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CURRENT TRENDS IN ORGANIC AGRICULTURE MARKETS AND THEIR IMPLICATIONS FOR FARMERS*

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EXECUTIVE SUMMARY

1. The market for organic agricultural products grew steadily during the nineties with global sales estimated at US$ 25 billion in 2003. The projected impressive growth of demand for organic products in the industrialised countries, notably the United States, European Union and Japan constitute an important pull factor for the increase in the production and international trade of organic agricultural products. Indeed, production of certified organic agriculture oriented towards exports has increased in many developing countries to respond to the demand for organics in the industrialised world. Studies suggest that interest in organic agriculture in developing countries is increasing among producers, consumers and governments creating positive expectations for further expansion of the sector in those countries.

2. Therefore, most analysts coincide in projecting positive developments for organic production and trade in the short to medium term. This should

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represent good news for the organic movement worldwide: the increase in farms and land extension organically managed would contribute to expand the environmental benefits brought about by organic farming. However, recent developments in the global market of organic products pose important challenges to organic producers as well. The conventionalisation and industrialisation of organic production is of particular concern to the extent that the economic and social structures - of exclusion and marginalisation of farmers - developed in conventional agricultural systems is replicated in the production of organics.

3. On the other hand, significant extensions of land in developing countries are dedicated to non-certified organic agriculture or other traditional methods of production with little or no use of chemical inputs. The contribution of these systems of production to food security and sustainability in developing countries is significant but not always adequately recognised. The policy bias towards export promotion common in conventional agriculture is being replicated in the approach towards organic agriculture.

4. The reversal of current trends constitutes an urgent need but also a very difficult endeavour. A change of paradigm is necessary. Sustainable development and people's needs should be put at the central stage of policy decisions; considerations of food and livelihood security should supersede commercial interests and trade liberalisation; the state must play an active role in promoting sustainable systems of agriculture production; and governments worldwide should work together to redress the stronghold of a few multinational companies over the world's food supplies. For achieving these objectives, the mobilisation of farmers' groups and organisations is a fundamental precondition.

CURRENT TRENDS IN ORGANIC AGRICULTURE MARKETS AND THEIR IMPLICATIONS FOR FARMERS

I. INTRODUCTION

1. The market for organic agricultural products grew steadily during the nineties with global sales estimated at US$ 25 billion in 2003. The projected impressive growth of demand for organic products in the industrialised countries, notably the United States, European Union and Japan constitute an important pull factor for the increase in the production and international trade of organic agricultural products. Indeed, production of certified organic agriculture oriented towards exports has increased in many developing countries to respond to the demand for organics in the industrialised world. Studies suggest that interest in organic agriculture in developing countries is increasing among producers, consumers and governments creating positive expectations for further expansion of the sector in those countries.

2. Therefore, most analysts coincide in projecting positive developments for organic production and trade in the short to medium term. This should represent good news for the organic movement worldwide: the increase in farms and land extension organically managed would contribute to expand the environmental benefits brought about by organic farming. However, recent developments in the global market of organic products pose important challenges to organic producers as well. The conventionalisation and industrialisation of organic production is of particular concern to the extent that the economic and social structures - of exclusion and marginalisation of farmers - developed in conventional agricultural systems is replicated in the production of organics.

3. On the other hand, significant extensions of land in developing countries are dedicated to non-certified organic agriculture or other traditional methods of production with little or no use of chemical inputs. The contribution of these systems of production to food security and sustainability in developing countries is significant but not always adequately recognised. The policy bias towards export promotion common in conventional agriculture is being replicated in the approach towards organic agriculture.

4. The primary purpose of the present paper is to discuss about the challenges posed to farmers by the current trends identified in organic production and trade (Section III) and identify a set of measures that need to be implemented to address those challenges (Section IV). The paper starts (Section II) with a brief review of the current situation in organic production and trade and finishes with a brief conclusion of the main points raised in the paper (Section V).

II. CURRENT SITUATION AND TRENDS IN ORGANIC AGRICULTURE PRODUCTION AND TRADE

5. When analysing production and trade in organic agriculture it is important to keep in mind that it is difficult to find exact and up-to-date figures, especially with respect to the situation in developing countries due to lack of official records. Furthermore, the lack of regulations about organic agriculture in many countries makes it difficult to distinguish organic agriculture from other low-chemical but non-organic agriculture production systems. Nevertheless, studies available coincide in projecting strong growth in production and international trade of organic agricultural products in the short to medium term.

