully, and without frustrating the attempt of established partners to sell the same product to the same customers – for a higher price. It should be realized that oil mills require a specific quality, which may be less clean but should naturally be rich in oil. The price of this quality may actually be lower than the price for the sesame that is used on bread. A first round among oil mills furthermore indicated that most of them work on a small scale; only few of them buy directly from source.

An interesting additional strategy may be to look for importers that address the bakery segment of the market. In the organic trade the variety that is produced in Uganda is accepted for this use –but not everywhere.