Comparison of markets for organic food in six EU states

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ABSTRACT

Recent research confirms that the decision to convert is now highly influenced by financial incentives arising from EU regulations but the exact mix of incentives depends on prevailing government policies and access to premium markets so that the organic sector in most countries is now referred to as either government-led or market-driven. The objective of the paper is to compare development of the sector along these two polarities but set within the context of 'common elements of interest' within new agri-food methodologies—time, space, power, and meaning (Cooke, Uranga and Etxebarria 1998; Morgan and Murdoch 2000). The paper presents preliminary findings relating to six EU States—UK, Ireland, Austria, Denmark, Portugal and Italy—and through the application of 'worlds of production' to market outlets and suggested discourses that define these outlets, the analysis aims to inform the further study of farmer marketing decisions and practices.

Keywords: organic conversion; marketing

INTRODUCTION

Early development of the organic sector was predominantly supply-driven, largely inspired by ideological beliefs, but many farms were not commercially viable. In the early 1990s, the only two existing EU regulations that relate directly to organic farming were introduced. Regulation 2092/91 aided the development of premium organic markets through certification and labelling, whilst Regulation 2078/92 created a supportive policy environment for the provision of subsidies for conversion to, and support of, organic farming. Currently, Austrian farmers are disinclined to become subsidy-dependent and studies in the UK and Ireland reveal that due to low subsidy levels organic farming has a huge dependency on price premiums, but 'subsidy management' has become the norm in Italy and Portugal where subsidies in remote areas of agriculture are sufficient incentive and much produce is sold through conventional market channels. Market infrastructure in these countries is poorly developed and distribution and efficient delivery of market signals and incentives is under-developed.

Under Agenda 2000, over the period to 2006, support payments for agricultural production will gradually be reduced and so the importance of investigating market incentives for conversion has become paramount (MAFF, 2000). The data presented here derives from an EU 5th Framework project—QLRT-1999-31112. The project comprises six Workpackages as follows: WP1, is a review of published literature and statistical data covering, for each study country, levels of organic production, market for organic products, support mechanisms for conversion and

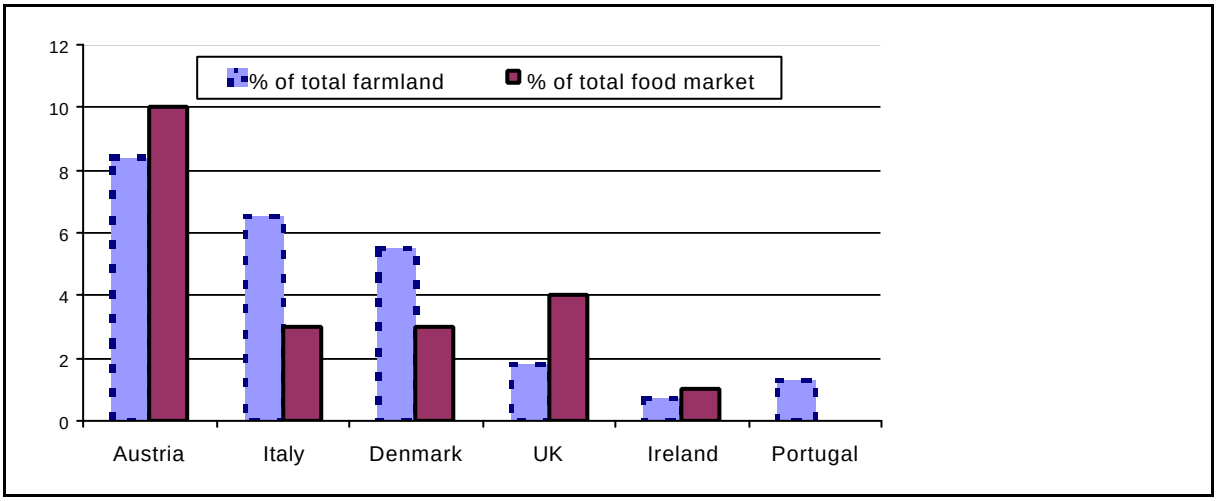
rates of conversion. In WP2, farm case studies provide data on the costs and constraints of conversion. In WP3, potential mechanisms for the marketing of conversion-grade products are investigated and in WP4, potential consumer demand for conversion-grade products is assessed. The findings of WP3 and WP4 are used in WP5 to assess the potential impact of conversion-grade products on incentives for agricultural producers to convert to organic methods of production. Finally, in WP6, policy recommendations are formulated and the results of the project disseminated.

RESULTS

Production and market sector penetration

Organically farmed hectarage in the UK increased eight-fold between 1994 and 1999, whilst Austria, Italy, Ireland and Portugal witnessed five-fold increases, and Denmark a two-fold increase in area. These increases demonstrate the effect of the introduction of subsidies under the agri-environment regulation. Penetration of both production and market sectors in Austria now exceeds 5% (Figure 1). Both imports and exports are low. Denmark and Italy also exceed 5% of farmland but not market share. Italy, with imports of less than 50%, exports over half of domestic production, explaining in part the discrepancy between production and market penetration. This is not the case for Denmark; 10% of the Danish market is made up of imports but less than 3% of production is exported. Conversely, the UK exceeds 5% of total food market but not of farmland; 70% of the market is imported whilst exports are low. Ireland and Portugal have below 5% organic hectarage and market share. Imports account for over 70% of the market in Ireland but in Portugal imports are negligible. Exports from both countries are low but are increasingly important for Ireland. From this broad overview it is tempting to rank the Austrian market most mature and the Portuguese market least. But differences in sector size and import/export levels in the UK and Italy demonstrate that maturation is not a uniform process.

