

Organic Agriculture : Can India take the Pie ?



by Jayaprakash Narakkatt*

Today, the most prospective global agri-marketing is the “organic product market’. With an annual growth of above 20%, organic market stands tall above the growth of other products. Thought to be a fad during the early days, organic market with its strong world wide expansion needs clear and comprehensive criteria to ensure further healthy development. These criteria shall define the differences between organic and non- organic products. The credibility and consumer acceptance depend on the transparency of these product attributes.

As demand for organic food and products is increasing, technological innovations and economies of scale should reduce costs of production, processing, distribution and marketing for organic produce. Prices of organic foods include not only the cost of the food production itself, but also a range of other factors that are not captured in the price of conventional food, such as environmental enhancement and protection and avoidance of future expenses to mitigate pollution.

In many developing countries like India, there are agricultural systems that fully meet the requirements of organic agriculture but which are not certified. Non-certified organic agriculture refers to organic agricultural practices by intent and not by default; this excludes non-sustainable systems which do not use synthetic inputs but which degrade soils due to lack of soil building practices. It is difficult to quantify the extent of these agricultural systems, as they exist outside the certification and formal market systems. The produce of these systems is usually consumed by households or sold locally (e.g. urban and village markets) at the same price as their conventional counterparts. Although the uncertified produce does not benefit from price premiums, some cases have been documented where non-certified organic agriculture increases productivity of the total farm agro-ecosystem and saves on purchasing external inputs.

Many changes observed in the environment are long term, occurring slowly over time. Organic agriculture considers the medium- and long-term effect of agricultural interventions on the agro-ecosystem. It aims to produce food while establishing an ecological balance to prevent soil fertility or pest problems. Organic agriculture takes a proactive approach as opposed to treating problems after they emerge.

Food security is not only a question of the ability to produce food but also of the ability to access food. Global food production is more than enough to feed the global population; the problem is getting it to the people who need it. In marginalized areas, organic farmers can increase food production by managing local resources without having to rely on external inputs or food distribution systems over which they have little control and/or access. It is to be noted that although organic management of

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natural resources can substitute external agricultural inputs, land tenure remains a main constraint to the labor investments needed for organic agriculture. Organic farms grow a variety of crops and livestock in order to optimize competition for nutrients and space between species. This results in less chance of low production or yield failure in all of these simultaneously. This can have an important impact on local food security and resilience. In rain-fed systems, organic agriculture has demonstrated to outperform conventional agricultural systems under environmental stress conditions. Under the right circumstances, the market returns from organic agriculture can contribute to local food security by increasing family incomes.

The average consumer in the world is concerned, to a greater or lesser extent, about his own health and fitness, the safety of food he/she eats, the nature and environment in which he/she lives. He/she has bewildering choice of food products claiming to be healthier alternatives to the conventional food products of the same name. Hence it is essential for identifying each of these terms without being synonymous.

Organic agriculture dramatically reduces external inputs by refraining from the use of chemo-synthetic fertilizers, pesticides and pharmaceuticals. Instead, it allows the powerful laws of nature to increase both agricultural yields and disease resistance. It adheres to globally accepted principles, which are implemented within local socio-economic, geo-climatic and cultural settings.

Organic agriculture includes all agricultural systems that promote the environmentally, socially and economically sound production of food and fibres. These systems take local soil fertility as a key to successful production. Utilizing both traditional and scientific knowledge, organic agricultural systems rely on ecosystem management rather than external agricultural inputs. It is a system that excludes the use of synthetic inputs, such as synthetic fertilizers and pesticides, veterinary drugs, genetically modified seeds and breeds, preservatives, additives and irradiation.

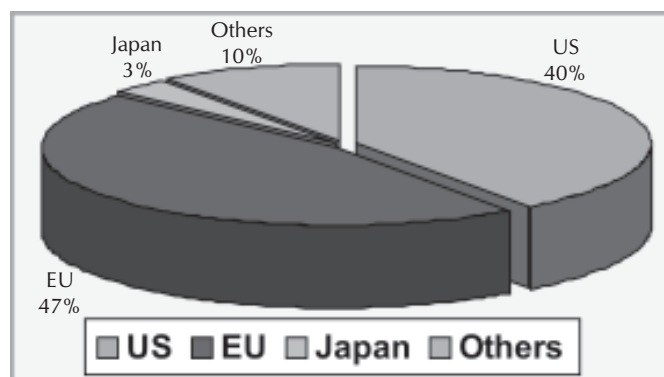
Current market trends in organic products

The most striking change in this industry within a short period is the transition from a militant customer, ready to pay even higher costs so long as it is organic, to the modern customer, having his health in mind as well as his fitness, not without worries about safe food and increasing environmental consciousness. She is glad to buy organic products as far as they are conveniently available, tasting well. But with increasing competition, she is also becoming price conscious. So eventually the market mantra has to be that organic products are normal products for normal people at normal prices. It is expected that many large corporates shall explore this area and provide better opportunities for farmers engaged in organic agriculture.

