e-Learning Course on

Successful Organic Production and Export (SOPE)

Module 3: Organic market and trade

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Acronyms

EC	European Commission
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FiBL	Research Institute of Organic Agriculture
GAP	good agricultural practices
GATT	General Agreement on Tariffs and Trade
IFOAM	International Federation of Organic Agriculture Movements
INCOPA	Foundation for Promotion and Research on Andean Crops
ISO	International Organization for Standardization
ITF	International Task Force on Harmonization and Equivalence in Organic Agriculture
NGO	non-governmental organization
NOAM	National Organic Movement
NOP	National Organic Program
OMI	organic market initiative
OTA	Organic Trade Association
PMCA	Participatory Market Chain Approach
R&D	research and development
SPS Agreement	Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures
SWOT	strengths, weaknesses, opportunities and threats
TBT Agreement	Agreement on Technical Barriers to Trade
UK	United Kingdom
US	United States
USA	United States of America
USDA	United States Department of Agriculture
WTO	World Trade Organization

3.1 Introduction: Stakeholders of the value chain and their roles

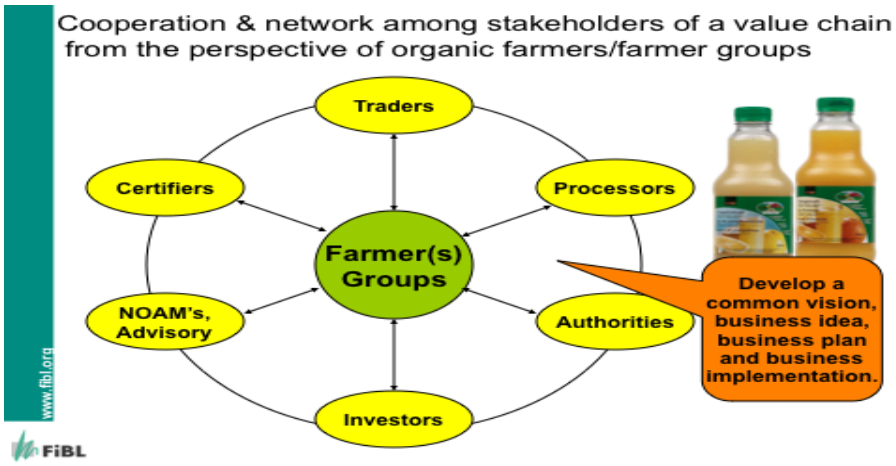
The main topics of this module are: market development, market access and marketing techniques with a strong focus on collective marketing for export purposes. Cooperation issues take a crucial role in market development and marketing. Normally, not any one single farm is able to supply the volume required by the principal market actors. It is also quite obvious that many value-added activities, product development, branding and effective promotion are difficult for the individual producer to achieve.[i] One way in which a producer can make these activities more effective is by cooperating with other partners (see also Chapter 3.3):

- horizontal cooperation is between producers who work at the same business level, for example, two coffee farmers;
- vertical cooperation is when at least two partners from different business fields work together, such as a group of pineapple farmers, a juice processing plant and traders and retailers.

[i] Schmid, O. et al. 2004. Organic Marketing Initiatives and Rural Development: A Guide to Successful Organic Marketing Initiatives. FiBL, Frick. p. 46.

Each partner in the chain has its goals, role and perspective. In cooperation, there are both common and individual concerns, which need to be reconciled in a participatory process. All stakeholders of the value chain aims to incorporate their individual interests successfully, but cooperation can only lead to success if there is common ground and each of the cooperation members is willing to share risks and benefits of a project or product development. Figure 1 illustrates the cooperation and networking between stakeholders in a value chain from the perspective of organic farmers or farmers' groups, and is thus not applicable for single small farmers.

Figure 1



Source: FiBL.

Farmers: Responsible for the agricultural production, farmers often have the hardest work in the chain. With reductions in agricultural production, they are interested in covering their production costs and sharing the benefits of organic products with their consumers. Of course, farmers have many other concerns, including farm viability over the long run, feeding their families and personal satisfaction with their profession. In addition, many organic farmers are interested in gaining back more control of the value adding process, reducing the number of intermediaries and developing direct contact from the retailer to the consumers, if possible.

Processors: Most processors are working in parallel with organic and conventional products. Processors' interest must be high in order to produce the specific organic quality based on the consumers' demand of "low-input" organic food processing. This may relate to the degree of processing, concern about specific additives, nutritional composition, degree of convenience and the level of energy use and food miles as well as food safety. The "Code of Practice for Organic Food Processing" is a very useful guidance document for processors and certification bodies.[ii]

Traders: Match making between producers and consumers is the main function of traders, although their interest is not simply to "buy as cheap as possible" and "sell as expensive as possible". Traders can promote organic products and provide access to clients and markets. There are international standards and private guidelines, which regulate the socio-economic dimensions of trade.[iii] The objective is to guarantee that all stakeholders of the value chain get a fair share of the benefits of organic production.

Certification bodies: These groups annually inspect and certify organic production, processing and trade at all levels of the chain. They play an important role in building trust and guaranteeing product quality. In many cases, certifiers are also a reference for the interpretation of standards and are an important source of information in the start-up of a project.

NOAM (National Organic Movement) and advisory: The public and private research and advisory services of NOAM are part of the broader business environment of an organic market initiative (OMI). They provide support in the organization of farmers, farmers' groups and multi-stakeholder groups. They provide access to knowledge and capacity-building and can coach farmers in the conversion process towards organic farming.

[ii] Beck, Alexander. 2006. *Code of Practice for Organic Food Processing*. FiBL, Frick.

[iii] www.flo-international.org.

Investors: Many organic agriculture projects require considerable investments in farm infrastructure, procesing technologies, marketing and knowledge transfer. Mainly private, but also public, investors are particularly interested in financing organic agriculture projects. Their goal is to reach a break-even point within a defined period, which includes a certain pressure towards the business orientation of a project. This can be very positive if the expectations of the investors are realistic and fit the possibilities of organic agriculture.

Authorities: The environment of an OMI also includes authorities. Many governments provide attractive support programmes, especially for export promotion. Some countries provide specific support for organic farming projects such as capacity-building and trade promotion.

Having such a network when starting an organic marketing initiative contributes to building market power and trust. It is important to be aware of the perspective of each participating stakeholder (group) in order to gain a common understanding of stakeholders' challenges, discussing the challenges and the potential and limitations for action of each stakeholder (group) as well as their role and necessary interactions in the organic chain of production and trade.

Possible questions regarding cooperation

- Aim of the cooperation?
- What form of cooperation is the right form for our business?
- Which cooperation partners are suited to our business or business idea?
- How can each stakeholder in the chain play its role successfully?
- Who can give us business support?
- What kind of government support is available?
- Who is the contact person at media agencies?
- Which associations or organizations might be beneficial for our business

Source: Authors' analysis.

3.2 Facts and figures of organic trade

3.2.1 Key production data

Organic agriculture is developing rapidly in most countries of the world. The five main results of the latest global survey on certified organic farming show that: [iv]

- more than 1.2 million producers organically manage 32.2 million hectares of agricultural land – in addition to the agricultural land, there are 0.4 million hectares of certified organic aquaculture;
- there are 30.7 million hectares of wild collection areas;
- the regions with the largest areas of organically managed agricultural land are Oceania, Europe and Latin America. Argentina, Australia and Brazil are the countries with the largest organically managed land areas;
- the highest shares of organically managed land are in Europe: Austria, Liechtenstein and Switzerland;
- the countries with the highest numbers of producers are Ethiopia, India and Uganda.

3.2.2 The global market for organic food and drink [1]

Global demand for organic products remains strong. In the past several years, sales increased by over US$ 5 billion annually.[2] Organic Monitor[3] estimates international sales to have reached US$ 46.1 billion in 2007 and to have exceeded US$ 50 billion in 2008. Thus, the market has more than tripled in value since 1999 when global sales were approximately US$ 15 billion. Consumer demand for organic products is concentrated in North America and Europe (97 per cent of global revenues[v]) (see Figure 2).

[iv] Willer, H. 2009. "The world of organic agriculture 2009: Summary." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 19–24.

[1] Much of the information in this chapter is based on the findings of Organic Monitor, as published by Amarjit Sahota in *The World of Organic Agriculture: Statistics and Emerging Trends 2009*, Helga Willer and Lukas Kilcher (editors). 2009. IFOAM, Bonn; FiBL, Frick, ITC, Geneva.

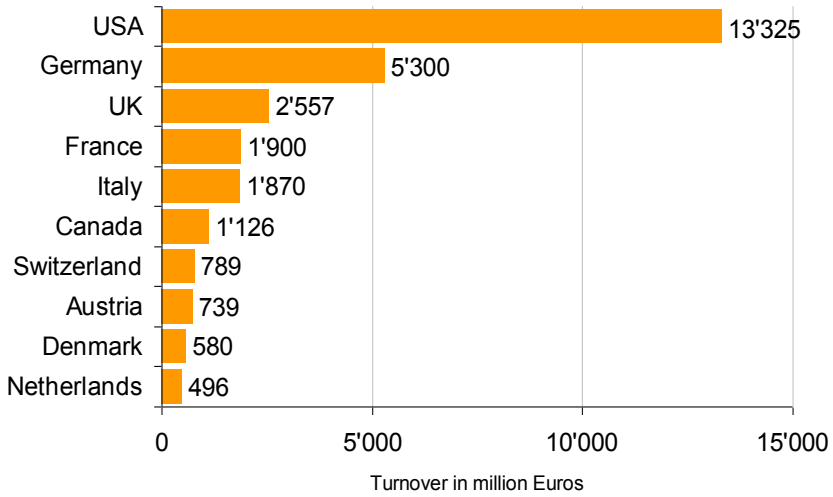
[2] The average exchange rate in 2007 was 1 US dollar = 0.73082 euros.

[3] Organic Monitor is a London-based specialist research and consulting company that focuses on the global organic and related product industries. It provides a range of business services to organizations that are active in these specialist industries, including business research publications, customized research, business consulting and seminars and workshops.

[v] Sahota, A., 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

However, the economic slowdown is impacting global organic food sales, according to Organic Monitor.[vi] After high growth rates for over a decade, 2009 could be the first year of single-digit market growth. Demand has been affected by the reduction in consumer spending power and declining industry investment brings new challenges to the organic food industry.

Figure 2: The ten countries with the largest markets for organic food worldwide in 2007



Note: Average conversion rates for 2007.
Source: FiBL Survey (2009).[vii]

[vi] Organic Monitor. 2009. "Global organic market: Time for organic plus strategies." Press release 19 May. Organic Monitor, London. www.organicmonitor.com/r2905.htm.

[vii] Research Institute of Organic Agriculture. 2009."The ten countries with the largest markets for organic food world-wide in 2007." FiBL, Frick. Original data published in: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*.

3.2.3 Sophisticated markets in Western Europe

At the end of 2007, 7.8 million hectares in Europe were managed organically by more than 200,000 farms. In the European Union (EU), 7.2 million hectares were under organic management, with more than 180,000 organic farms. At least 1.9 per cent of the European agricultural area and 4 per cent of the agricultural area in the EU was organic, and 24 per cent of the world's organic land was in Europe. In 2007, the countries with the largest organic land were Italy (1.15 million hectares), Spain (0.99 million hectares) and Germany (0.87 million hectares). The highest percentages were in Liechtenstein (29.7 per cent), Austria (13.4 per cent) and Switzerland (11 per cent). Compared with 2006, organic land increased by more than 0.3 million hectares.[viii] In 2008, the organic land continued to grow in most European countries, and it is expected that the European organic land area is now exceeding 8.0 million hectares.

In 2007, the European market represented 54 per cent of global revenues, according to Organic Monitor.[ix] Five of the world's largest country markets for organic foods are in the region: France, Germany, Italy, Switzerland and the United Kingdom (UK) (see Table 1 and Figure 3).

[viii] Willer, H. 2009. "The world of organic agriculture 2009: Summary." FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*., p. 19–24.

