Analysis of the European market for organic food

ORGANIC MARKETING INITIATIVES AND RURAL DEVELOPMENT: VOLUME ONE

Summary

ULRICH HAMM
FRIEDERIKE GRONEFELD
DARREN HALPIN

This summary is taken from the book 'Analysis of the European market for organic food'

Published by:

School Of Management & Business

Prifysgol Cymru Aberystwyth The University of Wales

School of Management and Business
Cledwyn Building
University of Wales Aberystwyth
Penglais
Aberystwyth
Ceredigion SY23 3DD
Wales, United Kingdom

ISBN 0-9543270-0-4

A CIP catalogue record for this book is available from the British Library.

ACKNOWLEDGEMENT

The authors gratefully acknowledge financial support from the Commission of the European Communities, under the European Union's Fifth Framework for Research and Technological Development Programme, for the project "Organic Marketing Initiatives and Rural Development" QLK5-2000-01124.

Our thanks also go to Jenny Halpin for language correction of the manuscript and to Dr. Verena Korr for her work in preparing charts and tables.

Prof. Dr. Ulrich Hamm and Dipl.-Agr. Biol. Friederike Gronefeld
Neubrandenburg University of Applied Sciences
Brodaer Str. 2
17033 Neubrandenburg
Germany
Tel: + 49 395 5693-209 or -239
Fax: + 49 395 5693-299
E-mail: hamm@fh-nb.de or gronefeld@fh-nb.de

Dr. Darren Halpin
Centre for Social Research
Edith Cowan University
Perth, Western Australia, 6027
Australia

SUMMARY

Most contemporary European governments are seeking to promote organic farming, for a variety of reasons. Organic farming is recognised as a significant contributor to sustainable agricultural development, and additionally can help to reduce surplus production from conventional agriculture. A more immediate additional concern is the growing number of food scandals over the last few years, which have raised the awareness of all actors within the food market concerning the quality of our food. Although organic farmers are not immune to diseases such as BSE, they produce safer products by working to strict production guidelines where, for example, use of pesticides is forbidden, antibiotics cannot be used as prophylactic medicine for animals, and farm self-sufficiency in animal feed is maximised. Organic products, as we define them in this study, are produced according to EU Reg. 2092/91 for organic plant production and EU Reg. 1804/99 for organic animal husbandry.

Although the area devoted to organic production has increased more than five-fold between 1993 and 2000, and organic farming now receives additional financial support in most European countries, it is still virtually impossible to obtain accurate data about the organic market from official statistics. Typically, the only official data describe the number of organic farms and their area; published statistics on organic agricultural production, consumption, imports, exports and prices do not exist.

Without such market data, producers, processors or traders cannot identify where there are deficits and oversupply in the market, and hence which products are worth producing and selling. For all agricultural producers it is difficult to respond as quickly to evolving customer demand than in other lines of industrial activity, due to lengthier production cycles and, because of the climatic factors involved, it is also more difficult to plan volumes. For conventional farmers deciding to switch to organic methods, the three-year conversion period further delays the appearance of the product on the market. The lack of reliable market data, collected systematically over several years, also makes it difficult to predict the development of consumer demand.

The aim of this study is to analyse all important aspects of the organic market, in order to provide both market actors and agricultural policymakers with reliable advice about its development in Europe, and about general factors that promote or hamper market growth. In order to achieve this, we have undertaken comprehensive data collection on organic

agriculture in the year 2000 in a style similar to the research conducted by Michelsen *et al*. (1999). The study forms part of the EU project OMIaRD (Organic Marketing Initiatives and Rural Development) which has the overall aim of investigating the factors influencing the success and failure of organic marketing initiatives and their impact on rural development. Organic marketing initiatives (OMIs) are associations of producers, processors and traders who work together in the marketing of organic products in particular regions. To assess the economic success of these marketing initiatives it is necessary to have a detailed insight into the respective national organic markets, as a basis for comparison. Eight partner countries are working together in this project, as well as subcontractors from the eleven other European countries involved. Investigations have been conducted in all EU countries, two Accession countries (the Czech Republic and Slovenia) and two EFTA countries (Norway and Switzerland).