Figure 1 Organic Market in Relation to Production Area in six EU States



Source: Country Reports 2001

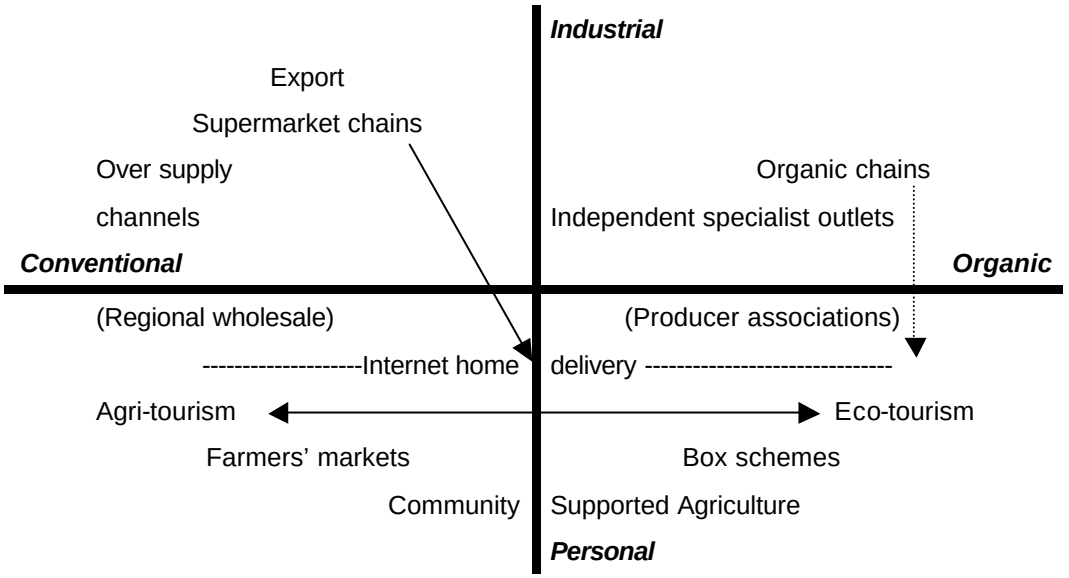
Market outlets

Large supermarkets in Denmark, UK, and Austria and to a lesser extent Ireland dominate retailing. This has not been the pattern of development in Italy where the high level of organic production combined with inefficient distribution and poor

vertical integration in the supply chain have created high retail prices but poor returns to producers. Sale through conventional channels is typical in Italy, Ireland and Portugal where infrastructure is less well developed but over-supply of milk in Austria, Denmark and the UK is also leading to increased sales through conventional channels. Direct sales hold a much smaller share of retail and are valuable in all these countries. These outlets are generally decreasing in importance in Ireland, Italy and Denmark and have yet to prove themselves in the immature Portuguese market. Large retailers are also capitalising on the success of box schemes by providing home delivery through the internet. In Italy and to a lesser extent Ireland recent innovations in marketing have resulted in close ties between organic production and tourism.

The range of market channels and outlets encountered in these countries can be visualised using Storper's worlds of production conceptual model. The model has been applied using coordinates for regional-ecological and direct/local-export thus introducing a measure of distanciation, for the study of short food supply chains. Distance is used as an explicit measurement between production and point of purchase, and proximity is implicitly less 'impersonal' and comprises fewer food miles. Although acknowledging that mutations of industrial chains have lead to market innovations such as on-line sales, these are not accommodated. On-line sales are problematical because they potentially split the concept of distance into that travelled by the consumer to vendor and that travelled by the product to the consumer (food miles). In other words, cyber markets arise from and embody the hybridisation of 'global' and 'local'. Therefore, the coordinate here used for standardisation is based on a hybrid measure designated industrial-personal, where home delivery constitutes a personal service despite the consumer not being connected to the site of production.

Figure 2 Organic market channels depicted as 'worlds of production'



Conclusions

Organic market growth is directly related to strong retailer involvement. Market maturation in Austria, Denmark and the UK is characterised by retailer power, vertical integration with producers, networks of communication between producers and consumers, promotional offers, development of own-label, designated store areas, and new product development. There are also definite signs of regional

development strategies which access rural development funds and link with tourism, even in the more mature markets. On-farm and near farm processing activity draws the organic network into the locality but 'eco-tourism' also draws the consumer into the organic 'world'. Organic is merging into the new regional economies but not primarily because of organic-ness. To a degree, organic has become associated with the rural idyll which traditional extensive farms can also lay claim to. Easy label recognition is important for consumers. National and retailer-own labels are increasingly found but these do not preclude the use of secondary, speciality labels denoting product uniqueness, and possibly protected[1] regional brands. However, development of regional networks is strongly dependent on government support that is often in the form of partial grants, which continues to favour large business interests. Multiple retailers are also developing regional strategies and creating networks through producer-consumer clubs but these retailer-created networks can be a form of maintaining control of the sector.

Farmers therefore need the flexibility to access all markets and develop optimal marketing strategies. Trade-offs may be needed between the securities of partnerships, standards and labelling, aggregation, and diversity. It is important for producers to balance the power of the retailers to depress retail prices (as in the case of Irish beef) with the benefits of their efficient distribution networks. More research into the objectives, operation and achievements of these networks is required.

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DISCLAIMER

The opinions expressed here are not necessarily those of all authors or the European Commission

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See also the country reports for Austria, Denmark, Ireland, Italy, Portugal and the UK.

From: Powell et al. (eds), *UK Organic Research 2002: Proceedings of the COR Conference, 26-28th March 2002, Aberystwyth*, pp. 313-316.

[1] Through PGO and PDI.