[ix] Sahota, Amarjit. 2009. "The global market for organic food and drink." In FiBL/ IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

Table 1: The European market for organic food 2007[x]

Country	Data year	Exports [Mio €]	Imports [Mio €]	Domestic sales [€/person] [4]	Sales [Mio €]	Sales: growth 1 year [%]	Sales: share [%]
Austria	2007	60.0	No data	89.0	739.0	10.0	5.3
Belgium	2007	No data	No data	26.7	283.1	16.0	1.9
Bosnia Herzegovina	2007	1.2	No data	No data	No data	No data	No data
Bulgaria	2007	No data	No data	0.1	0.8	No data	No data
Croatia	2007	2.0	10.0	5.9	26.0	No data	0.6
Cyprus	2006	No data	No data	1.9	1.5	No data	No data
Czech Republic	2007	4.0	32.0	5.0	51.6	70.0	0.6
Denmark	2007	64.0	110.4	106.4	580.0	34.0	6.0
Finland	2007	No data	No data	11.7	62.0	9.0	0.9
France	2007	No data	No data	30.0	1,900.0	6.0	1.2
Germany	2007	No data	No data	64.0	5,300.0	15.0	3.1
Greece	2006	No data	No data	5.2	58.0	No data	No data
Hungary	2006	No data	No data	1.8	20.0	No data	0.2
Ireland	2007	No data	No data	17.4	75.0	14.0	No data
Italy	2007	750.0 (2006)	No data	31.6	1,870.0	10.2	No data
Liechtenstein	2007	No data	No data	85.7	3.0	No data	No data
Luxemburg	2006	No data	No data	85.9	40.9	No data	3.3
Netherlands	2007	No data	No data	30.0	495.5	13.3	2.0
Norway	2007	No data	16.2	17.0	80.0	24.0	1.0
Poland	2006	No data	No data	1.3	50.0	No data	0.1
Portugal	2006	No data	No data	6.6	70.0	No data	0.5
Romania	2006	No data	No data	0.1	2.5	No data	No data
Russian Federation	2007	0.2	29.7	No data	30.0	No data	No data
Slovak Republic	2006	No data	No data	0.8	4.3	No data	No data
Slovenia	2006	No data	No data	2.0	4.0	No data	No data
Spain	2006	280.0 (2006)	200.0 (2006)	No data	600.0	No data	0.7
Sweden	2007	No data	620.0	53.4	486.5	25.0	3.0
Switzerland	2007	No data	No data	105.0	789.0	7.7	4.6
Turkey	2007	21.5	No data	No data	2.2	No data	No data
UK	2007	No data	No data	42.0	2,557.0	10.0	1.6
Ukraine	2007	4.0	No data	No data	1.0	No data	No data

Source: Survey of Aberystwyth University, FiBL and ZMP (2009). [xi]

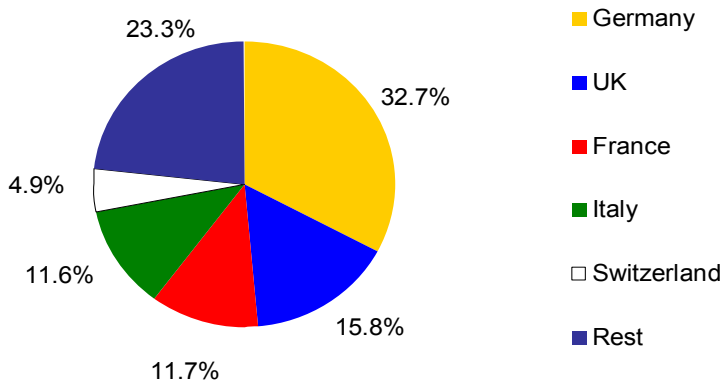
Among the five biggest European markets, the German and the UK markets were the fastest growing in 2007. The German market is showing high growth as more and more mainstream retailers, including discounters, are introducing and promoting organic product lines – other leading markets are France, Italy and Switzerland – these five countries comprise more than 75 per cent of the European market. Sweden, Denmark and the Czech Republic reported high percentage growth rates in 2007 and also in 2008, but their market sizes are much smaller.

[x] Aberystwyth University, FiBL and ZMP 2009: The European market for organic food 2007. In: Padel, S., D. Schaack, H. Willer. 2009. "Development of the Organic Market in Europe." FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*.

[4] Domestic retail sales (including specialized organic shops), excluding catering and exports.

[xi] Padel, S., D. Schaack, H. Willer. 2009. "Development of the Organic Market in Europe." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 155–163.

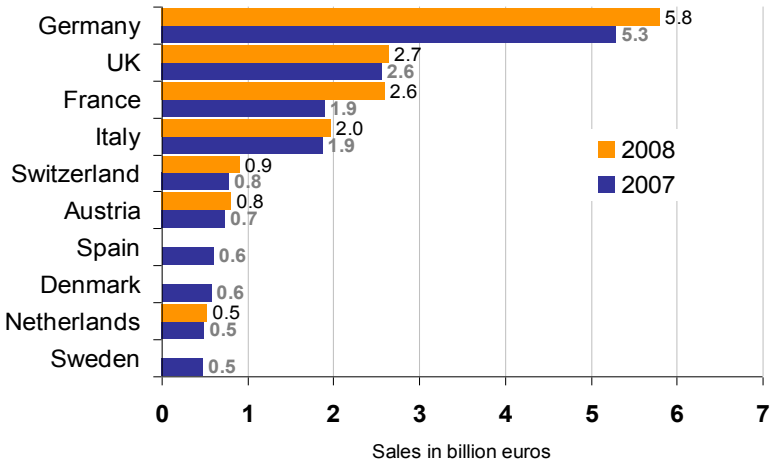
Figure 3: Distribution of sales by country in Europe 2007 (total 16.2 billion euros, excluding exports and catering)



Source: Survey of Aberystwyth University, FiBL and ZMP (2009). [xii]

All of the countries for which 2008 data were available by June 2009, showed growth, ranging from a modest growth of 1.7 per cent in the UK to a 25 per cent growth in France – a much higher rate than the country had experienced in previous years (see Figure 4)

Figure 4: The European market for organic food: Ten countries with the highest organic food sales in 2007 and 2008



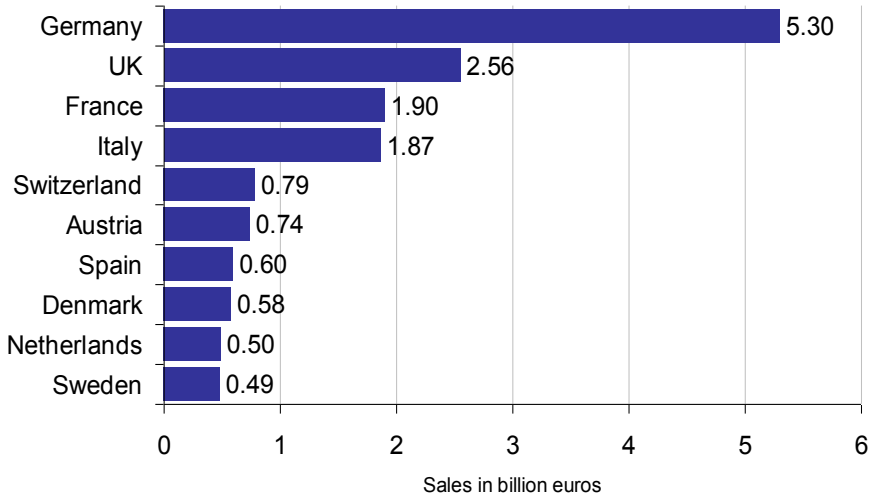
Source: Survey of Aberystwyth University, FiBL and ZMP (2009). [xiii]

[xii] Padel, S., D. Schaack, H. Willer. 2009. "Development of the Organic Market in Europe." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 155–163.

[xiii] Padel, S., D. Schaack, H. Willer. 2009. "Development of the Organic Market in Europe." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 155–163.

The market share of organic food sales is high in some countries and can represent more than five per cent of food sales (Figure 6). The Scandinavian and alpine countries have the highest market share of total food sales, with over 5 per cent of food sales in Austria and Denmark. Southern, Central and Eastern European consumers are spending less on organic foods and have market shares below 1 per cent.

Figure 6: The European market for organic food: Ten countries with the highest shares of organic food sales in 2007



Source: Aberystwyth University, FiBL and ZMP (2009). [xiv]

Conventional supermarket chains have a share of more than 50 per cent in many of the European markets. In Denmark, Finland, Norway and Sweden, conventional supermarkets have driven market growth. These supermarkets are also playing a pioneering role in Hungary, Poland and other Central and Eastern European countries. However, in Greece, Italy, Portugal and Spain, the specialized organic retailers have the highest shares. [xv]

[xiv] Padel, S., D. Schaack, H. Willer. 2009. "Development of the Organic Market in Europe." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 155–163.

[xv] Schaer, S. 2009. "The organic market in Europe: Trends and challenges." In: FiBL/ IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 164–168

3.2.4 Export-oriented Central and Eastern Europe

There is a small but growing market for organic foods in new EU accession countries. In recent years, the Czech Republic has experienced the highest market growth rates among European countries, where the organic market grew by 70 per cent in 2007, by 40 per cent in 2008 and is now at 68 million euros according to Green Marketing.[xvi]

Central and Eastern Europe countries comprise an estimated 2 per cent of the European market according to Organic Monitor.[xvii] Organic food production is increasing in these countries but most of it is exported to Western Europe, although Romania and Ukraine are becoming important sources of organic cereals, oilseeds and feedstuffs. The lack of organic food processing in Central and Eastern European countries is the main reason why most finished goods are imported from the West.[xviii]

In Albania, for example, the most important production areas are located in the plains along the Mediterranean Sea with a mild winter climate. Together with sufficient water supply and favourable soils, Albania has a very interesting potential for fruit, vegetables, olives and many different herbs. Indeed, the most important organic products in Albania are olives, herbs, fruits (including grapes) and vegetables (see Table 2). Until now only very few enterprises were capable of producing for export. There is a certain consumer preference for naturally and locally produced foodstuff, which can be well covered by Albanian organic produce labelled with the local organic brand.

Table 2: Organic market in Albania

Produce group	Main products	Export products	Export (tonnes)	Domestic (tonnes)
Vegetable	Tomato, cucumber, eggplant, pepper, melon, salads, carrot,	Salad	45	600
Fruit	Apple, grape, pear, peach, chestnut	Chestnut		
Olive	Olive oil	Olive oil	2	10
Herb	Culinary and tea herbs, medicinal plants, fresh and dried	Elderflower, calendula, monarda, mint	8 (dried) 30 (fresh)	1 (dried) 5 (fresh)
Mushroom	Boletus	Boletus dried	1	No sales

Source: FiBL SASA-Project Market Research (2008) **(unpublished data).**

[xvi] Green Marketing. 2009. "Czechs buy most of organic food in retail chains in 2008." Press release 29 July. Green Marketing, Moravské Knínice.

[xvii] Sahota, A. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

[xviii] Sahota, A. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

Another example is the organic market in Ukraine.[xix] As in many countries in Eastern Europe, most organic products are destined for international markets. Main export products are: organic cereals, organic wild collection production and organic oil products (e.g. sunflower, pumpkin, essential oils). The domestic organic market is just emerging with the following organic products on the shelves: grain, vegetables and fruits, wild collection products (teas, herbs, mushrooms, berries, etc.) and processed products such as jam. There are a number of market initiatives and businesses starting up and new organic products are in the pipeline such as organic bread, milk, meat, juice, eggs and other processed products.

3.2.5 Fast market growth in North America

In North America, almost 2.2 million hectares are managed organically, representing approximately 0.6 per cent of the total agricultural area, and there are more than 12,000 organic farmers. The major part of the organic land is in the United States (US) with 1.6 million hectares in 2005; 7 per cent of the world's organic agricultural land is in North America.[xx]

The organic products market is growing fast in North America.[xxi] The entry of large retailers has put a strain on organic food supply and, according to Organic Monitor,[xxii] shortages have led many food companies to set up organic farming projects in Latin America and Asia.

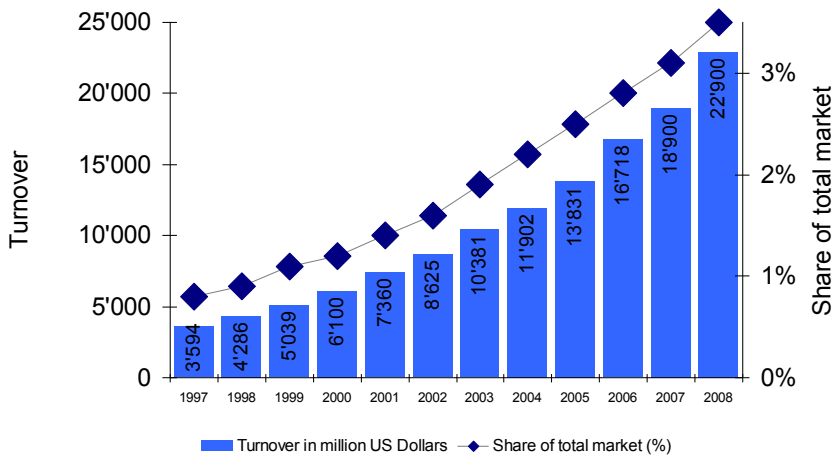
[xix] Unpublished information from Tobias Eisenring, head of the Ukraine Market and Certification Project, FiBL, Frick, Switzerland.

