Organic supply chain

- General trends

> Salvador V. Garibay

> Biofach 2007
Actually... 31 million hectares are managed organically representing at least 633,891 farms in the world.

<table>
<thead>
<tr>
<th>Country</th>
<th>Acres (Ha)</th>
<th>Percentage of Total Agricultural Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.8 millions</td>
<td>2.7%</td>
</tr>
<tr>
<td>Argentina</td>
<td>3.1 millions</td>
<td>2.4%</td>
</tr>
<tr>
<td>Italia</td>
<td>1.1 millions</td>
<td>8.4%</td>
</tr>
<tr>
<td>United States</td>
<td>1.6 millions</td>
<td>0.5%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.009538 millions</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

There has been major growth of organic land in North America and in Europe.
## Share of organic products

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2-2.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>1-3%</td>
</tr>
<tr>
<td>Canada</td>
<td>0.9-1%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.35-0.45%</td>
</tr>
</tbody>
</table>
Growth of the organic global market

>1997: 10 000 millions of USD
>2003: 25 000 millions of USD
>2005: 33 000 millions of USD

>Global sales of agrochemicals in 2005: 32 000 millions of USD
>Food sales of Wall Mart in USA (estimated): 70 000 millions of USD
The organic market grows strongly

> Average growth of the food market: 4-5% annually

> Average growth of the organic food market: 15% annually
Which organic products grow faster?

> Fresh fruit and vegetables represent 40% of the sales and growth 8.4% annually.

> Milk products, cereals, bread, convenience food, frozen food and baby food represent 60% of the sales and growth a 36% annually.
Where are the organic products mostly sold?

> 1991: 7% of the sales were in the supermarkets, 93% organic shops, fairs and direct sales.

> 2003: 50% (or more) of the sales are were in the supermarkets.

> Denmark: 85%
> Argentina: 80%
> USA: 50%
> United Kingdom: 80%
> Italy: 45%
> Costa Rica: 64% exports, 35% supermarkets and 1% others
Distributions channels in Europe

Sources: HAMM et al., 2002
Distribution channels of organic products in Switzerland

More than 75% of organic products are sale in the supermarkets

Sales of organic products: 1056 millions CHF

Source: BIO SUISSE, FiBL
Some principal companies owners of organic labels

> Coca Cola
> Kraft
> Kellogg
> Dole
> Heinz
> Novartis
> General Mills
> and others...
General trends on the growth of the organic market:

> The demand grows strongly, *the supply slowly*.

> The demand for processed products grows more than the demand of fresh products.

> Concentration of labels in hand of companies.

> Concentration of the sales in hand of companies (supermarkets).
Which implication has this trend for the organic producer?

> The companies (industry and supermarkets) demand: volume, regularly supply, quality, certifications, specifications, *the prices many cases do not cover the production cost.*

> The buyers of the supermarkets have little solidarity with the farmers.

> The small and mediums farmers are not in a win-win relation with the companies.
Requirements from the traders

> EUREPGAP

> EUREP: EUro-REtailer Produce Working Group →

> GAP: Buenas Practicas Agricolas

> EUREPGAP: una organización sin fines de lucro
There are a concentration of the supply chain in few companies:

Consumers

- Determine the prices

Determine the prices and others

- supermarkets
- and distributors

Producers
The market is the organizer element in the farm

> In organic agriculture, the environment, the producer and its culture should be the organizer elements of the farm.

> The market determine the rules for the farmer and as consequence the decisions taken on the farm as for example which varieties, agronomical management, biodiversity in the farm, landscape and provoke the invisibility of the farmer.
USA trends

> The company Horizon Organic Dairy controls the 70% of the organic milk market in the USA.

> In 2001, Horizon Organic Dairy bought a small organic company and change the agreements with the milk producers.

> The same year, the milk producers suffering a reduction of their earnings of about 15,000 USD per family.

> The same year, Horizon Organic Dairy increased their earnings 200%...
Latin America trends

> Wall Mart have an aggressive expansion strategy in Latin America (buying or forming alliances with national supermarkets.

> Its politic of low prices for organic products reduce the possibility that farmers initiate with the conversion or worst to abandon the organic production.

> The low supply volumes of a specific organic product is substitute with the importation of cheap organic products.
Switzerland changing rules
Switzerland organic market

- Switzerland (still) has the highest consumption of organic products per capita in Europe

- In 2005: Stagnation of the organic market
  - Reason 1: strong emphasis of the development of the discount segment (Prix Garantie; M-Budget)
  - Reason 2: strong emphasis of the conventional on premium segment (Heidi; Fine-Food, Selection)
  - Reason 3: much consumer shift to alternatives of lower prices as those of integral production and friendly animal production but also to lower priced organic products
What are the possible consequences?

Farmers abandon the organic production and go back to the conventional production.

Farmers try to develop direct relationship between them and the consumers (several examples).
Which possible strategies can be used in order to promote further development of organic agriculture and the consumption of organic products?
Trade structure in the Swiss organic market (more price transparency)

Source: FiBL
Converge strongly the concept of organic and fair trade, “also in Europe”

<table>
<thead>
<tr>
<th>Product</th>
<th>Growth</th>
<th>Market share</th>
<th>Organic market share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004/2003</td>
<td>2004</td>
<td>2004</td>
</tr>
<tr>
<td>Sugar</td>
<td>-4%</td>
<td>9%</td>
<td>92%</td>
</tr>
<tr>
<td>Cocoa</td>
<td>8%</td>
<td>1%</td>
<td>83%</td>
</tr>
<tr>
<td>Coffee</td>
<td>-3%</td>
<td>6%</td>
<td>56%</td>
</tr>
<tr>
<td>Tea</td>
<td>-4%</td>
<td>5%</td>
<td>40%</td>
</tr>
<tr>
<td>Rice</td>
<td>127%</td>
<td>6%</td>
<td>27%</td>
</tr>
<tr>
<td>Banana</td>
<td>68%</td>
<td>47%</td>
<td>19%</td>
</tr>
<tr>
<td>Iced tea</td>
<td>181%</td>
<td>0.3</td>
<td>17%</td>
</tr>
<tr>
<td>Mango</td>
<td>-2%</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>Honey</td>
<td>-10%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>Pineapple</td>
<td>71%</td>
<td>15%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: FiBL
The reasons of buying organic products

1. Less chemicals and poisson: 46%
2. Health: 40%
3. Friendly animal production: 37%
4. Higher quality: 22%
5. Support of the environment: 15%
6. Support to organic agriculture: 11%
7. Products with intensive flavors: 9%
8. Food scandals: 9%
9. Specials offers (discounts): 5%

I do not know/no reason: 9%
Promotion of regional specialties

> Productos orgánicos con la yema
> Actualmente 100 productos de 30 regiones de la Suiza
> Productos frescos de una sola materia prima 100% de la región, productos agrícolas mezclados 90%
> Procesamiento si es siempre posible en la región
> Distribución local, regional o también nacional

A) Distribución solamente local en el origen del producto
B) Distribución regional, ejemplo en una VRE
C) Distribución nacional
Emotional campaign
Make visible the farmer to consumers
I eat organic to reduce global warming.

What do you do?

Know your options:

Every organic apple contributes to 12 grams of carbon fixation.