A. Organic Extensions

6. According to the most recent information published by IFOAM,[1] there are 26 million hectares of agricultural land dedicated to certified organic production worldwide. Around 43 per cent of the total is located in Oceania (mainly Australia). The Chart below reflects the distribution of organically managed land across regions. The share of organically managed land over total agricultural land as well as the number of farms being converted to certified organic production is increasing rapidly in most regions of the world. In Argentina for example, the extension of land under certified organic agriculture increased seventy fold over a ten-year period with the help of institutional support measures aimed at export promotion. In the United States organically managed land more than doubled from 1995 to 2000.[2] In the European Union governments have established ambitious targets for the conversion of land to organic management. Support policies of various types including direct subsidies to producers to ease the transition period towards conversion have been implemented. Furthermore, in 2004 the European Union launched an Action Plan for Organic Food and Farming reflecting a comprehensive set of measures geared to the promotion of the organic farming and the market to be implemented both at the national and European-level. The extension of agriculture land dedicated to organic agriculture as a percentage of total agriculture land is highest in Europe.

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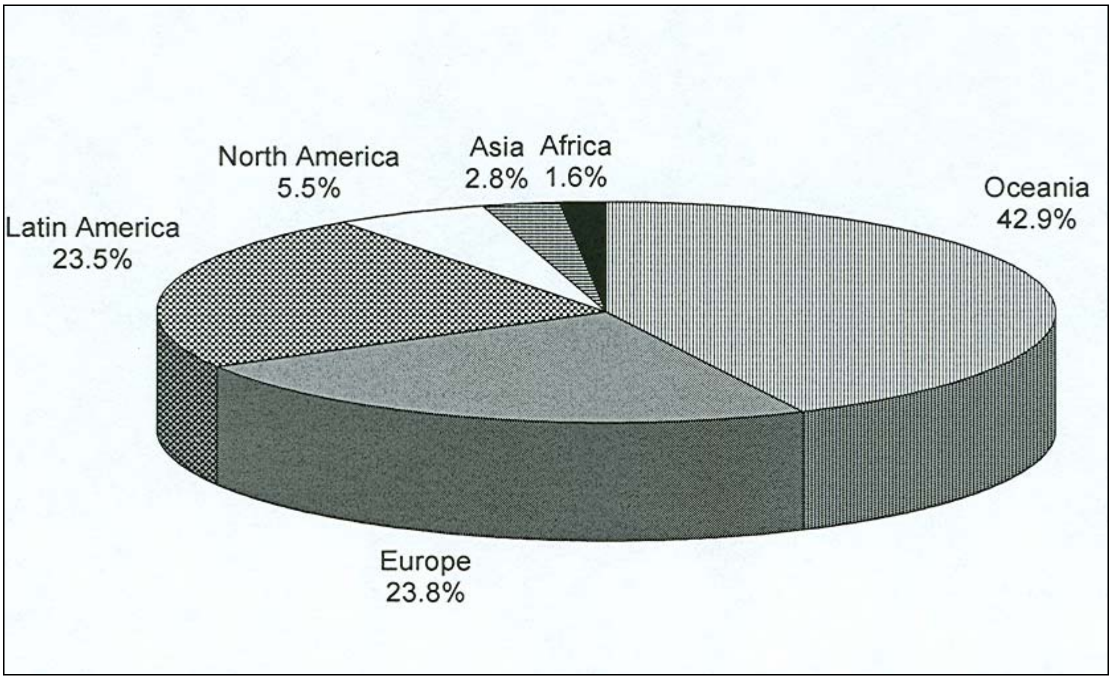
[1] See Willer, Helga and Minou Yussefi (2005). *The World of Organic Agriculture. Statistics and Emerging Trends 2005*. International Federation of Organic Movements (IFOAM), Bonn, Germany, 7th Edition, revised.

[2] Willer, Helga and Minou Yussefi (2000). *Organic Agriculture Worldwide. Statistics and Future Prospects.* International Federation of Organic Movements (IFOAM), Bonn, Germany.



Source: Willer, Helga and Minou Yussefi (2005).

7. It is very important to note however, that these figures do not include land under non-certified organic production in many developing countries. Furthermore, UNCTAD[3] indicates that in 70 per cent of arable land in developing countries fertilisers have not been used. Conversion of such land to organic management would be relatively easy. Non-certified organic agriculture plays a very significant role in the developing countries as the primary source of food and basic income for large percentages of the population in rural areas where the majority of the poor live.

