

The European Market for organic & Fairtrade Products

with a focus on potential products from Central America

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ABOUT THIS STUDY

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The main objective of the project is to promote and increase the trade of organic and fairtrade products in the export, regional and local markets, aiming at fostering the markets access for the small and medium producers and thus increasing employment and income for them.

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JUSTIFICATION OF THE STUDY

Central American countries are important producers of organic products. Their export base, however, is heavily dependent on a limited number of products (coffee, cocoa, banana, sugar), which is threatening the sustainability of this export sector. Therefore, there is an urgent need to diversify the export base and develop regional and national markets, which are continuously growing and have an interesting potential.

The purpose of this study is to give an overview of the current mood and potential of the European organic and Fairtrade market, as well as Central American products.

OBJECTIVES

- Study the current and potential organic and Fairtrade markets in Europe.
- Collate data about market demands, requirements and potential consumers.
- Study the current situation in the main organic and Fairtrade markets for products from tropical areas.
- Explore current and future trends with regard to the organic and Fairtrade markets.

SUMMARY

The organic and Fairtrade market in Western Europe

Some of the most important organic markets in Western Europe include Germany, the UK, France, Italy and Switzerland. Switzerland, Denmark, Sweden and Austria have the highest per capita consumption of organic produce in the continent. Furthermore, the organic market is in a growing phase in Italy, The Netherlands, Norway, Sweden, Portugal and Finland. The sales growth of organic produce has differed from country to country over the last few years. While countries like the UK and France have recorded phenomenal sale growth rates, others like Austria or Denmark are consolidating after a period of strong growth in the late 1990s. Supply-demand imbalances have become a recent characteristic of the European organic food industry. While several countries are showing a surplus in sectors like organic meat and dairy products, other sectors like organic cereals and grains continue to suffer from product shortages. However, in most European countries the organic area is still rising. In the case of the Fairtrade market, the most important markets are the UK and Switzerland. Growing Fairtrade markets include The Netherlands, France, Italy, Belgium and Germany.

Import of organic products to EU markets

Imported food products are not uncommon to Western European countries — import of organic tropical food products began with coffee, tea, cocoa, spices, and fresh and dry tropical fruits such as mango and pineapple. Today, a range of organic products from tropical countries are sold in the European market, especially exotic species that cannot be produced in neighbouring regions and off season products. Germany is by far the largest importer of organic products in Europe. Its imports account for an estimated 38 per cent of the value of raw materials for its organic market; the UK is the most dependent of all markets in Europe; The Netherlands has been able to establish its role as an international turntable for organic products and Switzerland imports similar to the EU, 100 per cent of organic tropical products such as coffee, cocoa, tea, tropical fruits; the percentage of imports of sugar, sweetener, oils seeds and cereals are also high. Like organic products, Fairtrade products too started with coffee, cocoa and sugar. In the last year, increasing imports of new Fairtrade products is characterising this market sector.

Characteristics of the market for organic tropical products

The tropical organic and Fairtrade product markets are characterised by the lack of a constant availability of certain products. Few tropical organic products indicate supply-demand imbalances: passion fruit, mango or pineapple juice, cocoa, honey, coffee and tea. Different factors influence this aspect, for e.g. crop failure due to hurricanes, discrepancy in production methods and standards (e.g. organic pineapples), products not meeting customer requirements, low services and high prices, farmers' associations being small and not equipped to meet the high volume demand. In the Fairtrade market few tropical products show supply-demand imbalances as mango, passion and pineapple juice, cocoa, honey, coffee and tea.

Sales channels for organic food in Europe

Supermarkets and hypermarkets are the most important sales channels for organic products in Europe. In Germany and The Netherlands organic food shops play an important role by distributing such products. Across Europe there is a strong demand for organic meals in restaurants and cafeterias.

Consumer preferences

Young families and older consumers alike prefer organic food products. These consumers, who are generally concentrated in urban areas, are found to be highly educated and fall in the high-income bracket. The primary motives for buying organic products include demand for safe and healthy food. One of the most important reasons for potential consumers not making the switch to organic products is the higher cost.

Organic market requirements

Export to European markets (EU and the Swiss market) is possible only when the organic products conform to the EU regulation or the Swiss Organic Ordinance. In Europe, there are diverse private labels with their own organic standards and these standards need to be conformed too if organic products are to be labelled under such a programme.

Prospects for organic and Fairtrade products

None of the established European organic produce markets is expected to touch an annual growth rate of more than 11 per cent until 2007. This means that Europe's growth dynamics in the last decade is now transforming itself into a phase of market consolidation and quality growth. Experts agree that organic marketing structures need to improve along with the expected rise in demand. They also agree that an increase in product range can help stimulate demand, and that new consumer groups can be targeted with new products and organic brands. The prospects for organic product exports from Central American countries vary depending on the product and product specification within a category. For example, it is difficult to meet the demand for organic pineapples due to a ban on the use of chemical compounds for inducing flowering. On the other hand, there is a shortage of exotic fresh fruits because the quantities in demand are so small that special logistics are required for its shipment.

Even though the demand for some products had been estimated with an oversupply, there were several exciting opportunities in the sector since the growth rates had been consistent and high in the last couple of years. Some of the products that fall under this category include

cocoa and sugar, where there has been a consistent rise in demand of the industry. A similar situation can be seen in the Fairtrade market as well. In general, there is no more any difficulty in obtaining organic products as it was in the earlier days. Almost all organic products are now available in the market. However, these products may not be of good quality, or may be overpriced. In the Fairtrade market sector, there is a slew of new opportunities as new products are being developed, like avocado, quinoa, and various spices and nuts. Furthermore, double labelling is becoming more and more important as supermarkets chains are looking for products that are both organic+Fairtrade. According to traders, even a balanced supply or surplus of different organic and Fairtrade products are still "open opportunities" if the suppliers can achieve following:

1. Continuous investments in quality systems
2. Competitive pricing
3. Full traceability
4. Upgraded processing (e.g. IQF freezing)
5. On-time delivery (excellent logistics from the supplier)
6. Delivery against product specifications
7. Good customer service

ABBREVIATIONS FOR COUNTRIES

EU European Union

AT Austria

BE Belgium

DE Germany

DK Denmark

ES Spain

FI Finland

FR France

GR Greece

IE Ireland

IT Italy

LU Luxemburg

NL The Netherlands

PT Portugal

SE Sweden

UK United Kingdom

CZ Czech Republic

SI Slovenia

CH Switzerland

NO Norway

CEE Central Eastern Europe Countries

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1. INTRODUCTION

In recent years, the worldwide market for organic and Fairtrade products have increased significantly at a rate of around 10 per cent. Although most of the demand is concentrated in industrialised nations, an increase in demand can be observed in developing countries too. Market observers and development specialists agree that this demand presents an opportunity for poor farmers in the South and bears potential for a more equitable and sustainable development.

Although Central American farmers can potentially offer a variety of organic products like coffee, cocoa, raw sugar, sesame seeds and cashew nuts among others, the volumes exported still depend on few products. For instance, in Nicaragua coffee alone represents 80 per cent of the country's organic exports. Hence, there is a lack of diversification in the offer. Furthermore, as organic markets become more competitive across the world, a rising pressure on prices can be noticed. For certain commodities, like coffee and sugar, this is further aggravated by the price crisis. Finally, the commercialisation of organic products is almost exclusively focused on overseas export markets like the USA and Europe, and has not yet captured the potential of nearby markets in Latin America.

Most of the organic products in Central America are produced by small and medium producers (SMPs). In the Fairtrade sector as well, small farmers form the backbone of the production. However, their access to the market is still limited and they have to overcome additional bottlenecks, which are specific to small farmer production systems. Their production capacity is limited in quantity and in quality.

There are very few commercialisation systems that provide the services SMPs need, like aggregated sales or quality control throughout the supply chain. Furthermore, the existing commercialisation systems seldom assure continuous sales at profitable conditions for the farmers. Only a handful of these systems are market oriented and have achieved a competitive position. Other principal problems the SMPs have to face are limited market information, lack of economies of scale (high costs of transport and certification) and weak co-operation and co-ordination amongst themselves. All this limits their access to markets.

In the past, a lot of assistance projects were attracted by this opportunity and introduced activities related to organic production, but not all of them lived up to the high expectations of farmers. It is more difficult, than initially thought, to translate the apparent market opportunities into concrete trade that really benefits the poorer farmers. A lot of interventions failed because they lacked a market-oriented approach. On the other hand, different studies carried out on the national organic sector in different Central American countries show that:

- The offer of the SMPs can be enlarged and diversified because many of the certified areas are underused; there is great potential for the growth of new products; and it still happens that some organic products are sold as conventional ones.
- Domestic and regional markets have potential; local distributors have an interest in organic products; there is potential in mainstream outlets (supermarkets, hypermarkets etc) as well as in alternative (niche) markets.
- There is a latent local consumer demand for organic products.
- SMPs are well placed and have comparative advantages in organic production and conversion to it.
- If the dynamics of different markets can be inter-related, the dependency risks can be reduced and the product offer enlarged.

The studies also found that the key issues while innovating and enhancing the growth of organic markets are:

- Market orientation: SMPs should orient their production to market demand (demand-driven market).
- Better organisation of commercialisation systems and active marketing: farmers should professionalize their organisation to offer better customer service and enhance their image in front the customers.
- Improved market information systems: conducting market studies to create awareness among farmers about where potential demands exist.
- Product diversification and better presentation and positioning of organic products.
- Wider market approach: considering not only the overseas export markets, but also the potential of both regional and domestic markets. These markets are a good starting point from where quality and volume can be built to later go into the export market.
- Promotion: information and promotional campaigns should be organised to create consumer awareness and identify their demands. An organic guarantee market label could also be developed to increase the credibility of products.

Therefore, the current study aims at offering actual market information about products from Central America to SMPs and traders. In this way the organisations can supply products based on the organic and Fairtrade market demand. The information compiled in this work was obtained from different sources, references and of a market survey carried out through important key players of the European organic and Fairtrade sector.

2. RESULTS

2.1 ORGANIC MARKET: OVERVIEW AND STRUCTURE

2.1.1 General overview

THE ORGANIC MARKET IN WESTERN EUROPE

The Western European organic markets can be classified into three country groups based on the organic market development phase the countries belong to. They are as follows:

Countries with established (mature) organic markets are characterised by the important role of supermarkets as sales channels for organic products. In these countries, environmental protection and animal welfare are of high importance to consumers.

In countries with growing organic markets, specialized organic food shops and direct sales are important outlets for organic products; animal welfare seems to play a less important role in these countries.

In countries with emerging markets, the organic sector is still a small market niche, mainly serviced by organic farming pioneers and a small number of actors. It is characterised by the lack of organisational structure.

Table 1 shows the results of country clusters corresponding to the phase of the national organic market development. The table was compiled by more than 100 European organic market experts of selected European countries which participated in a European wide research project.

Germany leads the European market with a sales value of €3.1 billion. Other large markets for organic foods are

TABLE 1

Countries clustered by phase of organic market development

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

TABLE 2

Organic food and farming facts in selected European countries in 2003

GERMANY	
Per capita consumption of organic food	€38
Estimated organic retail sales	€3.1b
Organic and in-conversion land (ha)	734,027
No. of organic holdings	16,476
UK	
Per capita consumption of organic food	€27
Estimated organic retail sales	€1.6b
Organic and in-conversion land (ha)	695,619
No. of organic holdings	4,017
FRANCE	
Per capita consumption of organic food	€26
Estimated organic retail sales ('02)	€1.6b
Organic and in-conversion land (ha)	550,000
No. of organic holdings	11,377
ITALY	
Per capita consumption of organic food	€24
Estimated organic retail sales	€1.4b
Organic and in-conversion land (ha) estimate	1,150,000
No. of organic holdings	49,000
SWITZERLAND	
Per capita consumption of organic food	€104
Estimated organic retail sales	€742m
Organic and in-conversion land (ha)	110,000
No. of organic holdings	6,445
NETHERLANDS	
Per capita consumption of organic food	€24
Estimated organic retail sales	€395m
Organic and in-conversion land (ha)	41,865
No. of organic holdings	1,522
DENMARK	
Per capita consumption of organic food	€51
Estimated organic retail sales ('02)	€339m
Organic and in-conversion land (ha)	165,146
No. of organic holdings	3,510
AUSTRIA	
Per capita consumption of organic food	€40
Estimated organic retail sales ('02)	€323m
Organic and in-conversion land (ha)	326,703
No. of organic holdings	18,760

Sources: Soil Association, 2004

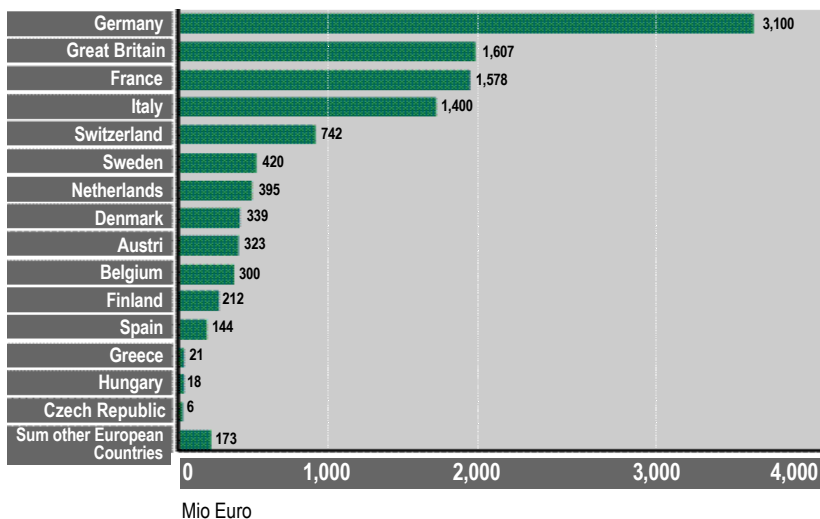
b= billion

m= millions

the UK, France and Italy (see Figure 1). The Swiss market was valued at €752 million in 2003, which is the fifth largest market in Europe. The Swiss expenditure rate on organic products is the highest in the world with the average consumer spending about €104 on organic

FIGURE 1

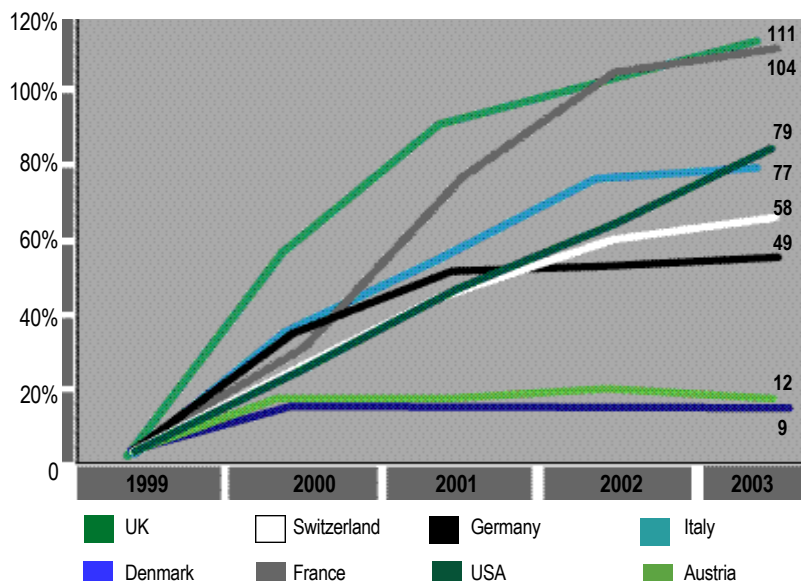
Sale of organic food in select European countries (2003)
Enlarged EU and Switzerland



Source: Richter and Padel, 2005.

