

THE ECONOMIC IMPACT OF A BAN ON AIRFREIGHTED ORGANIC PRODUCTS TO THE UK



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Study analysing the economic impacts of a possible ban by the Soil Association (UK organic standard-setting body) on certification or re-certification of organic products imported to the UK by air - provides an overview of the general relation between organic regulations, standards and certification, and international trade in organic products; compares dynamics of the organic fresh produce market in UK and other European countries; describes the general role of airfreight in UK organic imports of fresh produce; uses Ghana and Kenya as examples to illustrate the probable economic and social consequences of withdrawal of Soil Association certification on countries supplying to the UK by air; includes bibliography (p. 49).

Descriptors: **Organic Products, Fruit, Certification, Air Transport, Freight Forwarding, Africa, Kenya, Ghana, Case Studies.**

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Exchange Rates

\$1 = £0.495

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All other exchange rates used are indicated in the text

General Note on the Text

Statements in quotation marks indicate direct speech by interviewees.

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Executive Summary

Against the background of growing concern about climate change, some European private organic standard-setting bodies led by the Soil Association are considering whether to refuse certification of organic produce imported by air. Their right to determine the rules to which they certify produce, irrespective of whether this is already certified to EU public rules, has been recently re-affirmed in the process of the revision of EU Organic Regulation. A change in Soil Association rules along these lines may have a significant impact, firstly because UK supermarkets have historically favoured that their suppliers certify to Soil Association rules, and secondly because airfreighting of organic produce to the UK has increased considerably in recent years. This increase is related to UK supermarkets' embrace of organic sales, in a context where competition between supermarkets over fresh produce market share emphasises widening the product range and securing its year-round availability.

Airfreighted organic imports into the UK in 2006 accounted for only about 1.9% of all organic fresh produce imports by volume, although for the categories of product subject to airfreighting they constituted 4.1% by volume. Their share of retail sales was considerably greater. In terms of value, airfreighted imports represented 3.1% of all organic fresh fruit sales, 13% of all organic fresh vegetable sales and 8.1% of the entire organic fresh produce category.

Low income and lower middle income account for the great majority (79%) of all airfreighted organic imports to the UK in 2006. Amongst low-income countries, dependence on airfreight as a means of fresh produce transport is very high.

Almost all airfreighting (95-96% by volume and value) takes place in the service of making highly perishable products available on an seasonal extension or, more frequently, a year-round basis. Better planning and coordination of supply would eliminate only a small fraction.

It is almost certainly unavoidable to use airfreight for imports of some categories of fresh produce from outside Europe and the Mediterranean. These include green beans, mange tout, snap peas, baby corn, leaf salads, tender-stem broccoli, asparagus and celery. Even when they are exported from eastern and southern Mediterranean countries in a conventional form, these products are very frequently transported by air. This is almost invariably the case when these crops (as well as most exotic fruits) are prepared and presented in value added forms.

For exotic whole fruit such as limes and pineapple, using sea freight between the tropics and the UK is technically feasible, but this will be at the cost of quality. More generally, airfreight 'solutions' serve to reduce exporters' and importers' risks, especially where producers and exporters are resource poor or where customers place a priority on supply flexibility. Even where sea freight 'solutions' are found for highly perishable products, such solutions tend to be case (product+origin+exporter) specific, and many factors militate against their general application.

UK importers – including organic ones – are strongly opposed to the idea of a ban and, unless otherwise directed by their clients, would respond to it by changing certification body (and certifying to the EU/Defra Regulation rather than to a private standard). UK supermarkets are also hostile to a ban, and their opposition to it is likely to make it unworkable.

If however a ban is introduced and somehow proves workable, since sea freight solutions are difficult if not impossible for most product-origin-exporter combinations where airfreight is used currently, virtually all the produce currently transported by air will be removed from the UK

market. This corresponds to an annual loss in retail sales of around £42 million. In addition to this static impact on sales there will be a series of so-called dynamic impacts which will increase losses further. The two most easily measurable of these will add around another £4.9 million to these losses. Others, longer-term and more difficult to measure, may be at least equally damaging.

In the wake of a successfully implemented ban, retail shelf space is likely to be lost permanently to conventional products. In the process a number of UK import businesses will be badly affected, particularly those with high shares of organic sales in total sales. Some conventional importers are likely to drop organic products completely.

