EXPORT PROMOTION OF
ORGANIC PRODUCTS FROM AFRICA

Organic and Fairtrade Peanut Markets in Europe

Summary of a market study

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The Objective of the study

The study investigates the prospects for export of organic and fairtrade peanuts, either raw or roasted, from Uganda to Europe. In order to do so, the fundamentals of the peanut market are sketched, as well as the particulars of the organic peanut trade. Major aspects of the Ugandan supply of peanuts are discussed, including the cost price of raw peanuts. Specific emphasis is given to the issue of quality, in particular control of aflatoxin.

The market environment

While peanuts are one of the major oilseeds, they are also the major edible nut. As such, peanut prices respond to developments in both of these markets. An example of this dependency was seen in 2003, when peanut prices increased strongly, following increases in oil seed prices due to shortage of soy beans. While peanuts imported into Europe are largely used as edible nuts, most of the world production is used for crushing (for oil). International trade only constitutes a minority of world production, with the leading producing countries China and India consuming most of their production internally.

The markets for organic and fair trade peanuts

The organic peanut market is relatively underdeveloped, which is witnessed by the limited distribution in the mainstream retail channel, the limited range of products in the speciality retail channel, and the limited use in the food industry. The organic market may measure somewhere between 4,000 and 8,000 tons of shelled peanuts. The fairtrade market is much smaller, but similar in its limitations, depending primarily on the activities of Alternative Trading Organizations and their traditional speciality outlets such as World Shops. Edible nuts and peanut butter are the major product categories in both of these market segments.

The limited distribution of peanuts outside of the specialized organic and fairtrade channels points to an opportunity, not just to a weakness. The problem has primarily been the lack of supply, not a lack of demand. The proposed introduction of an external label of the Max Havelaar family (managed by Fair Trade Labelling Organizations International) will probably augment the fairtrade market. The organic market will also benefit if distribution is increased and product ranges are expanded and strengthened. There may also be room for combined fairtrade and organic products, since these are currently unavailable.

Supply of organic and fair trade peanuts

European imports of organic peanuts are almost entirely from China, from a number of exporters and producers. US organic peanuts hardly reach the EU market since they are more expensive. Prices of organic peanuts from China have recently increased to US$ 1,050-1,100 per ton, which constitutes an "organic premium" of 200 to 250 US$.

Fairtrade peanuts are sourced from Zambia, Malawi and Mozambique, where they are traded at much lower prices of 500 to 600 US$ per ton. These prices refer to direct trading with producers in cases where the importers and promoters of the project have made significant investments in organizing the supply chain. For these producers, the mere access to the market may constitute an important benefit.

Opportunities and constraints for Ugandan peanuts

Uganda is a medium-size peanut producer, but its production is almost entirely consumed domestically. The production consists for 80 percent of the regional varieties Red Beauty, Bukene and Roxo, which are unknown on the world market, but were considered very tasteful by one European importer.

The organic market is relatively open to unknown varieties, provided taste and quality suit the desired use, i.e. roasting and salting, peanut butter (grinding) or other processing. The major constraints for export of Ugandan peanuts are indeed the risk of aflatoxin and the domestic price level as opposed to world market prices.

Aflatoxin

EU (harmonized) regulations on aflatoxin are among the strictest in the world. Detection of aflatoxin may result in rejection of the shipment, the cost of which is usually born by the exporter. Although aflatoxin may not be detected in preliminary set of tests, it should be expected that the fungus would incidentally or even regularly appear in Uganda as it does in other countries. In this regard, the lack of records on aflatoxin is the immediate constraint for export planning, since it makes it impossible to quantify the risk. It is therefore recommended to search for additional data on the occurrence of the fungus causing aflatoxin, and the presence of structures for monitoring and control.

Domestic price levels

Uganda has a well-developed market for peanuts, and local price levels are high compared to other African countries and to the world market. In 2000, the domestic price level made exports impossible. On the basis of a cost-price analysis, this study shows that exports of peanuts would have been feasible in the current (2003) circumstances, and indeed might have left a profit. Nevertheless, competition from the domestic markets remains a serious risk, and for further certainty it is recommended to study the relation between domestic and international prices over a longer period.

Roasted peanuts

The export of roasted peanuts was considered as a way of adding value to the product and thus minimizing the problem of high prices of the raw peanuts. The study found that there is indeed demand for roasted peanuts that are consumer-packed in the country of origin, especially among certain retailers that support fairtrade principles. However, the problems related to control of aflatoxin are even more severe when considering the export of a ready product. Acceptable levels are tighter, and the cost of rejection is also higher once the products are packed, not only directly but also in terms of loss of image of the exporter. Moreover, the shelf life of a consumer packed product is at most 4 months, provided it is either vacuum packed or flushed with nitrogen and this makes the logistical operation very tight, except when air lifting is considered. In a normal process, it may take 6 to 8 weeks from factory to the shop, but in a more pessimistic scenario, it may even take 3 months. Finally, consumer packing of roasted peanuts will involve substantial investments. It is not recommended to consider this option until more information has been gathered about occurrence of aflatoxin in Ugandan peanuts.