

Organic Food Market Development – The Case of Serbia¹

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ABSTRACT – Serbia has in 2006 adopted a Law on “Organic production and organic products”. This was a first step towards improvement of this, very prosperous field of agriculture. Unfortunately, in the same year, the state has invested only 50 million dinars (600.000 €) for subvention of this production. This was mostly related to licensing of fields for organic production. Unlike that, in neighboring Croatia, which is trailing in organic production to Serbia government has adopted a regulation by which all organic manufacturers are subsidized by 400€ per hectare.

KEY WORDS: agricultural economics, organic food, regulations, food market

Industry overview

The global market for organic food & drink was valued at US\$ 27.8 billion in 2004 (19) and US\$ 30 billion in 2005. Although organic farming is practiced throughout the world, the most important markets are in North America and Europe, which together comprise 96% of global revenues. Such growth has led to a transformation in the organic foods industry. Firms that have been in the industry for many years not only face great pressure to expand; in some cases, they are struggling to keep up with demand for their products. They have also been confronting new competition in the form of firms that have recently entered the organic foods market. Some established firms welcome the changes: they are happy to grow and willing to tweak their production and marketing approaches to appeal to a new range of consumers. Overall, they would like to see an increase in the number of sizable organic producers, manufacturers, wholesalers and distributors. Their perspective is in contrast to that of others established in the business, who maintains that organic food should be grown, processed, distributed and retailed on a small, regional scale. The competition that comes with growth in the organic foods market may put small family farms at a disadvantage because it encourages large conventional corporations to enter the market, thereby decreasing opportunities for those that farm and ranch in rural areas. A major focus of this report is to determine how new and established firms are faring in this entrepreneurial climate.

Organic farming is practiced in approximately 100 countries throughout the world, with more than 24 million hectares (59 million acres) now under organic management. Australia leads with approximately 10 million hectares (24.6 million acres), followed by Argentina, with approximately 3 million hectares (7.4 million acres); both has extensive grazing land. Latin America has approximately 5.8 million hectares (14.3 million acres) under organic management, Europe has more than 5.5 million hectares (13.5 million acres), and North America has nearly 1.5 million hectares (3.7 million acres). (22, 2005).

The proportions of organic farmland are evenly split across the globe. About 31.5 million hectares of farmland were certified organic in 2005. Australasia leads with 12.2 million hectares followed by Latin America (6.4 million hectares) and Europe (6.3 million hectares). Important consuming countries with large areas of organic farmland are Italy, USA, Germany and the UK. Countries like China, Brazil and Uruguay are important producers of organic crops; however the majority of production is for export markets. The European market for organic food & drink was the largest in the world until it

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was overtaken by North America in 2005. The European market was worth USD 13.7 billion in 2004 and sales are estimated to have reached USD 14.4 billion in 2005. Sales of organic products increased by about 5% in 2005, however some countries reported higher growth rates.

Germany has the largest market for organic foods in Europe, valued at about USD 4.5 billion in 2005. Sales are growing by 10-12% a year as the number of channels offering organic products expands. A growing number of conventional supermarkets are offering organic products and the number of organic supermarkets continues to increase with 40 new organic supermarkets opening in 2004 alone. The UK market is next largest, followed by the Italian and French markets; however growth rates have slowed in these two countries. Other important markets are in Switzerland, Austria, Sweden and the Netherlands.

Table 1. Land Area under Organic Management (SOEL-Survey February 2004)