FIGURE 2

Index of organic sales growth in European retail markets (1999-2003).



Source: Niggli et al., 2005.

products per annum. The Danes are the second largest consumers of organic food and drinks with an average spend of €51 per annum. The expenditure rates on organic food and drinks of select European countries are shown in Table 2.

ENLARGED EU AND SWITZERLAND

Organic and in-conversion land area in the enlarged EU (25 countries) reached an estimated 5.7 million hectares (3.5 per cent of utilised agricultural area) on 160,100 holdings in 2003. Land area increased by 4 per cent in 2003 compared with only 1 per cent in 2002. It was found that existing producers converted more land into organic farmlands, whereas new producers were less willing to convert due to the uncertainties over the outcome of the Common Agricultural Policy (CAP) reform and in the market.

Supply-demand imbalances have become a recent characteristic of the European organic food industry. A number of countries are showing surplus in sectors like organic meat and dairy products while other sectors like organic cereals and grains continue to suffer from product shortages.

One reason for this is that much of the early converts to organic agriculture were dairy and cattle farmers, while the conversion rate for arable farmers has typically been low (conversion to organic arable farming involves higher efforts and production risks than dairy or extensive beef farming). This leads to a partial oversupply of beef and milk products. Due to limited demand, these products cannot entirely be marketed as organic products. Oversupply of organic products means the produce has to be low-priced or sold as a conventional product.

Of the old EU member states, land area increased in Portugal, Greece, Austria, Spain, France and Germany, whereas it declined in Denmark, The Netherlands, Italy and the UK. Increases in land area of more than 10 per cent also occurred in some new EU member states, e.g. Poland, Estonia, Lithuania and Hungary.

Also the organic product sales saw differing growth rates in various countries between 1999 and 2003. While countries like the UK and France recorded enormous growth rates, others like Austria and Denmark saw a consolidation of the market after a phase of strong growth in the end of 1990s (Figure 2).

Across Europe, the growth of consumption and production of organic products does not always go hand in hand, and due to the conversion periods for land and stock, production cannot respond instantly to changes in demand. Apart from some seasonal oversupply, the market for cereals, fruits and vegetables are developed and most crops produced organically can also be sold as such.

The **German** organic products market was estimated at €3.1 billion in 2003, a small increase of 3 per cent

compared with 2002. Market development in 2004 was better, which was confirmed by sales figures, in which specialized organic shops as well as discount outlets of Aldi, Plus and Penny registered an increase in sales. Production and demand of organic vegetables and eggs also increased. Imports, especially from CEE countries, continue to put pressure on farmer premiums for cereals. The share of sales of organic food sold through specialist organic (26 per cent), health food shops (9 per cent) and through direct marketing (18 per cent) remains high in relation to conventional retail chains. The potential of the food service sector is illustrated by the certification of the Swedish furniture house IKEA selling nearly half a million organic meals up to December 2003. Also McDonalds purchases organic milk and beef, even if the latter is not sold labelled as organic beef.

The **United Kingdom** market for organic food and drink is the third largest in the world. Retail sales were estimated at €1.6 billion in 2003. Growth rates are declining after years of growth between 20 and 40 per cent, but are still at a 10 per cent high at the European level. At the wholesale level, imports of indigenous products into the UK account for 40 per cent of market value. While cereal imports contribute 45 per cent by volume and 55 per cent by value, the fruits and vegetables category is 52 per cent reliant on imports by volume and 66 per cent by value. Levels of imports remain relatively high, but reliance on foreign organic products has declined in all areas when compared with the previous years.

The most marked increase in the last four years has been in the area of sales through farmers' markets, which more than doubled. This was due to three factors: an increase in the number of markets, an increase in average sales per market, and a greater proportion of organic products sold, on an average, in each market.

Market consolidation has been registered at a retail level, with brands focusing on strategies that have already proven their success. However, supermarkets continued to invest in expanding their organic product range and elevating its sales. All supermarkets showed an increased effort to procure indigenous organic food.

Retail sales in **France** were estimated at €1.6 billion in 2003. The value of the retail market has grown by approximately 5 per cent, despite organic fruits and vegetables having to compete with integrated produce, as also the price-cutting policies of some hypermarkets with reduced shelf space for organic products. The National Organic Spring Promotion this year focused on children, with the city of Paris announcing that the afternoon snack in its nurseries will be organic. This programme was financed by an increase in the school-meals budget. The French government also owns the most well known organic logo in the French market — "ab" (agriculture biologique).

Italy has the largest organic land area and the fourth largest market in Europe. Although the land area and the

number of producers have reported to have fallen slightly, wine production conversion still continues. Organic sales were estimated at €1.5 billion in 2003. This constitutes approximately 1.5 per cent of the total food sales. The product categories with the strongest growth rate were milk and milk products and baby foods. The growth rate of the fruits and vegetables market declined in line with conventional markets. The production of meat remains lower than demand, and this shortfall is made up for by imports from Germany and Austria. Exports of fruit, some vegetables, wine and pasta cereals to other EU member states, a strong side of Italy's organic sector, have fallen by 20 per cent. The Italian organic farmers' unions (such as AIAB), however, now want to promote sales to countries outside the EU with financial backing from the Union.

In **Switzerland** retail sales were estimated at €742 million in 2003. Organic fresh food sales make up about 7.5 per cent of the total retail sales. The market continues to grow, especially for meat products in the western French-speaking cantons; there are some oversupply problems, like with apples, milk and beef. The two competing retail chains — Coop and MIGROS — follow different strategies in their organic assortments nowadays. While Coop is looking to continually broaden its range of organic products, MIGROS is starting to drop the number of organic items and is pushing for conventional brands with a strong indigenous character (e.g. Heidi as a premium brand for conventional dairy products from the Swiss mountain areas) or integrated production (e.g. bread with a ladybird label or meat produced in a animal friendly but conventional method). With the expected market entrance of the German discounters ALDI and LIDL, a national debate was mooted about the high consumer-price level of organic food in the country. In this context, the number of consumers who are willing to pay a premium price for organic products probably will decrease.

In **The Netherlands** sales of organic products were estimated at €395 million in 2003. The retail market grew by 5 per cent; strongest growth occurred in natural and organic food shops (including specialist butchers, who had a 41 per cent market share). Many organic shops and supermarkets have been started in the last few years, which have improved the availability of these products. An oversupply of pork was tackled through the setting up of a producers' association, which encouraged (and compensated for) reduction in organic production. Today, the government is strongly backing a broad market penetration of organic products in conventional supermarkets. The number of speciality organic shops is also on the rise.

In **Denmark** organic product sales were estimated at €340 million in 2003. Statistics Denmark derived this figure using a new methodology to gather organic retail data. Therefore, this figure cannot be compared with the older figures. The government has launched a campaign

to create awareness about the organic products sector. The consumption share of organic products is high in some markets: for example, depending on its source, 25 to 30 per cent of all milk sales are found to be organic. ARLA, the leading Danish dairy company has reduced the amount of organic milk by 10 per cent by issuing fewer contracts to organic producers, but smaller organic dairies have been successful in increasing sales, both at the domestic level and abroad.

In **Austria** the organic food sales dropped down slightly in 2003. Approximately two third of the organic sales resulted from conventional retail distribution. Primarily, leading retail chains Rewe (Billa-Merkus) and Spar lost organic product sales, while the discounter Hofer showed clear growth figures. The market volume for 2003 is estimated to be approximately €320 Mio.

In **Hungary** the size of the domestic market is estimated to be about €10-20 million, and about half of the domestic organic food consumption is baby food made by a single company. The suppliers here are mainly EU countries; outside of the EU, only Switzerland export organic products to Hungary. There is little marketing activity in Hungary, and the country has no general, established processing infrastructure and market for organic products. This means that only products that have been ordered for are produced. The export is targeted and production does not aim at fulfilling local market needs.

In the **Czech Republic** organic retail sales were estimated at €5.7 million in 2003. Annual growth rates range from 15 to 20 per cent. The Czech Republic depends on import of processed organic food, because processing infrastructure for organic raw materials is mostly missing in the country. About 50 per cent of the certified organic products are imported, mainly from Germany, Austria, Switzerland and Slovakia. Multiple retail chains, including hypermarkets like Delvita, Globus and Tesco have the major market share (55 per cent) of organic products. Specialized organic shops participate in the organic market with about 25 per cent share, while direct selling has a share of about 20 per cent.

2.1.2 Imports of organic products in the European market

The development of the organic products market in Europe started with very few products like fruits, potatoes and other vegetables. Next, cereals, dairy and meat products were introduced in the market. Much later, more speciality products such as fresh organic herbs and assorted salads were introduced. Import of organic tropical products started with coffee, cocoa, spices, tea, and fresh and dry tropical fruits like mango and pineapple. Currently, a whole range of processed food products (e.g. juices, jams, flavoured teas etc.) is gaining importance among the consumers. In Europe a good percentage of organic products are grown domestically,

especially those adapted to the European weather conditions, for example cereals (wheat), fruits (apples, pears), nuts (almonds), pulses (beans, broad beans), and vegetables (diverse). Most tropical organic products like sugarcane, coffee, cocoa, tropical fruits and so on are not grown in Europe (with some exceptions as mango, avocado). Some products are also imported to compensate for any seasonal fluctuation in supply (e.g. fresh vegetables).

Germany is by far the largest importer of organic products in Europe. Its imports account for an estimated 38 per cent of the value of raw materials for its organic market, equivalent to about 10 per cent of the total sales at retail level. Fruits and vegetables (fresh and processed) are the largest import items, with a share of 30 per cent in terms of turnover of all imported organic goods, and a share of 50 per cent of organic fruits and vegetables consumption. Import of organic cereals and cereal products, and eggs and poultry meat accounted for 10 to 20 per cent of the domestic demand. Other important organic import products include nuts, tea, coffee, cocoa, spices, culinary oils and fats, sweeteners and bakery products. A large proportion of imports come from emerging markets and markets in transition. The main countries supplying Germany with organic fruits and vegetables are Italy, Spain and France. Imports of organic tea, coffee and cocoa are typically from developing countries.

The **United Kingdom** is the most import-dependent of all markets in Europe. The UK organic market has continued to be dominated by imports. About 70 per cent of organic food is imported. The import share for organic food and beverages (including wine and spirits) are: 90 per cent for fruits, 82 per cent for vegetables and herbs, 70 per cent for cereals, bakery products and baby food, 50 per cent for juices and 40 per cent for dairy products. Tea and coffee are 100 per cent imported. Organic fresh fruits and vegetables have the strongest demand in the UK. EU countries supply 50 per cent of all imported organic food products to the UK. Important suppliers outside of Western Europe are USA, Egypt, Argentina, South Africa and Central America. In July 2002, the government launched a programme to make the country less dependent on imports.

In **France**, the total imports accounted for about 10 per cent of the organic food market in value. Most imports originated in Germany, the UK, Italy and the Scandinavian countries, while 40 per cent of the total imports come from third countries out from the EU. Non-EU products are imported from North America (USA, Canada), Latin America (Belize, Bolivia, Colombia, Costa Rica, the Dominican Republic, Guatemala, Mexico and Paraguay) and Africa (Algeria, Burkina Faso, Cameroon, Ethiopia, Guinea, Madagascar, Morocco, Senegal, South Africa, Togo, Tunisia and Zimbabwe). Imports from Asia are insignificant. According to CBI (2004), the main imported

products include fruit juices, dry and exotic fruits, cereal-based products (cereal bars and muesli's), processed organic products (i.e., ready-to-eat frozen foods and vegetarian meals). The main organic imports from non-EU countries include fresh fruits (avocado, mango, banana and citrus fruits) and vegetables, fruit juices and concentrates, dry fruits, deep-frozen fruits, concentrated fruit purees and pastes for processing, coffee, tea, cocoa (raw and semi-processed), nuts, spices, culinary and medicinal herbs and essential oils, especially tropical herbs, dried legume products (beans, lentils, chickpeas), sugarcane and honey, culinary oils and fats (palm oil, soy, coconut, peanut, sesame and olive oil), cereal, soy, sesame and amaranth, and rice and rice products. Processed new-to-market organic products (i.e., ready-to-eat frozen foods and vegetarian meals) are also increasingly being imported.

Italy is the largest supplier of organic products within the EU. Some of the most-supplied products include cereals (19.5 per cent), olives (8.7 per cent) and fruits including citrus fruits (5.6 per cent). Production of organic fruits and vegetables is mainly located in the South, especially citrus fruits. The growing Italian organic market increases the need for imports, and several companies have started co-operation programmes with non-EU countries. While the majority of organic farms are located in southern Italy, 90 per cent of the import companies are located in the northern regions. Imports are quite important for processed foods, except for pasta and noodles (of which Italy is a net exporter), and fruit and vegetables. Direct imports are mostly bananas from Colombia. Recently, the import of milk (from Austria and Germany) has increased substantially. Nuts are imported from Spain, Dominican Republic, Argentina, Peru and New Zealand. Honey and coffee are imported from Nicaragua. Imports from producing countries are generally done triangularly with other European countries (e.g. The Netherlands). The reasons for this are manifold: bureaucratic difficulties to obtain organic import certificates from the Italian Ministry of Agricultural Policies cause delays and refusals; most certifying bodies in Italy are too busy to cope with the Italian organic boom and consequently pay no attention to another country's import trade.

Data from **Switzerland** showed that high percentage of oil seeds and cereals are imported. Tropical organic products such as coffee, cocoa, tea, tropical fruits and sugar made of cane are imported at 100%.

The private Swiss label "bud" owned by BIO SUISSE (organic farmer union) dominates about 60 per cent of the organic national market and restricts the import of ultramarine organic products if:

- Such products can be grown near Switzerland (e.g. avocado in Spain)
- If the producers have not converted the whole farm to conform to the organic management principles

- such products are competing products grown by BIO SUISSE farmers
- and the label prohibits air transportation.

Other constraints in Switzerland include the high quality standards set by traders, demand for smaller quantities and a consumer preference for domestic organic products. Despite such conditions, imports continue to rise, but the growing rate is not as high as before. In 2004, Kilcher et al. reported a Swiss demand of durum wheat, bread and fodder cereals, soy, rice, citrus fruits and dried fruits.

In **The Netherlands**, organic production plays only a modest role compared with the other EU countries. In 2002, organic land was only 2.2 per cent of the total farmland. Therefore, in order to meet the domestic demand of key retail players like supermarkets, The Netherlands is a major importer of organic food products. On the other hand, in foreign trade, The Netherlands has been able to establish its role as an international turntable for organic products. This is because of two reasons: the port city of Rotterdam serves as a significant entry point for Europe and several international food producers process organic products in The Netherlands for re-export to other countries. The Dutch were the first to import organic and related products, both fresh and dry, which they then resold to their European neighbours. Dutch companies play an important role in the import/ export trade. Large quantities (up to 80 per cent) of organic products are re-exported and distributed to other European countries. For instance, the increased attention towards food safety and organic products in the UK has made the country a leading importer of organic fresh fruits and vegetables from countries such as Argentina and Zambia. Several of these organic products are, however, imported into the UK from The Netherlands: e.g. cocoa. The Netherlands is a sizeable importer of organic fresh fruits and vegetables, grains, cereals, oil seeds, dry fruits and vegetables, nuts and seeds, coffee, tea, spices and herbs. All types of fresh fruits and a wide range of off-season vegetables are imported. Supply of organic produce from many developing countries, especially in Asia and Latin America, are making an increasing impact. Most imports are delivered in bulk for packing and /or processing in The Netherlands or other European countries.