B. The Organic Market

8. The total market for organic agricultural products was estimated at US$ 25 billion in 2003. The major markets are found in the European Union (US$ 8 billion), the United States (US$ 4.2 billion) and Japan (US$ 1.2 billion).[4] These figures represent nevertheless, a share of no more than 2.5 per cent of total food sales in the industrialised countries.[5] The annual growth rate of demand for organic products is quite high though with estimates by ITC[6] between 5% and 40% depending on the product category and the market in question. The current low share of organic products in the total food market

[3] UNCTAD (2004). *Trading opportunities for Organic Food products from Developing Countries.* United Nations, Geneva and New York.
[4] See IFAD (2003). *The Adoption of Organic Agriculture Among Small Farmers in Latin America and the Caribbean. Thematic Evaluation.* Report No. 1337. Rome.
[5] UNCTAD (2004), *Trading opportunities for Organic Food products from Developing Countries.* United Nations, Geneva and New York, page 24.
[6] See ITC (1999). *Organic food and beverages: World supply and major European Markets.* Geneva, page 4.

and the strength of demand for such products indicates great potential for growth.

9. Several elements explain the significance of the demand growth for organic agricultural products in developed countries. The following can be mentioned: first, food scare events have prompted consumers in industrialised countries to be more conscious about the quality of the food they consume; second, increased awareness of the wider population in these countries about the environmental effects of agriculture production under conventional systems; third, specific support and promotional policies undertaken by governments in some of these countries, especially in Europe, in the context of rural development and environmental programmes; fourth, the increased involvement of major multiple supermarkets in the market of health/organic products including by the creation of their own brands being offered at rather competitive prices in their space-shelves.

10. The situation in most developing countries is different. The market for certified organic products is rather at an incipient stage, one of the main limitations being the income constraints faced by large sections of the population. However, the demand has been growing including through the expansion of supermarkets or large retailers in these countries with the standardisation of practices, including that of offering lines of organic and/or healthy food for high income consumers. Nevertheless, the primary destination of developing countries' certified organic produce is the major export markets in the industrialised countries. Research by IFAD in a number of Latin American and Caribbean countries shows that most of the traditional export commodities of these countries (i.e. sugar, bananas, coffee, cacao, etc.) are also available in organic form dedicated to export markets where they can sell at a premium. The involvement of African and Asian countries in this trade reflects similar patterns with traditional commodities such as spices and tea representing an important segment of organic exports. Fresh fruits and vegetables constitute a high-value dynamic sector for export in developing countries across regions, including those organically grown.

11. Participating in the market of organic agricultural products selling at a premium and showing steady growth in demand has been especially valuable for many poor farmers in developing countries. These farmers have faced historic-low commodity prices with no safety net mechanisms or governmental support available to them to dampen the effect of price falls in their incomes.

12. On the other hand, non-certified organic agriculture production in developing countries takes place at small scale and is exchanged in the local markets with no price or any other differentiation vis-à-vis conventional agricultural products. Production in this context is diverse and responds to the needs of producers themselves being food self-sufficiency an overriding concern.

III. CHALLENGES FACED BY ORGANIC PRODUCERS WORLDWIDE

13. The challenges faced by the organic movement and farmers in particular result in a way, of its own success. The dynamism of the organic market and the positive expectations regarding its future growth and expansion led mainstream food producers and retailers to get involved in the production and trade of organic foods and beverages worldwide.

A. Conventionalisation of certified organic agriculture

14. The primary concern is that the involvement of multinational corporations in organic production and trade may lead to the replication of some of the tendencies that evolved in conventional agriculture many of which have led to an unfair appropriation of the benefits of production and trade by those firms and the marginalisation of farmers both in the industrialised and developing countries. Some of these tendencies in organics are already apparent.

15. The mainstreaming of organics implies the involvement of multinational companies at all stages of the process from production, to processing, packing and distribution at the national level as well as through international trade.

16. Indeed the fastest growing segment of the organic market is that of multiple retailers or supermarkets. According to ITC, in some of the most important European markets multiple retailers held shares as high as 90 per cent of the total organic market.[7] The major US retailers such as Wall-Mart, Price Chopper and 7-Eleven are involved in the organic market selling lines of organic and/or health foods in their shelves. Some of these retailers offer their own brands of organic products.