Country / Organic Hectares					
Australia	1000000	New Zealand	46000	Japan	5083
Argentina	2960000	South Africa	45000	Israel	5030
Italy	1168212	Netherlands	42610	El Salvador	4900
USA	950000	Indonesia	40000	Papua New Guinea	4265
Brazil	841769	Romania	40000	Thailand	3993
Uruguay	760000	India	37050	Azerbaijan	2540
UK	724523	Kazakhstan	36882	Senegal	2500
Germany	696978	Colombia	33000	Pakistan	2009
Spain	665055	Norway	32546	Luxembourg	2004
France	509000	Estonia	30552	Philippines	2000
Canada	478700	Ireland	29850	Belize	1810
Bolivia	364100	Greece	28944	Honduras	1769
China	301295	Belgium	20.241	Jamaica	1332
Austria	297000	Zambia	20000	B&H	1113
Chile	285268	Ghana	19460	Liechtenstein	984
Ukraine	239542	Tunisia	18255	Rep.of Korea	902
Czech Rep.	235136	Egypt	17000	Bulgaria	500
Mexico	215843	Latvia	16934	Kenya	494
Sweden	187000	Sri Lanka	15215	Malawi	325
Denmark	178360	Serbia	15200	Lebanon	250
Bangladesh	177700	Slovenia	15000	Suriname	250
Finland	156692	Dominican Rep.	14963	Fiji	200
Peru	130246	Guatemala	14746	Benin	197
Uganda	122000	Costa Rica	13967	Mauritius	175
Switzerland	107000	Morocco	12500	Cyprus	166
Hungary	103672	Nicaragua	10750	Laos	150
Paraguay	91414	Cuba	10445	Madagascar	130
Portugal	85912	Lithuania	8780	Croatia	120
Ecuador	60000	Cameroon	7000	Guyana	109
Turkey	57001	Vietnam	6475	Syria	74
Tanzania	55867	Iceland	6000	Nepal	45
Poland	53515	Russia	5276	Zimbabwe	40
Slovakia	49999	Panama	5111	SUM	24070010

There is a small market for organic foods in Central & Eastern Europe (CEE) with the region comprising less than 3% of European revenues. Although the amount of organic farmland in CEE countries is rising, mostly primary products like grains, seeds and herbs are grown. There is a lack of organic food

processing in the region with high volume of the organic crops exported to Western Europe, although this is beginning to be addressed via joint ventures.

Rapid growth in consumer demand for an industry's products frequently triggers change throughout the supply chain. The expansion creates opportunities for existing firms to grow, for new firms to enter, and for market channels to reorganize with new links between producers, brokers, manufacturers, distributors, and retailers. Fast growth also poses risks for established firms and new entrants because of volatility and uncertainty.

Market development is a process composed of many decisions by the public sector and private firms. For example, the government may specify conditions to avoid excessive market power by a few companies. Private firms may agree upon industry-wide safety standards. Sound decisions depend on high quality information, and determine the extent to which the long-term interests of society are met. We often take for granted the public information for mature product markets, such as regular price and quantity reporting. These data enable buyers, sellers and government to make well-informed choices. Such information for small markets is often incomplete or entirely missing. Under such conditions, a variety of market inefficiencies may occur.

By all accounts, the small, but fast growing, U.S. organic food market is in the midst of dramatic change that will alter the industry yet, there is little public information to understand the nature and potential effects of this change. The lack of information may prevent researchers and policymakers from identifying problems and crafting possible solutions. Research can contribute vital intelligence on such emerging markets to shape their development in the long-term interests of private firms and consumers. We have assembled existing and new data to analyze the rapidly unfolding developments in the structure and operation of the organic foods market. Our principal contribution is to identify the most critical issues confronting the industry, develop potential approaches to resolve the issues, and outline a future research agenda.

Part of what makes the organic market unique is that the businesses and consumers it serves judge food not only by its taste, price and appearance, but also by the social and environmental benefits it represents. In this respect, it is a market that does not rely solely on economic factors in defining its products. Another difference is that, unlike the early growth of many conventional industries, the organic foods industry has grown in response to increased consumer demand, not increased supply. In other respects, however, the organic foods industry is behaving much like other industries for other agricultural commodities. As the industry has grown, it has lured new firms that are now actively competing with established businesses. This growth has led to two major challenges: ensuring product integrity and ensuring efficient production and distribution of organic products.

At this writing, both the industry and governments (state, federal and international) are still trying to establish a uniform definition for "organic" food - an effort that has thus far met with little success. Firms also have to combat the specter of fraud, which in this case translates to the marketing of conventionally grown products as organically grown. Meanwhile, industry firms are attempting to find more efficient ways to grow, manufacture and distribute enough organic products to meet consumer demand.