[xx] Willer, H. 2009. "The world of organic agriculture 2009: Summary." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 19–24.

[xxi] Sahota, A. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

[xxii] Sahota, A. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

Figure 8: US: Development of the organic market (turnover an share), 1997–2008



Sources: For 1997–2006 and 2008 data:[xxiii] OTA; 2007 data:USDA. [xxiv]

The US has the largest market for organic products in the world, worth almost US$ 19 billion in 2007[xxv] and US$ 22.9 billion in 2008 (see Figure 6).[xxvi] Growing consumer demand for healthy and nutritious foods and increasing availability in conventional marketing channels are the major drivers of market growth. The US organic industry was forecast to experience an average annual growth of 18 per cent from 2007 through 2010. Whether this rate will actually be realized is uncertain due to the economic downturn.[xxvii] However, findings from a 2009 report from the Organic Trade Association (OTA) show that three in ten US families (31 per cent) are actually buying more organic foods compared to 2008, with many parents preferring to reduce their spending in other areas before targeting organic product cuts. Of US families, 17 per cent said their largest increases in spending in the past year were for organic products.[xxviii]

[xxiii] Organic Trade Association (OTA). Manufacturer surveys, various issues. Greenfield, MA. www.ota.com.

[xxiv] Greene, C., C. Dimitri, B.-H. Lin, W. McBride, L. Oberholtzer, T. Smith. 2009. "Emerging issues in the US organic industry." *Economic Information Bulletin EIB-55*. Economic Research Service, USDA, Washington, DC. June. p. 36. www.ers.usda.gov/Publications/EIB55/EIB55.pdf.

[xxv] Greene, Catherine, Carolyn Dimitri, Biing-Hwan Lin, William McBride, Lydia Oberholtzer, Travis Smith. 2009. "Emerging issues in the US organic industry." *Economic Information Bulletin EIB-55*. Economic Research Service, USDA, Washington, DC. June. p. 36. www.ers.usda.gov/Publications/EIB55/EIB55.pdf.

[xxvi] Organic Trade Association (OTA). 2009. *"U.S. organic sales grow by a whopping 17.1 percent in 2008*." Press release 5 May. OTA, Greenfield, MA. www.organicnewsroom.com/2009/05/us_organic_sales_grow_by_a_who.html.

[xxvii] Haumann, B. 2009. "United States." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 226–238.

[xxviii] Organic Trade Association (OTA). 2009. "New study: Nearly three-quarters of US families buy organic products." Press release 17 June. OTA, Greenfield, MA. www.organicnewsroom.com/2009/06/new_study_nearly_threequarters.html.

In Canada, further market growth is expected and the implementation of the new organic regulations in June 2009 should provide a good outlook over the coming years.[xxix]

In the US, about 40 per cent of the organic food is sold through supermarkets.[xxx] In Canada, mainstream supermarket chains have responded to consumer demand and now sell over 40 per cent of all organic food.[xxxi]

3.2.6 Emerging markets in the South Asia

The total organic area in Asia was nearly 2.9 million hectares in 2007. This constitutes 9 per cent of the world's organic agricultural land, with 230,000 producers reported. The leading producing countries are China (1.6 million hectares) and India (1 million hectares). It should be noted that in addition to China's organic agricultural land there is a further 0.4 million hectares of certified aquaculture areas. Organic wild collection areas play a major role in both countries.[xxxii]

Production of final processed products is growing, although a majority of production is fresh produce and field crops with low value -added processing. China, India, Malaysia and Thailand are becoming important exporters of organic products such as fruits, cereals, grains, beans, herbs and spices.[xxxiii]

The Asian market is growing by about 15–20 per cent per year, according to Organic Monitor, driven by rising consumer awareness of organic foods and better availability.[xxxiv] Conventional food retailers are introducing more and more organic products, while the number of organic food shops is also rising.[xxxv]

[xxix] Holmes, M. and A. Macey. 2009. "Canada." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 239–246.

[xxx] Haumann, B. 2009. "United States." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 226–238.

[xxxi] Holmes, M. and A. Macey. 2009. "Canada." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 239–246.

[xxxii] Willer, H. 2009. "The world of organic agriculture 2009: Summary." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 19–24.

[xxxiii] Sahota, Amarjit. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

[xxxiv] Sahota, Amarjit. 2009. "The global market for organic food and drink." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59–63.

[xxxv] Ong, Kung Wai. 2009. "Organic Asia: From back to nature movement and fringe export to domestic market trend." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 134–138.

On the whole, demand for organic foods remains low, partly because of high product prices. Domestic organic prices range from 10 to 200 per cent above conventional prices, according to market location, quality and product.[xxxvi] High import and transportation costs inflate prices. In some cases, organic food products are imported from Australia and Europe; in particular, processed food.[xxxvii]

India was exporting organic products valued at 730 million Indian rupees in 2003, and in 2007 this figure reached 3,000 million Indian rupees (53 million euros).[5] The domestic market for organic products in India is also growing, and a survey conducted by the International Competence Centre for Organic Agriculture expects an increase of the total turnover of organic products to reach 40 billion Indian rupees by 2012 (domestic market: 15 billion; exports 25 billion).[xxxviii]

In Thailand, the level of consumer awareness is slowly developing. However, there is not enough information to help consumers differentiate between organic and "chemical-free" produce, which is also available in the market. Most of the certified organic production (especially jasmine rice, vegetables, shrimps, tropical fruit, herbs and spices) is export oriented, leaving only an insignificant volume for the domestic market, i.e. fresh vegetables and grains – mostly rice and beans.[xxxix] Many certified brands of organic farm produce appear in local supermarket and modern trade outlets, particularly in larger cities.[xl]

[xxxvi] Ong, Kung Wai. 2009. "Organic Asia: From back to nature movement and fringe export to domestic market trend." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 134–138.

[xxxvii] Ong, Kung Wai. 2009. "Organic Asia: From back to nature movement and fringe export to domestic market trend." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 134–138.

[5] Average exchange rate in 2008: 1.0 Indian rupee = 0.01570 euros or US$ 0.02309.

[xxxviii] Menon, Manoj. 2009. "Organic agriculture and market potential in India." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 140–143.

[xxxix] National Bureau of Agricultural Commodity and Food Standards/Research Institute of Organic Agriculture. 2008. *Market Study on the Potential of Organic Products from Thailand*. ACFS, Bangkok; FiBL, Frick.

[xl] National Bureau of Agricultural Commodity and Food Standards/Research Institute of Organic Agriculture. 2008. *Market Study on the Potential of Organic Products from Thailand*. ACFS, Bangkok; FiBL, Frick.

Oceania

This region includes Australia, New Zealand, and island states such as Fiji, Papua New Guinea, Tonga and Vanuatu. Altogether, there were 7,222 producers, managing almost 12.1 million hectares in 2007. This constitutes 2.6 per cent of the agricultural land in the area and 38 per cent of the world's organic land. In the region, 99 per cent of the organically managed land is in Australia (12 million hectares, of which 97 per cent are extensive grazing land), followed by New Zealand (65,000 hectares) and Vanuatu (8,996 hectares). The highest shares of all agricultural land are in Vanuatu (6.1 per cent), Samoa (5.5 per cent) and the Solomon Islands (3.1 per cent).[xli]

The country with the largest organic land area – Australia – is located in Oceania.[xlii] However, Australia has a small market for organic foods, comprising 330 million euros in 2007[xliii] and thus less than 1 per cent of global sales, according to Organic Monitor. Food production in Australia and New Zealand has traditionally been export oriented, with the main exports beef, lamb, wool, kiwi fruit, wine, apples, pears and vegetables. Rising domestic demand is causing the proportion of exports of total production to decline, and in New Zealand a lack of supply of organic food is noticed.[xliv] There is an increase in organic food processing. The number of mainstream food retailers selling organic products is rising, and at the same time new organic food shops continue to open.

Latin America

In Latin America, 220,000 producers managed 6.4 million hectares of agricultural land organically in 2007. This constitutes 20 per cent of the world's organic land. The leading countries are Argentina (2.7 million hectares), Brazil (1.7 million hectares) and Uruguay (0.9 million hectares). The highest shares of organic agricultural land are in the Dominican Republic and Uruguay with more than 6 per cent and in Argentina, Costa Rica and Mexico with more than 2 per cent.[xlv]

[xli] Willer, H. 2009. "The world of organic agriculture 2009: Summary." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 19–24.
[xlii] Sahota, Amarjit. 2009. "The global market for organic food and drink." In: FiBL/ IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 59 –63.
[xliii] Wynen, E. 2009. "Australia." In: FiBL/IFOAM 2009: In: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 250–255.
[xliv] Mason, S. 2009. "New Zealand." In: FiBL/IFOAM 2009: In: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 256–261.
[xlv] Willer, H. 2009. "The world of organic agriculture 2009: Summary." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 19–24.

Large amounts of organic products such as fruits, vegetables, herbs, spices, seafood and meat products are exported. However, internal markets are developing, with many supermarkets in Latin America selling organic products. The principal driver of this trend is the strong expansion of the foreign and local supermarket chains that are now offering organic products in the urban centres.[xlvi]

The involvement of supermarkets is a huge opportunity for organic production, although it represents strong competition to small natural stores, which traditionally are important distributors in Latin American countries. They sell products from local organic farmers to an informed customer base and often serve as a distribution point for information about local activities and organic regulations. Another trend is the "consumer cooperative shop". In many cities and towns, consumers come together and organize a cooperative, rent retail space and begin selling products from farmers who are members of the cooperative.[xlvii]

In Costa Rica, the majority of certified organic products is exported. The main export markets are the US (coffee, banana, orange juice, medicinal plants, raw sugar, pineapple, cocoa and blackberries), Europe (banana, orange juice, raw sugar, coffee, medicinal plants and blackberries) and Japan (coffee and raw sugar). There are no official data on the size of the organic export market, but the exports to Europe and the US were calculated by one of the main certification bodies (Eco-LOGICA) to be US$ 10 million for 2003.

Actors in the export market are both very small farmers, organized in farmers' associations or cooperatives (especially for blackberries, medicinal plants, most of the coffee and part of the banana, sugar and cocoa exports), and larger holders or even transnational corporations (for pineapple, orange juice and part of the banana, sugar and cocoa exports). Although, it is important to mention that, with a very few exceptions including the cocoa, coffee and pineapple markets, the large holders that export organic products may or may not have some production of their own, but usually buy most of the products from small and medium producers. Sometimes these large exporters pay for the certification and, therefore, farmers are banned from selling to other buyers.

[xlvi] Garibay, S. and R. Ugas. 2009. "Latin America." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 176–185.
[xlvii] Garibay, S. and R. Ugas. 2009. "Latin America." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 176–185.

During the past five years, there has been more interest from the traditional commodity exporters (especially pineapple and banana) in the organic sector, but organized small and medium farmers are also struggling to develop capacity to access better market opportunities, usually involving fair trade and long-term market relationships. A very interesting example of the latter is the experience developed by CEDECO (a local non-governmental organization [NGO]) and the Alianza Cafetalera (a nationwide alliance of coffee farmers), which have established an alliance with organic farmers in Italy, called *Cooperativa sin fronteras* (Cooperative without Frontiers) to trade on each other products under fair trade conditions.

With regard to the domestic market, local community sales, weekly farmers' markets at different regions and supermarkets are the main types of outlets. The domestic market is still very small, but has been rapidly growing during the past eight or nine years. No statistical data are available, but it is evident that the national market for organic products is currently expanding.

A survey conducted by the National Organic Agriculture Programme of the Ministry of Agriculture in 2000, found that the total domestic sales of organic products (fresh produce) for that year was US$ 529,777, which represented only 0.4 per cent of the conventional market for the same kind of products. In 2003, Eco-LOGICA calculated that the domestic sales of organic products amounted to US$ 1.5 million.

In Chile, for example, the domestic market is concentrated primarily in the main cities and in the capital city, Santiago, where some supermarkets sell organic products. There are also many small and specialized shops that not only sell organic products, but also natural, health and related products. In Santiago and some regions, there are farmer-owned shops in which a group of small organic farmers sells their products such as Tierra Viva, which is one of the best known. Finally, a few farmers sell their products directly to consumers, either on the farm or through a home delivery system. The main products in the domestic market are fresh fruits and vegetables, olive oil and wine. On the international market, the main exports are fresh fruit and wine that go to Canada, the EU, Japan and the US.[xlviii]

[xlvii] Eguillor Recabarren, P. M. 2009. "Chile." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 189–192.