17. It is important to note that a small number of retailers control a large share of markets globally and domestically, particularly in food stuff. The worlds' top 25 retailers control over 16% of worldwide retail sales and this figure is estimated to mount to 40% in 2009. Wall-Mart's sales in 2001 amounted to US$218 billion. The company owns 3000 super or hypermarkets in the United States and 1000 in Latin America, Asia and Europe. In Europe, on average 3-5 retailers control over 70% of the retail business.[8]

18. In terms of production, according to ITC there is a clear tendency for organic production to increase through the opening of dedicated organic production lines by conventional food corporations rather than through the establishment

[7] In Sweden multiple retailers held 90 per cent of the organic market in 1997. In Denmark, the United Kingdom, and Switzerland these figures reached 70, 65 and 60 per cent respectively. See ITC (1999). *Organic food and beverages: World supply and major European Markets.* International Trade Centre UNCTAD/WTO. Geneva, page 61.

[8] Asfaha, Samuel (2005). Regulating Market Concentration in retail services: What is at stake for Developing Countries? Presentation made in the context of a Workshop on Services organised by the South Centre in Geneva on February 2005.

of specialised organic enterprises. Through mergers and acquisitions and equity sharing, the major conventional food companies are driving a process of consolidation in the organic market. Heinz for example, which ranked 17th in terms of global food sales in 2002 has a well established organic brand. Others include Pepsi (ranked 4th), Tyson, Unilever (ranked 5th), General Mills, Phillip Morris/Kraft (ranked 2nd), Kellogs, Campbell's Soups Co., etc. [9]

19. Supermarkets themselves get involved in organic production through contract farming. For instance, in the UK one of the biggest retailers - Iceland's entered into investments to contract the production of organic vegetables.

Box No. 1: Small Brands, Big Owners

What have organic brands Health Valley (cereals), Bearitos (corn chips), Bread Shop (granola) and Celestial Seasonings (tea) have in common? These apparently independent companies are all owned by the Hain Celestial Group.
Even though Hain Celestial is an organic giant in its own right, it has even bigger owners. According to research by Paul Glover and Carole Resnick of the Greenstar Food Coop (Ithaca, New York) the company's investors include Philip Morris, Monsanto, Citigroup, Exxon-Mobil, Wal-Mart and aerospace military contractor Lockheed Martin. And in September 1999 the H. J. Heinz food conglomerate bought a 20% stake in Hain Celestial.
Hain Celestial is by no means a unique case:
* Cascadian Farms is a subsidiary of Small Planet Foods, which is a division of agribusiness colossus General Mills. And General Mill's main shareholders include Philip Morris, Exxon-Mobil, General Electric, Chevron, Nike, McDonald's, Monsanto, Dupont, Dow Chemical and PepsiCo.
* Silk Soy Drink is part of the White Wave corporation, itself a Dean Foods subsidiary. And according to Glover and Resnick, Dean Foods' main investors include Microsoft, General Electric, Citigroup, Pfizer, Philip Morris, Exxon-Mobil, Coca Cola, Wal-Mart, PepsiCo and Home Depot.
* Odwalla, makers of organic orange juice, is owned by Minute Maid, which is in turn a division of Coca Cola.
* Boca Burger is owned by Kraft, which is part of Philip Morris.
* Arrowhead Water and Poland Spring Water, are Nestle subsidiaries.
* Organic Cow, founded by small New England organic dairy farmers, is now part of the Colorado-based Horizon, whose sales just topped $200 million annually and which controls 70% of the American organic milk market. Horizon Holding company was itself was acquired by the Dean Foods conglomerate in 2003.

Source: Ruiz-Marrero, Carmelo (2004). *Is organic farming becoming victim of its own success?* at http://www.corpwatch.org/article.php?id=11712.

20. The participation of conventional food producers and retailers as well as the level of concentration in the industry has serious implications for organic producers worldwide.

21. Multiple retailers and supermarkets demand large consignments of produce and uniformity of quality. Monoculture organic agriculture, based on significant amounts of organic inputs, develops to achieve efficiency through specialisation. Economies of scale are necessary to assume the costs of meeting the requirements established by supermarkets including those in terms

[9] Howard, Philip (2003). Chart on the Organic Industry Structure at www.agribusinessaccountability.org/ pdfs/253_Organic%20Industry%20Structure.pdf

of quantity of produce to be delivered on a regular basis. Hence smaller producers are placed at a disadvantage by not being able to achieve the necessary scales and/or assuming the costs of the standards and other exigencies imposed by supermarkets. As smaller family farms fail, their land is bought by larger producers and concentration of land ensues. Retailers themselves prefer to deal with fewer larger producers as it reduces their transaction costs.