Although the dearth of data on the organic foods industry made it impossible for us to describe its structure and activities completely, the results of our research were revealing. We found that some large organic firms achieved success by emulating strategies used by mass market (that is, conventional) firms. For example, large natural foods retailers have developed their own "private labels" (house brands) and own wholesaling facilities.

World large organic companies have also been innovators in areas such as contracting and cooperative development. In contrast, smaller retailers, distributors and farmers have achieved success in large part through emphasizing customer service and developing strong personal relationships with both sellers and buyers.

It appears that the challenges of ensuring product integrity and adequate production and distribution of organic products will be ongoing. For instance, even though mass market supermarkets are likely to continue adding organic foods to their product lines, they may have weak or non-existent screens for

accepting organic products, perhaps making them more vulnerable to fraud. They may also place little value on products that meet the social and environmental sustainability aspects of organic farming, depending on whether and how their consumers want those values expressed in their organic food products.

There is also the question of when the Serbian government will approve a standard definition for the term “organic” - a decision that is slated to take place in 2000, but that has engendered a wealth of controversy in the interim. With regard to meeting demand, it is possible that market imperfections may have, through a variety of factors, ranging from lack of proper distribution channels to lack of credit, prevented the marketing of as many organic commodities as consumers would like. Although market imperfections are difficult to document in this case, it is consistent with these difficulties, which create incentives for manufacturers and retailers to conclude special contracting arrangements with farmers and ranchers.

Development of organic food industry

Modern organic farming began developing in the early 1920s and 1930s through the work of a few individuals. The first, Rudolf Steiner, laid the foundation of biodynamic farming, which embraces the relationship of philosophy, spirituality and the earth (18, 1924).

According to the Biodynamic Association, “biodynamic is a method of agriculture which seeks to actively work with the health-giving forces of nature.” Steiner’s composting methods have since been adopted by many organic farmers.

The Demeter Association, a biodynamic certification organization, began operating in the 1930s and continues to certify farms today. Sir Albert Howard and Lady Eve Balfour also contributed to early organic farming. They believed that “the soil’s microbial life helped turn organic matter into food for crops.” They began farming without chemicals and created a unique method of layered composting to develop organic matter in soil (9, 1994). The Rodale Institute, started in Pennsylvania by J. I. Rodale, was instrumental in promoting organic farming in the United States through research into building soil fertility (6, 1998). The Rodale Institute delivered its message to the public through many Rodale periodicals, including *Health Bulletin* and *Organic Farming*.

In the early days, people bought and grew organic food for purely philosophical reasons. But in the early 1960s Rachel Carson’s *Silent Spring* revealed in chilling detail some of the environmental and health consequences of intensive agriculture that relied on chemical pesticides

Demand for organic food increased, as did the number of organic farmers (9, 1994), and a genuine organic foods industry was born. Since then the industry has grown and it has encountered many of the traditional problems faced by any industry on the rise.

A key issue in today’s organic foods market is simply its size. When an industry is small, the participants know one another and may also share a common ideology, making it possible to attain and uphold a consensus about rules or quality standards. Reneging on a contract may give someone a reputation for dishonesty, and under certain circumstances, this threat keeps participants honest. As the number of participants increases, however, personal relationships are less common and the ideology of the group is likely to grow more heterogeneous. Consequently, it is difficult to reach a consensus when defining standards and ethical trading practices, or to enforce rules. And reputation, which works to preserve honesty- in a small industry, is not as effective in a large industry (10, 1990). This kind of problem often leads to institutional change, such as industry self-regulation or government intervention (11, 1990). For agricultural commodities, most kinds of institutional change are implemented to regulate the quality available in the market. Three ways to accomplish this goal are through imposing minimum quality standards (7, 1998), third party certification (21, 1999) and inspection.