In **Denmark**, only products that are processed or packaged in the country are allowed to use the government-owned 'Ø' logo. Therefore, the import of packed organic food and beverages are insignificant and as a result, the import of organic food and beverages is largely in the form of unprocessed or semi-processed raw materials. About 3,000 tonnes of fresh fruits were imported in 2000. Regardless of their origin, most fresh fruits are imported via The Netherlands. Almost all imports of fresh organic fruits are repackaged and

labelled with the Ø logo in Denmark. The demand for dry fruits and nuts is met almost entirely by imports, which include temperate, sub-tropical and tropical fruits, nuts and kernels. Processed organic tomato products are highly popular in Denmark; small retail packs of frozen vegetables are already in the market. Demand for frozen organic vegetables is still very little, but is on the rise. The market for organic breakfast cereals is growing rapidly and imports mainly come from Germany, Austria and Italy. A couple of years ago, many bakeries switched completely to organic bread. Pasta, mainly of Italian origin, is imported in bulk, repacked in Denmark and labelled with the Ø. All major retail organisations offer a variety of organic coffee and tea. Exporters of organic coffee include Mexico, Guatemala, Costa Rica, Nicaragua and Peru. These are packed under a manufacturer's brand name and carry the Ø logo. Some packs also supplement the organic logo with the Max Havelaar Fairtrade logo. Dried herbs constitute an important product group. Products are usually imported in bulk, then repacked in Denmark into small units and labelled.

2.1.3 Markets for organic tropical products in Europe

CHARACTERISTICS OF THE TROPICAL ORGANIC PRODUCTS MARKET

One of the main problems European importers face with tropical organic products is the lack of constant availability of certain products. There are different factors that influence the availability of tropical organic products (Garibay and Jyoti, 2003; CBI, 2004):

- Crop failure occurs more often in the organic market than in the conventional one.
- Production methods and organic standards cause a hindrance in the establishment of organic products in Europe market. Some of the discrepancies in production methods and standards include for example; production of organic pineapples without the use of chemicals (e.g. ethylene), which makes it difficult to have a uniform harvest, as flower induction is low. On the other hand, the US market allows the use of such synthetic products.
- There is a shortage of certain special organic ingredients as those ingredients are used in the production of some other organic products that have a higher demand. Example: organic agave syrup, which is extracted from the Mexican agave, is also used to produce tequila. The rapid global sales growth of tequila has resulted in a shortfall of agave syrup.
- The product quality does not meet the standards of the European customer. Example: dry chilli from Central America has a high content of aflatoxins; pulses do not meet the EU standards, therefore USA is the main exporter of pulses to Europe.

- Low service and high cost. Many farmers' organisations cannot position their products in the national or export markets because they have no details about customer requirements, and do not have access to market information.

On the other hand, another issue is that of surplus of a certain product. For example, organic coffee was highly promoted in different production regions (e.g. Vietnam, Nicaragua etc.) without taking into account the market demand. As a result, high volumes of organic coffee are available at low prices in these countries. The rapid growth of the organic products sector offers an alternative for unscrupulous producers and traders, who sell non-organic products as organic. There have been different reports of organic fraud on tropical products such as banana, cotton and so on.

MARKET SIZE OF ORGANIC TROPICAL PRODUCTS IN EUROPE

Fresh fruits

The EU market for certified organic fruits and vegetables was estimated at US\$1.7 billion in 2002. Also in Switzerland, the supermarket chains have a strong interest to complete their organic product assortment with exotic fruits like citrus fruits, bananas, mangoes and so on. Such potential for market development of fresh fruits is particularly for fruits that are still under-represented in the market, like organic pineapple. Kilcher et al. estimated in 2004 that the market volume will grow by 10 to 20 per cent per annum. The Swiss market imports exotic fruits from different countries. Lemons and oranges are imported from the Mediterranean countries like Italy and Spain. Bananas come mainly from the Dominican Republic, Ecuador, Peru and Uganda. Pineapple and papayas are imported from Ghana and Cameroon.

Dry fruits

Fruits that have a composition of more than 80 per cent water are dried in order to stop the multiplication of micro-organisms. Dry fruits can be divided into vine fruits, tree fruits and other fruits. The best-known vine fruit species are raisins, sultanas and currants, whereas apples, apricots, bananas, dates, figs, mangoes, papayas, peaches, pears and prunes are important tree fruits. Next to vine and tree fruit, there are other fruits such as pineapple. Organic dry fruits play an important role in composite products such as a snack or a constituent for breakfast cereals, muesli, bakery, dairy products, and desserts.

Leading markets for dry fruits are the UK, Germany, France and The Netherlands. Unfortunately, there is no data on the consumer markets for dry fruits and vegetables as these products are mainly used as ingredients for food processing. The demand for organic

dry fruit has risen thanks to its increasing usage as an ingredient in breakfast cereals, healthy ready-to-eat bars or snacks, and desserts. Bakeries and breakfast cereal mixers are one of the largest end-users of organic dry fruits in Western European countries, including Switzerland.

The principal end-users of dry fruit in all EU markets can be divided into two segments: retail and industrial. In most markets, the ratio is moving towards higher relative usage by the industrial sector, reflecting the growing popularity of ready-to-eat healthy snacks, muesli and processed foods using healthier ingredients like dry fruits. The market for dry tropical fruits is divided between the health food industry and retail food markets. Health food stores demand fruits that do not contain any additives and is dried using natural processes. These products sell for a premium. Dry fruits that are sugared and treated with sulphur to ensure freshness are distributed to large retail stores. According to European importers, health food stores sell more dry tropical fruits than do conventional supermarkets.

There is a wide range of organic dry fruits on offer in Europe. The most popular dry fruits (mainly for industrial use) are sultanas (Turkey), dates (Tunisia and USA), raisins, prunes, figs and apricots. Other tropical dry fruits for which the markets are smaller but promising include dried banana, mango, papaya and pineapple. The main supplier of dry banana to the EU is Ecuador (50 per cent), followed by Thailand (11 per cent) and the Philippines (10 per cent). The Netherlands and Germany serve as significant entry points for products into the European hinterland. Products are re-exported to the UK and France, which are leading consumer markets. Mango, pineapple and papaya imports into the EU generally come in 10- to 20-kg cartons. European importers often package and mix the fruits in their own facilities. Switzerland provides a profitable environment for the import of organic dry fruits as tropical and exotic fruits are not produced there. According to Kilcher et al. (2004), the prospects for organic dry fruits in Switzerland are good; in the medium term an annual growth rate of 5 to 10 per cent can be expected. Suppliers of dry mangoes and papayas to the EU include Thailand, the Philippines, Sri Lanka and Burkina Faso. Imported dry papaya is usually dehydrated, treated with sugar, and diced into 8- to 10-mm pieces or crushed. Thailand and the Philippines are the predominant suppliers of dry pineapple to Europe.

Fruit juices / concentrate

In the country of origin, water content is extracted from fruit juices in order to maintain the quality, prolong its shelf life, and diminish transport and storage costs. The residue from this process is fruit juice concentrate. In the country of destination, the product's original properties are restored by adding water up to the original juice strength. Organic orange juice is the most popular and

consumed imported fruit juice in Europe. The leading exporter of organic orange juice is Brazil. Apple, pineapple and grapefruit are the other fruits that are used to make juices. The main suppliers of organic pineapple juice are India and Ghana.

Besides the beverage industry, the dairy, jam and confectionery industries also buy considerable volumes of fruit juices and concentrates. Industrial consumption of fruit juices/ concentrates can be analysed by studying the end-consumption patterns of fruit juices. Processed fruits and vegetables are largely used in fruit and vegetable juices, frozen and canned produce, conserves, pulp, purees, soups, pizzas, baby food, fruit yoghurts and desserts.

Price fluctuations, competition from other non-alcoholic beverages and warm/ cold weather conditions affect juice consumption patterns. Countries with the highest per capita consumption of juice in Europe — Germany, Austria and Finland — have all registered a fall in consumption. Nevertheless, fruit juice consumption is characterised by high per capita consumption in Western European countries and a slow but strongly rising per capita consumption in Southern European countries.

Germany is the largest market for organic fruit juices, accounting for 46 per cent of sales in Europe, followed by France (16 per cent) and the UK (12 per cent). The production of fruit juices is concentrated mainly in Germany, which is not surprising since Germany has the highest per capita consumption of fruit juice and nectar in Europe. Prices of orange juice concentrate have been quite stable in the last few years. There are price fluctuations in "trendy" juices because the taste/ demand changes quickly.

The Swiss organic juice market grew strongly in 2004, mainly due to citrus juices like orange and grapefruit. There is also a high interest in organic tropical juices such as mango and pineapple. The demand for exotic juices is expected to rise in the next years, especially for organic pineapple juice. Processors of baby food are potential buyers of tropical and exotic fruit juices. Experts expect the annual sales growth of organic juices to reach 20 per cent and more for orange and grape juices and 30 per cent for pineapple juice.

Pulses

In European countries direct consumption of organic pulses (kidney beans, chickpeas, lentils, and broad and horse beans) is modest. However, its significance in completing the range of food products cannot be underestimated. The main purchaser of organic protein crops is the processing industry. For example, organic soybeans have many uses in the food sector: drinks, desserts, tofu and vegetable burgers. In 2001, all EU countries together consumed about 5.6 million tonnes of pulses (conventional and organic). France is the leading consumer accounting for 24 per cent of the total EU

consumption, followed by Spain (18 per cent). In 2001, 27 per cent of the total world imports of pulses were headed towards the EU.

The most interesting product group for exporters in developing countries is speciality beans. Today, consumers are looking for non-animal foods that provide the necessary proteins. Soybean is often used as a protein component in the preparation of other food products, but kidney beans, lima beans and chickpeas can also serve as a substitute for meat. Often the beans are sold in cans. However, beans are also used in ready chilli and Tex Mex meals, as also by the pet food industry. According to import data, Italy and the UK are the leading markets for speciality beans. In the EU, organic traders and wholesalers offer beans such as azuki, lentils, mung, pinto and red kidney beans. Kilcher et al. (2004) reported that the Swiss market for organic protein crops was good, with a modest annual sales growth rate of 10 per cent. Suppliers of organic pulses to Switzerland include Hungary, the USA, Canada, China, Brazil and Argentina. Soy comes from the USA, Canada, Argentina, Italy, Hungary, Austria, Romania, Peru, Guatemala, Mexico, South Africa, Brazil and Australia.

Spices

About 85 per cent of the spices and herbs in international trade is dried and in a crude form. These spices and herbs are cleaned but not processed. The other 15 per cent is usually traded in the crushed form (e.g. ground spices, essential oils or oleoresins).

The EU consumption of spices increased to 252 thousand tonnes in 2002. The leading spice consuming countries in the EU-15 are Germany, UK, The Netherlands and France, which together account for almost 50 per cent of the total EU consumption. Hungary has recorded the highest consumption among the new EU member states and is the largest consumer in the entire EU.

Major spices in the EU include peppers and allspice (pimento), while major herbs include thyme and oregano. The principal end users of spices and herbs in all EU markets can be divided into three end-user segments:

1. In almost all EU countries, the largest proportion (55-60 per cent) of the total consumption of spices and herbs was recorded by the industrial sector.
2. The retail sector consumed 35-40 per cent and
3. The catering sector 10-15 per cent.

In most EU markets, the ratio is moving towards higher relative usage by the industrial sector, reflecting the growing popularity of ready-to-use spice mixtures. Another reason is the increasing consumption of processed foods, which often rely on spices and herbs to retain and enhance the flavour.

According to manufacturers, an increasing awareness of

diverse cuisines is helping improve the sale of spices. Consumers are beginning to experiment with spices at home (for example, preparing Thai curry at home after trying it in restaurants). Sales of individual ethnic spices and ethnic blends are registering a growth the world over. There has also been a strong upswing in the sales of organic cardamom and cloves.

Importers of organic products are always on the look out for new reliable suppliers of certified organic spices and herbs. African, Central American and Asian countries are the major exporters of organic spices and herbs to Europe. Egypt is a leading supplier of herbs and spices, while substantial production also takes place in Tanzania, Malawi, Sri Lanka, Peru, Ecuador, Argentina, Brazil and India. There are many other developing countries that produce spices and herbs such as Nicaragua, Mexico, etc.

Nuts

There are two segments of edible nuts: groundnuts (peanuts) and luxury (tree) nuts. The most important types of tree nuts in European trade are almonds, hazelnuts, pistachios, coconuts, cashew nuts, walnuts and Brazil nuts.

During the past few years, the EU market for edible nuts (including groundnuts) increased from 2.8 million tonnes in 1999 to 3.1 million tonnes in 2002. Germany, Spain, The Netherlands and Italy recorded the highest consumption of nuts in 2002. However, consumption in the 10 new member states was much lower. Increased domestic supply of nuts in The Netherlands is mainly due the increased imports of groundnuts, as the country is a major re-exporter of the nut. Edible nuts are mainly used for industrial purposes in the production of peanut butter, other nut pastes, sauces, bakery products, snacks and muesli. Total EU-25 consumption of groundnuts (both unshelled and shelled) was some 1.3 million tonnes in 2002, of which The Netherlands, UK, Germany and France accounted for almost 80 per cent. In other countries consumption was negligible.

Leading organic nuts in the EU include hazelnuts, peanuts and almonds. Other nuts offered as organic include walnuts, Brazil nuts, cashew nuts and pistachios.

Turkey dominates the hazelnut market with a share of over 80 per cent of global exports. A majority of the country's exports go to European countries. These exports also include organic hazelnut. In Switzerland, organic almonds are imported from California and Turkey.

The USA, China and Argentina dominate EU imports of conventional peanuts. The export of peanuts grown in organic farms has been discontinued in many countries, owing to problems with aflatoxin. Development of exemplary, organic cultivation systems has been stalled in many countries, and cultivation for export is limited only to a few countries such as the USA, China, Egypt, Zambia and Israel.

Walnut consumption is traditionally the highest during Christmas season. Sales of shelled walnuts — consumed either as a snack or used as an ingredient in the confectionery industry — have grown in recent years. Of late, cashew nuts and pistachios have also become more common in supermarkets.

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

Grains

Grains are mostly used in the processing industry (e.g. bread and bakery products, muesli, rice cakes and cereal-based drinks). Besides, grains are also used as consumer packs for retail sale and for animal feed. The USA and Canada dominate the market for organic commodity grain products (e.g. wheat, maize and barley) and opportunities for exporters in developing countries to export this range of products are limited.

On the other hand, there are different types of processed rice. They can be identified as paddy rice, husked rice, semi-milled rice, whole-milled rice and broken rice. Rice consumption in the EU is steadily increasing. In 2002, EU-25 consumption of rice (milled equivalent) amounted to 2.61 million tonnes. Major rice consuming countries include Italy, Spain, France and Germany, together accounting for almost two-thirds of the total EU consumption. Over the years, there has been a noticeable gradual shift in demand for certain varieties of rice. Demand for fragrant or aromatic rice varieties, like the basmati, is on the rise, especially in Northern European countries.

Furthermore, there have been slight changes in consumption patterns in Southern Europe, where the quick-to-cook par-boiled variety is gaining popularity. Southern European countries show higher rice consumption levels than their Northern counterparts. In terms of per capita, Portugal's rice consumption is the highest in the EU, while in terms of total consumption Italy has the lead, followed by Spain and France. In Switzerland, rice is not grown in significant levels, and therefore, rice for human consumption is imported. More than 75 per cent of the rice in the country is imported by the Migros and Coop supermarket chains. In international trade, Switzerland has a small market for rice with a 0.03 per cent share in global trade. In the retail market, about 10 varieties of rice make up for the majority of the turnover. Rice with the organic and/ or Fairtrade logo is gaining more market share.

