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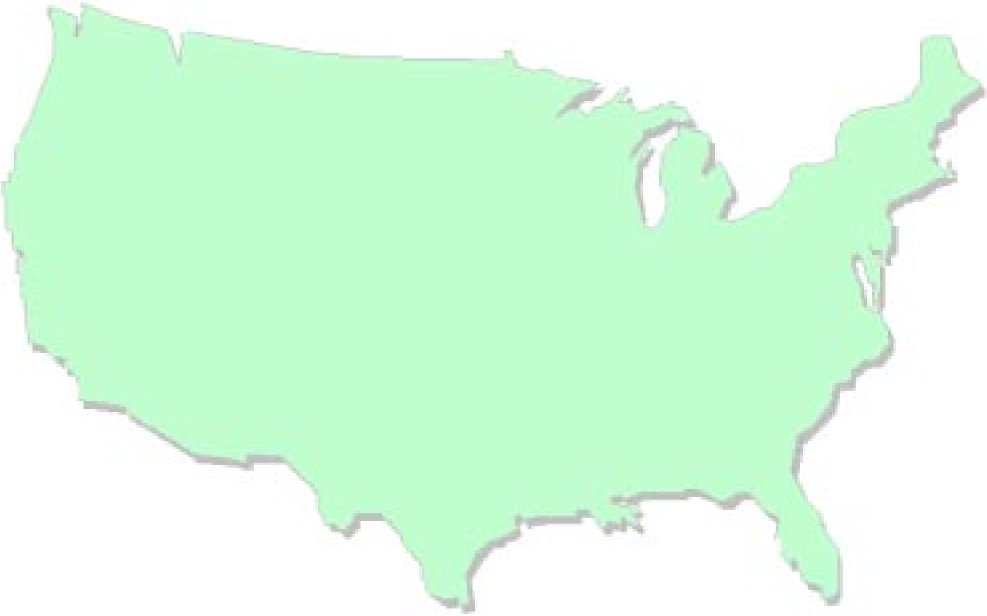
The United States Market for Organic Food and Beverages



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INTERNATIONAL TRADE CENTRE

UNITED NATIONS
CONFERENCE ON
TRADE AND DEVELOPMENT

WORLD TRADE
ORGANIZATION

THE UNITED STATES MARKET FOR ORGANIC FOOD AND BEVERAGES

By

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Though the target audience for this market survey is producers and exporters in developing countries and transition economies, it is our hope that it will also prove useful for other companies, organizations and individuals interested in developing export trade to the United States.

All readers are invited to comment on this first version, ask questions, provide missing information or suggest improvements. The study will be updated regularly, as appropriate. Please contact kortbech@intracen.org.

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INTRODUCTION AND GENERAL SUMMARY

Background

In recent years the world has seen a growing awareness of health and environmental issues, and sustainability has become the keyword whenever discussing economic development, in particular in relation to developing countries. It is a constantly growing number of concerned consumers, mainly in the industrialized countries of Western Europe, North America, Japan and Australia that are the cause of this development. The international community is becoming more and more conscious of these issues, and Government policies in industrialized as well as developing countries are increasingly formulated to encourage organic and other forms of sustainable agriculture.

In 1999, the International Trade Centre UNCTAD/WTO (ITC) published a market survey, entitled *Organic Food and Beverages: World Supply and Major European Markets*, financed by the Government of Denmark. It includes seven markets, i.e. Denmark, France, Germany, the Netherlands, the United Kingdom, Sweden and Switzerland. In addition to the country chapters, it also provides an overview of world supply of organic products and deals with certification procedures.

In 2001, the market study *World markets for organic fruit and vegetables* was published jointly by FAO/ITC/CTA. It provides detailed information on demand for organic fresh produce in the world's largest organic markets (United States, Japan and European countries) and gives case studies of seven developing countries that have established an organic export sector or are in the process of doing so.

This study, *The United States market for organic food and beverages* (first version) was posted on the ITC Web site for organic products (http://www.intracen.org/mds - What's New) early 2002. It provides detailed information on the U.S. market for organic products and describes distribution channels, market access, etc.

The above-mentioned studies all endeavour to fill an information gap amongst decision makers at government and non-government levels, in particular producers and exporters in developing countries, by providing comprehensive information on the supply situation and world markets for organic products.

Market prospects & business opportunities for developing countries and transition economies

With retail sales of organic food and beverages amounting to about $ 8 billion in 2000 (expected to reach about $ 9.5 billion in 2001), the United States is the world's largest market for this product group. Industry sources expect recent years' strong growth to continue over the short to medium term. According to the *Organic Consumer Trends 2001*, published by the Natural Marketing Institute in cooperation with the Organic Trade Association *(OTA)*, retail sales might reach $ 20 billion in 2005.