An historical example serves to illustrate the point. In the early 1900s, rail transportation made it possible for agricultural commodities to be shipped over long distances. As a result, certain regions specialized in the production of certain commodities: grains were grown in the U.S. Midwest and fruit in

the Pacific for sale nationwide. However, many farmers experienced severe problems as they tried to sell their products in distant markets. Disputes over quality and price, as well as failures to pay for goods, contributed to general chaos in marketing. Farmers in certain regions (for example, Pacific apple growers) were able to overcome many of these problems; others (for example, Eastern apple growers) were not. To address these problems, the U.S. Department of Agriculture (USDA) designed and administered quality standards and inspection services. It defined trading practices for commodities as well (2, 1999). Like the early 20th century markets for agricultural commodities, today's organic foods industry is grappling with the problems of how to maintain quality during the trip from farm to market, how to describe quality and how to standardize the description of quality. How can buyers and sellers be sure that their business partners are honest and adhere to contract terms? What recourse do buyers and sellers have when partners renege on a contract? Manufacturers (both in today's organic market and in the early 20th century) have been concerned with procuring high quality foods and maintaining product quality during the manufacturing process. Their dilemmas are part of the universal experience of any agricultural industry: growth changes the relationships between sellers and buyers, introducing a range of new conflicts and challenges and often drastically altering institutional structure. Perhaps the most difficult challenges for today's organic foods market are how to secure and distribute sufficient supplies of organic food and how to ensure their integrity.

Ensuring integrity in turn means many things: how to market and manufacture the food while preserving its "organic" qualities, how to assure buyers that food is grown organically, knowing what type of processing is appropriate for organic foods, and being able to define exactly what "certified organic" means. A key problem has been that since the industry's inception, there has been no universally accepted definition for "organic," making it difficult for consumers and retailers to understand what they are getting when they purchase "organic" foods.

In 1973, 50 California farmers addressed the issue by forming the California Certified Organic Farmers, which defined standards for organically grown food and created a certification system (8, 1998). By 1980, a number of states had given authority for defining and enforcing standards to state departments of agriculture, and simultaneously, many private certifiers emerged. Currently, there are at least 44 different organic standards in the United States and at least 27 private certifiers (3, 1999).

Private and public policy battles about standards for other forms of sustainable agriculture are also ongoing throughout the world on local and regional levels. While the battles for standards rage on, the organic food industry must continue to focus on how to produce, manufacture and distribute the products that consumers want while maintaining their quality. To maintain quality, both buyers and sellers must want to do business with people who will honor agreements, which includes sending the agreed-upon product and paying the agreed-upon price.

Buyers and sellers must also ensure that the product is truly organic - in a generally accepted, if not governmentally mandated, sense of the word. Further, buyers and sellers must navigate successfully within the structure of their industry, which can be defined here as the number of firms in each link along the marketing chain and their relative bargaining positions.

Market structure affects both prices and quantities, and so determines whether firms on one end of the chain have market power over firms on the other. For example, there are a limited number of manufacturers of conventionally produced breakfast cereals. They sell their products to a small number of retailers, which makes it difficult for retailers to exert market power over them (1, 1999). On the other hand, there are many producers of iceberg lettuce and few retailers, making it possible for retailers to exert market power over lettuce growers during certain times of the year (17, 1996)

Not too long ago the only place you could find organic products was at a farmers market or natural foods store. But after watching sales of organic foods steadily grow at 15-20 percent for the past decade, these days everyone wants a piece of the organic pie. According to the 2005 Manufacturer's Survey from Organic Trade Assn. (OTA, www.ota.com), U.S. sales of organic products have surpassed \$14 billion a year, with processed foods (foods other than produce, dairy or meat) representing more than 42 percent of sales. Compared to the 2 percent annual growth of conventional groceries, organic offers an exciting opportunity. However, although the green organic seal has the potential to generate a lot of green, can the organic supply keep up with the ever growing demand? The answer from those in

the industry is an enthusiastic yes. But before you try to order 5 million pounds of organic flour, you must first understand the organic world and how it differs from the conventional food world. (2)

Marketing chain

Although we have a general idea of how and through whom organic goods make their way to market, we do not have in-depth knowledge of every player in the marketing chain. Here we examine (to the extent possible) the specific roles, concerns and strategies of retailers, distributors, manufacturers and farmers alike.