There is no data available about organic rice consumption. However, as consumers in Northern European countries are more organic-food oriented, it is believed that consumption levels in these countries are higher than in Southern European ones.

The EU operates a licence scheme and import tariffs for imports of rice, in order to protect its own producers, which are located mainly in Spain and Italy. However, the EU effects a reduction on the import tariff for Basmati rice from India and Pakistan, which provides good opportunities for exporters from these countries. Leading European importers and wholesalers confirmed that red round and long grain rice from Italy are common in the organic rice market. However, Basmati rice from India and Pakistan and red rice from Thailand are also available in the European organic market.

Sesame

Sesame is a member of the Pedaliaceae family and is native to tropical Asian countries. The oil extracted from sesame seeds is used in cooking, for salads and in making margarine. The seeds are also used to garnish breads and other bakery products. There are different types and qualities of sesame seeds. The quality of the sesame seed depends on its purity and oil content, which should be in excess of 50 per cent. High-quality sesame seeds are found in Central America.

Sesame is an important export product for developing countries like Nicaragua and Mexico, and its import into the EU is growing rapidly. Since 1995, the import of sesame seeds has grown by 56 per cent. Sesame seeds are supplied to markets in North America, Europe and East Asia by countries in Africa, Central America and South Asia. Oil from sesame seeds is mainly used for cooking in Asian countries. In North America and Europe, raw sesame seeds are generally used for toppings on breads such as hamburger buns, bagels, bread sticks and other bakery products. Restaurants and natural food store customers buy sesame seeds for use in ethnic dishes. Middle Eastern countries use sesame seeds for tahini paste and halvah, as well as its oil for cooking.

Vegetable oil and fats

Oil seeds are mainly processed (by crushing or solvent extraction) into vegetable oils. Groundnuts, which form a major exception, are mainly used in snacks and confectioneries, as bird feed and in the production of peanut butter, while the remainder is used for processing arachide oil. Vegetable oils and fats constitute about 80 per cent of all edible oils and fats. They are also a major constituent of the food chain. The quality and use of vegetable oils are determined by their fatty-acid composition. The most important oils in tropical countries are soy, palm and coconut oil. Trade in these products is business-to-business; there are no direct consumption figures available.

According to FAO, EU-15 vegetable oil consumption amounted to some 14.9 million tonnes in 2002. The 10 new member states accounted for an additional 1.6 million tonnes. The leading oils consumed in the EU-25

include rape and mustard oil (21 per cent), palm oil (19 per cent), sunflower seed oil (15 per cent) and soybean oil (13 per cent). Industries use animal and vegetable oils, and fats as ingredients for a whole variety of food and non-food products, compound feed and industrial applications. For example, in The Netherlands 11 companies refine vegetable and animal oils. The main end products are soy, sunflower, and palm oil, and cocoa fat. In 2000, 1.35 million tonnes of vegetable and animal fats and oils were put in the market, more than 80 per cent of which were intended for human consumption. The market for these commodities is very competitive and large scale. It is easier for small and medium exporters in developing countries to find more opportunities in special vegetable oils. Leading oil products supplied by developing countries include soy, palm and coconut oil.

The widespread use of soy oil in everyday cooking can be attributed to three major factors: plentiful and dependable supply, competitive pricing, and the recent improvements in flavour and stability of both un-hydrogenated and partially hydrogenated forms of the oil.

Indirectly, the rapid increase in demand for compound feed has contributed considerably to the rise of soybean and soy oil production. Organic soy oil has had a slow start because of misplaced consumer concerns about genetically modified (GM) organisms. Concerns are misplaced because organic legislation requires the absence of any GM material. Soy oil is a good alternative as it is in abundant supply, is stable and has a good nutritional value. Organic soy oil is also very competitively priced, and is an easy replacement for oil seeds like organic sunflower when there is a shortage of the latter. A Dutch importer started producing organic soy oil in Bolivia, because it sensed the potential of an organic soy meal to serve as an organic animal feed. To get organic soy meal, soy oil is extracted from the soy seeds. Organic soy meal is imported from Bolivia, Brazil, Paraguay and recently from China.

The market for organic palm oil, which has grown in recent years, is still very small compared with the conventional market. Production of organic palm oil is not too difficult, but the large-scale processing industry is generally not interested. The industry would have to process organic palm oil with separate equipment, which means extra cost. However, in Brazil the production of organic palm oil has increased significantly in recent years and the country is now a main supplier of the product. Argentina and Colombia also supply organic palm oil. In 2004, prices of organic palm oil were under pressure and importers looked for cheaper supplies from the Far East. The trade is executed using not only containers, but also tankers. Volumes range between 1,000-2,000 tonnes. Palm oil is used in products like margarine and cosmetics (in many cases substituting for coconut oil). The Dominican Republic is a leading

supplier of organic coconut oil. A Dutch importer is setting up organic cocoa oil production in Mozambique.

In Switzerland, the vegetable organic oil and oil seeds market is now well established and has been touching a growth of up to 35 per cent in recent years. However, Swiss traders are complaining of saturation in demand for organic sunflower, thistle, linseed, hemp, olive and soy oil. There are new opportunities since the use of conventional fodder was restricted in 2004. The utilisation of by-products from oils and oil seeds is allowed only if they have been produced using organic methods. Kilcher et al. reported that in the next years, growth in the vegetable oil sector will slow down to 10 per cent per annum. The most important suppliers of oil to Switzerland are Argentina, Peru, Guatemala, Mexico, South Africa, Australia, USA, Canada, Hungary, Italy, Austria and Romania.

Sugar

Sugars are important ingredients in the food-supply chain. For example, sugar can be used as a sweetener in food products; serve as a preservative in jams and jellies; used for increasing the boiling point or reducing the freezing point of food; add crispness to foods that have limited moisture content and so on. While all fruits and vegetables contain sugar, sugarcane and beet sugar plants contain the most accessible stores of sucrose.

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

A by-product of the sugarcane and beet sugar refining process is molasses, which has many uses. Molasses is important as a raw material in the production of antibiotics, bakers' yeast, rum and other forms of alcohol, as well as an animal feed supplement.

World sugar consumption is projected to reach nearly 137 million tonnes in 2005. In 2002, the total world consumption amounted to 135.7 million tonnes. In 2002, the EU-25 accounted for some 13 per cent of the global sugar consumption. A large part of this consumption is supplied by EU-subsidised beet sugar producers. The sugar market has been witness to recurring supply-demand imbalances. This phenomenon was reflected in the extremely volatile price jumps in free markets. For most years in the past four decades, world production of sugar has been in excess of consumption, leading to low prices and stock surplus. In the coming years, sugar production is expected to keep pace with consumption. Developing countries are expected to account for most of the global increase in sugar

consumption. These countries raised their share of world production from 63 per cent in 1993-1995 to about 70 per cent in 2002. Latin America and the Caribbean countries are expected to play a leading role in increasing sugar output. In contrast, industrialised countries are estimated to show virtually no net increase in their sugar production. EU-25 sugar consumption amounted to 17.7 million tonnes in 2002.

In Switzerland, organic sugar is used mostly by the processing industry. However, there is also an increasing demand from the retail sector since supermarkets also sell organic sugar. As availability has improved in the last few years, the market has begun to show positive development.

Swiss traders reported a growth in turnover of 10–15 per cent in the 1997–2000 period. An annual growth of 5–10 per cent is expected during the next few years. Furthermore, due to obligation to use organic sugar in the processing industry and in parallel to the growing market for organic convenience foodstuffs, the demand for organic sugar will steadily grow in the near future.

In the UK, Equal Exchange distributes Fairtrade-labelled organic sugar from Mauritius, Malawi and Paraguay. Sales amounted to 45,000 kg in 2001, which is five times more than the volume sold in 2000. In France, Alter Eco will launch brown organic sugar lumps and a Max Havelaar licensee will launch bagged organic sugar. In Belgium, Hygienea started distributing organic sugar from Paraguay in 2002.

In the EU, organic sugar prices were under pressure and have halved in the recent years (from around US\$ 800 to US\$ 400 per tonne). Sugarcane needs to be supplied in substantial amounts. Trade takes place not only in containers but also in tankers; volumes range between 1,000 and 2,000 tonnes.

Organic sugarcane is primarily grown in South America. Paraguay is a leading supplier, but Brazil and Colombia also supply organic sugar. Other suppliers include Mauritius, the Philippines and the Dominican Republic. Over the last three years, Cuba has also made significant strides in its attempts at raising sugar productivity. In Switzerland, a few years ago a Swiss processor established a domestic production unit of organic sugar from beet sugar obtained from Switzerland and southern Germany. Even so, imports are still important especially of sugarcane. Swiss importers obtain their organic sugarcane mainly from Paraguay, Costa Rica and Brazil. Smaller quantities also come from the Philippines and Cuba.

The production of organic sugarcane has some constraints for example:

- The use of organic fertilisers, because of their variable and heterogeneous composition, can lead to over or under fertilisation.
- Manual weeding is expensive

- On the processing side, juice clarification was a major problem as clarifying aids are not permitted. Sucrose recoveries were consistently low. Some of these constraints can be overcome, e.g. fertilisation and weed control, but some may prove difficult to overcome, e.g. that of low sucrose recovery during processing

In the health food market sugar also faces competition from honey, a natural sweetener with a well-developed organic production system the world over. Another factor that explains the low demand for organic sugar is the “unhealthy” image of sugar in general, which makes it less appealing to health-conscious consumers. Nevertheless, demand for organic sugar has shown a remarkable growth in recent years. Sugar, as an important and, sometimes, irreplaceable ingredient in the production of ice-creams, jams, breads and confectionery is starting to enjoy a strong growth in demand. It remains to be seen, however, whether demand for organic sugar will grow on a par with the organic market in general.

Honey

Honey is the sweet substance produced by honey bees from the nectar of flowers or plant secretions, which the bees collect, transform and combine with specific substances of their own and store and leave to mature in honey combs. As many as 300 varieties of flowers are suitable as floral sources for honey, and naturally produced honey reflects the local conditions and climate in a country.

The five common types of honey have been described below along with their main suppliers:

- **Acacia:** with a subtle taste and refined scent. It tends not to crystallise (China).
- **Orange blossom:** with a refreshing bitter-sweet flavour (Mexico, USA).
- **Buckwheat:** with a pungent smell and taste similar to that of brown sugar (China).
- **Lotus:** with a mellow, sweet flavour and a faint smell of flowers (China).
- **Clover:** the most widely produced and well-known type of honey (Canada, USA, Argentina and Australia).

According to CBI (2004), in the EU the total consumption of honey was estimated at about 275 thousand tonnes, representing an EU per capita honey consumption of about 0.7 kg. Consumption differs greatly between EU countries. Per capita consumption in Austria is 1.8 kg while in Ireland it is only 0.3 kg.

The honey market has two major sectors: one is honey for household consumption and the other is honey for industrial use as a natural sweetener of bakery products, sweets etc. While the market share of these two sectors

differs somewhat per EU country, it can be stated that, on an average, 80 per cent of honey is sold directly to consumers, while about 20 per cent goes to the industries. The industrial market is sensitive to honey prices; major substitutes for industrial honey are sugar, invert sugar syrup, corn syrup and high fructose corn syrup (a cheap and versatile substitute for honey, especially in products in which the flavour is unimportant). Industries using honey are mainly bakery, chocolate and baby food sectors. In the EU, consumers prefer solid honey (70 per cent) and multiflower honey (94 per cent) bought from supermarkets. Heavy honey consumers use honey as a spread on bread for breakfast. They belong to the 24-35 year-old category. Honey consumption shows an increase in winter as it is used for therapeutic purposes. It is also used as an ingredient for salad dressings. There is an important market for organic honey, as honey is a typical health food product. Prices for honey in the EU vary widely depending on type, origin and quality. In general, honey prices are US\$ 2,000 per tonne and lower, while organic honey starts from US\$ 2,000 and up. In 2004, the premium for organic honey was around 15 per cent.

China began exporting honey to the EU for the first time in nearly three years (February 2005) after the authorities in Brussels lifted a ban amid safety concerns. According to market analysts (Access Asia, 2005), although the market for honey in China has fluctuated in recent years, the country continues to be by far the leading honey producer in the world, with around 40 per cent of the market share. The next biggest producers are the US, Argentina and Ukraine. With the trend of higher consumption of honey per capita continuing, the honey production will continue to increase in line with the demand.

Leading suppliers of organic honey to the EU include Mexico, Guatemala, Argentina, Uruguay and Chile. A common requirement in the trade includes specifications and analyses of the composition of the honey. Due to the ban on honey from China (2002 to about 2004), the requirements on specifications and analyses are strictly followed by importers.

Switzerland has recently started certification of domestic organic honey. Swiss bee keepers sell their honey privately, and very few supply their produce to natural food outlets. The Swiss processing industry has a high demand for organic honey, while for the supermarket chains, organic honey is still a relatively new concept but their entry is as good as certain and will clearly stimulate the market. The forecast is good for the next few years and an annual increase of 15–20 per cent is expected. Organic honey is 100 per cent imported and comes from Nicaragua, France and Argentina.

2.2 STRUCTURE OF ORGANIC TRADE CHANNELS

SALES CHANNELS FOR ORGANIC FOOD IN EUROPE

General grocery stores have the advantage that consumers can buy most goods for their daily needs at one single shop. Consumers are beginning to appreciate this form of one-stop-shopping in Europe because they do not want to waste time by going to several different shops. The figures presented in this section provide a comprehensive description of sales channels for organic food in Europe, and are based on panel data / estimates of market experts.

In Table 3, the turnover of the organic food market of the 19 countries surveyed in 2001 has been segmented based on the different types of sales channels. The sales channel for 'general food shops' includes those shops selling predominantly conventional food, but in addition often have a small range of organic products. In this survey we use the term 'general food shop' for small food retailer shops (under 400 square metres sales area), supermarkets (400-800 square metres sales area), hypermarkets (over 800 square metres sales area), as well as for discounters.

The sum total for each country in the various channels is 100 per cent. As is evident in Table 3, the mix of sales channels used to sell organic products varied significantly between countries. Of all sales channels, general food shops were the most important ones for organic food. In 13 of the 19 surveyed countries general food shops were responsible for 50 per cent of the total turnover of organic food, and in five of these countries for 75 per cent or more. These five countries were Sweden, the UK, Denmark, Finland and Switzerland.

In Austria too general food shops played an important role with 63 per cent of the total turnover. The fact that Austria, Denmark, the UK and Switzerland each have at least one general food shop chain, with national coverage, promoting a large range of organic products (in excess of 400 organic products) is a large factor in explaining the importance of the general food shop as an organic sales channel in these countries.

In the case of the Swiss market, organic products were responsible for a turnover of 792 million Euros in 2004, which represent a market share of 3.5 per cent (BIO SUISSE, 2005). However, Migros and Coop general food shop chains have occupied the leader's position in the past 10 years. In 2004, both shops sold 75 per cent of all organic products in Switzerland. Furthermore, there are a series of wholesale firms, importers and agents who have specialized in the import of organic products.