22. Moreover, large companies and retailers involved in organic market have been instrumental in the development of organic standards in order to facilitate their operations and consolidating a national/regional/international market for organic products. National standards contribute to create a market for organic products: it increases consumers' awareness and confidence on the organic claims being made by certified organic products offered for sale under various brands. In the case of the United States, national organic standards adopted in 2002 replaced various state standards that had developed through the initiative of the organic movement at the local level. In the European Union, the Commission adopted organic standards to be implemented throughout the Union in 1991. The adoption of national standards in the major organic markets – European Union, United States and Japan – contributes to international trade in organic products through mutual recognition of equivalence of those standards. Therefore, the development of standards and the potential harmonisation of those standards, while contributing to develop the market for organics also facilitates the operation of multinational companies which are the ones better placed to take advantage of integrated global markets. Smaller producers can be marginalised in the process due to their small scale of production and incapacity to meet the established standards, as mentioned before.

23. In the case of the United States, for instance, concerns have been raised about the biased of the rules in favour of large companies because they are size-neutral applying to large and small farms the same. The bigger farms are in a better financial position to meet the standards than the smaller ones. Moreover, the soundness of the standards itself from the organic point of view have been seriously questioned, suggesting the involvement of large multinational food companies in the process as an explaining factor.[10]

24. The participation of large food multinationals and retailers in organic agriculture can also have destabilising effects on supplies as they may have under conventional systems of production. These companies approach organic production as any other business line entering and leaving the market or adapting their strategies to the needs of their global business. For instance, processors may decide to get involved in direct production instead of buying from established suppliers. As concentration in the industry is significant, producers may be left with no outlets for their produce. There are counts of this happening in the United States in the market of organic baby food as

[10] Ruiz-Marrero, Carmelo (2004). *Is organic farming becoming victim of its own success?* at http://www.corpwatch.org/article.php?id=11712.

consolidation in the industry takes hold and companies integrate their processes to reduce transaction costs and become more efficient.

25. Retailers can embark in aggressive price-undercutting strategies. The reduction in the price premium charged for organic products have been conducive to the expansion of demand thus of the market. At the same time however, and given the concentration in the retail sector there are concerns among distributors and in particular among farmers, that retailers abuse of their dominant position capturing most of the benefits of their labour.

26. A related issue is the contractual relationships established by farmers with the firms that would eventually market their produce, especially in the context of export-oriented production in many developing countries. Contract farming is increasingly gaining importance. In this context, work by IFAD suggests that marketing firms abuse of their dominant position and exert undue pressures on farmers which lack information and organisation, to accept unfavourable contractual terms affecting farmers' overall profitability. For example, in the case of Dominican Republic farmers involved in the production of organic bananas for exports received relatively low prices due among other factors, to the fact that there are only two marketing firms buying bananas from small producers. Terms incorporated in the contracts included the condition that firms were not obliged to buy from farmers during the summer in the Northern hemisphere (June – August) when demand for bananas in those markets falls due to the availability of other seasonal fruits.[11]

B. The Challenges of non-certified organic agriculture in developing countries

27. The situation of non-certified organic agriculture practiced to a large extent in developing countries, poses a different set of challenges. The main concern in this context relates to the implications of the current paradigm of globalisation on development and food security in developing countries.

28. Indeed, the prevailing logic of globalisation with its technological underpinnings gives prominence to the production of cash crops for exports in the developing world. Trade in agriculture is liberalised and governmental support programmes, if they exist at all, are oriented towards the promotion of conventional agriculture to increase the productivity and production of export crops. But the experience of the large majority of developing countries with trade liberalisation in agriculture has been quite disappointing.

29. Trade liberalisation has been associated with a significant increase in inequality, concentration of land, marginalisation of farmers and dismantling of the institutional framework in support of agriculture and rural development by the adoption of a minimalist approach towards the State. Farmers have been unable to compete with dumped subsidised produce from the industrialised

[11] IFAD (2003). *The Adoption of Organic Agriculture Among Small Farmers in Latin America and the Caribbean. Thematic Evaluation.* Report No. 1337. Rome.

world in their own markets, and unable to make a living out of what they export due to the concentration in world agriculture markets and plummeting prices of commodities.