Africa

In Africa, in 2007, almost 0.9 million hectares – about 3 per cent of the world's organic agricultural land – were certified organic, constituting an increase of more than 185,000 hectares compared to 2006. The countries with the largest organic agricultural land area are Uganda (0.296 million hectares), Tunisia (0.15 million hectares), Ethiopia (0.14 million hectares) and the United Republic of Tanzania (0.06 million hectares). However, in terms of the share of a country's agricultural area, Sao Tome and Principe has the highest share (5 per cent), followed by Uganda (2.3 per cent) and Tunisia (1.6 per cent). Most of the organic land is used for permanent crops, the main ones being coffee and olives. In addition to the agricultural land, 9.6 million hectares of land are certified for beekeeping, forest and wild collection. More than half a million producers were reported for Africa.

The majority of certified organic produce is destined for export markets, with the largest part exported to the EU.[xlix] The total value for the export of organic produce from Uganda was estimated at US$ 22.8 million in 2008. For other countries, such data are virtually not available.

There are significant constraints affecting the potential for the development of certified organic exports from Africa: costs of certification, problems of infrastructure, maintaining links with distant markets and the vagaries of world markets, poor communication between foreign importers and exporters, lack of up-to-date market information, lack of governmental action to support exports, lack of professional management and lack of reliable supply.[l]

The African market for organic products is still small.[li] Certified organic products are currently recognized in only a few domestic markets, including Egypt, Ghana, Kenya, Senegal, South Africa, Uganda, the United Republic of Tanzania and Zambia. There are growing domestic market opportunities for diverse organic products such as organic fresh fruit and vegetables, dairy products, meat, wine, herbs and personal care products.

[xlix] Bouagnimbeck, H. 2009.Organic Farming in Africa. In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 141–121.

[l] Bouagnimbeck, H. 2009.Organic Farming in Africa. In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 141–121.

[li] Bouagnimbeck, H. 2009.Organic Farming in Africa. In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 141–121.

In Egypt, mainly in Cairo, specialized shops and a number of supermarket chains have organic sections, selling mostly fruits and vegetables. Similarly, organic shops in South Africa and Uganda have raised the profile of organic produce. According to Bouagnimbeck (2009),[lii] in addition to expanding international market access, there is a need to develop local and regional markets for organic produce in Africa. Further key elements to achieve sustainability of organic production systems are: increased consumer awareness, cooperation between stakeholders and producers in the supply chain and the development of Participatory Guarantee Systems.[liii]

3.2.7 Further Reading

The above description of the markets gives an overview and several examples. It is, of course, not comprehensive and further countries and regions also merit being mentioned. Further information can be found in the yearbook *The World of Organic Agriculture*, a joint project of the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agriculture Movements (IFOAM). The yearbook, apart from the statistics collected in the framework of the global organic survey, documents recent developments and trends in global organic farming. Numerous experts on organic farming contribute to this global yearbook, which thus constitutes a unique resource for information on organic agriculture worldwide.

The web site www.organic-world.net supports the global data collection on organic agriculture. It is continually expanded and offers a wealth of information and links on organic farming around the globe.

The improvement of the data collection, the compilation of the yearbook and the setting up and maintenance of the web site www.organic-world.net have been financially supported by the International Trade Centre and the Swiss State Secretariat of Economic Affairs since 2008. NürnbergMesse, the organizer of BioFach Fair, has financially supported the yearbook and data collection since 2000.

[lii] Bouagnimbeck, H. 2009.Organic Farming in Africa. In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 141–121.

[liii] Bouagnimbeck, H. 2009.Organic Farming in Africa. In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 141–121.

3.3 Rules in organic trade

3.3.1 Three options for importing organic products from third countries into the EU[6]

On 1 January 2009, the completely revised Regulation on Organic Production EU Regulation (EC) 834/2007 and its implementation rules came into force. With the new regulation and the provisions concerning the arrangements for imports from third countries (the implementing rules: Regulation [EC] No. 1235/2008) approved in December 2008, the framework conditions for imports from third countries will change considerably.

Overview of trade-relevant changes in the EU Regulation (EC) 834/2007:

- the EU logo becomes mandatory for pre-packaged products produced in the EU from mid-2010 onwards, although the use of the EU logo for imported products is voluntary;
- in products that are mainly non-organic, the introduction of the indication of origin and the labelling of organic ingredients become obligatory;
- the rules shall be more flexible to reflect different regional frameworks and allow for suitable reactions in catastrophic circumstances;
- there is a standard form for certificates;
- the import scheme will be completely revised.

Source: Authors' analysis.

At the end of December 2006, the EU published new regulations concerning the importing of organic products. The revised import procedures replace the current (temporary) system of import authorizations with an approval system for certification bodies operating in countries outside of the EU. The existing system for approval of countries in the so-called "Third Country List" is maintained. Thus, products can only be imported into the EU if they have been certified by a certification body or authority recognized by the European Commission (EC).

For the import of organic products from third countries to the EU, there will be three options in the future:

[6] Sources for this section:
Huber, B. and O. Schmid. 2009. "Standards and regulations". In: Willer, H. and L. Kilcher (editors), *The World of Organic Agriculture: Statistics and Emerging Trends 2009*. IFOAM, Bonn; FiBL, Frick; ITC, Geneva. p. 65–74.
Camilla Mikkelsen and Marco Schlüter (editors). 2009. The New EU Regulation for Organic Food and Farming: (EC) No. 834/2007. IFOAM EU GROUP, Brussels. p. 41–47.

1. The **EU Regulation on Organic Agriculture is applied in the third country exactly as in the EU member states**, i.e. the products are "**compliant**". In cooperation with the EU member states, the EC will establish a list of recognized "compliant" control bodies authorized to carry out inspections and issue certificates in the third countries.

2. The third country applies **production standards and control measures that are equivalent to the EU Regulation on Organic Agriculture**, thereby producing "equivalent" products. In this case, the EU recognition can be obtained if either:

    - the third country in question has been included in the EC list of recognized third countries; or
    - the certification body operating in the third country has been included by the EC in its list of "equivalent" control bodies.

3. The operators in the third country apply production standards and control measures equivalent to the EU Regulation on Organic Agriculture, and the **competent EU authority grants an import authorization to the EU importer**. This authorization may be granted by an EU member state until 12 months after the EC publishes the first list of control bodies recognized as "equivalent". The authorization is valid for up to 24 months after the publication of the list of "equivalent" control bodies of third countries.

Three different lists will be published by the EC

In 2010 or 2011, the EU will publish lists of approved certification bodies and authorities as well as approved third countries.

1. A list of certification bodies that apply an inspection system and production standards equivalent to the EU regulation.
2. A list of certification bodies that have been accredited according to EN 45011/ISO 65 and that apply an inspection system and production rules compliant with the EU regulation. The provision on compliance with the EU regulation is new.
3. A list of countries whose system of production complies with rules equivalent to the EU production and inspection provisions. Under options 1) and 2), the certification bodies can either be located within or outside the EU.

Under options 2) and 3) (equivalency option), the imported products have to be covered by a certificate of inspection, which is not a provision under option 1). For options 2) and 3), the Codex Alimentarius (Guidelines for organically produced food) shall be taken into account for assessing equivalency.

Source: Authors' analysis.

Procedures for application and recognition

Although the new rules are already in force there are no changes yet in the applied import procedures in 2009. The list of recognized third countries[7] has been transferred to the new regulation and remains valid. Also, the procedure for import authorization issued by the competent authorities of the EU member states will be applied until the EC publishes the first list of recognized control bodies in third countries.

In 2009, the EC initiated the procedure for the recognition of control bodies operating in third countries. The first deadline for applications to be received from certification bodies is 31 October 2009. The publication of the list of "equivalent" control bodies operating in third countries is not expected before the middle or end of 2010. The procedure for approving control bodies with a compliant control system (point-by-point implementation of the EU Regulation on Organic Agriculture) has been postponed. The commission anticipates an exhaustive evaluation process to assess compliance with the EU regulation. This is to prevent distortions in market competition that would endanger the competitiveness of European organic producers and to ensure consumer protection. The first application deadline for inclusion is October 2011. The publication of the list of "compliant" control bodies operating in third countries is not expected before 2012.

Impacts of the new import procedure

The new regulation is easier to handle with three main parts: a third country list, a list of compliant certifiers and a list of equivalent certifiers. The new import procedures will considerably reduce the bureaucratic workload for imports. Once the lists of approved certification bodies are published the only bureaucratic burden for traders will be the request for control certificates, which have to accompany each consignment in the case of "equivalent" products. In future, the importer can check immediately whether the EU recognizes a certification body, and there will *no longer be the burden of applying for an import authorization*, nor the risk that the approval will be delayed or denied.

[7] Argentina, Australia, Costa Rica, India, Israel, New Zealand and Switzerland.

Until now, it has been very difficult for certification bodies located outside of the EU to gain access to the European market. The vast majority of imports are certified by certification bodies from the EU and very few import authorizations are issued on the basis of a certificate from a non-European certification body. European traders prefer cooperating with European certification bodies with whom they are familiar and who often inspect their EU operations. EU certification bodies also usually have direct access to the authorities and know their expectations. This is quite an asset in a situation where the control bodies, the exporters and the competent EU authorities negotiate on a case-by-case basis regarding the "permitted" deviations from the EU regulation on organic agriculture. With the new rules the same conditions apply for EU and non-EU certification bodies operating in third countries. Non-EU certification bodies can prove their equal qualification and the risk for traders who cooperate with a local certification body is no different from cooperation with a European certification body.

In addition, producers' access to European markets will be easier since they will already know whether their certification will be recognized by the European market. Variations on standards possible under the equivalence scheme have to be approved along with the recognition of the certification body, and will not be assessed by an authority only when the import authorization is requested. Therefore, the new system will provide more transparency and reliability for producers, certifiers and traders.

The EU organic logo

The new EU logo becomes mandatory for pre-packaged products produced in the EU from mid-2010 onwards. The use of the EU logo for imported products is voluntary. The EU has announced a revision of the current EU logo and the new design is expected to be published by the end of 2009 or beginning of 2010.

The move towards a single European organic logo will enhance the possibilities of organic producers entering the European organic market, making them less dependent on certifiers who work through "private logos". While private standards and logos have their role and value, their focus on market differentiation and growth can sometimes become an additional barrier to trade. Furthermore, it is important that producer operators are not forced to depend on international certifiers but can rely on a local certification body that is closer to the operators, speaks the local language, understands the political situation on the ground and reduces the cost of certification. In this context, access to the EU logo by third country certifiers is a positive step forward and helps the process of organic development in third countries. For tropical products, this will allow the producer to get closer to the consumer and gives the consumer some confidence in the organic integrity of products imported from third countries. For European consumers, the harmonized label across the EU member states will make recognition much easier.

Source: Authors' analysis.

More efficient procedures and enhanced risk management

The new import system provides good opportunities for more efficient procedures. The new import regulation allows a more consistent and effective control system for imported products and improves the possibilities for supervision of certification bodies operating in third countries. It further increases transparency by publishing lists of recognized certification bodies. In the current system, it was difficult for certification bodies outside the EU to prove the acceptance of their certification in the EU. They depended on European importers willing to take the hurdle to apply for an import authorization with a new or unknown certification body. The new system allows certification bodies from non-EU countries to apply for recognition on their own initiative; they may prove their recognition prior to the start of trade relationships. This reduces the risk of importers when importing products certified by non-European and/or less known certification bodies.

However, a number of risks remain and it will be an opportunity and a challenge for the new system to cope with them. It is important that the inspection and certification by control bodies in third countries adequately deals with risks such as:

- If a certification body becomes too demanding and applies sanctions, the exporter tends to switch to another certification body. It is highly recommended that these problems be addressed by, for example, making certification transfer mandatory.
- There is a tendency among traders and organizations to select certification bodies by their willingness to reduce or even cut the conversion period. Lack of harmonized interpretation of the EU rules may lead to a situation where often no conversion period has been applied. Those certification bodies that insist on application of the whole conversion period have a competitive disadvantage.
- In third countries, small producers are often certified as a group. In this certification system, all of the farmers are first evaluated by internal inspectors from their cooperative or by the export company. The inspectors from the control bodies, therefore, do not visit each of the production units, but rather evaluate the effectiveness of the internal control system and then a representative sample of the production units. These systems are cost saving for the smallholders involved and are highly effective if they are adequately implemented. However, non-compliance needs to be consequently sanctioned through the internal control system and through the external certification body.