The fact that the general food shops do not play a significant role in Germany and The Netherlands reflects the importance of whole food stores and organic food

TABLE 3

Share of total organic food sales by sales channels in 2001 (in %)

Country	General food shops	Bakers/ butchers	Organic food shops	Whole food shops	Direct sales of farmers	Restaurants	Others
EU							
AT	63	3	13	1	13	7	-
BE	50	-	30	10	10	-	-
DE	35	7	27	9	17	2	3
DK	80	1	5	-	8	6	-
ES	10	1	19	61	5	2	2
FI	80	-	-	10	5	5	-
FR	55	2	30	-	10	3	-
GR	17	1	70	-	10	2	-
IE	60	16	14	-	8	-	2
IT	55	2	31	-	9	3	-
LU	50	3	40	3	3	1	-
NL	42	10	41	-	7	-	-
PT	20	-	30	20	30	-	-
SE	90	-	1	1	5	3	-
UK	82	-	8	2	8	-	-
CZ	55	-	25	-	20	-	-
SI	5	-	5	-	90	-	-
No-EU							
CH	75	2	9	8	6	-	-
NO	50	5	30	-	15	-	-

Source: Hamm and Gronefeld, 2004. Note: abbreviations for countries see page 6.

stores in building the organic food market. In both these countries the share of turnover is almost the same in general food shops, organic food stores plus whole food stores. In Germany, this is also a sign of the lack of co-operation amongst organic farmers. This co-operation is necessary to maintain a consistent supply level of organic products, both in terms of volumes and quality.

Table 3 shows that Slovenia, Spain, Greece and Portugal have the lowest importance of general food shops. In these countries, the development of the domestic organic market is still on a low level. In Greece and Spain, whole food shops have played a dominant role in the growth of organic products. In Slovenia, direct sales clearly play the most important role with a 90 per cent share of the turnover. Low production and consequently low sales have not attracted any interest from organic or general food shops.

Organic sales through channels other than general food shops, organic food shops or direct sales are still rather marginal. Nevertheless, one of channels seems to represent a large potential for organic sales in future: restaurants and canteens. Canteens in schools, universities, kindergartens and hospitals are being considered as a potential channel for the sale of organic

food in many countries. In Austria, Denmark and Finland this sales channel accounts for five per cent or more of the total organic food sales. In Denmark and Germany, the governments lend financial support to canteens that are willing to start using organic products. In Italy, as per a law that came into effect in 1999, canteens in kindergartens and schools have to sell organic products.

TRADE STRUCTURE FOR EU AND CH

One of the channels that producers and exporters from tropical countries can use to sell their products in Europe is by supplying organic products directly to the importers. The service of a specialized importer and/ or a processor or packer is the most common form of distribution of imported organic food in Western European countries. In Switzerland, the services of an importer are recommended to position the organic products in the market. Additionally, importers can provide market information, customer specifications, possible restrictions, logistical services and import formalities. Some food manufacturers prefer to obtain the raw material from an importer because they take on the cost of importing, irrespective of whether the quantity is big or small. Such importers then become the main customers for exporting countries. Although food manufacturers do

not often import directly from outside of Europe, recent trend shows that as more food manufacturers begin to set up organic product lines, the import by this channel is also likely to increase. Supermarkets in different European countries are also increasing their direct imports from tropical countries that produce organic products. For example, some Swiss supermarket chains are importing organic fresh fruits (e.g. bananas) and juices directly.

MARKET SEGMENTATION

Since the organic food sector is already part of the conventional food market, it is difficult to single out the sector in terms of market segmentation. Nevertheless, the market for organic food products can roughly be divided in the following three segments:

1. Organic ingredients for industrial use (food processing industry)
2. Organic food products for direct consumption (consumer products, retail market)
3. Organic food products for catering and institutions

The first segment is the most important for exporters in developing countries. Producers /exporters of organic products do not often have complete market information. This is caused by the lack of official data (most data is based on estimates). Also, retailers are not willing to divulge sales figures when they are not growing, making statistics inaccurate. As a consequence, it is difficult for developing countries to meet the needs of the European consumer. Also, they are not in any position to compete with the existing European brands. Therefore, supplying to the European processing industry gives better opportunities for exporters of non-EU countries. Moreover, the significance of the food industry as an end-user of organic raw material cannot be ignored as consumers are now looking for an assortment of processed foods similar to those available in the conventional food market. There is an increasing demand for convenience foods and ready-to-eat meals. Although more difficult to penetrate, it is important to be aware of developments in the second market segment of organic food products. A fast growing sub-segment of this part of the organic market is organic baby food. Consumers with high awareness who fall in the high income bracket are particular about safe and healthy food products for their children. The use of organic foods in the catering sector has already begun in some European markets but has not developed extensively until now. In Denmark, Germany, Italy, The Netherlands and Sweden, some municipal and other public bodies have made it mandatory that official institutions like schools, hospitals, old peoples' homes, universities and administrative offices offer organic menus and organic coffee and tea in their canteens. Restaurants specialising in organic foods are also increasing in number. Some airline companies (e.g. Lufthansa) offer organic on-flight meals.

2.3 CONSUMER PREFERENCES AND TRENDS

2.3.1 General Overview

OVERALL TRENDS

Overall trends that emerge from the daily life of consumers strongly influence their purchase behaviour. While some trends support the consumption of organic food, a few also hinder a faster market penetration of organic food.

These trends are as follows. Generally Western European consumers...

- don't waste time on cooking (convenience products)
- don't waste time on food shopping (convenience shopping)
- use the saved time to relax or meet friends
- look for discount offers on high-quality products

MEGA TRENDS

Healthy nutrition:

Age and the exorbitant costs of medical care are driving more and more people into making the transition to natural / organic food products. Consumers can choose between either 'natural' or 'technical' products while shopping for food. 'Natural' health food means producing and processing food without adding artificial ingredients or changing the natural quality of the product. 'Technical' health food means producing food products using all kinds of technological advancements and/ or artificial additives/ supplements in order to improve the health value of the product. While the consumption of natural health food products (like organic foodstuff) is steadily rising in Europe, both natural and technical health food reports an annual growth rate of approximately 20 per cent in the USA.

Price consciousness:

Saving money while purchasing daily needs is one of the top priorities for many European consumers. There are several factors that drive this trend:

- **Discounters:** More and more discounters, which promote low-priced offers, are appearing in the market.
- **China:** There are many discount offers on Chinese products which are called "all for 1 C".
- **Ebay:** Buying low-priced new or used products via the Internet / Ebay.com is becoming a popular leisure time activity.
- **All-year sales:** Special sales are on throughout the year, which has led to a changed perception of price consciousness with regard to what is fair.

- **Economic crisis:** The economic crisis in many European countries has given birth to a more price-conscious buyer. As a consequence, retailers are assessed only by their price competitiveness.

Trust:

Trust becomes more and more important owing to the complexity of everyday life and information overflow. Trust can cover the following aspects:

- Trust while buying the cheapest offer (discounters win market shares)
- Trust while buying high-quality products (premium brands that are labelled thus following surveys by independent organisations)
- Trust not to get cheated by label promises
- Trust to buy safe products
- Using authentic sales and sales promotion methods as 'trust builders' (e.g. farmers promoting their products in retail outlets).
- Make consumers verify promises (like the declaration of farmers' or producers' group on product coverage).

Emotional messages:

Matured markets, plenty of exchangeable assortments, rising number of failed private partnerships and the spirit of competition have led to a strong consumer demand for emotional 'notes' while marketing a product. Therefore many consumers prefer:

- Brands which have a soul
- Brands which have a history
- Retailers who surprise customers by unusual offers
- To become a member of 'slow-food communities'

CONSUMER TRENDS

Consumer characteristics and buying behaviour

When studying consumer behaviour while buying organic products, one needs to keep in mind the interplay amongst several factors. Structural factors, such as the availability of products in the various market channels, price, quality and types of products offered, as well as factors relating to attitudes among various actors in the food system, including the values and preferences of consumers, are likely influence buying patterns simultaneously. Additionally, the social environs (peer groups, like family, friends or colleagues) influence the actual buying behaviour of consumers in a strong manner. In isolation, each of these factors might give a misleading picture. Nevertheless, a summary of the key findings is given below. The presentation gives an overview about results of scientific projects as well as recent studies of commercial market research activities.

Who buys organic products?

There is a clear tendency to identify younger age groups (between 25 – 40 years) and parallel older consumer groups (between 55 – 65 years) as the most typical consumers of organic food in Europe. Younger people often begin to seriously consider the various aspects of healthy and sustainable food consumption when they start a family, especially for their kids. A certain group of older consumers prefers organic food for two reasons: Either they still feel as being a part of the hippie movement or they have serious health concerns, which are the results of unhealthy food intake. Higher level education, like a university degree, has a clear correlation with organic food consumption. Similarly, there is also a clear correlation between higher income households and organic buyers.

Urban and rural areas

There are significantly higher levels of demand for organic products in major cities than in smaller towns and rural areas. Although consumers in cities have lesser contact with the agrarian community, they do believe that conventional /industrial farming is much worse than actual farming methods. Moreover, urban consumers are more health conscious than their rural counterparts.

Regular, occasional and non-buyers of organic food

Organic products are no more considered niche, and they have moved on from supermarkets to other sales channels as well. The products are also of improved quality. In mature organic product markets like Switzerland and Denmark a large majority of the consumers are familiar with organic food and have bought it on a more or less regular basis. There is a core group of regular organic food consumers in all countries (between 3 – 15 per cent in Western Europe). Non-consumers of organic food typically belong to two types: those who lack interest in food in general or those who lack resources. Non-consumers also seem to be less concerned about health issues and are unaware of ethical production standards.

Preferences for distribution channels

On the one hand there are mainstream supermarkets and hypermarkets where one can shop for organic food. On the other, there are a variety of decentralised sales arrangements, like smaller natural food stores or direct-selling activities of farmers. These usually involve a shorter distance between producer and consumer and are sometimes seen as part of a "local food movement".

Regional differences

There are large regional differences in some European countries concerning the preferences for organic food. For instance, in Italy the majority of organic food consumption takes place in its northern part. In the

German-speaking regions of Switzerland organic food is a strong preference, while in the French-speaking regions organic food plays only a minor role.

Price as a barrier

One of the key barriers for broader market penetration of organic food in Western Europe is the price issue. The cost of organic food is valued either too highly in relation to its perceived benefits, or the consumers' food budget is far too low. Some consumers say that if the organic products were to be more affordable, they would buy them more often.

2.3.2 Organic products imported to Europe: preferences and trends

CONTINUED GROWTH

Even as there are continued shortages and problems with the supply of sufficient quantities of organic produce and raw materials, there is a growing demand for organic produce from both consumers and processors alike. There is a strong potential demand for fruits and vegetables, meat and poultry, and ingredients for processed food products like snacks, sweets, confectioneries and fish. However, some consumers distrust the authenticity of certified organic products. Therefore, the best chances are for imported products during off-season and/ or products that cannot be grown in Europe (most tropical items). Some logos (e.g. the AB-logo of France) do not allow the import of organic products from outside the EU if they can be grown in Europe. Other private labels (e.g. BIO SUISSE) do not permit the import of organic products by air due to environmental concerns and protect locally produced organic food (e.g. fresh vegetables). Additionally many consumers of organic food associate organic farming with the regional and seasonal production. The potential exists for increased sales to new consumer segments amounting to 25-35 per cent of the population. The recent expansion of the EU up to the east can also open up more opportunities. However, opinions on the future of the organic market are divided and sometimes sceptical.

HEALTH AND QUALITY

The perceived health benefit of consuming organic food is reflected by strong growth in demands for certain product categories such as baby foods. Here, tropical organic raw products (e.g. banana, mango etc.) are used in mixtures for baby food preparation. The increasing attention on health and quality has substantial implications for importers and suppliers. They have to play a much more specialised role and are required to offer services such as managing availability, ensuring full traceability and assuring quality of raw materials 'from field-to-processed food'.

SOCIAL ISSUES

Consumers are buying organic food to lend a voice to the working conditions of labourers in plantations and farms outside of Europe. Therefore, it is an increasing trend that both the organic and Fairtrade markets go hand in hand. For example, in Switzerland traders of Fairtrade products founded a web shop to offer only organic+Fairtrade products. Coop, a supermarket chain in Switzerland, has decided to sell all bananas under Fairtrade, 11 per cent of such bananas are organic. Gepa of Germany is also increasingly linking organic quality to Fairtrade prices. The organic and Fairtrade concepts have proved to be especially successful in supermarkets.

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

2.4 ORGANIC MARKET REQUIREMENTS

2.4.1 General requirements in the EU

IMPORT REQUIREMENTS

The EU's Common Agricultural Policy (CAP) is a common commercial policy and common import and customs regulations for imports from outside the EU. Organic products are subject to the same customs tariffs as conventional products. Generally the EU provides preferential tariffs for developing countries. Products from the Least Developed Countries are duty free. In order to avail of preferential tariffs, a certificate of origin must accompany imported goods. The CAP applies quantitative restrictions and special tariffs for agricultural imports (depending on the product, the season and country of origin). These also apply to organic products. Importers must apply for an import licence.

THE EU REGULATION ON ORGANIC PRODUCTION

In EU member states, the labelling of plant products as organic is governed by Regulation No. 2092/91, which came into force in 1993, while products from organically managed livestock are governed by EU Regulation No. 1804/99, enacted in August 2000. These constitute an important step towards consumer protection. They protect producers from unfair competition and consumers from pseudo-organic products. Plant and animal products, and processed agricultural goods imported into the EU may only be labelled using terms such as 'organic' in English and 'biologisch' or 'ökologisch' in German etc. The EU regulation on organic production — like the Swiss Organic Farming Ordinance — lays down minimum rules governing the production, processing and import of organic products, including inspection procedures, labelling and marketing, for the

whole of Europe. In other words, the regulation defines what constitutes an authentic, certified organic product. Each European country is responsible for its own enforcement, monitoring and inspection of the regulation. Applications, supervision and sanctions are dealt with at regional levels. At the same time, each country has the responsibility to interpret the regulation and implement it in its national context.

IMPORTING GOODS INTO THE EU

The import rules in the EU Regulation on organic production are of significance in the international market. Article 11 of the EU Regulation governs market access for organic products in EU countries. It stipulates that organic foods imported into the EU from third countries must have been produced, processed and certified in accordance with equivalent standards. Enforcement is the responsibility of the EU member states.

At present, there are two ways of authorising imports into the EU:

I. Access via the list of third countries in accordance with Article 11, paragraphs 1–5:

A country or certification body may apply to be added to the list of third countries (EU Third Countries List) via its diplomatic representatives in Brussels. In order to be added to this list, the country making the application must already have enacted organic farming legislation and a fully functional system of inspection and monitoring must be in place. In addition, it must provide an attestation of equivalence and other information on organic farming methods. Goods imported from these countries (e.g. Costa Rica) need to be accompanied by a consignment-specific "Certificate of Inspection for Import of Products from Organic Production".

II. Access via import permit in accordance with Art. 11, paragraph 6, for all countries not included on the list of third countries (i.e. the vast majority of imports into the EU):

As a rule, certification bodies operating at the international level will assist exporters and importers to put together all the information and evidence needed to accompany the application for an import permit. Requirements vary from one EU country to another, but the following are those that generally apply: Import permits are only issued to the importing company by the EU member state authority into which the product is first imported. This company needs to sign an inspection contract with a European certification body that is approved by the EU. For imports from countries outside the EU and not listed on the third country list, the importer should apply for an import permit with the local competent authority. With the application, he or the certification body he assigns this task to have to provide documents to prove that the production and certification of the respective products are equivalent with the EU requirements. The competent authority may request

additional information, e.g. the inspection reports or evidence that the certification body active in the third country is complying with ISO 65 (EN 45011). Products may not be released into the EU market before an import permit has been issued. Import permits are usually issued for a limited time period and re-application is necessary when the permit expires.