Michelsen et al. (1999)[1], in the framework of a previous EU project, conducted the most recent previous comprehensive inquiry on a European level, sending questionnaires to market experts in all EU countries, two EFTA countries and one Accession country. The data collected on production, consumption, sales channels and promotion were for the years 1997 and 1998. As noted, since then organic production has increased greatly in almost all European countries, and for this reason a re-assessment is urgently required to update and supplement the information compiled then.

We have used a similar questionnaire to that used by Michelsen et al. The information requested encompassed data on organic production, organic consumption, organic imports and exports, organic supply deficits, organic farmer and consumer prices, and organic farmer and consumer price premiums (the additional cost above the price for the same conventional product). Questions related to the most important organic plant and animal products, including cereals, oilseeds, potatoes, vegetables, fruit, wine, milk, beef, sheep and goat meat, pork, poultry and eggs. The questionnaire was sent to a number of market experts in each of the nineteen countries investigated. Their responses have been cross-checked for reliability, and in many cases we have obtained additional data from Internet and other sources to confirm and supplement the data gathered from the questionnaires. On such a scale, the data search was demanding, labour-intensive, and inevitably not without difficulty,

[1] Michelsen, J., U.Hamm, E. Wynen, and E. Roth (1999): The European Market for Organic Products: Growth and Development. Organic Farming in Europe: Economics and Policy, vol.7, University of Hohenheim

although by adopting a coherent approach and cross-checking we are confident that the estimates reported are the best available and can be used to assess, in broad order of magnitude, the significance of the organic market in the countries studied.

Organic production was recorded both by volume and as a share of total (organic and conventional) production. Although organic products are increasing in supply volume, their share of total production in the EU remained low for all products in the survey, ranging from 0.2% for organic pork up to 2.3% for organic fruit. On average, Denmark and Austria had by far the highest organic share of total food production in 2000, with 6% and 5% respectively. Switzerland, Finland and Sweden had an overall production share of around 3%, followed by Germany with 2.2%. The lowest organic production shares were recorded in Spain, Greece and Ireland, with the organic share of total production at less than 0.4%.

Information about organic consumption was also recorded by volume and as a percentage of consumption of different food products (described as market share by volume). Again, Denmark and Austria were the leading countries in terms of overall average market share by volume, when all product groups are considered together. Comparison of the average production share of a country with its average market share by volume revealed that there was a significant positive correlation between the share of organic production and the market share by volume.

The involvement of different sales channels within the market for organic food was analysed. Here results revealed that, in most cases, the countries with a high market share by volume also had a high percentage of organic food sold through general food shops, such as multiple retailers.

The promotion of organic food was also investigated. In thirteen of the nineteen European countries investigated, a common label for organic products exists. However, the degree of consumer recognition of the label varied from just 2% in Germany up to 100% in Denmark. Market experts were also asked to identify sales arguments used to justify the price premium for organic products; the most important was food safety, followed by nature conservation and taste.

As well as trade within the European countries studied, foreign trade in organic products was investigated, although very few experts were able to confidently estimate the amount of organic products imported to, or exported from, their respective countries. Data on organic imports and

exports are reported here in two ways: firstly, in absolute figures presented as physical quantities, and secondly, as the percentage share that organic imports and exports, respectively, comprise of domestic organic consumption. For plant products, the results for 2000 clearly show that the EU was a net importer of cereals, oilseeds, potatoes and vegetables. On the other hand, the EU was a net exporter of organic olives and organic wine. In contrast, the importance of organic animal products for international trade was rather less. The EU was a net importer of organic beef, sheep and goat meat, but was a net exporter of organic milk and especially of cheese.