In such cases, additional risk-oriented inspections and chemical analysis are necessary. However, there is intense competition between certification bodies and any additional control measures increase the costs of inspections. The cost factor is important for companies when selecting certification bodies. There is a debate between the EU and member states regarding assessment of the applications of certification bodies, and also with the supervisory bodies, to reduce risks and to ensure quality of certification.

Countries with and without regulation

In the new millennium, most major economies have established regulations for organic production. On 1 January 2009, the completely revised Regulation on Organic Production EU Regulation (EC) 834/2007 came into force. The data on regulations around the world are collected annually in the book, *World of Organic Agriculture*.[liv] Starting organic export trade in a country without national regulation is based on the international rules of the regulations in the EU, Japan and the US and other import countries. However, organic trade for the domestic market in a country without national regulation is not regulated. In these countries, organic products are not protected against fraud. However, most producers, processors and traders in such countries are most interested in gaining consumers trust and meeting their expectation for high-quality organic products, certified by an independent body. In such countries, it is possible and often the fastest solution to develop and apply private standards and labels for organic produce. Therefore, producing and trading organic products in countries without regulation does not necessarily mean it is an obstacle for domestic trade.

Source: Authors' analysis.

3.3.2 Import requirements of major economies

The most important import markets for organic products are the EU, Japan and the US. All have strict regimes for the importation of organic products. In the EU, Japan and the US, products may only be imported if the competent authority has approved the certification body. Approval of certification bodies requires compliance or equivalency with the requirements of the importing countries, which can be achieved by the following options:

- bilateral agreements between the exporting and the target import country;
- direct acceptance of the certifying agency by the target import country.

[liv] For a list of countries with regulations or in the process of drafting regulations on organic agriculture, see Table 17 in Huber, B. and Schmid, O. 2009."Standards and Regulations." In: FiBL/IFOAM 2009: *The World Organic Agriculture. Statistics and Emerging Trends 2009*. p. 65–68.

[lv] National Organic Program (NOP). www.ams.usda.gov/nop/indexIE.htm.

Bilateral agreements between the exporting and the target import country

Most importing countries – including the EU, Japan and the US – have options for bilateral recognition. A country may confirm that another country's control system and standards are in line with the national requirements, and that the products certified in those countries can be sold on the national market. The bilateral agreements are largely political agreements that depend on the will and political negotiations of the governments, rather than the results of technical assessments. The EU currently recognizes seven countries under this arrangement: Argentina, Australia, Costa Rica, India, Israel, New Zealand and Switzerland. In addition, the US has accepted a few foreign governments' accreditation procedures. Certification bodies accredited according to the US requirements by Denmark, India, Israel, New Zealand, Quebec and the UK are accepted by the United States Department of Agriculture (USDA) for certifying according to the US National Organic Program (NOP) without being directly accredited by the USDA. This is just recognition of the accreditation procedures; the respective certification bodies still have to meet the requirements of NOP to issue certificates accepted by the US. The US is also negotiating equivalency agreements with Australia, the EU, India and Japan. This means that the USDA would determine that their technical requirements and conformity assessment system adequately fulfill the objectives of NOP, and then double certification would not be necessary for imports.

Direct acceptance of the certifying agency by the target import country

The EU, Japan and the US have options for recognizing certification bodies operating outside the country. However, the technical requirements for achieving such recognition are difficult to meet, and the associate fees are high. Maintaining recognition and/or the necessary accreditation requires substantial financial capacity and personnel from the certification body (agency).

NOP requires all produce labelled as organic in the US to meet the US standards, including imported products. The US system provides for the approval of certification bodies as agents to operate a US certification programme. Retroactive certification is not possible. Inspections have to be conducted by inspectors trained in NOP requirements using NOP questionnaires, and only certificates issued by certification bodies accredited by the USDA are accepted. It is not relevant whether the certification body is based in the US or elsewhere. So far, the USDA has accredited almost 100 certification bodies according to NOP, and only produce certified by these certification bodies may be exported to the US.

How to cope with documentation challenges

A guidance document for imports by the EU Commission seeks to give further clarity to some of the difficult areas related to the import regulation and implementing rules. This document:

- gives guidance on which details are required and how the certification body application form should be formatted to cover the required information;
- offers guidance on who can write an "assessment report" of the applicant certification body as well as the necessary competence requirements that must be demonstrated by accreditation and supervisory bodies;
- provides guidance on the distinctions between the operation of the "compliant list" and the "equivalent list";
- gives guidelines for the evaluation of the equivalence of organic producer group certification schemes applied in developing countries.

Source: Authors' analysis.

3.3.3 Global GAP and other trade regulations

Besides governmental regulations in the last several years, other private certification schemes have been gaining more and more importance both within and outside the organic sector. Certain private standards of certification bodies or farmers' associations set additional requirements, which also have to be met and certified. Some of these standards are directly related to organic farming and others are related to "good agricultural practices" (GAP). These private sector standards often act as "de facto" mandatory requirements. However, this often increases the costs, which can be a strong burden for projects, especially in developing countries.

Private sector standard and national GAP schemes:

- increasing number of private sector standards;
- compliance is not mandatory;
- retailers and suppliers often require certification;
- private sector standards often act as "de facto" mandatory requirements;
- has a profound influence on the development of national and regional schemes on GAP, e.g. in ASEAN (Asian initiatives based on Global GAP private sector standard and national GAP schemes such as

Source: Authors' analysis

The Global GAP initiative, which is not focused on organic agriculture and was started by large supermarket/retail chains, is one of the most important private initiatives on a worldwide scale. Global GAP is a private sector body that sets voluntary standards for the certification of agricultural products around the globe. Global GAP standards are primarily designed to reassure consumers about how food is produced on the farm by minimizing detrimental environmental impacts of farming operations, reducing the use of chemical inputs and ensuring a responsible approach to workers' health and safety as well as animal welfare. Many organic producers apply Global GAP standards, in particular in fruit and vegetable production. Global GAP has a profound influence on the development of national and regional schemes. For example, several countries (e.g. in Asia) have developed national GAP schemes mainly through government driven initiatives.

Potential benefits from GAP implementation:

- reforming agricultural production systems has significant socio-economic implications;
- science-based use of fertilizer and application of crop protection chemicals improves productivity and cost savings;
- emphasis on worker welfare and safety encourages a safe healthy environment and improved morale;
- assured produce through GAP certification gains consumer confidence and market acceptability.

Potential obstacles to GAP implementation:

- low levels of awareness by farmers and consumers;
- poor understanding of GAP requirements, especially small farms and rural locations;
- lack of direct link with the market-place requiring trade through middle-men;
- lack of incentives to implement GAP, which normally does not result in price premiums;
- unwillingness for supermarket chains to provide bridging finance.

Source: Authors' analysis

3.3.4 Tariff and non-tariff trade barriers

More and more governmental food safety regulations will also become increasingly stringent for organic products. Technical regulations and product standards may vary from country to country, and having many different regulations and standards makes business difficult for producers and exporters. Moreover, if regulations are set arbitrarily, they could be used as an excuse for protectionism. The Agreement on Technical Barriers to Trade (TBT Agreement) tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles.[lvii] The World Trade Organization (WTO) plays a key role in this matter.[lviii]

National regulations for organic agriculture and the labelling of organically produced products could be either considered technical regulations or standards, depending on the interpretation of the word "mandatory". In both cases, they are likely to comply with the TBT Agreement and the **General Agreement on Tariffs and Trade (GATT)**. Organic certification and labelling programmes would not be considered trade-restrictive because products can be sold freely with and without the organic label and they could be considered to fulfil legitimate objectives such as preventing deceptive practices. However, the provisions governing the right of access to the label should be non-discriminatory. The regulations should be based on international standards (the CODEX guidelines or IFOAM Basic Standards) whenever appropriate.

Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures and the Agreement on Technical Barriers to Trade (TBT)

Other potential sources of trade barriers are the SPS and TBT Agreements. Article 20 of GATT allows governments to act on trade in order to protect human, animal or plant life or health, provided they do not discriminate or use this as disguised protectionism. In addition, there are two specific WTO agreements dealing with food safety and animal and plant health and safety, and with product standards in general[8.9.10] both try to identify how to meet the need to apply standards and at the same time avoid protectionism in disguise. These issues are becoming more important as tariff barriers fall — some compare this to seabed rocks appearing when the tide goes down. In both cases, if a country applies international standards, it is less likely to be challenged legally in the WTO than if it sets its own standards.

[lvii] www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm#TRS.
[lviii] www.wto.org/english/tratop_e/tbt_e/tbt_e.htm.
[8] www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm.
[9] www.wto.org/english/tratop_e/sps_e/spsagr_e.htm.
[10] www.unctad.org/en/docs/c1em15d3.en.pdf.

Though technical regulations and industry standards were once considered objective tools for facilitating production and exchange, they have recently become a hotly contested subject in the politics of international trade.[11] In particular, issues of domestic security and public health such as the US bioterrorism laws and the EU food and feed regulations present emotionally charged contexts under which WTO agreements are interpreted. Government regulations or industry standards for goods can impact trade in at least three ways:

- they can facilitate exchange by clearly defining product characteristics and improving compatibility and usability;
- they can advance domestic social goals such as public health by establishing minimum standards or prescribing safety requirements;
- they can hide protectionist policies.

During the Uruguay Round of multilateral trade negotiations, member nations established the SPS and TBT Agreements to address the emerging debate over the use of standards in international trade. These agreements can be interpreted as an attempt to balance the first two uses of standards and to minimize the third. In other words, these agreements balance the competing demands for domestic regulatory autonomy and the global harmonization of product standards. At the same time, the agreements attempt to prevent standards from becoming a protectionist device.

[11] www.cid.harvard.edu/cidtrade/issues/spstbt.html.

The SPS Agreement allows members to take scientifically based measures to protect public health. The agreement commits members to base these measures on internationally established guidelines and risk assessment procedures. In the case of particularly stringent measures, countries must present scientific justification. When existing scientific evidence is insufficient to determine risk, members may adopt measures on the basis of available information, but must obtain additional information to objectively ground their assessment of risk within a reasonable period of time. Generally speaking, the SPS Agreement is a compromise that permits countries to take measures to protect public health within their borders so long as they do so in a manner that restricts trade as little as possible.

Likewise, the TBT Agreement strikes a delicate balance between the policy goals of trade facilitation and national autonomy in technical regulations. The agreement attempts to extricate the trade-facilitating aspects of standards from their trade-distorting potential by obligating countries to ensure that technical regulations and product standards do not unnecessarily restrict international trade. The TBT Agreement works towards this end in three ways. The agreement encourages "standard equivalence" between countries, in other words, the formal acceptance of the standards of other countries through explicit agreements. It also promotes the use of international standards. Lastly, it mandates that countries establish enquiry points and national notification authorities (the two may be the same body) in order to answer questions about SPS Agreement regulations and notify other nations of new regulations respectively. Enquiry points compile all available information in that country on product standards and trade regulations and provide it to other members upon request. The national notification authorities report changes in trade policy to the WTO and receive and take comments on these measures.

Source: www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm.

Some people criticize the measures of the SPS and TBT Agreements, claiming they are too invasive and deny them sovereignty over domestic regulations. Others assert that the agreements do not go far enough and domestic regulation is often a form of protectionism. Developing countries protest that the standards promoted in the agreements lack their input and are dominated by the interests of developed countries. Adding their voices to the debate are environmentalists, NGOs and local regulatory officials who feel excluded from negotiations of a topic that directly affects them. In fact, organic producers in some cases are highly challenged to fulfil the growing requirements of food safety in some countries.

Those who have criticized these agreements for restricting democratic control over standards are concerned that international standards will jeopardize public health and welfare. In the highly contentious debate over genetically modified foods, for example, some NGOs argue that these agreements afford countries inadequate flexibility to manage uncertainty and risks to human health and safety. Others have mounted challenges to the very idea of restricting the national choice of preferred levels of health, risk and security safety by subjecting standards to international consensus.

There is also considerable debate over the extent to which the SPS and TBT Agreements allow trade restrictions based on specifications related to process and production methods. Nations disagree, for example, over the extent to which the TBT Agreement allows nations to differentiate between identical products that were produced in different ways. Can a country treat products differently because the production methods used have different environmental impacts? Similar questions have fuelled fears among environmentalists and other civil society groups that the Uruguay Round Agreements may threaten environmental quality. They are concerned that international standards will diminish a country's ability to uphold its own environmental or public health principles.