Within the EU all organic products may be freely traded. However, procedures relating to the issue of import permits tend to differ between EU countries. It is advisable to seek competent advice before trading commences.

REQUIREMENTS RELATING TO INSPECTION BODIES

Since January 1988, all inspection bodies accredited in the EU must satisfy the requirements of the EN 45011 standards (these are identical to ISO Guide 65; both set out general standards for certification bodies), in order for imports of organic goods to be approved by the European authorities. Owing to the requirement of equivalency, this also applies to all inspection bodies in third countries from which certified products are imported into Europe.

EU LOGO FOR ORGANIC PRODUCTS

In February 2000, the European Commission introduced a logo for organic products that may be used throughout the EU by producers operating in accordance with the provisions of the EU Regulation on organic production. The logo may only be used on organic products where 95 per cent of the ingredients are organic and originate from the EU, and those that have been processed, packaged and labelled in the EU. According to a legal interpretation presented by the European Commission, the EU logo can now be used on imports from countries that are deemed to have an equivalent inspection system. These are the countries on the third country list. For imports to carry the EU-logo when they are accepted into the EU under Article 11. 6, the certification body must be supervised by the authorities in the country of inspection.

GENETICALLY MODIFIED ORGANISMS

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

HEALTH AND HYGIENE ISSUES: HACCP

The Hazard Analysis Critical Control Point (HACCP) system applies to the food-processing industry in the EU.

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

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

EUREPGAP

EurepGAP was started in 1997 as an initiative of retailers belonging to the Euro-Retailer Produce Working Group (EUREP). Subsequently, it has evolved into an equal partnership between agricultural producers and their retail customers. It has developed widely accepted standards and procedures for the global certification of Good Agricultural Practices (GAP). One goal is to reduce the risks (e.g. BSE, pesticide residues etc.) in agricultural production by adhering to GAPs. EurepGAP provides the tools to objectively verify best practices in a systematic and consistent manner. EurepGAP is a set of normative documents suitable to be accredited to internationally recognised certification criteria such as ISO Guide 65. Such norms can be used by the farmers to demonstrate compliance with GAPs.

2.4.2 General requirements in Switzerland

IMPORT REQUIREMENTS

Switzerland applies on organic products the customs tariffs and regulations of conventional products. Switzerland does not impose separate import quotas for agricultural products from organic production on the one hand and conventional produce on the other. Customs law takes no account of whether products are organic or not.

High customs duties are levied on a range of agricultural products such as sugar, vegetable oils and dairy products. For some products special import licences are

also necessary which are only granted to Swiss importers. Higher customs duties are levied on processed products than on raw materials. For the import of meat and fish products, sanitary certificates are also required.

As in the EU, preferential customs duties may be applied to imports of certain agricultural products from emerging markets and markets in transition in accordance with the Swiss tariff preferences system (Generalised System of Preferences). These are lower than the tariffs generally applicable. For example, coffee, tea, and spices can be imported with a null tariff, whereas for vegetables the tariff is reduced up to 75 per cent. Imports from Least Developed Countries are exempted from customs duties. Importers pay a value-added tax (VAT) of 2.4 per cent on foodstuffs that they bring into Switzerland. The VAT rate is the same for both imported goods and those produced in Switzerland.

THE SWISS REGULATION ON ORGANIC PRODUCTION

The Swiss Ordinance on organic farming and the labelling of organically produced items and foodstuffs (Organic Farming Ordinance) came into force on January 1, 1998 and is based on Article 18 of the Agriculture Act.

It lays down the basic requirements that a product must fulfil in order for it to be labelled 'organic'. This is intended to protect organic products from abuses and improve market transparency. Organic products must comply with strict requirements relating to production and processing, and be subject to inspection by a competent and independent inspection body. The state acts in a supervisory capacity as regards to inspection of imported goods. Therefore, Swiss organic products must comply with the requirements set out in the Swiss Organic Farming Ordinance. This also includes compliance with:

- Documentation of ecological services
- Ordinance on animal protection
- Ordinance on protection of water resources and aquatic environment
- Ordinance on outdoor access for livestock

Imported organic products must conform to equivalent conditions.

EXPORTING ORGANIC GOODS TO SWITZERLAND

Exporting organic product from the EU

Organic products from the EU that are labelled as such in accordance with EU Regulation No. 2092/91 on Organic Production are recognised as organic products in Switzerland too, and vice versa. Bilateral agricultural treaties (June 2003) between Switzerland and the EU

stipulate that organic regulations for both parts are equivalent even if there are some differences between the Swiss Organic Farming Ordinance and the EU Regulation. For example, the Swiss ordinance is stricter than the EU Regulation in requiring conversion of the whole farm into organic management. On the other hand, its requirements relating to the conversion process are less strict than the EU Regulation: in Switzerland there is no year zero, conversion takes normally two years rather than three years as in the EU.

Exports from approved countries (Third Country List)

Countries where the government imposes conditions on organic products that are equivalent to those applied in Switzerland, and where adherence to these conditions is guaranteed, are included in a Country List by the Federal Department of Economic Affairs. At present, all the EU countries plus, Israel, Costa Rica, Argentina, Australia and New Zealand are included on the Swiss Country List. Organic imports from these countries are subject to simpler procedures for approval. For such imports the exporter must obtain an import certificate from his certification body in the country of origin. This certificate is presented to the importer in Switzerland. The certification body needs this when the annual inspection of the business is carried out. Also, this certificate confirms that the imported product is an organic one.

Exports from non-approved countries outside the EU

Analogously to the EU, Switzerland also operates a system of 'individual authorisation'. For direct imports from countries that are not included on the list of third countries, the importer in Switzerland must submit an application for individual authorisation to the Federal Office for Agriculture (FOAG) together with an attestation of equivalence for the relevant product and its producer. On the basis of these the FOAG can confirm the equivalence of individual products and issue 'individual authorisation'. Only when the individual authorisation has been granted may the product be imported into Switzerland as an organic product. In these cases too, an import certificate must accompany every delivery.

Requirements relating to the attestation of equivalence

- A separate application for individual authorisation is required for each exporter in the country of origin. However, the application may be completed for multiple exporters if they all have their business headquarters in the same country (country of origin) and come under the same certification/ inspection body.
- The attestation of equivalence, which must accompany the application for individual authorisation, must be completed by the certification/ inspection body of the exporter and is the key prerequisite for approval of the application.

- The more thoroughly the accompanying documentation has been prepared, the quicker and less complicated it will be to process the application.
- Inspection to ascertain whether the importer in Switzerland has the required authorisation for all imports is carried out by the Swiss inspection/ certification bodies.

CONDITIONS PERTAINING TO IMPORT CERTIFICATES

An import certificate must accompany every consignment. The certificate serves as confirmation that production requirements have been adhered to and that inspection has taken place. Import certificates are issued by certification/ inspection bodies that are accredited at the federal level (and not by the Federal Office for Agriculture):

- In the case of imports into Switzerland from countries on the Country List, the import certificate must be completed by one of the certification bodies for the relevant country stipulated on the Country List. In the case of imports of non-EU products into the EU that already has an import certificate for the EU; it will be accepted as long as the information contained in it is valid at the time of import into Switzerland.
- In the case of imports into Switzerland from countries not included on the Country List (where individual authorisation is required), the body named in the application for individual authorisation (normally the exporter's certification/ inspection body) is responsible for issuing the certificate.

Care should be taken to ensure that the properly completed document, which must have been stamped and signed by the inspection body, is forwarded to the importer in Switzerland without delay. If an importer is unable to produce an import certificate he will be sanctioned accordingly.

REQUIREMENTS RELATING TO INSPECTION BODIES

For an imported product to be marketed as 'organic' ('biologisch' or 'ökologisch') in Switzerland, producers, processors and exporters in the country of origin and the importers in Switzerland must be certified by an accredited inspection body at least once per annum. For this, they must enter into a contract with an accredited inspection and certification body.

An inspection and certification body is officially recognised by the Swiss authorities if it:

- Appears in the Country List in Annex 4 of the Ordinance of the Swiss Federal Department of Economic Affairs on Organic Farming. or
- Has a valid accreditation document in accordance with either ISO 65 or EN 45011 standards, and is listed with the Swiss authorities (Swiss Federal Office for Agriculture).

LOGO FOR ORGANIC PRODUCTS IN SWITZERLAND

Agricultural products may only be labelled as organic products if they comply with the provisions of the Organic Farming Ordinance. The following terms or their usual derivatives (such as bio, eco) are protected under Swiss law (German: 'biologisch', 'ökologisch'; French: 'biologique'; Italian: 'biologico').

At present there is no government label for organic products in Switzerland, but there are various private labelling schemes. For example the biodynamic DEMETER label (app. 5% market share) and the BIO Migros label (app. 25% market share) belong to a Swiss supermarket chain, while the Knospe (bud) label belongs to the Association of the Swiss Organic Agriculture Organisations (BIO SUISSE) (app. 60% market share).

2.5 ORGANIC MARKET PROSPECTS

2.5.1 General prospects

What does the future of the European organic market look like? What are the market prospects in terms of growth, what are the main influencing factors? To answer these questions, 129 experts from across Europe were interviewed under project OMIARD (Organic Market Initiatives and Rural Development). The following paragraphs summarise the main results of the market survey and indicate the organic market's prospects.

"High consumer prices", "poor availability of organic products", "lack of consumer information and

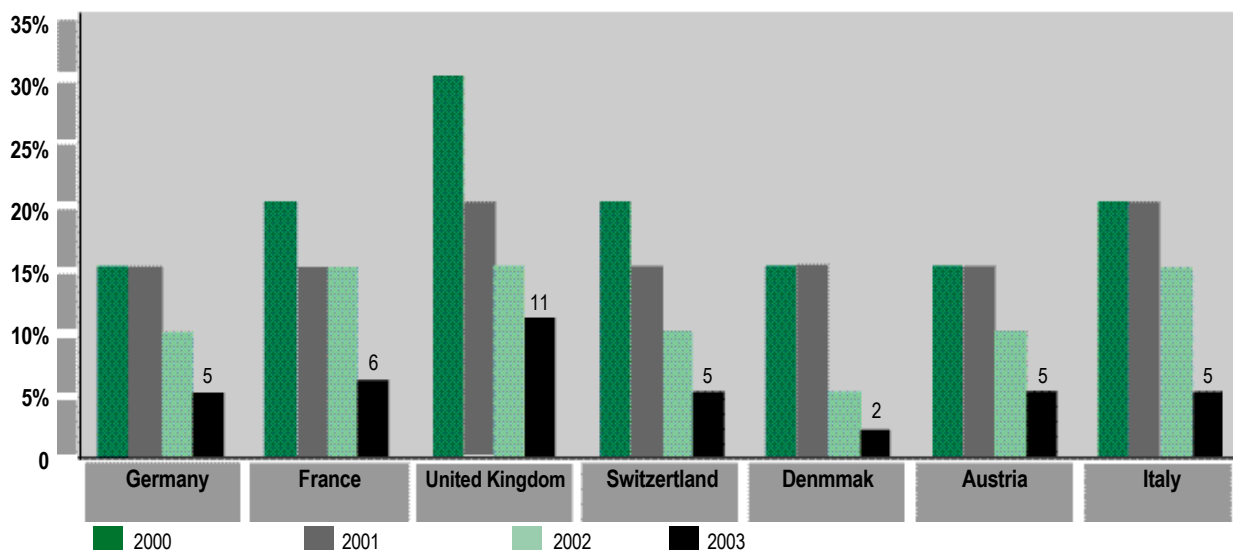
awareness" and "poor product presentation at point of sales" were considered important by more than two thirds of the respondents in the area of demand, whereas "competition from near organic alternatives" and "lack of credibility of the certification systems" were not considered important.

According to the experts, none of the established European organic markets will register an annual growth rate of more than 11 per cent between 2002-2007 (see Figure 3). That means the growth dynamics of the last decade in Europe is transforming into a phase of market consolidation and quality growth.

The expected market development within the next five years varied between countries, with the lowest rates estimated in Denmark (approximately 1.5 per cent per year) and the highest in the UK (11 per cent/ year). Product groups with the lowest market growth are cereals. Highest growth is expected in the segment of meat and convenience products. A majority of the experts have estimated higher demand than supply for fruits and vegetables, but no clear trends have emerged for other product categories (Table 4). Experts agreed that organic marketing structures need to improve with expected increases and that increased product range can help stimulate demand. They also concurred that new consumer groups should be targeted with new products and organic brands. They do not think that promotion should be based on risks associated with conventional food. They also felt that emotion-oriented promotional activities would be able to support the buying activities of occasional organic buyers.

FIGURE 3

Development of expert expectations relating to the annual market growth in select European countries between 2000 and 2003.



Source: Niggi et al., 2004.

TABLE 4

Expected market growth rates of the total organic market between 2002-2007 and for specific product categories in select European countries (%)

	DK	AT	CH	UK	DE	FR
Total Organic Market	1.5	4.6	4.5	11.0	4.8	6.1
Convenience products	3.3	8.4	7.0	8.8	7.3	10.0
Meat products	1.7	3.2	8.0	12.3	3.1	10.0
Dairy products	1.0	3.4	1.5	8.8	6.7	6.5
Fruit and vegetables	4.0	5.7	5.0	8.3	7.1	5.0
Cereals products	2.5	5.3	2.0	6.0	4.6	5.3

Source: OMIaRD project; Delphi inquiry

2.5.2 Prospects for organic products from Central America

The following descriptions are a consolidated summary of interviews with experts of the European organic market during this study. Therefore, the explanations represent an average for the sector and special product groups (see Annex 1).

Fresh fruits:

According a majority of the experts, demand for organic pineapples cannot be met with the existing supply. The shortage of fresh organic pineapples can be attributed to many factors: for example, both EU and BIO SUISSE regulations ban the use of chemicals to induce flowering. But since there are no homogeneous pineapple harvest processes for many farmers, they are not willing to produce pineapples without chemical induction. It has to be mentioned here, however, that there are farmers that use only natural techniques to induce flowering as far as possible or they just leave the pineapples to flower naturally. These factors cause a shortage of organic pineapples in the EU, especially for fresh pineapples, for which the potential demand is moderate to good, with annual growth rates of 0-5 per cent.

Although traders' estimates indicate that the potential demand for mangoes is moderate to good, there has been a shortage of fresh mangoes and low annual growth rates (0-5 per cent). This shortage can be attributed to the following reasons: production of small volumes of fresh mangoes during certain periods of fruit availability in the production regions; non-availability of the varieties in demand; demand seeing a growth during the festival season (e.g. Christmas); and prices being too exorbitant and the import quantities, small.

Shortages have been reported in the supply of other fruits such as papaya and avocado too. However, avocado has higher demand, with an annual growth rate of 6-11 per cent. Both fruits have some potential demand (moderate to good). Coconut sales grew annually at a rate of 6-11 per cent, and the market for the same has been estimated with a good potential demand. The demand for exotic fruits like guava, litchis and passion fruits is relatively small because European consumers do not use these in their staple diets. The import of such small volumes requires good logistic organisation by both the exporters and importers. The prices of certain exotic fruits are at times very steep due to special logistic procedures that need to be followed. In general, such exotic fruits have a higher demand during certain periods (e.g. Christmas). Litchis and passion fruits have been estimated with a good potential demand.

Dry fruits:

The demand and supply of dehydrated pineapples were estimated as "balanced" in the European market because of the small volumes that were required. Some traders felt that frozen dehydration will be more prevalent in the future compared with hot air or sun-drying techniques, especially in certain industries like the fabrication of muesli. Although dried mango is supplied to the European market, the quality of the produce determines whether it will be ordered or not. Dried mangoes have been estimated with a low annual growth rate since last two years, but are expected to have moderate to good potential demand in the following three years. Generally, it can be said that all dried organic fruits show the same growth patterns as mentioned before (balanced supply and demand, annual growth rates of 0-5 per cent and moderate to good potential demand in the following three years).