The International Organic Market

World sales of organic products was estimated at US \$ 30 billion in 2004-05. The three major groups which have the largest growing organic markets are: European Community (\$ 14 billion), US (\$ 10 billion), and Japan (\$1 billion).

World Organic Market - 30 billion US\$ 2004-05



In the European Union, Germany is by far the largest market. Demand for organic food varies considerably from country to country. For example in Southern Europe, percentage of organic food to conventional food is small, in decimals, whereas in Northern Europe it is as high as 4-5%. In countries like Denmark, Austria & Sweden, it may be around 10%.

Prices

Sufficient information is not available on prices for specific organic products. Generally, however, almost all organic products command a higher price than

conventional products. This is mainly due to more labour-intensive production and expensive materials. In some countries, insufficient supply and additional distribution costs also push up the price.

Premium between conventional and organic products generally ranges between 15 and 25 percent, depending on the type and quality of product and the current market situation. However, the differences among EU countries are large. Sweden has among the lowest premium attached to organic products, whereas it was much higher in Germany.

Survey carried out with different traders indicate that the mark-ups typically charged on dry/ processed organic products are as under:

◆ Importer : 35% to 40% ◆ Wholesalers : 10% to 30% ◆ Retailer : 30% 40%

This indicates that the retail price can be at least a factor of 2 to 2.5 times that of the original import price. The mark-ups at each level are very strongly influenced by the type of product, its packaging, the volume involved, the availability at the particular moment, competitive products, promotional activities, etc.

With increasing competition in the organic sector, the price difference between conventional and organic products, however, has decreased during recent years. Due to the continuing growth of sales of fresh fruit and vegetables in developed markets and their progression to more transparent and competitive markets, this will probably lead to further decrease in the price difference. The extent of the price differences will, however, depend largely on the respective growth rates of demand and supply.

Importers mostly trade on annual contract terms in which prices are fixed. Importers are generally interested in a long-term stable relation with a supplier. However, due to increasing price pressure, importers are more easily inclined to change to other cheaper suppliers at the end of a contract period.

For some agricultural products, e.g. coffee and cocoa, the producer prices are linked either to conventional prices plus a premium, fixed either in absolute value or in percentage. For other products, for example grains, most of the production is contracted in advance at an agreed price. In such cases, it is possible that at certain periods of the year the price of organic products would be cheaper than that of conventional products. Generally, the price difference is less in the case of processed products.

In Germany

The price premiums for organic products (in comparison with conventional products) vary considerably between 18 to 142%. The average price premium in Germany is above the European average, which varies between 60 to 70%. The high price differences are a result of the limited supply of organic products, high logistic costs because of small volumes and very high depreciation of the retail chains. The price premium is one of the main barriers to marketing of organic products and studies show that most consumers only accept a price premium up to 20 per cent.

In France

The average premium retail price for organic products is 20-30 percent above that of conventional foods. While retail prices differ from one outlet to another, specialised organic food stores price their items up to 50 percent more than general supermarkets.

In Italy

The price premium on organic products is 25% in supermarkets and 30% in specialised organic stores. The prices paid for organic fruit and vegetables vary according to the season and are at times comparable to the conventional prices. A little less than half of the Italians are willing to pay more for organic products compared to conventional ones, but the limit is often around 20%.

In Denmark

Organic products achieve average price premiums of 20 to 30%.

Premiums generally range around 20 percent, depending on the type and quality of product and the current market situation. Sometimes, importers of organic products publish wholesale prices of their products on their company Internet site.

Main types of retail outlets

Across the world, retailing of organic foods are done in many formats ranging from weekly markets to mega-malls. Some common formats are natural food shops, specialist health food shops, reform/whole food store/organic chains, combined health food/ reform shops, supermarket / department stores, groceries/multiple groceries, chemists/ drug stores, weekly organic farmers market held in major urban places, fair trade shops, and the e-business format.

Organic label

An organic label indicates that a product has been certified against specific organic standards. The label carries the name of the certification body and the standards with which it complies. To the informed consumer, this label can function as a guide. Certification bodies evaluate operations according to different organic standards and can be formally recognized by more than one authoritative body. The label of a given certification body, therefore, informs the consumer on the type of standards complied with during production and processing as well as on the type of recognition granted to the certification body. Many certification bodies operate worldwide, most of which are private and originate in developed countries.

Standards for organic food products

Products labelled as organic must have been certified as having been produced through clearly defined organic production methods. In other words, 'organic' is a claim to the production process, rather than the product itself. If, for instance, the product is free from pesticide residues, this in itself is no proof that the product has been produced organically.

It is important, however, for exporters to be aware that agricultural units, processors and their products must be certified by recognised control bodies, to confirm that they meet the required specific national standards before their products can be offered for sale in specific markets. It is very important for an exporter to check whether the certifying organisation, which he wants to hire to certify his organic products, is accepted in the countries he wants to export to.

