Global Trends in Organic Agriculture Markets and Countries’ demand for FAO assistance

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Building the organic “niche” in the globalized food market

Trade liberalization and the food market. In the last decade, market liberalization has encouraged the development of global oligopolies and of agricultural policies that largely benefit the wealthiest: the Sanitary and Phytosanitary Agreement (SPS) appeals to science to determine risks; the Technical Barriers to Trade Agreement (TBT) ignores the importance of cultural preferences and place; Trade-related Aspects of Intellectual Property Rights (TRIPS) demands developing nations to adopt intellectual property models of developed countries; and subsidies depress prices in developing countries – let alone natural resources degradation. The restructured global food market has essentially shifted from supply to demand and transformed the interests and relationships of the commodity chain stakeholders. Power shifted from input suppliers and output processors, who run the commodity chains, to retailers who manage supply to maximize profits. The emergence of “value conscious” consumers and of global supermarket chains brought food strategies that focus on food quality and differentiation as a basis for competition (rather than on quantity and price competition). This new economy of qualities brings a greater variety of safer foods but supermarket concentration gives retailers control over food rules and global sourcing, often through contractual arrangements with producers who hide prices (data on wholesale prices are no longer available). The “supermarketization” trend is evident in many countries: in Australia, Chile and the United Kingdom, three to four chains own up to 70 percent of food sales. Wal-Mart annual sales (in ten nations) equal Austria’s GDP (US$285 billion in 2004) and Carrefour sales (in 31 nations) equal Nigeria’s GDP (US$72 billion). While current supermarket strategies imply responsiveness to concerns beyond price and opens niches for specialty producers such as organic farmers, retailers determine standards and packaging and most supermarkets have their own labels (or brands) and third party audits of suppliers. Thus, opportunities are mixed with risk for the integrity of organic principles.

Trends in the organic market. Organic agriculture is the fastest growing food sector: in the last ten years, it has been growing 15-20 percent per year while the overall food industry is growing 4-5 percent per year. The organic food supply chain is a typical consumer driven sector, with a market value of US$40 billion (2004) and a growing involvement of the private sector. Although the devolution of the State is increasing in all fields, government regulations in organic agriculture are increasing: 60 countries are at some stage of regulating the organic sector, of which 37 are implemented. The organic market, initially led by producers and traditional organic communities is gradually being dominated by large and vertically coordinated supermarkets, in terms of market share and ownership of top brands. Supermarket sales of organic produce amount to 40 percent in Germany, 49 percent in the United States of America, 80 percent in Argentina and the United Kingdom, and 85 percent in Denmark. Natural food supermarkets are rapidly growing: Whole Foods is the largest chain in terms of sales, with 140 stores and US$2.7 billion in the United States. Most large food companies have acquired organic brands and small firms, set up partnership with organic companies, or have their own organic lines; Cadbury Schweppes (organic juices), Coca Cola (acquired Odwalla Organics), Danone, Dean Foods, Dole, General Mills, Heinz, Kellogg, Kraft, Mars, Parmalat, Sara Lee, TysonFoods (organic meat). Mergers and acquisitions of organic brands and companies impact production, processing, certification and distribution pathways: in California, 2 percent of organic growers represent 50 percent of organic sales; Coleman owns half of the United States organic pastures; Hain-Celestial is the world’s largest processor of organic foods (annual revenues of US$400 million); Tree of Life is the world’s largest organic food distributor (US$3.5 billion of sales); the Hain-Heinz partnership has

1 Institute for Food and Agricultural Standards, Michigan State University (www.msu.edu/~ifas)
71 percent of the global market share of organic baby foods. This industry concentration sets prices, limits farmers’ return, leverages supply and controls market access: in 2001, Horizon Organic reported a 200 percent increase in profit net sales (US$160 million) but actually cut contractually-promised premium to farmers after it bought out the Organic Cow of Vermont, decreasing farmers’ income by US$15 000 per family2. Currently in the United States, the food industry pressure on the Government is threatening national organic standards (with proposed modifications on synthetic substances, animal feed and commercial availability of organic ingredients without public review). A reality today is that “demand” is driven by big retailers with brands that dictate standards and a market economy which is anything but transparent.

Escaping the conventionalization trap. The conventionalization of the organic supply chain has come with the ambition of entering the mainstream, that is the mass consumption economy. The founding concepts of organic agriculture, based on ecological limits and equitable social relationships within a fairly immediate level of local and regional community provided a powerful drive for maintaining social cohesion within economic structures. The integrity threat is now being recognized by the organic community worldwide, as a result of increasing organic monocultures, reduced market access to smallholders, decreased transparency of profits across the organic food chain, damage to local economies and overall governance. Efforts are ongoing to protect the integrity of organic standards, further differentiate organic foods by accurate labels and promote different forms of short supply chains for local community development. Beyond standards, the International Federation of Organic Agriculture Movements (IFOAM) has recently approved the four principles upon which organic agriculture must be based: the principle of health, the principle of ecology, the principle of fairness and the principle of care/precaution. Participatory Guarantee Systems and “food miles” labelling are being developed. Socially responsible business and ethical values for certified organic products are made transparent by some trading companies (e.g. Eosta) through Nature and More labelling. In Denmark this year, one farm has raised its nation-wide delivery of organic boxes to 22 000 per week3 (annual sales of Euros 20 million), including both its own production and imports. Regular organic consumers are demanding more transparency and fairness across all segments of the organic supply chain. Buying power can change practices: direct selling and organic box schemes are mushrooming in several countries. Although there is still a long way to go, and that convergence with conventional distribution systems will continue, reversing the loop is being attempted. A recurrent type of slogan is: “buy local, organic and fair made”4.

Changing entry point for countries’ adoption of organic agriculture

When organic agriculture entered FAO’s agenda in 1999, the main (if not the only) interest of developing countries and countries in transition was to access the lucrative organic markets of developed countries. In fact, all legislations developed aimed at establishing conditions that facilitate exports to the European Union. However, in the process, it became quickly evident that the organic export sector can be better sustained if an organic domestic market is developed in parallel. Also, the increased awareness of the environmental and social benefits of the organic sector became quickly evident, especially for poor resource farmers living in market marginalized areas. Although market access and price premiums continue to be a main drive for organic policy development, poverty and rural development are gaining attention in the quest for local food security. FAO’s focus in the organic sector is to assist countries in developing medium-term strategies and action plans that enhance domestic supply and demand. Maintaining the organic principle of fairness requires effective up-scaling of the farmer-led organic food supply approach, rather than industrialization of production and concentration of distribution systems. Organic production ought not to become an export industry, to the detriment of local food security. The challenge is to empower smallholders and to promote localized food systems by supporting community-based agro-ecological models and short food supply chains in domestic markets. Catalytic interventions involve facilitating the dialogue between different line ministries (e.g. agriculture, trade, environment, rural development, education, health, tourism) and different civil society operators (e.g. farmers’ associations, inspectors, accreditors, traders, retailers, consumers). One innovation is the development of Organic Farmers-Field-Schools, an alternative to extension that promotes location-specific research and knowledge sharing.

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2 Rural Advancement Foundation International (www.rafiusa.org)
3 Aarstiderne, Barrit, Denmark (www.aarstiderne.com)
4 Organic Consumers Association (www.organicconsumers.org)