Developing countries take issue with the agreements because they make intensive use of multilaterally established standards that are determined by a process that is both politically and economically skewed. Standard setting has until recently been the exclusive domain of rich, technologically advanced nations that have dominated the terms of debate in bodies such as the International Organization for Standardization (ISO) and the Codex Alimentarius Commission. Thus, implementing the SPS and TBT Agreements often requires developing countries to adhere to standards more appropriate for their industrialized counterparts. The lack of developing country input in the formation of standards translates into what some observers have called techno-imperialism, or the imposition of standards by the rich countries upon the poor ones.

3.3.5 Further reading and links

Council Regulation (EC) No. 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No. 2092/91. eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:189:0001:0023:EN:PDF.

Commission Regulation (EC) No. 1254/2008 of 15 December 2008 amending Regulation (EC) No. 889/2008 laying down detailed rules for implementation of Council Regulation (EC) No. 834/2007 on organic production and labelling of organic products with regard to organic production, labelling and control. eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:337:0080:0082:EN:PDF.

Commission Regulation (EC) No. 1235/2008 of 8 December 2008 laying down detailed rules for implementation of Council Regulation (EC) No. 834/2007 as regards the arrangements for imports of organic products from third countries. eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:334:0025:0052:EN:PDF.

Commission Regulation (EC) No. 889/2008 of 5 September 2008 laying down detailed rules for the implementation of Council Regulation (EC) No. 834/2007 on organic production and labelling of organic products with regard to organic production, labelling and control. eurlex.europa.eu/JOHtml.do?uri=OJ:L:2008:250:SOM:EN:HTML.

DiMatteo, Katherine. 2007. “Overview of group certification.” Prepared for the 7th meeting of the UNCTAD/FAO/IFOAM International Task Force on Harmonization and Equivalence in Organic Agriculture, Bali, Indonesia, 27–30 November. www.unctad.org/trade_env/itf-organic/meetings/itf7/ITF0711_GrowerGroups.pdf.

International Task Force on Harmonization and Equivalence in Organic Agriculture (ITF). 2008. “International Requirements for Organic Certification Bodies (IROCB).” Prepared for the 7th meeting of the UNCTAD/ FAO/IFOAM International Task Force on Harmonization and Equivalence in Organic Agriculture, Bali, Indonesia, 27–30 November. http://r0.unctad.org/trade_env/itf-organic/meetings/itf8/IROCB_0809%20.pdf.

Camilla Mikkelsen and Marco Schlüter (editors). 2009. The New EU Regulation for Organic Food and Farming (EC) No. 834/2007. IFOAM EU GROUP, Brussels. p. 41–47.

Schmid, Otto and others. 2007. Analysis of EEC regulation 2092/91 in relation to other national and international organic standards. Report (Deliverable D 3.2). EEC 2092/91 (Organic) Revision project. Research Institute of Organic Agriculture (FiBL), Frick. www.organic-revision.org/pub/D_3_2_final%20report_low.pdf. Database www.organicrules.org.

IFOAM EU Group. 2009. The New Organic Regulation for Organic Food and Farming in Europe: EC 834/2007 - Background, assessment and interpretation for stakeholders. IFOAM European Union Group, Brussels.

www.fao.org/organicag/: Information on organic agriculture by FAO with detailed country reports including the on legal situation.

www.ifoam.org/about_ifoam/standards/index.html: IFOAM Guarantee System.

www.ams.usda.gov/nop/indexIE.htm: Information about the US NOP.

www.unctad.org/trade_env/itf-organic/ welcome1.asp: International Task Force on Harmonization and Equivalency in Organic Agriculture (ITF).

www.codexalimentarius.net/ download/standards/360/ CXG_032e.pdf: 2007. The Codex Alimentarius Commission and the FAO/WHO Food Standards Programme: Organically Produced Foods. Rome.

ec.europa.eu/agriculture/qual/organic: Internet site of the European Commission on organic farming in all EU languages.

What is an OMI?

The term OMI defines an organization in which "organic producers and other players involved share a common interest in producing, processing and marketing organic products". OMI's link the stakeholders in a value chain, from production to the end consumer. Therefore, horizontal and vertical cooperation of players in the supply chain such as producers, traders, processors and retailers are essential. In many cases, successful OMIs are innovative businesses, initiated by producer groups starting with processing and marketing of their products to improve their market position. Sometimes participants of OMIs are also involved in diversified activities such as tourism or environmental protection.

The overall goal of an OMI is to contribute to the growth of the organic sectors and to integrate into the local and international trade, while alleviating poverty – especially in rural areas – by facilitating access to the new market opportunities for small and medium farmers and other stakeholders of the organic value chain.

Source: Authors' analysis.

The value of collective marketing

Collective organic marketing improves the competitive position of farmers in the value chain. Bringing together larger volumes allows a range of different needs of different buyers to be taken care of, from food manufacturers to retailers and direct sales. Collective marketing improves profitability and thus allows appropriate prices to continue to be paid to farmers. If initiatives get involved in processing, more of the value added can be passed back to farmers in the form of increased prices, although it is important to understand that investment costs are also necessary. Nonetheless, with control over several stages in the food chain comes influence over where jobs are generated. Farmers can decide, within limits, where best to base their activities for the benefit of their communities, sometimes even being able to create jobs for themselves to supplement farm family incomes.

Involvement in marketing provides the opportunity to build up the knowledge of customers about the food they buy. Consumers can then recognize organic farming as a possible means to meet their concerns about health, food quality and fair trade. Furthermore, organic farming can help to win consumers loyalty from the home market, and reduce some of the wasteful transport involved in many distribution systems. Of course, in many rural areas and especially in developing countries, the home market is limited, and the bulk of output has to be exported; nevertheless, control over marketing:

3.4 How to successfully set up an organic value

3.4.1 Organic market development

The organic market offers a huge trade and income potential for producers, processors and trading companies all over the world: Certified organic products provide access to attractive local and international markets, where higher prices, returns and incomes are possible. However, many farmers in developing countries do not have access to the organic export market, and domestic markets are poorly developed. Organic market development must be targeted to improve market access especially for farmers from developing countries.

This chapter concentrates on value chain development, collective marketing and "community of practice innovation" as a centrepiece of organic market development.

3.4.2 Need for collective marketing

Farmers are highly interested in obtaining a fair share of the benefits of the organic production. Therefore, they are interested in taking back control and gaining more of the value added along the food chain. This is particularly important for organic farmers in poorer countries. A possible strategy for many farmers is to cooperate in regionally or nationally operating collective marketing, known as OMIs. Such value chain development initiatives bring advantages to farmers, especially increased market power, better collection of supply and possibilities for diversifying products and marketing activities.

Collective marketing has existed for many years as a means of expanding what began as a small and dispersed organic market. The earliest example of an OMI had already started in the pioneering phase of organic agriculture more than 50 years ago. More recently, organic farming has become part of the mainstream in several countries. An increasing share is sold through conventional sales channels of supermarkets, providing new challenges for collaborating groups, which also require collective marketing efforts although completely different from that in the pioneer phase. However, organic markets in developing countries are still, to a certain extent, in a comparable situation developed countries 50 years ago: there is a need for bottom-up initiatives (i.e. OMIs) to develop organic quality production, markets and market services.

- provides farmers with a fair share of the benefits of the organic market;
- benefits from economies of scale in cooperatively collecting, processing and distributing the goods;
- reduces food miles and, therefore, boosts the environmental image of the products;
- builds up a positive image for the region in which the goods are produced.

Building up the organic sector – research, standards development, certification systems and especially collaborative marketing – gets people working together to solve problems. In this way, organic agriculture raises self-confidence and mobilizes new partnerships. There is much evidence on the importance of self-reliance in economically successful rural communities. The trust generated by successful collective activity builds confidence and gets people involved in wider networks on behalf of the group; once established, this circle of activity allows more ambitious projects to be undertaken as well as spilling over into other important benefits.

3.4.3 Start up an organic value chain[12]

What are the steps to organize and integrate stakeholders of an organic value chain and setting up an OMI? The following seven steps describe procedures, challenges and success factors in starting up and developing OMIs.

1. Vision and business idea

The starting point of an initiative is a vision, which describes what the company or producer group or any other initiator(s) want to achieve. This may be, for example, to contribute to the development of the region, to provide better incomes and added value for a farmer group, to develop an innovative new product for domestic or export markets, or any other improvement in production and marketing.

Sources for this section:
Schmid, Otto and others. 2004. Organic *Marketing Initiatives and Rural Development: A Guide to Successful Organic Marketing Initiatives*. FiBL, Frick.
Kilcher, Lukas and others. 2004. The *Market for Organic Food and Beverages in Switzerland and the European Union.* Overview and Market Access Information for Producers and International Trading Companies. FiBL, Frick; SIPPO, Zurich. January.

How to find a business idea? Market research and monitoring indicates that good ideas for new products often come from watching and listening to customers. Exchange of experiences and the opinion of business experts and potential clients as well as competitors can help identify a new business idea. Participation in international trade fairs such as India Organic Trade Fair, BioFach Latin America or local trade fairs and events, business missions and study trips may provide stimulation for new ideas. There are many aspects that need to be taken into consideration to ensure that the idea represents a large enough market to support a new business.

2. Find the right partners and networks

Only very large farmers are able to supply the volume required by customers. Many value-added activities, product development, branding and effective promotion are difficult for the individual producer to achieve. One way in which a producer makes these activities more effective is by cooperating with other partners. There are two different types of cooperation:

- Horizontal cooperation is between producers who work at the same business level, for example, a number of citrus farmers who build a grower group. For horizontal cooperation, the farmers must know exactly whether all cooperating farmers can meet a common quality standard.

- Vertical cooperation is when at least two partners from different business fields work together, for example, a (group of) citrus farmer(s)[lx] and a fruit processing plant. For vertical cooperation, the farmers must know exactly whether or not the demands of the cooperation partners can be met.

When seeking cooperation partners, the demands and expectations of the cooperation partners must be clear. Key steps for establishing cooperation include:

- Before searching for cooperation partners, the form of cooperation should be quite clear. However, throughout the development of cooperation, the form of working together could change, e.g. with a new or modified business idea.

- It should be clear how many cooperation partners are necessary at the beginning of the cooperation. Of course, this number can change if cooperation develops further.

[lx] Kilcher L. 2005. "Organic citrus: Challenges in production and trade." *Cuaderno de Resumenes I Conferencia Internacional de Citricultura Ecologica BIOCIITRICS*. Gandia, Spain. November. p. 22 ff.

- Depending on the form of cooperation, it is necessary to find companies that are suitable or have development potential in terms of the business idea. Attention should also be paid to product quantity and quality, distribution, logistics and competence of partners. This is especially important in many developing countries, where logistics and knowledge often need to be improved in reference to a market initiative.

- After identifying potential cooperation partners, they should learn about the business idea and also have the possibility of bringing in their own visions and ideas regarding cooperation.

- It is important that all cooperation partners are willing to share authority in decision making, to set aside rivalries, to trust in each other and to inform transparently.

Cooperation should be surrounded by a network, which means a group of actors and partnerships that can be established either along a market chain or in the form of a regional network with external actors, for example:

- All stakeholders of potential interest to the new business should be involved. In particular, potential clients might be interested in supporting OMI financing certification costs in the first couple of years or capacity-building activities.

- Advice and coaching is necessary throughout the period when the new business is being established in order to define business activities, finance, marketing and management.

- Support of development cooperation projects is essential. This support can be funding for advice and co-investment in group building, market access and marketing.

- Government support for start-up companies and new business ideas includes approaching the relevant agricultural administration or a regional chamber of commerce.

- Contacting regional media and press agencies.

- Coordinating with environmental organizations or regional development associations.

3. From vision to objectives

After the business vision has been established it is important to ask: Where do we want to go? Objectives are reference points for corporate performance and as such they need to be clearly identifiable, measurable, achievable, realistic, time bound and communicable. The objectives of an OMI can be divided into:

- **Economic objectives:** Market leadership (measured, for example, by competitiveness), market spread (measured, for example, by number of customers), customer service (measured, for example, by product quality and reliability), growth (measured, for example, by sales revenue), profitability (measured, for example, by return on invested capital), efficiency (measured, for example, by liquidity) and other objectives.

- **Environmental objectives:** Reduce ecological food print (measured, for example, by area of organic land in the project, carbon credits, and biodiversity indicators).

- **Social objectives:** Social responsibility (measured, for example, by community welfare, corporate image, number of new jobs).

Objectives that are defined in a democratic way contribute to the identification of the OMI by all partners. Especially in cooperative ventures, all cooperation partners should come together for a discussion on objectives.

4. Market assessment

After developing an idea and a network, it is important to analyse the market and its environment, including key actors and stakeholders:

- The macro-environment is common to all businesses regardless of sector: politics, the legal framework, the economic situation, the social or cultural situation, research and advisory and the natural environment. Impending organic regulation in a country can be very important for an OMI.