EU regulation for organic food production and labelling

The main requirement to market organic products in the EU is that products must comply with Council Regulation (EEC) 2092/91 and its subsequent amendments. This regulation specifies the principles for organic production at farm level and the rules that must be followed for the processing, import and labelling of products to be marketed as organic in the EU. It also covers inspection measures that should be in place. Organic standards for livestock production are included in Council Regulation 1804/1999.

The fertility and biological activity of the soil is maintained through the cultivation of legumes, green manure or deep-rooting plants in an appropriate multi-annual rotation programme and through the incorporation of organic material. By-products from livestock farming and other organic and mineral fertilisers are mentioned in an approved list. Plant diseases and weeds are combated through the careful selection of naturally resilient species, appropriate rotation, mechanical cultivation procedures, protection from pests and flame weeding. Only a limited number of plant protection products is authorised for immediate treatment of crops.

Only natural or nature identical products that are considered not to "degenerate" the organic production method followed for the production of the agricultural ingredient may be used during processing. The Regulation includes a list of approved non-agricultural ingredients and processing aids. The use of ionising irradiation and of genetically modified micro-organisms in the preparation of foodstuffs is prohibited.

Imports

Products from third (non-EU) countries can be sold as organic only when it has been demonstrated that they come from a country where the rules applied to organic farming are equivalent to the Community rules laid down in the Regulation. At present, such equivalence has been recognised for Argentina, Australia, Costa Rica (since March 2003), Czech Republic, Hungary, Israel, New Zealand and Switzerland under Article 11 of the Regulation. The Commission is in the process of assessing nine more applications from Chile, Columbia, Dominican Republic, Guatemala, India, Japan, Tunisia, Turkey and the United States.

Importers may be authorised to import products from non-EU countries that do not appear on the list under Art. 11, provided they submit to the competent authorities the required information giving evidence of equivalent production standards and inspection arrangements. The authorisation applies only to the specific product being imported. Such an import permit is generally issued without many problems, when an EU-accredited certification body has certified the products.

Each consignment of organic products from non-EU countries must be accompanied by a 'certificate of inspection' up to the place of delivery in the EU, issued by the inspection body of the exporter. Organic products imported from outside the EU must be in closed packaging bearing a reference to the importer and details of the product matching those on the inspection certificate accompanying the consignment. This control certificate has to be endorsed by Custom Authorities in the EU-port of entry, before the products can be imported as organic.

Market Opportunity Analysis

The market opportunity analysis involves four major steps: the country evaluation, sales channel assessment, company assessment and the supply and demand comparison.

While country evaluation is carried out to identify suitable countries and markets for selling organic products, sales channel assessment is made to estimate the requirements of potential sales channels in respect to product standards, logistics and marketing. Company assessment is a self analysis to understand the company's performance in these areas and supply-demand analysis is the market analysis that is required to find out if there is a market for the products, whether that particular market segment can be reached and whether the products can be offered at an acceptable and competitive price. The most suitable sales channels will have to be identified for success.

General Requirements of Planning

While attempting to market, one important aspect to be considered relates to geographic proximity, as it will have an impact on costs and tastes. The uniformity in crops and farming practices is also important so that the supply line can be maintained. The internal system of control (supervision & documentation), training facility, processing, marketing & distribution facilities are critical elements.

Packaging

The packaging of organic products need to be done with care. The volume and weight may be limited to the minimum to maintain the safety, hygiene and acceptance for the packed product. The packing materials may preferably be re-usable or that which can be recovered by recycling so as to minimize the impact on environment, which is one of the central themes of organic agriculture.

Labelling

The labelling of foodstuffs for sale in each country is controlled. For example throughout the EU, it is controlled by EU Directive 89/395/EEC. Label shall have the following minimum information :

- Name, address of the importer
- Name of the product, variety, and type
- Country of origin
- Net weight
- Lot identification/batch number
- Storage conditions(whenever necessary)
- The contract
- The contract parties, the seller, buyer and the export agent/import agent
- The product, price, and quality of the product
- Packaging details including measurements and weight

Labelling is extremely vital and the main concept is transparency of information on the product and even the process. It also help in avoiding unnecessary legal issues as well. If any conditions have been negotiated, this has to be mentioned.

Indian Challenges

In India, we have to meet several challenges to unleash the potential of the organic market. We need to organize farmers, educate them, provide them training in order to maintain proper records and documentation for certification and on production practises as per the certification requirements. There is the need to provide technical assistance as well as organic seeds and inputs. The financial sector needs to fund the concept as a whole, instead of on a piecemeal basis. The export market can be exploited only by organising the export of products through a chain, linking the farmers and export-buyers and the financiers.

There is also the need to have long term strategies for exporting organic products to the potential markets. Structured studies need to be carried out by professional agencies to identify the market opportunities for various products as this need to be specified.

Marketing will also involve the certification, sample testing, product development and value addition through improved products processing and dehydration

Another challenge is the large numbers of small and marginal farmers and the subsistence level practices. In this context, cooperation with NGOs is of great importance, as farmers need to achieve international standards for good price realisation. Such interface also will help to reduce exploitative practices. Efforts will also be required to be made for collective farming to make the benefits of scales of economy available to them.