COMUNIICA, Año 5, N°17, 2001, p. 8-13

José Carlos Arze AC-IICA Costa Rica

The International Market for Organic Products[1]

GLOBAL PRODUCTION AND CONSUMPTION

Although organic production has occurred in all regions of the globe for thousands of years, the renaissance of this productive system occurred in Germany and England during the first half of the 20th Century. The first organic farming movements were born in these countries with the philosophy of establishing healthy and fertile soils as a condition for producing healthy foodstuffs for the population.

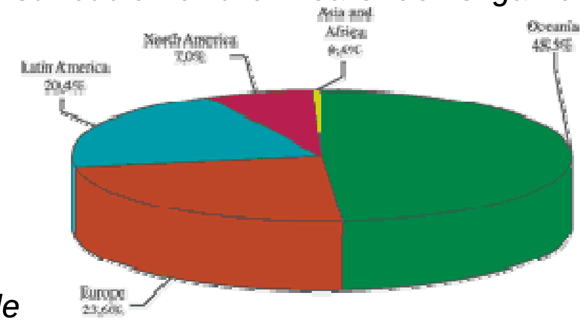
During the last 30 years, this resurgence in organic production has been consolidating and spreading worldwide, influenced mainly by three factors, strengthening of environmental awareness and recognition of the un-sustainability of modern productive methods, growing concern for the damage done by agro-chemicals to human health, and the weight of ever-increasing social concern for the destruction of rural communities.

Interest in organic production has grown over the years and this increase has shown greater acceleration since the beginning of the last decade of the 20th Century. Both areas cultivated and volumes marketed have seen significant growth during this period, a situation which has been further encouraged by an excess in demand and price differentials existing in the industrialized countries, together with the development of support services and regulatory systems, particularly those in the major markets.

This rediscovery of organic production is being experienced in practically all of the countries of the world, in spite of the fact that the sources for information and dissemination on this topic are scarce, especially in the developing countries. Almost every country has some degree of organic production. Current estimates indicate 15.8 million hectares under organic management at the world level; around one-half of this extension is found in Oceania, one fourth in Europe and a little bit less than that in Latin America (Figure 1). Australia is the country with the largest extensions under organic management (7.6 million ha.), most of this corresponds to pasturelands for dairy cattle and sheep raising; Argentina follows (3 million ha.), then Italy (0.96 million ha.), the United States (0.9 million ha.), and Germany (0.45 million ha.). The area under organic management in Argentina represents approximately 95% of the Latin American total, most of which is also dedicated to pastureland.

Organic product trade, on the other hand, is assuming the characteristics of a multi-billion dollar business at the global level, promoted by excess demand from the industrialized countries. Its growth shows behaviors not found in conventional agriculture, with rates varying from 5% to 40% per year, depending on the product, and a growth averaging 25%(2) per year over the last decade. This growth can be attributed to the ever-greater awareness among consumers of the nutritional and environmental benefits of these products and, more recently, to consumer fears arising from "Mad Cow" disease(3) , genetically modified products, and other health threats related to food production.

Figure 1. Percentage Distribution of the Area Under Organic Management



Worldwide

Source: Organic Agriculture Worldwide 2001

This accelerated growth is converting the organic sector into an increasingly important part of the foodstuff marketplace; for the year 2000, world consumption was estimated at close to US$ 20 billion (Table 1), highly concentrated in the industrialized countries, Europe, the United States, and Japan (98.6%). The United States (40.6%) is the main consumer followed by Germany (12.7%) and Japan (12.7%); the European countries taken together have a consumption level slightly above that of the United States (45.4%).