After separate analyses of the supply and demand of organic products, both were combined to ascertain the extent of organic market balance in each country studied. One measure of the relation between supply and demand is the degree of self-sufficiency, calculated by dividing domestic organic production by consumption. This quantitative method was supplemented by a more qualitative assessment for each country, recording products for which demand was higher than domestic production plus imports. In many northern European countries a deficiency in fruit and vegetable supply was recorded; generally, these countries rely greatly on imports from southern European countries. There was a general deficiency in supply of organic animal products, especially of eggs, poultry and pork; it must be noted that the supply of organic animal products relies on the availability of reasonably priced organic animal feed, and this often is a limiting factor.

Prices for organic food were recorded at the producer and at the consumer level in this report. Both organic and conventional prices were surveyed at the same time and in comparable sales channels in order to calculate the price premium. The price premium is the additional percentage amount charged for organic products when compared with the price for the comparable conventional product. Considerable price differences, even between neighbouring countries, show that organic market transparency was particularly poor. With regard to farm-gate prices of cereals and animal products it can be stated that in countries with low farm-gate prices for the conventional product, the organic price premiums were also low, and vice versa. The EU average for consumer price premiums in 2000 varied from 31% for organic red table wine up to 113% for organic chicken. Price premiums also varied between different countries, and distribution by sales channels played an important role in this regard. In countries where general food shops were very active in the marketing of organic food, consumer price premiums were usually lower than in countries where organic food shops or direct sales provided the main channels.

On the basis of our results it was possible to determine both the factors of success and the bottlenecks impeding development of the organic market in Europe. To achieve this we have attempted to classify all investigated countries into several groups according to similar parameter values.

Our approach was to use the organic market share by volume of a country to measure the degree of maturity of its organic market. It appears that the market share by volume is dependent to a large extent on the share of total organic food sales in general food shops. This suggests that the involvement of general food retailers in the organic food market is of prime importance and should be increased in order to raise the market share of organic products.

The importance of general food shops as a sales channel for organic products is underlined by the fact that consumer price premiums for these products were lower in countries with a high involvement of general food retailers. In Denmark, Austria and Switzerland, the three leading countries in market share by volume of organic products, consumer price premiums for many of the surveyed products were 20% lower than the weighted EU average. One contributing factor is lower distribution costs; it is cheaper to transport larger volumes of organic products, together with conventional products, to bigger distribution centres and on to major retailers, than it is to transport small volumes to many small specialist organic food shops.

Most of the countries with high market shares by volume for organic products had a common national label and consumer recognition of this label was usually high. This demonstrates that the introduction of one common national label for organic products is a further very important factor in increasing sales of organic products. Good examples of this are Denmark and Sweden, where more than 90% of all consumers recognised the label for organic products that were available in most general food shops. Clear recognition is a prerequisite if organic products are to escape from niche product status.

From our analysis of the market we conclude that there are two main strategies for promoting market growth, push and pull. Push strategies, implemented through earlier political measures in most European countries, support the increase of organic production, with growth in demand seen as an automatic consequence of a growth in supply. The risk inherent in this one-sided approach is that it can generate oversupply which cannot then, at least immediately, be absorbed by the market. It is therefore very important that all market actors work together to benefit

from the economies of scale. In addition, the involvement of general food shops is required in order to reach the broad mass of consumers. Pull strategies mean that demand pulls supply. Unlike push strategies where agricultural policy makers are the driving force, market actors initiate pull strategies. Market actors, in the form of general food retailing chains or processing companies, are keen to develop the organic food market because they realise that there is a growing consumer demand for organic food and they are convinced that their efforts to increase the supply of organic products will improve their competitiveness. An example of this is wholesalers or processors offering long-term contracts to producers which guarantee a price premium for organic products over several years. The most important precondition for pull strategies is a high level of market transparency. The risk associated with long-term contracts is only worth taking if market actors are able to forecast market development and to do this, they need to identify growing markets on the basis of market data compiled over several years.

One major finding of this study is that the goal of government policy for organic farming should be to support functioning markets. In a functioning market both the supply side and the demand side must be developed equally. It is also necessary to reinforce research, advisory systems, education and consumer information in order to enlarge organic markets. The most successful strategy to date in developing the organic food market has been employed in Denmark, where various national support schemes for the organic market were combined into a comprehensive action plan covering production, demand, research and information activities.