- The micro-environment is shaped by factors that are unique to every business. In the case of an OMI, it will consist mainly of the customers, competitors and suppliers of the OMI.

Information should be gathered about:

The **consumers** needs and behaviour, for both domestic and export markets.

- **Competitors**, from product strategies to price lists, and advertisements from the competitor. It may be possible to turn a competitor's weakness into strength for one's own business.

- **Suppliers:** it is necessary, to check the quality and availability of raw materials. A good relationship between the supplier and the OMI is important.

- **Financial resources:** bank loans, subsidies or credits from the government with a reduced interest rate, money from private investors. In addition, it is interesting to look for development cooperation and government aid as a supplementary resource for capacity-building and risk management.

- **Other stakeholder and key actors in the chain:** groups and persons that have an interest in the new business, e.g. trustees, foundations that may support the OMI, volunteers.

- **Human resources:** OMI initiator(s) need competence regarding the business and basic knowledge of business management and marketing.

- **Performance** provides information on the contribution of the OMI in the micro-environment.

SWOT Analysis

A SWOT analysis evaluates the overall strengths, weaknesses, opportunities and threats of a business. Strengths and weaknesses are about where the business is now, compared with its competitors; opportunities and threats are about where the business is going. This means opportunities are attractive areas for action where the business is likely to have some advantages or make special contributions. Threats are critical trends or specific disturbances in the environment that could lead to stagnation, decline or demise of the business or a part of it. The SWOT analysis allows the OMI or any business to better identify market gaps, and should be considered when marketing efforts must define a specific and unique market positioning for the OMI and its products.

Source: Authors' analysis.

5. Feasibility study and business plan

The feasibility study and business plan is the basis for the decision to start or not to start the business. The **feasibility study** should determine if there are any possible barriers to success. The study should contain a market evaluation of the local economy, demographics, accessibility and information on potential local competitors. It should also include the market potential for the proposed OMI products. The OMI initiator(s) must ascertain, for example, if the product is most likely to be purchased by single people, young families with children, people with a high income or low income or highly educated or less educated people. This information can often be found in market research studies published on the Internet, books, periodicals or newspapers. The feasibility study should also evaluate special operational needs for the implementation of a business such as location, manufacturing operations and equipment, raw materials, labour skills and overhead. In many cases, a feasibility study and business plan should be part of the project implementation and not be a prerequisite for OMI support.

A **business plan** precisely defines your business, identifies your goals, helps you allocate resources properly, handles unforeseen complications and enables making good business decisions. A business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers and others about your operations and goals. The business plan has four main purposes:

- qualification of the business initiator(s);
- check-up of the business idea and different possibilities;
- mid-term planning, with a concept as a basis for implementation;
- mid-term financing, consisting of a collection of all financing options.

The business plan includes: a description of the history, vision, business objectives and products, management team and ownership structure, advantages over competitors, the story behind the business, the legal structure of the OMI, an overview of achievements such as patents, contracts, market research, SWOT analysis or any other risk analysis, a marketing concept and the financial plan.

6. Marketing planning and monitoring

After deciding to enter into the "pre-start" phase, the marketing initiative must develop a detailed plan of strategic objectives, strategies and marketing instruments. The marketing plan includes – as any other strategic plan – a situation analysis, objectives, strategies, operative marketing objectives (milestones) and marketing instruments, including resources and schedule. It can include a SWOT analysis to identify market potentials, competitors and risks. In this step, the main target groups and customer groups for the products and the distribution area (local, regional national, international) should also be defined. The development of a marketing strategy addresses the following questions:

- Product market focus: Which products will focus on which markets (e.g. domestic and/or export; fresh and/or processing)?
- Means of stimulation: How do you stimulate the market? By product quality or quantity?
- Market segmentation: What are the target groups for the products? Mass market or focused target group?
- Spatial coverage: What is the spatial coverage of the OMI's products?

Marketing objectives must be evaluated and regularly adapted. They must, therefore, be defined quantitatively and as accurately as possible. Strategic objectives should be translated into single objective parameters (e.g. double sales of organic coffee), quantity parameters (e.g. up to at least 1,000,000 € = US$ 1,472 USD) and time parameters (e.g. within five years). Changes often occur when the micro- and macro-environments of a business develop in new directions or when marketing objectives have not been achieved within a defined timeframe. It will then be necessary to rethink marketing strategies and objectives.

7. The role of continuous innovation

Once successfully started, an OMI needs continuous innovation, for the following reasons:

- new products, services and communication messages attract new customers;
- new production or processing methods might improve cost efficiency;
- with innovation an enterprise can compete better in the market -place and react to new trends;
- new products, services and marketing efforts help to keep an OMI in the minds of customers.

As an example, an OMI in a developing country that started exporting organic now aims to also sell also other products through their production system, e.g. bananas for export and fruits for local markets. This needs innovation within an existing OMI. In particular, product policy and innovative communication can raise the competitiveness of products and services. Periodical development and presentation of new products and convincing communication ideas are, therefore, essential for products to remain attractive to customers at all levels. The advantage of OMIs is that they are, in many cases, small and flexible enterprises where new ideas are welcome. The management, together with the staff, must be the motor for ideas and innovations. Producer groups in developing countries should continually exchange such ideas with existing and potential clients. Each innovation should be evaluated and managed similarly to the previous six steps on how to set up a new business (e.g. demand for a specific innovation, if the product is able to cover the costs of production and marketing). In this sense, an OMI's "internal enterprise culture", where new ideas from inside and outside (e.g. customers, trade fair) are welcomed and taken seriously.

3.4.4 Marketing techniques and implementation of a marketing mix

Implementation of strategies requires detailed planning of concrete measures. An optimal marketing mix should be defined that would assure the realization of most of the business objectives and strategies. The marketing plan for an OMI must be firmly based on the available budget and on performances for production and marketing such as turnover, market share, economic returns or gross margin. The budget allocation for marketing measure must take into account the implications of different operational objectives. In practice, the planned budget for marketing activities is linked to expected sales (a percentage of turnover).

A typical marketing mix consists of the following factors: product policy, price policy, promotion policy and distribution policy. Behind each factor are many individual marketing instruments and questions about how to use these marketing instruments in appropriate ways, including how to combine them most effectively. It is essential that the chosen marketing instruments be adjusted to the operational marketing objectives. It is also essential to emphasize that the chosen marketing mix should not be statically fixed and that it does not need to cover all marketing measures (mentioned below)

in all cases, but instead must adapt to the (changing) operational objectives. The costs of such measures vary considerably, depending on the country and local costs for public relations and other marketing activities. It is recommended that marketing costs be carefully budgeted and to always keep a sound relationship between sales and marketing costs. Figure 7 gives an overview of marketing measures and success factors of an OMI.

Figure 7: Marketing mix and success factors of an OMI

The five most important marketing instruments are:

1. Distribution policy: One of the first and most important strategic decisions when a starting an OMI is to plan the right strategy for distributing products. This decision depends to a large extent on whether the OMI consists of a quality/premium product strategy or a price/quantity strategy. The implications of the distribution include, for example, the involved stakeholders in the product chain, in/dependency on buyers, promotion strategy, price policy, product policy and the financing of storage buildings or logistic chains.

2. Product policy: Many farmers have to learn how to change from a producer-oriented to a more market- and customer-oriented way of thinking. This is also important for farmers who sell to middlemen and brokers, as the products are always destined to end consumers. Consumers' buying decisions are sometimes based on the image and appearance of a product. Of course, product quality plays a crucial role: consumers do care about the quality of an organic product. But for "modern" consumers, organic products must also provide a certain degree of convenience, suggest a specific and authentic way of production and products must respond to functional (e.g. nutritional value) and added value (e.g. organic + fair trade; the story behind) attributes. Finally, the purchase decisions depend on added value offered by the product. The desired product assortment can be based either on one product or on a relatively broad assortment. The broader the range, the less risky the marketing because selling activities are based on different pillars. There is the disadvantage, however, that broad assortments often lead to less specialization and the effects of economies of scale are reduced.

3. Branding strategy: Attractive brands are excellent communicators of the value of organic products. The more consumers are able to recognize specific qualities and quality differences vis-à-vis other ordinary products, the greater their willingness to pay a higher price. However, for many exporters it is difficult to reach consumers with their own brand – e.g. a brand from Eastern Europe is seldom recognized in Western Europe. It is, therefore, recommended to negotiate with the customer or retailer to introduce additional means of communication. Today, one of the main factors for failure in the organic industry is the lack of well-known and highly preferred brands. A brand includes the possibility of product quality standardization, which is also necessary to enable national and international product sourcing. However, organic producers have limited means of standardizing product qualities because they do not use synthetic pesticides, and since consumers and retailers are largely unaware of this, it must be explained directly by means of product leaflets.

4. Pricing policy: For many farmers, high prices are the most important indicator of a successful organic business. At the same time, price plays a central role in consumers' buying decisions. Also, wholesalers and retailers have certain price barriers that are determined by their most important customers as well as by the price conditions offered by other suppliers competing with the suppliers. In the end, all actors of the value chain are interested in a fair share of the consumers' expenditures. How can farmers in developing countries or markets in transition increase their benefits in the chain? The direct price policy – e.g. the negotiation of the supply price – is only one possibility. Indirect price policy is equally important in the market partnership. There is high value for farmers if their retailer promotes their products; this includes a transfer of costs to the retailer side. Thus, the price/cost relationship is more important than just high product prices. In reality, prices are often shaped by the market partners or competitors and depend on the demand and supply situation as well as on conventional prices. Farmers or OMIs are less able to control price formation than production costs and marketing costs such as promotion or distribution policy. Farm prices for organic products should, at a minimum, cover the production costs, including the lower yields that are connected to organic production. The added value of an OMI or collective marketing is increased market power compared to individual farmers in the price formation process. There are two main strategies that influence farm gate prices:

- Quantity strategy: Achieving higher market shares and market power, e.g. by organizing producer groups and collective marketing, bundling larger volumes of products.
- Quality strategy: Achieving exclusivity with a special quality or premium product strategy. The price of a product is closely linked to its quality. Quality includes not only the product itself, but also services such as reliability and information on the "story behind". Such added value can be communicated to retailers and consumers by a brand.

5. Promotion: The goal of promotion is to achieve greater sales by gaining customer recognition for your own products in competition with comparable offers and to create an image and achieve customer loyalty in the long term. Consumers like to hear and read stories behind a product, about the region, and about the farmers and their work.

Customers want to know about the added value, the unique selling proposition, the social and ecological benefits, the production methods shelf-life and product prices, and the health benefits and to taste recipes. All this helps to improve the image in consumers' eyes. Different instruments should be combined for a promotion mix that addresses stakeholders, opinion leaders and potential customer groups, with different types of media at different times. The right mix of instruments depends not only on the business area, the products and the target groups, but also on the available budget:

- high-cost promotion: media advertising, sales and price promotions, merchandising;
- medium-cost promotion: trade fairs, exhibitions, press receptions, open days, telephone sales;
- low-cost promotion: press releases, newsletters leaflets, brochures and posters.

3.4.5 The Participatory Market Chain Approach (PMCA): Stimulating pro-poor market chain innovation[13]

Given existing and potential opportunities in the organic business, marketing chains must be modified so that all actors of the marketing chain benefit, particularly small-scale farmers. OMIs respond to this challenge: they focus on collective marketing and bottom-up market chain innovation and address in many ways the needs of producers, processors and traders in all economies of the world. The PMCA is a new method that is especially addressing the needs of developing countries. This is a participatory research method that has been developed to generate group innovations with the involvement of the different actors of (agricultural) market chains. These innovations can be new products and processes, new technologies or new institutions, benefiting the different actors of the marketing chain directly or indirectly.

Innovation in the food and agriculture sector is frequently short-circuited by a lack of trust and communication between actors in the market chain. To overcome these problems, the PMCA brings together small farmers, market agents and service providers for an intense process of facilitated interaction. The PMCA uses a flexible three-stage participatory process to improve communication, build trust and facilitate collaboration between participants so that they can jointly identify, analyse and exploit new market opportunities. By carefully selecting market chains and partners and building in social responsibility, the PMCA can lead to favourable outcomes and impacts for poor farmers, typically the weakest link in the chain. The PMCA requires facilitation and technical support from professionals with appropriate social skills, research experience and marketing knowledge and based in a neutral research and development (R&D) organization. To ensure that impacts are sustained, the PMCA is best used as part of a broader programme of market chain development.