Table 1. World Consumption of Organic Products

	Consumption		% Total Foodstuffs
	US$ (millions)	%	
United States	8 000	40.6%	1.25%
Germany	2 500	12.7%	1.20%
Japón	2 500	12.7%	ND
Francia	1 250	6.3%	0.5%
Italia	1 100	5.6%	0.6%
Great Britain	900	4.6%	0.4%
Others Europe	3 200	16.2%	ND
Rest of the World	277	1.4%	ND
Total	19 727	100.0%	ND

Source: Organic Agriculture Worldwide 2001

The potential market in the industrialized countries is still ample. The market share of organic products is small, in relative terms, when compared with the total foodstuffs market; it does not exceed 1.25% in the major markets (United States, Germany, Japan, France, Italy, and Great Britain). Austria, Switzerland, and Denmark are the markets with the greatest share for organic products, varying between 2% and 2.5% of the total. Some projections, perhaps the most optimistic, estimate that by the year 2005, organic foodstuffs should occupy 15% (*4*) of world food consumption.

Another growth indicator for this business is the recent incorporation of several transnationals such as General Mills, Heinz, Mc Donald's, Danone, Nestlé, Mars, Dole, Sandoz, and Benetton in their attempt to exploit the potential of this market. The involvement of these firms generates expectations that growth trends will continue during coming years.

In spite of market growth, one of the major problems limiting this trend is the lack of uniform standards. At the international level, there is no system for standardizing regulations and for recognizing accreditations from certifying agencies, which means that developing countries must seek certification from different agencies depending on the destination country. This is a task requiring immediate attention, even though we should recognize that steps are currently being taken in this direction. Most significant among these steps are the "Guides for Production, Processing, Labeling, and Marketing of Organic Products", drafted by the Codex Alimentarius Commission and the "Accreditation Program" from IFOAM (International Federation of Organic Agriculture Movements). Efforts of this type are further foundation for estimates of continuing growth in production and marketing in coming years.

THE EUROPEAN MARKET

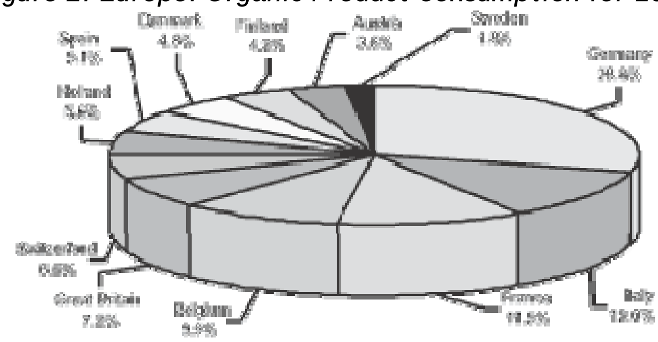
As was seen in the preceding section, modern organic agricultural trends began in Germany and England during the first half of the 20th Century; from there, they expanded to the rest of the continent and the world. Currently, Europe is the main consumer and one of the major producers. The growth in organic production in this region sped up after the mid-eighties, supported by, among other factors, state subsidies. The area under cultivation grew from 0.1 million hectares in 1985 to encompass 1.4 million hectares in 1998. For the year 2001, it is estimated that there are 3.7 million hectares under organic management(*5*). This is the equivalent of 2% of the agricultural area.

Estimates for 1997 indicate that organic production in Europe was a US$ 6.2 billion business, and by 2000, it had grown to US$ 8.5 billion. Germany is the major consumer; in 1997 German consumption represented more than one quarter of the European total (28.8%); another important group consists of Italy, France, and Belgium, with consumption levels varying between 10% and 12% of the regional total (Figure 2).

In all of the countries, the organic product market is small in relation to the total foodstuffs market, varying between 0.5% and 2.5%, although certain products have achieved up to a 5% market share in some countries. The annual growth rates are high in all cases; in Denmark and Sweden, they are estimated at somewhere between 30% and 40% per year, in Great Britain, France, and Switzerland, between 20% and 30%, and in Italy, Holland, Austria, and Germany, between 10% and 20%.

Marketing is carried out for the most part by supermarkets, specialty stores, and direct marketing. The use of these channels varies considerably between countries. Supermarkets predominate in Sweden, Denmark, Great Britain, Austria, and Switzerland, while specialty stores are more important in this category in France, Spain, Germany, Belgium, Italy, and Holland; direct marketing occurs in all countries, but to a lesser extent. However, in some cases, such as Austria and Switzerland, it is equal to or surpasses the specialty stores. The importance of supermarkets is expected to increase over time.