One of the main factors behind these very positive growth expectations is a strong and increasing consumer awareness of health and environmental issues, including a growing resistance amongst consumers towards food products made with genetically modified organisms (GMOs) and GM farming. Another important factor is the increasingly aggressive and targeted marketing and promotion by the retail sector, which is likely to intensify as mainstream retailers are moving into the organic trade. A similar effect is likely to result from the fact that the country's major food manufacturers are also taking an increasing interest in developing organic product lines.

The recently introduced national standards on organic agricultural production and handling are likely to have a significant positive impact on the further development of the organic industry throughout the value chain, from farmers to the final consumer, as there will be increased focus on organic products both within the industry itself and amongst consumers.

Although the overall picture looks very positive, a number of potential risk factors or threats should be borne in mind. For example, occasional oversupply of a given product may not only have immediate but also more long-term negative effects. Reduced price premiums for organic products and insufficient profitability amongst producers and traders are important factors. Furthermore other forms of environmentally friendly and sustainable agriculture are likely to result in increased competition in the future. Finally, unfavourable press, e.g. fraud (we have seen several examples recently), and scare stories are also factors that have to be reckoned with.

Even in the likely event that the above market forecast turns out to be realistic, growth rates are bound to slow down at some stage similar to what has happened in certain European markets after years of rapid growth, e.g. Denmark and Switzerland (although growth appears to be picking up again).

On balance, however, there is little doubt that the United States market will offer farmers and producers of organic products interesting business opportunities in the future, whether for domestic players or foreign traders who are looking for new markets. As far as developing countries are concerned, the following product categories are expected to be the most important:

- *products, mostly tropical*, that are not produced in the United States (or only in very small quantities): examples include coffee, cocoa and tea, most tropical fruit and vegetables (both in fresh and processed form, e.g. fruit juices, concentrates and pulp), various spices and herbs, dried fruit and nuts; suppliers will be producers in developing countries;
- *off-season products*, such as fresh fruit and vegetables, that are produced in the United States, but where there is an unmet demand during certain periods of the year (outside the US season); potential suppliers mainly will be producers in the southern hemisphere;
- *in-season products*, e.g. fruit and vegetables, for which there is a temporary or more permanent shortage because of strong and increasing demand; suppliers are likely to include producers in both developed and developing countries;
- *novelty* or *specialty products*, like high quality organic wines, certain ethnic food products or retail-packed food products; this segment is currently of particular interest to European food exporters, though some developing countries might also profit from such opportunities, e.g. wine exporters in Argentina, Chile and South Africa.

With certain exemptions, import demand in the foreseeable future is likely to be mainly for organic fresh produce (fruit and vegetables) and bulk-packed organic raw material or ingredients for further processing and packaging or re-packing, although other organic products may also find a market.

What developing countries and transition economies should do to enter the United States market

As it is easier to enter a new market during periods of strong growth, the current market situation should be exploited to the maximum by potential exporters to the United States, in order to secure a strong foothold before competition further intensifies, which is likely to happen over the next few years.

However, a considerable amount of work is necessary to build up an organic export trade in developing countries, both on the production side and on the marketing side. At country level a good agricultural supply base with appropriate national or international certification is absolutely necessary, while for the producer/exporter it is equally important to offer a range of high quality organic food products that meet the requirements of the market.

He/she should work, to the extent possible, in collaboration with other producers in the export country, e.g. through a cooperative or other group relationship. Working together can mean producing marketable quantities at better prices, broader assortments, and improved post-harvest treatment, processing, packaging, storage, transportation and administration. It may also help to cut the costs of certification and participation in foreign trade fairs, etc.

The producer/exporter must make sure that the organic certification will be recognized and accepted within the U.S. National Organic Program (NOP) and that export products meet all legal and market requirements (hygiene, weight, size, ripeness, colour, packing and other technical specifications) of the United States.

Exporters will find that a careful selection of market segments and distribution channels is of the utmost importance. A strong and reliable relationship with an importer or distributor is an absolute must in building up a profitable business. Depending on the product(s) in question, more than one importer (for different geographical areas) may be necessary in the longer run, although this would have to be justified by sufficient quantities of exportable products.

Exporters must keep themselves informed of market developments through information sharing, following trade journals and the Internet, etc. They should visit organic trade fairs regularly, e.g. those that are mentioned in this study.

While exporting can be a profitable business, the building up of a national market should not be ignored. A sizeable domestic market will help reduce over-dependency on one