Processed fruits:

According to European experts, organic orange juice is already available in the market in sufficient quantities, and demand and supply are balanced. However, some traders reported a small shortfall in its supply, the reasons for which were not furnished. The annual growth rate of organic orange juice is between 6-11 per cent. In the case of pineapple juice, figures show some shortage of supply, which can be attributed to the high annual growth rate of 11-15 per cent and production constraints (e.g. chemical induction of flowering). This indicates that the demand is quite high at the moment. However, traders estimate the potential demand in the following three years to be moderate. The supply of mango pulp is higher than demand, and its annual growth rate is between 6-11 per cent. Mango pulp is mainly used as a mixture with other juices. Traders state that the potential demand for mango pulp will be moderate during the following three years. Papaya, lime, passion fruit and other exotic fruit juices (e.g. Araza etc.) play an insignificant role because these are mostly used in juice mixtures and the volume required is quite small. However, trendy exotic juices are in and the demand for these will improve in the coming years. For pineapple IQF, the demand and supply are balanced, probably due to the small volumes required. The surprise factor here is that the organic juices sector was estimated to show a moderate potential demand during the next three years. This is probably because of a lull in sale of other organic products in European countries and the increasing competition between key players in the sector. For example, the introduction of low-priced products that can compete strongly with high-priced organic products.

Pulses

Soy bean is one of the most-traded pulses in Europe. According to traders, there is a shortage of organic soy in the European market. This phenomenon could be attributed to the strong demand for soy from the fodder and oil industry. The fodder industry is looking for GMO-free soy products (a regulation in organic standards) which make actual supply of the bean more difficult. Even countries with a long-standing export tradition of organic soy are excluded because they cannot guarantee GMO-free beans. Therefore, countries like Brazil are in a hurry to declare large tracts of land as GMO-free in order to meet the high demands. Other factors that influence the rise in demand of organic soy are the use of soy in conventional channels for premium meat production. The consumption of premium meat declined when the produce was found to be made of GMO feedstuff. Therefore in this conventional channel, traders are replacing their traditional suppliers with organic soy suppliers. The organic oil industry replaces other vegetable oils (especially sunflower due to yield losses) for good quality and cheap soy oil. There are also organic soy-based dairy alternatives and meat

alternatives (tofu products) which have tremendous growth rates. These positive conditions might have played a role in obtaining annual sales growth rates of 11-15 per cent since 2002. Generally, traders estimated that pulses would have higher supply than actual demand (excluding soy beans). However, when the products were analysed individually, traders said some pulses had supply-demand imbalances like broad beans, green peas, red kidney beans and lentils which suffered a shortage. Yield losses and low quality were the main constraints in obtaining sufficient quantities of these pulses. On the other hand, there were no supply-demand imbalances in chickpeas, yellow peas and mung beans. It has to be borne in mind that the sales volumes of these pulses are relatively small (it is mainly used for industrial purposes) as direct consumption is low because Europeans are not used including pulses in their meals (exceptions are Spain, France).

Spices

According to traders, the potential demand for spices was moderate with a relatively small volume of supply. However, a shortage of certain varieties of spices was reported. This shortage was attributed to harvest failures, exporters not meeting consumer requirements and poor services. A close relationship between suppliers and customers is needed to determine consumer requirements and develop the organic spice that is needed. The diverse varieties of spices make it difficult to study the whole sector as one. Traders argued that if suppliers can assure customers of excellent product quality, good price, establish a long relationship with importers, good customer service, then it is possible for suppliers to find an opportunity in the European market. This means that active networking in the sector will be of use in future. Traders add that the market for organic spices is no longer ridden with a shortage of supply due to unavailability. In fact, they say there is surplus production of organic spices, but they are of poor quality or do not meet the requirements needed.

Commodities

In the organic commodities sector, organic cocoa is said to have a good potential demand even though the supply of this item is higher than the demand. But, according to traders, the chocolate industry evinced interest in producing organic chocolate with the two labels — that of organic and of Fairtrade. This factor influenced the annual sales growth rates of cocoa, which touched 16-20 per cent. It is a similar case with the other ingredients used in the chocolate industry like sugar and honey. Sales of organic sugar and honey are likely to increase as the potential demand for organic chocolates goes up. While the potential demand for organic sugar is moderate to good, the potential demand for honey is moderate. However, sugar and honey are also used by the beverage industry as a substitute for each other.

DISTRIBUTION STRUCTURE FOR TROPICAL ORGANIC PRODUCTS

For the distribution of tropical organic products, European traders use the supermarket chains as their primary sales channel followed by the wholesalers and the industrial sector. This means that the exporting countries have to meet the requirements of supermarkets. The results of the survey Figure 4 are in accordance with other studies carried out in the last few years.

GENERAL REMARKS OF KEY PLAYERS IN THE ORGANIC MARKET

The organic market for tropical fruits made a turn around during 2001-2002 from being a demand-driven market to a supply-driven one. Before 2001 most organic products were in short supply, but since 2002 the supply of organic products has increased and the market growth levelled in many vibrant markets (e.g. the UK). The higher the supply, the lower the premiums at all levels (producer, trader), as also the prices of organic products. In the last few years' premiums touched 45 per cent, but today premiums of less than 15 per cent are more realistic. The key to premiums (for both producers and exporters) is not just supplying organic products, but living up to the quality requirements of the customers (e.g. using IQF freezing, conforming to HACCP, EurepGap and ISO in general, and production against special specifications). Therefore, suppliers who can offer consistent high-quality products and ensure high-quality processing methods can demand better prices, and sometimes the only ones allowed deliver anyhow. This trend is likely to become even more significant in the near future. The following factors will drive the organic market in future. Several opportunities will present themselves to suppliers who can achieve the following points:

1. Continuous investment in quality systems
2. Good price
3. Full traceability
4. Upgraded processing (e.g. IQF freezing)
5. On-time delivery (excellent logistics from the supplier)
6. Delivery against product specifications
7. Good customer services

Moreover, double labelling (organic+Fairtrade) is gaining more and more importance.

2.6 FAIRTRADE MARKET: OVERVIEW AND STRUCTURE

2.6.1 Introduction

Organic agriculture and Fairtrade aims at reducing the trade and environmental issues caused due to human

impact on the global ecosystem (e.g. loss of natural resources) and poverty and inequality (e.g. people in industrialised countries earn 53 times more than those in underdeveloped countries). The organic agriculture and Fairtrade systems have been developed by NGOs to promote the production, trade and consumption of organic and Fairtrade products. NGOs and farmers' organisations take into account ecological and social concerns, involving monitoring, certification and labelling of organic products (Spoor, 2002).

On the one side the organizations working with a Labelling Scheme. These organizations have together founded the Fairtrade Labelling Organisation International (FLO). FLO is the association that sets the worldwide Fairtrade Standards that include social and ecological values, but more emphasize is put on social standards. FLO aims to improve the income and market position of poor farmers and workers in the developing countries, through the Fairtrade standards and by opening Fairtrade markets for them. The Fairtrade certifications are mostly carried out by local inspectors mandated by FLO-Cert GmbH, the independent certifying unit of FLO. The members of FLO are the National Initiatives (NIs) that promote together with the market players (retailers using the label on their products) to support fairer trade and the consumption such products.

In total there are 19 NIs, namely: in Europe (Fairtrade Austria; Max Havelaar Belgium; Max Havelaar Denmark; Max Havelaar France; TransFair Germany; Fairtrade Foundation UK; TransFair Italy; Fairtrade Mark Ireland; TransFair Minka Luxembourg; Stichting Max Havelaar Netherlands; Max Havelaar Norway; Reilun kauppa edistämisyhdistys ry. Finland; Rättvisemärkt Sweden; Max Havelaar Stiftung Switzerland), in America (Transfair Canada; TransFair USA; Comercio Justo Mexico) in Asia (Fairtrade Label Japan) and Oceania (Fair Trade Association of Australia & New Zealand).

On the other side you find organizations that are Fairtrade importers and traders. They are organized in two associations; EFTA (European Fair Trade Association) including the most important Alternative Fairtrade Organisations (ATO's) of Europe and the International Federation for Alternative Trade (IFAT) is a global network of Fair Trade organizations (FTO's). There is over 270 FTOs in 60 countries. Approximately 65% of the IFAT-members are based in the South (Asia, the Middle East, Africa and South America) with the rest coming from North America & the Pacific and Europe.

The IFAT-members are producer co-operatives and associations, export marketing companies, importers, retailers, national and regional Fair Trade networks and financial institutions, dedicated to the Fair Trade movement. They represent the Fairtrade trade chain from production to retail sales. The FTO's cooperate with each other by exchanging information about products and market needs and ways of meeting them, including

joint supply and marketing. All EFTA-members are members of IFAT as well.

2.6.2 General market overview

The Fairtrade system aims at improving the living conditions of producers in developing countries. Fairtrade products range from coffee, tea, sugar and rice to cocoa, honey and fresh fruits, and other manufactured products (e.g. textile). Almost all these products are likely to be grown or produced in Central American countries, but this review takes into account only those products that are most important for Central American farmers.

Fresh fruits:

Fairtrade producers of fresh fruits are concentrated in Africa and Latin America. According to the FLO, most of the organisations export their products independently. The Fairtrade fresh fruits that are in the market are bananas, exotic fruits such as pineapple, avocado, mango and citrus fruits (lemon, lime, orange, soft citrus). Some of these products are obtained from Central American countries like Costa Rica, Mexico, Brazil, Ecuador and Peru. The fresh fruit that has the highest sales is the banana. However, some Fairtrade producers' organisations in Brazil, Costa Rica and Ecuador either dry the bananas or make a puree out of them.

Seasonal fruits

The FLO reported that the number of certified producers of exotic fruits has increased in the last few years, as also the number of origin countries. In the UK, the market

for Fairtrade seasonal fresh fruits has been very dynamic in the last few years. Since 2004, the interest in seasonal fruits has grown in Italy, Switzerland, Germany, France, Belgium and The Netherlands too. Table 5 shows the demand for Fairtrade-labelled fresh fruits in 2004.

Year - round fruits

According to the FLO, there were sufficient volumes of pineapples and bananas all around the year in 2004. However, sales of Fairtrade pineapples were lower than potential production (about 200 MT/ month). For bananas, sufficient volumes were available: about 10,000 boxes a week of organic banana from Peru, Ecuador, and The Dominican Republic, and about 50,000 boxes of conventional bananas from Costa Rica, Ecuador, Colombia and The Windward Island. Fairtrade NIs, in conjunction with retailers, regularly organise promotional activities to increase banana sales, particularly in the UK, The Netherlands and Switzerland. In Switzerland, the last measured Fairtrade share of the banana market was 47 per cent. In 2004, bananas were one of the most dynamic products in the Fairtrade market.

Processed fruits

The FLO reported 21 juices Fairtrade producers had on offer. For example, Costa Rica offers organic banana puree, organic orange juice concentrate, NFC and pineapple juice concentrate. In Europe, the juice is usually blended by importers/ bottlers to suit consumer tastes. Brazil and USA (Florida) are the most important producers of orange juice concentrate in the world. Brazil exported about 748,471 tonnes of orange juice

TABLE 5

Demand for Fairtrade-labelled fresh fruits in 2004

Fresh fruits	Varieties	Origin	Period	EurepGap certification
Organic mango	Kent, Keit, Amelie	***	June- Nov	Yes
Conventional y/o Organic mango	Atulfo, Tommys or Kents	Mexico, Haiti, Brazil, Ecuador	March - Nov	Yes
Organic avocado	Hass	Any except South Africa	Oct - March	Yes
Organic pineapple	MD2	***	Year-round	Yes
Organic orange	Navel, Valencia	Morocco, Egypt	Year-round	Yes
Organic lime	Seedless lime / Florida lime / Tahiti lime	***	***	Yes

Source: FLO 2004

*** = unavailable information

concentrate to Europe in 2001-02, of which the FLO producers' share is approximately 2,000 tonnes (1,800,000 kg). Most of the juices are in the form of a concentrate. There are different varieties of orange juice concentrates available. The varieties differ in ratio/ brix and also depend on the origin of the juice. During orange juice production, it is a common practice to blend concentrates from different producers and/ or countries to attain the quality/ taste that has been specified by the consumers. Orange juice concentrate is transported frozen in barrels (about 70 barrels in one refrigerated container). The following are the fruit juices that are on offer:

- Organic orange juice concentrate and NFC
- Organic mango pulp
- Organic guava pulp
- Organic lime juice
- Organic banana puree or concentrate
- Orange juice concentrate and NFC
- Pink and white grapefruit concentrate and NFC
- Pineapple juice concentrate
- Mango pulp
- Guava pulp
- Lime juice
- Banana puree or concentrate.

The main distribution channels for fruit juices are retail supermarkets and alternative trading organisations (ATOs). The sales of juices are ever increasing due to the several different flavours on offer, and the National Initiatives introducing juice. A growth rate of 36 per cent could be realised in 2003. There is a trend in some European countries to opt for organic juices, which is now on offer there. The world market price was far below the FLO minimum price for orange juice at US\$ 700-900 in 2003. There are price fluctuations in "trendy" juices because the taste/ demand changes quickly. Two of the most important Fairtrade juice markets are France and Switzerland.

Commodities

There are 9 Fairtrade cocoa producers' organisations in Latin America (e.g. Costa Rica, Nicaragua, The Dominican Republic, etc.). Most of these organisations export cocoa independently. In Europe, there are 28 importers, grinders and manufacturers, and 47 licensees who are ensuring that the end product reaches the customer. Fairtrade-labelled cocoa is sold in 15 European FLO member countries. Since 1997, Fairtrade cocoa imports have been increasing every year in Europe. The main importers are the UK, Italy, Germany, Switzerland and France. The amount of Fairtrade cocoa imported by these four countries touched 2,500 metric tonnes in 2003.

There are nine Fairtrade sugar producers' organisations in Latin America (e.g. Paraguay, Costa Rica, Ecuador and Peru). These organisations supply raw, speciality raw and white refined sugar, and a part of the Fairtrade sugar is also organic. Imported Fairtrade sugar is either used as pure sugar or as an ingredient in Fairtrade-labelled composite products such as chocolate bars or cereal bars. Like cocoa, Fairtrade sales of sugar have been increasing in the last few years. In 2003, Switzerland was the main importer (304 metric tonnes) in comparison with other Western European countries.

There are 23 Fairtrade honey producers' organisations in Central America, who export the produce independently. In Europe, 20 importers, manufacturers and packagers, and 13 licensees were registered in 2004. The producers' organisations supply different types of honey (e.g. poly-floral, mono-floral and orange blossom honey) which complies with the EU and Swiss quality standards. There are two important markets for Fairtrade honey: Switzerland, where honey was for the first time labelled in 1993, and Germany. Growing markets are the UK, Italy and Belgium. Since 2003, Fairtrade honey is also sold in France. The sales of Fairtrade honey decreased in 2002. The recuperation started in 2003 at a very low level.

2.6.3 Fairtrade market prospects

THE FAIRTRADE MARKET IN SOME WESTERN EUROPEAN COUNTRIES

The Western European Fairtrade markets were clustered according the phase of market development (see 2.1.1.) based on interviews of experts during this study. The results might suggest that most of the countries were in the "growth" market phase due to a rise in consumer interest in Fairtrade products over the last few years. According to the FLO, the global sales volumes generated by labelled Fairtrade products since 1997 (25,972 MT) grew more than 200 per cent until 2003 (81,990 MT). This data includes only the sales of food Fairtrade products in Europe, Canada, USA and Japan.