About 50-60 producer-exporters worldwide will be affected by a ban. The great majority of these export by air for continuous periods throughout the year. In relation to this group, the most important direct impacts of a ban are:

- A ban will force a choice between reversion to conventional production (at lower levels of profitability) and closure. The starkness of this choice is due to the absence of sea freight alternatives (technologically and/or commercially), problems in adapting corporate and national trade infrastructures to new markets, and the absence of local/regional markets for the products in question. Many organic producer-exporters, particularly those who are mainly organic, will not have the financial or technical capacity to successfully switch to conventional production.
- Even where reversion to conventional production and trade occurs, rather than closure, a ban will cause significant levels of dismissals and/or cancellation of contracts with smallholders and outgrowers. On commercial farms, dismissals will result from replacing production systems that are more highly labour intensive with ones that are less so, and because some formerly organic lines will be uncompetitive in a conventional form. The greater the scale of organic production, and the more labour-intensive it is, the more dismissals will be caused.
- A ban will remove greater or lesser magnitudes of income from areas where organic production is located. The magnitude of income removed, and therefore the extent of local impacts, will vary proportionately with how many workers and/or smallholders/outgrowers are contracted, how well they are remunerated and how much the parent enterprise spends on local goods and services.

Country case studies of Kenya and Ghana demonstrate that the indirect impacts in exporting countries of a ban will almost certainly further include:

- Decline in living standards and probable sale of assets for a large number of those made unemployed, as alternative local employment opportunities are scarce and when available typically remunerated at half current levels.
- Elimination of opportunities to attend fee-paying schools (which in Kenya include all government secondary schools) for children of workers dismissed or smallholder/outgrowers whose contracts are cancelled, as well as for an average of two other extended family members whose schooling is typically financed through income from export enterprises.

- Firing of the employees of those dismissed or whose contracts are cancelled by export companies. Workers and smallholders in export operations normally employ other workers in agriculture, petty trade or domestic service.
- Destabilisation of local communities in which workers/contracted smallholders live, and where they typically represent a 'labour aristocracy'.
- Loss of opportunities for learning/applying organic agricultural techniques, for commercial growers and their workers as well as for contracted smallholders.
- Reduction of the public profile and credibility of national organic sectors in exporting countries.
- Disincentives for prospective entrants to join the sector.
- Seriously damaged relations between national organic movements in the affected countries and the Soil Association.

On a global scale the number of workers and smallholders dependent to different degrees on export of airfreighted organic produce is relatively small, and the overall economic impact on developing countries in general will not be great. However, in the localities that export enterprises are based, the impacts will be profound. A very rough estimate is that the livelihoods of at least 20,000 persons in exporting countries will be seriously compromised.

There will also be profound impacts in relation to the organic sectors of the countries concerned, particularly in low-income countries. Here the implications will be firstly to force these countries' sectors back onto reliance on traditional agro-commodity exports, with all the problems this entails in relation to secular declines in price and price instability. Secondly, a ban will damage the public face and national reputation of these sectors, meaning that it be taken less seriously by governments and by potential investors.

1. Introduction

In June 2007 the UK organic standard-setting body, the Soil Association, launched a Green Paper and public consultation on possible courses of action that it might adopt in relation to reducing or eliminating the contribution of airfreighted organic imports to climate change. Shortly after, the authors were commissioned by the International Trade Centre to conduct a study of the economic impacts that would occur if the Soil Association chose to ban certification or re-certification of organic products imported by air. Although the Green Paper discusses other *options falling short of a ban*, the authors were not asked to consider these. Nor were they asked to consider the *climate change implications* of a ban or any other option. A final limitation of the study is that it only considers *impacts of a ban in relation to fresh produce*. Other organic products notably vanilla, essential oils, dried herbs, teas, de-hydrated fruits are regularly transported by air. However, the volumes concerned are tiny in comparison with those of fresh produce¹.

The study is a preliminary analysis of the economic impacts of a possible ban on organic fresh imports, in the UK on the one hand and in countries supplying to the UK by air on the other. While an attempt is made to sketch some aspects of the overall supplying country impact, detailed assessments are provided only in relation to two countries. These are Kenya and Ghana, which are respectively the third and fifth most important supplying countries to the UK in terms of airfreight and which jointly accounted for 19% of all airfreighted organic fresh produce imports to the UK in 2006.

This analysis is preceded by an exposition of the general relation between organic regulations, standards and certification; of the role of organic regulations and standards in relation to international trade in organic products; and of current developments in markets other than the UK in respect of (organic) standard setting on climate change. The general role of airfreight in UK organic imports of fresh produce is also described before the main analysis is presented. The discussion here involves a comparison with Germany, the largest organic market in mainland Europe.

The research methods used by the authors comprised interviews and questionnaires in the UK and mainland Europe and short periods of fieldwork in Kenya and Ghana involving farm visits, interviews and focus group discussions. In all, interviews were held with and/or questionnaire responses received from 13 UK-based importers, 6 importers based in the Netherlands and 6 based in Germany. These were supplemented with interviews/questionnaire responses from 12 export companies using airfreight. In addition, interviews were held with 5 leading UK retailers (see their respective statements), 5 organic standard-setting bodies and 8 organic certification

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