[13] Source for this section: Bernet, T., A. Devaux, G. Thiele, G. López, C. Velasco, K. Manrique, M. Ordinola. 2008. *The Participatory Market Chain Approach: Stimulating Pro-poor Market Chain Innovation*. Brief No. 21. Institutional Learning and Change (ILAC) Initiative, Rome.

The PMCA engages those who make their living from a market chain ("market chain actors") and public and private service providers (researchers, credit providers, development workers). It facilitates group processes in which market opportunities are identified and assessed, and innovations developed. Three types of innovation may result:

- commercial innovations such as new or improved products;
- technological innovations such as new production or post-harvest practices;
- institutional innovations such as new ways for small farmers to work with market agents or service providers.

Experience with the PMCA in different countries indicates that it is sufficiently robust and flexible to help facilitate pro-poor innovation in many different types of market chains, and under a range of different geographical, social and economic conditions. Using the PMCA entails a holistic way of thinking about farming, marketing and innovation, and a willingness to conduct joint R&D activities with partners in the market chain. Diverse stakeholders – with different interests – are involved, thus good facilitation is key for building collaboration and trust. The PMCA should be led by skilled facilitators, belonging to a neutral R&D organization, who must pay careful attention to creating tangible benefits for actors participating in the process.

The PMCA is a flexible method intended to be applied in different marketing chain contexts. It was not specifically created for organic products and its use is not restricted to agriculture.

The only fixed elements of this approach are its three phases, with flexible durations depending on how the process advances. Each phase has a specific objective and a closing event. At each final event, results are presented to a larger group of participants and further steps are discussed. It is important that the institution that leads the PMCA process understands the "sustainability logic" of this three-phase structure, gradually seeking to empower key actors involved in the process on the cost of the R&D institution, which progressively reduces its importance and influence on decision making as the process advances (see Figure 8).

Figure 8: Structure and objectives of the PMCA process

Source: Bernet and others (2008).

Phase 1: Familiarization with the market chain and key actors

Phase 1 begins with a rapid market survey that comprises 20–40 semi-structured interviews, including key representatives from each stage of the selected market chain. These interviews allow the facilitator to get to know the different market chain actors and their activities, interests, problems, needs and ideas for improving the chain's competitiveness. All of this information is presented at an initial event, at the end of Phase 1, where the interviewees and others with a stake in the market chain discuss the survey results. Participants then form thematic groups to begin identifying and exploiting potential market opportunities.

Phase 2: Joint analysis of potential business opportunities

Those actors interested in continuing the interactions are invited to participate in six to ten thematic group meetings during Phase 2. R&D professionals plan and facilitate these group meetings, which should each involve from 10 to 20 stakeholders in order to ensure active participation and group decision making. The objectives of these meetings are to clarify and evaluate market opportunities and to develop a work plan for exploiting these opportunities in Phase 3. In the process of identifying and specifying the most promising market opportunities – from the point of view of those involved and from a development perspective (i.e. potential for poverty reduction) – the facilitators build mutual learning and trust between participating actors. Facilitators also seek to empower participating small farmers by giving them a voice in the decision-making process. To support thematic groups' work and decision making, the facilitators may arrange for technical or market studies. At the final event of Phase 2, each thematic group presents its results and a work plan for exploiting the identified market opportunities during Phase 3. Moreover, this event is used by the facilitating R&D organization to engage new actors in the R&D process. These new actors bring knowledge and capacities to complement that of the existing groups to help the project move ahead with innovation in Phase 3.

Phase 3: Development of market chain innovations

Phase 3 concentrates on the activities needed to develop the innovations proposed by the groups in Phase 2. Such activities may include: product development, improvement of production and marketing standards or the creation of new working arrangements (e.g. partnerships or contract farming). The time taken to develop the different types of innovation will depend on the time and resources that participants can dedicate to the process, and also on the complexity of the problems to be solved. However, to keep motivation and participation at high levels, facilitators should try to finish all Phase 3 activities within a period of six months (continuing to meet every two to three weeks). The PMCA process concludes with a final event, where participants present their innovations to a wide group of invited guests, including such "VIPs" as national policy-makers, donor representatives and the media.

Follow-up

The PMCA should initiate a process of innovation that continues after its final event. Often, it leads to the creation of a more permanent platform for coordination between farmers and other market chain actors. Small farmers, in particular, are likely to need additional assistance in organizing themselves, improving production practices and developing business activities. Hence, the PMCA is best used as part of a broader programme of market chain development. In the follow-up period, the facilitating organization assumes a different role, responding to demands from market chain actors to help consolidate their innovations. Such follow-up is particularly necessary where new institutions, created during the PMCA process, require external support to become fully consolidated. To sustain interaction and collaboration initiated during the PMCA process, and to involve new partners, market chain actors may set in place "multi-stakeholder platforms" (Devaux and others 2007), broadening their scope for innovation.

Application of the PMCA in Peru

The PMCA was developed in 2002 by the Papa Andina Initiative and its partners, the Foundation for Promotion and Research on Andean Crops in Bolivia and the project for Technological Innovation and Competitiveness (INCOPA) in Peru, to improve the competitiveness of small potato producers in the Andes. The following activities were carried out during the three phases of the PMCA.

Phase 1: An initial market chain survey included interviews with 24 individuals from different stages in the potato market chain and supporting organizations, including NGOs, the national agriculture research institute and the Ministry of Agriculture. At the final event of Phase 1, nearly 100 stakeholders from the potato sector were present: market chain actors, researchers, development workers, and representatives from the Ministry of Agriculture. After the presentation of the survey results, three thematic groups were formed to explore potential innovations relating to: (i) fresh potatoes; (ii) processed potatoes; and (iii) export potatoes.

Phase 2: Because of similarities between the issues raised for export potatoes and those for processed potatoes, these groups were merged, leaving two thematic groups for Phase 2. These groups centred their discussions on identifying and clarifying market opportunities for each step of the product marketing chain. The "fresh potatoes" group rapidly agreed to create a marketing concept for selected potatoes that would be sold wholesale in standardized bags. The "processed potatoes" group was motivated by a processor's investment interest to focus on developing a new potato chip using native potatoes. Once they had identified initial market opportunities, the groups shared information and took joint decisions to fine-tune their ideas. To obtain important additional data, the processed potatoes group hired experts to carry out processing trials and to conduct a market study for potato chips in Peru. At the final event of Phase 2, the groups presented the innovations they proposed to develop during Phase 3. New actors with complementary skills were invited to join the groups.

Phase 3: Activities became more practical during this phase. Researchers from the International Potato Center helped the processed potatoes group to conduct trials using the facilities of a processing firm. Focus group research explored the potential market for native potato chips. The fresh potatoes group formed subgroups to tackle specific tasks in parallel: for example, different packaging options and collaborating with a wholesale marketing group to design market information products. All the innovations were launched at the PMCA final event, attended by around 200 people, including officials from the Peruvian government and the media. A series of stands representing the different links in the market chain visually presented innovations created by each group:

- a 50-kilogram branded wholesale potato bag (compared to traditional unlabelled bags of up to 130 kilogram with potatoes of mixed calibre and quality);
- a potato grader;
- market information bulletins;
- yellow native potato chips;
- CAPAC Peru, a market chain association that would own and supervise the brand applied on the standardized potato bags as a means to promote the commercialization of quality potatoes within Peru.

Follow-up: INCOPA's role changed as it started to help project partners consolidate their innovations (e.g. launching yellow potato chips and standardized potato bags). Special support was provided to CAPAC Peru, considered to be a promising multi-stakeholder platform for promoting continuous collaboration between market chain actors and an advocate for structural and institutional change in the potato sector. The positive experience with PMCA encouraged the INCOPA team to use the method again, focusing on market opportunities for native potatoes. The social capital created in Peru as a result of the two PMCA applications led to the establishment of Peru's National Potato Day, celebrated annually since 2005 on 30 May. This event, which stimulates private and public promotion activities and media coverage in favour of the potato sector, inspired the Peruvian authorities to ask the United Nations to declare 2008 the International Year of the Potato.

Source: Bernet and others (2008).

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3.5 Conclusion points

Many value-added activities, product development, branding and effective promotion are difficult for the individual producer to achieve.[lxi] One way in which a producer can make these activities more effective is by cooperating with other partners (see also Chapter 3.3):

- horizontal cooperation is between producers who work at the same business level, for example, two coffee farmers;
- vertical cooperation is when at least two partners from different business fields work together, such as a group of pineapple farmers, a juice processing plant and traders and retailers.

Organic agriculture is developing rapidly in most countries of the world:

- more than 1.2 million producers organically manage 32.2 million hectares of agricultural land – in addition, there are 0.4 million hectares of certified organic aquaculture;
- the regions with the largest areas of organically managed agricultural land are Oceania, Europe and Latin America. Argentina, Australia and Brazil are the countries with the largest organically managed land areas;
- the highest shares of organically managed land are in Europe: Austria, Liechtenstein and Switzerland;
- the countries with the highest numbers of producers are Ethiopia, India and Uganda;
- about one-third of the world's organically managed land – almost 11 million hectares – is in developing countries and most of this land is in Latin American countries, with Asia and Africa in second and third place; the countries with the largest area under organic management are Argentina, Brazil, China, India and Uruguay.

For the import of organic products from third countries to the EU, there will be three options in the future:

The **EU Regulation on Organic Agriculture is applied in the third country exactly as in the EU member states**, i.e. the products are "**compliant**". In cooperation with the EU member states, the EC will establish a list of recognized "compliant" control bodies authorized to carry out inspections and issue certificates in the third countries.

[lxi] Schmid, Otto and others. 2004. Organic Marketing Initiatives and Rural Development: A Guide to Successful Organic Marketing Initiatives. FiBL, Frick. p. 46.

The third country applies **production standards and control measures that are equivalent to the EU** Regulation on Organic

Agriculture, thereby producing "equivalent" products. In this case, the EU recognition can be obtained if either:

- the third country in question has been included in the EC list of recognized third countries; or
- the certification body operating in the third country has been included by the EC in its list of "equivalent" control bodies.

The operators in the third country apply production standards and control measures equivalent to the EU Regulation on Organic Agriculture, and the **competent EU authority grants an import authorization to the EU importer**. This authorization may be granted by an EU member state until 12 months after the commission publishes the first list of control bodies recognized as "equivalent". The authorization is valid for up to 24 months after the publication of the list of "equivalent" control bodies of third countries.

In the new millennium, most major economies have established regulations for organic production. However, organic trade for the domestic market in a country without national regulation is not regulated. In these countries, organic products are not protected against fraud. However, most producers, processors and traders in such countries are most interested in gaining consumers trust and meeting their expectation for high-quality organic products, certified by an independent body. In such countries, it is possible and often the fastest solution to develop and apply private standards and labels for organic produce. Therefore, producing and trading organic products in countries without regulation does not necessarily mean that it is an obstacle for domestic trade.

Collective organic marketing improves the competitive position of farmers in the value chain. Bringing together larger volumes allows a range of different needs of different buyers to be taken care of, from food manufacturers to retailers and direct sales. Collective marketing improves profitability and thus allows appropriate prices to continue to be paid to farmers. If initiatives get involved in processing, more of the value added can be passed back to farmers in the form of increased prices, although it is important to understand that investment costs are also necessary. Nonetheless, with control over several stages in the food chain comes influence over where jobs are generated. Farmers can decide, within limits, where best to base their activities for the benefit of their communities, sometimes even being able to create jobs for themselves to supplement farm family incomes. Of course, in many rural areas and especially in developing countries, the home market is limited, and the bulk of output has to be exported; nevertheless, control over marketing:

provides farmers with a fair share of the benefits of the organic market;

- benefits from economies of scale in cooperatively collecting, processing and distributing the goods;
- reduces food miles and, therefore, boosts the environmental image of the products;
- builds up a positive image for the region in which the goods are produced.

Continuous innovation in organic marketing is necessary for the following reasons:

- new products, services and communication messages attract new customers;
- new production or processing methods might improve cost efficiency;
- with innovation an enterprise can compete better in the market -place and react to new trends;
- new products, services and marketing efforts help to keep an OMI in the minds of customers.

A typical marketing mix consists of the following factors: product policy, price policy, promotion policy and distribution policy. Behind each factor are many individual marketing instruments and questions about how to use these marketing instruments in appropriate ways, including how to combine them most effectively. It is essential that the chosen marketing instruments be adjusted to the operational marketing objectives. It is also essential to emphasize that the chosen marketing mix should not be statically fixed and that it does not need to cover all marketing measures in all cases, but instead must adapt to the (changing) operational objectives. The costs of such measures vary considerably, depending on the country and local costs for public relations and other marketing activities.

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