Lack of information makes it difficult to discern who holds the most power in the industry. Some industry analysts believe that manufacturers are the most powerful force in the food marketing channel, while others believe that retailers hold the bulk of the power. Indeed, retailers of natural foods appear to be doing exceptionally well in the current business climate.

Sharing in the profits of the burgeoning organic foods industry are manufacturers, who, some analysts believe, represent the industry's fastest growing group. Among the problems specific to organic manufacturers are ensuring that ingredients procured are organic and maintaining their organic status during the manufacturing process. Manufacturers can be sure of ingredient quality by purchasing those that are certified organic. By certifying their production process, manufacturers can assure both retailers and consumers that the final product is indeed organic.

The distribution link in the organic foods industry - brokers, handlers and wholesalers - is critically important, if poorly documented. According to the Thompson Food Industry Business List, there are about 3,000 natural foods distributors in the United States. Natural foods distributors are unsurprisingly, more likely to sell organic food products than are mass market distributors. This said there are many mass market distributors who have decided to integrate organic food items into their product mix.

Organic production is generally the best understood part of the organic foods market. The most comprehensive source of information on organic farmers comes from the Organic Farming Research Foundation (OFRF) National Organic Farmer's Survey. OFRF has been following the development of organic agricultural production in the United States through biennial surveys of organic farmers and ranchers conducted in 1993, 1995 and 1997.

In addition to surveying farmers about organic agricultural research and information sources, as well as organic on farm production and management methods, OFRF has also collected marketing data. According to these data, both the number of organic farmers and acres farmed organically grew steadily. Although they make up a very small percentage of farms, they are among a very few categories of farms that are growing in number rather than decreasing. Despite the fact that this knowledge base is good relative to those for other areas in the organic foods market, much remains unknown, in part because there is very little funding provided for organic production. Further, there are many serious information gaps in our understanding of the pricing and marketing of organic food products, which have not been as carefully studied and documented as the production side.

Manufacturers

Manufacturers convert raw agricultural products into prepared and processed foods such as canned and frozen vegetables, pasta, ice cream and cookies. Manufacturers of both conventional and organic foods must cope with the problems of how to produce a uniformly consistent product and how to secure shelf space in the supermarket. However, manufacturers of organic products face three additional challenges: how to secure a large enough and cheap enough supply of organic ingredients, how to verify that those ingredients are organic and how to maintain their organic integrity during processing. Manufacturers of conventional processed foods can overcome the supply problem by contracting directly with farmers or by establishing ongoing relationships with them. Recently, some large organic

manufacturers have begun contracting with farmers and also working closely with them to provide guidelines for what kinds of products are needed. Manufacturers of conventionally produced goods often pay fees to secure shelf space (called slotting fees). Although no definitive information is available, industry trends point to the possibility that organic food manufacturers are heading in the same direction.

Organic foods have traditionally been manufactured by small businesses that fit into a profitable niche in a region. Their success, like that of many organic and sustainable food businesses can be attributed in many cases to a blend of quality, taste, safety, environmental attributes, attributes of local production and artisanship (4, 2007). However, the market for organic foods was fairly small and specialized when many of these businesses first opened their doors. That market is much larger now and, as mass market food businesses enter it. In developed organic-food countries many long-time organic foods manufacturers must merge and grow to stay competitive. (Others, of course, remain small and serve regional niche markets.) Market growth presents opportunities for traditional organic manufacturers such as Cascadian Farm in USA, which has been able to increase the scale of its operations to meet growing demand. Nonetheless, market growth may also be threatening to other manufacturers, who may stand to lose market share to large businesses that create products similar to their own. In addition, increased competition and market size may mean that these manufacturers will lose the market premium that their product once commanded. Whether these changes are threatening depends in large part on whether the manufacturers can carve out and maintain their market shares through quality and price competitiveness.

Manufacturers of natural foods are increasingly interested in selling in mass market venues. Unfortunately, they lack the expertise and-experience of their competition (mass market distributors) when it comes to knowing what to offer customers (NFM). Like retailers and wholesalers of organic foods, as well as many small conventional industry members, they have been slow to adopt ECR techniques (box 1), which can be invaluable in streamlining and minimizing the costs incurred on the path from the assembly line to the consumers' shopping cart.