Figure 2. Europe. Organic Product Consumption for 1997



Source: Organic Agriculture Worldwide 2001

THE UNITED STATES MARKET

Organic production in the United States covers approximately 900 thousand hectares distributed among 6,600 farm growers, which is equivalent to 0.2% of the total area under cultivation. Approximately one fourth of this area is dedicated to pastureland; the main products are grains, legumes, and cotton. Approximately 5% of the total production is destined to export, a proportion that has remained stable throughout the decade of the 90's.(*6*) .

The United States is the second most important market at the world level, after the European countries. There are estimates that during the year 2000, market value reached around US$ 8 billion; slightly more than 40% of this demand was for fruits and vegetables, the predominant category for the last three decades. Nevertheless, the consumption of canned goods (15%), dairy products (11%), frozen foods (8%), soy-based products (6%), beverages (5%), meat (3%) and snacks (2%) were also important. On the average, the surcharge paid in this market is 20% over conventional products.

There are estimates that sales in the United States have increased by between 20% and 25% per year since 1990; among the factors associated with this growth are an increase in marketing by supermarkets, especially in the case of the major chains, of natural products and the marketing arrival of corporations such as Kellogg's, Heinz, Mars, and General Mills.

Two channels predominate in organic product marketing: the natural food stores (48%), which have increased during the 90's, and supermarkets (49%) which have had a significant effect on the growth in demand in recent years. Although, to a lesser degree, direct marketing also takes place, i.e., "Farmer's Markets".

THE JAPANESE MARKET

In spite of not being an important grower, Japan is, together with the EU and the USA, one of the major consumers of organic products. It is estimated for 1999, there were 5,083 hectares under organic management, the equivalent of 0.1% of the whole area under cultivation; the principal products were rice, rice vinegar, sake, and Japanese tea. Most Japanese imports come from Australia, New Zealand, USA, and Canada. Soy is the predominant product; it is purchased particularly in the USA, and is used for the production of different items destined for both local and export markets.

It is difficult to determine the size of the organic product market in Japan, since the statistics refer to what the Japanese call "yuki" products, which include both organic products and those produced with reduced agro-chemical applications. In a study carried out in 1991, in 1,459 productive units, estimates show that only 32% of these practiced 100% agro-chemical free agriculture, while the remaining 68% were cataloged as farms practicing agriculture with reduced agro-chemical application. According to existing statistics, this market has increased in recent years; in 1994, consumption of these products was estimated at US$ 500 million, and by 2000(7) it had increased to US$ 2.5 billion; however, according to an estimate for 2000, only 10% of this value corresponded to products 100% chemical-free.

In spite of this, the FAO estimates that growth in the Japanese organic produce market is around 20% per year. Due to this growing demand, in recent years, large companies have become involved in the production and marketing of these products. This is the case of both foreign corporations such as Dole Food Company, and domestic ones such as Nissho Iwai Corp., Kirin Brewery Co. Ltd., Mitsui & Co. Ltd., and Sumitomo. Some of these produce in the United States and export to Japan. A large proportion of the growth in demand is due to the concerns of Japanese consumers for their health and for healthy foods; the words "no chemicals" and "organic" have become a marketing catch, which translates into surcharges between 20% and 50% over conventional products.

Marketing is carried out principally through four channels: the large corporations that have entered the market recently, health food stores, a growing presence in supermarkets, but the principal channel is constituted by direct sales to households, some firms dedicated to this system can reach upwards of 200 thousand customers.

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1 Article prepared based on information drawn from "Organic Agriculture Worldwide. 2001". Willer, Helga and Yussefi, Minou.

2 World Organic News. http://www.agra-europe.co.uk

3 Bovine Spongiform Encephalopathy

4 World Organic News. http://www.agra-europe.co.uk.

5 15 UE, EFTA, Bosnia Herzegovina, Croacia & Yugoslavia

6 http://www.ers.usda.gov/briefing/Organic/Questions/orgqa5.htm

7 Masuda