TABLE 6

Countries clustered by the phase of Fairtrade market development

Mature market countries	Growth market countries	Emerging market countries
United Kingdom Switzerland	The Netherlands Germany France Italy Belgium	Austria Denmark Spain

TABLE 7

European sales volumes of labelled Fairtrade products (2002-2003) (in MTs)

Country	2002 (MT)	2003 (MT)	Growth in %	Market State
United Kingdom	15,027.0	24,211.8	62.1	Mature
Switzerland	18,484.8	23,336.4	26.2	
Netherlands	5,400.4	5,997.7	11.1	Growth
Germany	4,295.0	4,216.8	-1.8	
France	2,240.6	4,058.9	81.2	
Italy	659.6	3,329.5	404.7	
Belgium	2,039.8	3,137.1	53.8	
Finland	2,993.3	2,684.3	-10.3	Emerging
Austria	2,346.3	2,537.4	8.1	
Denmark	1,062.0	1,404.0	32.2	
Sweden	941.4	1,157.0	22.9	
Norway	432.0	673.7	56.0	
Ireland	61.0	488.8	701.3	
Luxembourg	288.7	278.5	-3.5	
	56,272	77,512	37.75	

Source: FLO 2004

TABLE 8

Sale volumes of labelled Fairtrade products (2001-2003) (in MTs)

Fairtrade products	2001 (MT)	2002 (MT)	2003 (MT)	Average/Growth 2001-2003 (%)
Bananas (fresh)	29,072.46	36,641.19	51,336.09	33
Coffee	12,791.82	13,365.25	15,651.10	11
Cocoa	1,451.98	1,611.40	2,497.22	33
Juices	966.21	1,386.56	1,889.54	40
Fresh fruits	--	--	1,663.09	--
Tea	1,046.10	1,199.02	1,454.16	18
Honey	1,071.35	1,038.41	1,163.67	4
Sugar	466.90	637.76	1,133.30	57
Rice	--	392.30	544.86	--
Others	--	--	178.80	--

Source: FLO 2004

TABLE 9

Supply-demand imbalances of Fairtrade products

Category	Under supply	Shortage supply	Balanced supply and demand	Supply higher than demand	Over supply
Fresh fruits	Mango		Avocado Banana Pineapple		
Processed fruits	Passion fruit juice	Pineapple juice	Banana puree Grapefruit juice Guava pulp Lime juice Mango pulp Orange juice		
Grains			Rice		
Commodities	Cocoa Honey		Sugar		Coffee Tea

In Europe, mature markets such as Switzerland and the UK show the highest sales volume of Fairtrade products (Table 7). Both countries sold almost 48,000 MTs of Fairtrade products. These countries are closely followed by countries that are in the growing phase: The Netherlands, Germany, France, Italy and Belgium. Countries with an emerging market include Finland, Austria, Denmark, Sweden, Norway, Ireland and Luxembourg. These countries do not exceed sales volumes of 3,000 MTs. The European Fairtrade market sales volumes grew about 38 per cent from 2002 to 2003.

Fairtrade bananas are one of the most-purchased products in Europe. In 2003, Fairtrade bananas reached a sales volume of more than 51 thousand MTs in Europe, followed by coffee and cocoa. However, Fairtrade products that showed a high average sales volume growth rates (greater than 20 per cent) between 2001 and 2003 are: sugar (57 per cent), juices (40 per cent), cocoa and bananas (33 per cent).

Fairtrade experts estimated the market with a shortage of cocoa, honey, fresh mangoes and passion fruit juice (Table 9). Pineapple juice is also facing a shortfall in supply, mainly due to bad quality, logistic reasons and small volume of production by the producers' groups. Other products were mostly estimated with a balanced supply-demand, except for Fairtrade coffee and tea which is in excess supply across Europe.

In order to describe in detail the Fairtrade market in a mature market country, Switzerland was taken as example.

FAIRTRADE PRODUCTS IN SWITZERLAND

According to Swiss experts, 47 per cent of the total sales of fresh bananas are Fairtrade labelled. In 2004, the volume of Fairtrade bananas reached about 31,900 MTs, which represented a 68-per cent rise in sales volumes between 2003 and 2004 (the average sales volume growth rate between 2001 and 2004 was 36 per cent). Nineteen per cent of the Fairtrade-labelled bananas also carry the organic label in Switzerland. Coop, a Swiss supermarket chain, offers all bananas as 100 per cent Fairtrade. Besides fresh bananas, dry and cooking bananas are also imported as Fairtrade products into the Swiss market (Table 10).

In the Swiss market, pineapples began to be offered as a Fairtrade product during the end of 2002 and made available all year round in 2003. In 2004, Fairtrade pineapples reached a market share of 15 per cent. The sales volumes that year were 808 MTs, which represented a growth rate of 71 per cent between 2003 and 2004. The main suppliers of Fairtrade pineapples are Costa Rica (variety: extra sweet) and Ghana (variety: Cayenne Lisse).

Certified Fairtrade mangoes were launched in the Swiss market in the beginning of 2003. However, there were supply-demand imbalances during the year, which made continued supply impossible, especially before Christmas. In 2004, the sales of Fairtrade mangoes were only 71 metric tonnes, which represented a small market share of 3 per cent. Of these Fairtrade-labelled mangoes, 10 per cent were organic in quality.

Among the Fairtrade juices in the Swiss market, orange juice plays an important role. According to experts, 6 per cent of the total Swiss orange juice market purchases

Fairtrade orange juice. This translates into about 3.9 million litres of Fairtrade orange juice per annum. The main exporter is Brazil with an 80-per cent market share. Volumes of Fairtrade orange juice sales grew about 16 per cent between 2003 and 2004.

Fairtrade sugar is produced mostly from sugarcane procured from Central American countries and co-operatives in the Philippines. The Fairtrade Swiss sugar market showed an average sales volume growth rate of 46 per cent between 2001 and 2004. In 2004, the market share of Fairtrade sugar was 9 per cent of the total sugar sale in Switzerland. Of this, more than 90 per cent was organic produce (2 per cent increment in 2003-2004). In the Swiss market, four varieties of Fairtrade sugars are on offer: white crystal sugar, organic-crystal sugar and sugar cubes (golden light), and the mineral-rich mascobado sugar. Fairtrade sugar plays an important part in the production of different kinds of Fairtrade sweets like chocolates. For a product to be labelled Fairtrade (in this case Max Havelaar), it is mandatory that at least 50 per cent of the raw materials (dry weight) should have been produced under Fairtrade standards. In the case of the chocolate industry, export is expected to be promoted in the following years, a trend that will increase the demand for Fairtrade sugar.

In the Swiss market, honey was one of the first Fairtrade-labelled products launched by Max Havelaar. More than 22 types of Fairtrade honey were launched in 2004, a year when the Fairtrade market share of honey reached 14 per cent. However, a global shortage of honey supply sent the prices soaring, which caused the sales of Fairtrade honey to dip 10 per cent. Its average sales volume growth rate between 2001-2004 was only 3 per cent. Of all Fairtrade-labelled honey in 2004, 2 per cent were of organic quality.

After sugar (46 per cent) and bananas (36 per cent), Fairtrade cocoa had an average sales volume growth rate of 12 per cent between 2001 and 2004. However, in 2004 the market share of Fairtrade cocoa reached only 1 per cent. Of its total sales volume of 333 MTs, 276 MTs were of organic quality (83 per cent).

Experts estimated the potential demand for specific Fairtrade products until 2008 (ranging between poor, moderate, moderate to good, good, good to very good, and very good) as follows:

- Avocado: good to very good potential demand (reason: the product has been recently labelled as Fairtrade).

TABLE 10

Fairtrade products in Switzerland, volumes in MTs, growth and market share

Product	2001 MT	2002 MT	2003 MT	2004 MT	Growth 01-02	Growth 02-03	Growth 03-04	Growth Average 01-04	Market share 04	Organic share 04	Organic growth share
Banana	13,170	15,119	19,002	31,897	15%	26%	68%	36%	47%	19%	-35%
Pineapple	--	--	--	808	--	--	71%	--	15%	--	--
Mango	--	--	--	71	--	--	-2%	--	3%	--	--
Banana (dry)	--	--	--	25	--	--	5%	--	--	--	--
Flower (roses)*	--	--	--	88,500	--	--	23%	--	28%	--	--
Orange juice**	--	--	--	3,900	--	--	16%	--	6%	--	--
Rice	--	369	417	948	--	13%	127%	--	6%	27%	453%
Sugar	104	196	304	227	88%	55%	-4%	46%	9%	92%	2%
Honey	369	385	438	395	4%	14%	-10%	3%	14%	2%	-47%
Cocoa	213	254	275	333	19%	8%	8%	12%	1%	83%	4%
Coffee	1,306	1,246	1,550	1,496	-5%	24%	-3%	5%	6%	56%	29%
Tea	41	42	37	35	2%	-12%	-4%	-5%	5%	40%	7%
Iced tea	--	--	--	449,000	--	--	181%	181%	0.3	17%	--

* number of cut flowers; ** litres.

Source: Max Havelaar, Switzerland 2004 and FLO 2004.

- Other products with a good potential demand were coconuts, fresh pineapples, dried mangoes, rice, spices, nuts, cocoa and sugar.
- Generally, the juices were estimated with a moderate potential demand.
- Dried pineapple: poor potential demand (reason: its sales volumes reached only 24 MTs in 2004).

SALES CHANNELS OF FAIRTRADE PRODUCTS IN SWITZERLAND

According Fairtrade experts, in Switzerland the main sales channels for the fresh bananas are supermarket chains and will remain so during the next five years. Although the supermarket chains play an important role in the sales of avocado, mango and pineapple, experts estimate a 10-per cent drop in the next five years. The processing industry (5 per cent) and the catering sector (3 per cent) will also gain space in this market.

GENERAL REMARKS OF KEY PLAYERS IN THE FAIRTRADE MARKET

The actual state of the Fairtrade market is very promising for both suppliers and products. In general, there has been a continuous growth of Fairtrade-labelled products across Europe. Fairtrade organisations are continuously expanding the Fairtrade product range with an aim of reaching new farmers and workers in developing countries. New product development will be a very important issue in the Fairtrade market in future. At the producers' end, product range extension is important because it allows new producers and workers to join Fairtrade. Also, for producers of existing products like coffee, new products create opportunities to diversify production and reduce their dependency on just one crop.

In the market, there is a demand for expansion of the Fairtrade-labelled product range and for many companies involved, a broad product range is crucial for their economic viability. Supermarket chains should invest in promoting Fairtrade products when the range of products is significant, as it helps increase awareness about the Fairtrade certification mark. Supermarkets also wish to have a double-labelled product (Fairtrade+organic).

Some of the products that are currently under development

- Avocado and other fresh fruits and vegetables
- Quinoa and other cereals
- Various spices
- Dry fruits and nuts

As for organic products, the following factors will drive the Fairtrade market:

- Continuous investments in quality systems
- Full traceability
- Upgraded processing (e.g. IQF freezing)
- On-time delivery (excellent logistics from the supplier)
- Delivery against specifications
- Good customer services

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4. USEFUL WEB INFORMATION

WORLD

<http://www.wto.org/>
<http://www.intracen.org/>
<http://www.ifoam.org>
<http://www.biofach.de/main/Page.html>
<http://www.soel.de/oekolandbau/weltweit.html>
<http://www.fao.org/organicag/default.htm>

EUROPEAN UNION

http://europa.eu.int/eur-lex/de/consleg/main/1991/en_1991R2092_index.html
<http://www.european-accreditation.org/>
<http://www.europa.eu.int/eur-lex/>
<http://www.organic-europe.net>
<http://www.organicTS.com>
<http://www.eisfom.org>

SWITZERLAND

http://www.admin.ch/d/sr/c910_181.html
<http://www.blw.admin.ch/themen/aw/bio/e/index.htm#links>
<http://www.zoll.admin.ch>
<http://www.sippo.ch>
<http://www.biosuisse.ch>
<http://www.demeter.net>
<http://www.fibl.org>
<http://naturaplan.coop.ch/>
<http://www.engagement.ch/>
<http://www.miosphere.ch/>
<http://www.bionetz.ch>
<http://www.sqs.com>
<http://www.imo.ch>
<http://www.bio-inspecta.ch/>

FAIRTRADE

<http://www.fairtrade.net>
<http://www.ifat.org>
<http://www.eftafairtrade.org/efta.asp>
<http://www.maxhavelaar.ch/>

5. ANNEX

SUPPLY-DEMAND IMBALANCES OF ORGANIC PRODUCTS

One of the factors that had helped develop the European markets (e.g. Switzerland) is a balanced supply-demand relationship. The supply and the demand reach the same level. Under these conditions, products

sales are for most involved in the market satisfactory. If there is a product shortage (e.g. low product availability, not meeting requirements, harvest failure, etc.), new exporters will have many opportunities, whereas if there is surplus supply, new suppliers will not find new opportunities (importers will impose more restrictions on new suppliers).

ANNEX 1					
Supply-demand balances of the most important export product groups from Central America					
Category	Under supply	Shortage supply	Balanced supply and demand	Supply higher than demand	Over supply
Fresh fruits	Guava Litchis Passion fruit Pineapple Tamarind	Avocado Mango Papaya	Banana Coconuts		
Dry fruits			Banana Mango Papaya Pineapple		
Processed fruits		Pineapple juice	Guava pulp Lime juice Orange juice Pineapple IQF	Banana puree Mango pulp	
Pulses	Broad beans Soy	Green pea Lentil Red Kidney	Beans Chickpeas Mung bean	Pulses	
Spices	Spices				
Nuts	Almonds		Nuts Hazelnut		
Grains	Flax Sunflower		Maize Millet Rice Sesame		
Commodities			Honey	Cocoa Sugar	Coffee

ANNEX 2

Annual sales growth rates of organic products from 2002-2005

Category	0-5 %	6-11 %	11-15 %	16-20 %	>20 %
Fresh fruits	Banana Litchis Mango Papaya Pineapple	Avocado Coconuts Guava Passion fruit			
Dried fruits	Banana Mango Papaya Pineapple				
Processed fruits	Banana Guava pulp Lime juice Pineapple IQF	Mango pulp Orange Juices	Pineapple juice		
Pulses		Pulses Lentil	Soy		
Spices	Spices				
Nuts			Nuts		
Grains	Maize Millet Sesame	Flax			
Commodities	Honey			Cocoa	Coffee

POTENTIAL DEMAND FOR ORGANIC PRODUCTS

The table below indicates the average potential demand for organic products during the next three years (2005–2008). The scale of responses covers poor, poor-

moderate, moderate, moderate-good, good, good-very good and very good potential demand expectations. Only a few traders gave poor potential demand for some products. However, when all the answers were averaged per product, the result shows only three main scales.

ANNEX 3

Potential growth demand for organic products between 2005-2008s

Category	Moderate	Moderate to Good	Good
Fresh fruits		Avocado Banana Papaya Pineapple	Coconuts Litchis Mango Passion fruits
Dried fruits		Banana Mango Papaya Pineapple	
Processed fruits	Banana puree Guava pulp Lime juice Mango pulp Orange juice Pineapple juice		
Pulses	Pulses Chickpea Green pea Lentil Mung bean Red kidney Soya Yellow pea		
Spices	Spices		
Nuts	Nut		
Grains	Flax Maize Millet Sesame	Rice	
Commodities	Honey	Sugar	Cocoa Coffee