30. The increasing interest of developing country governments on certified organic agriculture is informed by the same biased approach towards export promotion. In that respect, it is important to highlight that the policy biased towards production for export disregards the contribution of traditional methods of agriculture, including organic practices, to national and regional food security in developing countries and the central role of agriculture as a source of livelihood for large numbers of the poor in those countries. Small farmers and indigenous people in Latin America are involved in the production of staples such as maize, beans, manioc and potatoes; in Africa they produce most of cereals, roots and tubers; and in Asia the bulk of rice.[12]

31. In this context, nothing less than a change of paradigm is necessary. Food security and sustainable development rather than export promotion should be placed at the centre of developing countries' policies and donor's programmes. On this line, traditional methods of production including organic agriculture, should be actively promoted. These methods build on local resources, including labour and traditional knowledge held by local communities.

IV. HOW CAN CURRENT TRENDS TOWARDS CONVENTIONALISATION OF ORGANIC AGRICULTURE BE REVERSED?

32. The continuation of the current trends of consolidation in the organic industry and the increasing role played by multinationals in the production and trade of organic products can have serious implications for organic producers and the organic movement overall. To the extent it reinforces the paradigm of export promotion in developing countries, it can also have deleterious effects for food and livelihood security for millions of farmers in those countries. The paragraphs that follow aim at highlighting a number of measures that are thought fundamental for the reversal of current trends in organic agriculture and reclaiming the space of farmers in organic agriculture.

    - Developing mechanisms at the national regional and international level for the effective control of multinational food companies and mass retailers. Voluntary codes of conduct have proved neither sufficient nor adequate to address the practices of these companies. Disciplines need to be enforceable and applicable at a global scale considering the institutional and implementation capacity of developing countries.

    - Promote leveling of the playing field between organic and conventional agriculture. The current support system for agriculture in the industrialised countries particularly so in the United States and the

[12] See IFAD (2001). *Rural Poverty Report 2001. The Challenge of ending rural poverty*. Oxford University Press for the International Fund for Agriculture Development. Rome.

European Union (major exporter and subsidisers of agricultural products worldwide) is skewed in favour of conventional agriculture and as such, contributes to consolidating the hold of large multinational corporations of the entire world food system, including organics.

- ✧ The prevalent logic of globalisation must be reassessed. International trade in agriculture must be considered as a contributing factor for achieving specific objectives but not as an end in itself. In this contest and especially in the developing world, it is of utmost importance to recognise the contribution of farmers and their traditional methods of production to food security and sustainability.

- ✧ Non-certified organic agriculture and other traditional methods of agriculture production practiced by small farmers and indigenous people in developing countries must be encouraged. A fundamental element in this process is the development and protection of the local markets through a set of coherent policies, including adequate tariff protection and the elimination of dumping.

- ✧ Reassess the role of the State in the development process. Areas in which urgent action is required include the promotion of research and development in traditional and organic methods of production and organic inputs; guaranteeing access of farmers to the results of that research through extension services; building basic infrastructure necessary for the development of regional and local markets; establishing an institutional framework conducive to the development of organic standards that respond to the particularities of various regions and farmers' specific circumstances; creating mechanisms including if possible direct support, for guaranteeing farmers' access to credit or other financial schemes for increasing agriculture production, including through financing the conversion period to certified organic production where appropriate.

- ✧ Strengthening farmers' organisations worldwide and encouraging their mobilisation in pro of a reversal of the policy biased that favour conventional agriculture over organic and other sustainable systems, and export promotion over food security and sustainability.

V. CONCLUSIONS

33. The prospects of organic agriculture are promising. But as discussed, the success of organic agriculture poses serious challenges to organic farmers and the organic movement as a whole.

34. The participation of multinational food companies and retailers in production and trade of organic agricultural products is driving a process of concentration of the industry that resembles that well established in conventional agriculture.

Small farmers can be increasingly marginalised and the export biased so prevalent in conventional systems can be replicated with respect to organics. In the context of developing countries this constitute a threat to food security and the livelihood of million of farmers.

35. The reversal of current trends constitutes an urgent need but also a very difficult endeavour. A change of paradigm is necessary. Sustainable development and people's needs should be put at the central stage of policy decisions; considerations of food and livelihood security should supersede commercial interests and trade liberalisation; the state must play an active role in promoting sustainable systems of agriculture production; and governments worldwide should work together to redress the stronghold of a few multinational companies over the world's food supplies. For achieving these objectives, the mobilisation of farmers' groups and organisations is a fundamental precondition.

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