Many natural foods market manufacturers are interested in growth strategies. The great majority have been growing rapidly and plan to continue doing so for the foreseeable future (15, 2006). Supply chain management is increasingly complex for these businesses, and many are as yet unable to cope adequately with the problems this complexity brings. Many natural foods manufacturers have been growing swiftly without well-defined growth a plan, which means they have run into severe logistical problems. On the farm side, manufacturers are concerned with obtaining a supply of high quality inputs. On the retail side, manufacturers are concerned with finding and maintaining markets for their products. Many manufacturers of organic foods, natural foods or a mix of the two have not yet had to provide the services that their mass market counterparts provide to distributors and retailers. They have traditionally been involved in selling their products to distributors and retailers who cater to "the converted" - consumers who are already interested in natural foods and take the time to go to health foods stores. The failure to provide these services is becoming costly as manufacturers are increasingly working with mass market distributors and retailers.

Farmers

Marketing is a significant challenge for most farmers. They usually have little say in the prices they garner for their products in the marketplace. This is because most agricultural commodities are grown on a large number of farms and are sold to a small number of buyers (e.g. manufacturers or retailers). Farmers have developed a number of different strategies to get higher prices despite this imbalance of power. One strategy has been to market products collectively through marketing cooperatives. By pooling their output and acting as one selling agent, farmers are often able to meet buyers from a position of greater strength and command higher prices. But the process of forming a cooperative (and receiving the average price of the pooled output) makes one farmer's output indistinguishable from another's. This situation creates an incentive for some farmers to slack off and produce low quality

products, subsequently undermining the effectiveness of marketing as a group. Thus, marketing cooperatives are not always successful.

Another response has been for farmers to form marketing agreements and strategic alliances. Marketing agreements and strategic alliances can take many forms, but most are designed to help farmers (and shippers) draw on one another's inventories, thereby increasing their market share.

These strategically related farmers and shippers are able to provide a wider range of crops and varieties than they could independently, thereby gain an advantage over other farmers and shippers with limited offerings. These kinds of strategic alliances are beginning to occur between conventional and organic farmers.

Most marketing problems faced by organic farmers are the same as those faced by more conventional farmers: where to market their products and how to receive the highest possible prices for them. In addition, organic farmers must contend with the entry of large agribusiness firms that see organic production as a new, profitable area in which they can develop a high margin business (4, 2007). However, the viability of organic farms has not been seriously jeopardized by the entry of large firms. Small organic farmers do not seem to be experiencing difficulties as severe as those of conventional farmers, who are struggling to compete with large conglomerates.

Like some of their conventional counterparts, some small organic farmers are also turning to direct sales, either on their farms or in farmers' markets. Organic farmers have also relied on CSA - community supported agriculture - arrangements as an alternative marketing technique. In a CSA arrangement, consumers purchase "shares" from a farm for a fixed price, acting as creditors and bearing production risk. According to a survey conducted by the Organic Farming Research Foundation (12, 13, and 14) fruit, vegetable and livestock farmers use direct marketing most frequently; field crop farmers use it infrequently. Of the 28 percent of fruit, nuts and tree crops marketed directly to consumers, 40 percent of them were sold on the farm, 42 percent in farmers' markets and 15 percent through a CSA.

The market for foods grown by organic or sustainable agricultural methods has become significantly larger and more complex. For those who want to make the most of their businesses in this market, the two most critical factors are producing the right product and ensuring the quality of the product. For farmers, this means listening carefully to their buyers and getting correct and timely information about prices and markets available to them. Buyers by definition have more close contact with the consumer and therefore know more about what consumers want from the natural foods market, and what they are willing to pay for organic and other eco-labeled foods. Farmers of organic and sustainable produce want to be sure that the food they grow is handled and processed according to the standards necessary to garner adequate profits. They understand that they are responsible for producing products that consumers can buy with confidence - especially as they are paying a premium for benefits that are not immediately apparent. According to the OFRF survey, 56 percent of all organic farmers surveyed planned to increase the number of acres they had in organic production. Sixty-three percent planned to increase the number of markets and/or buyers and 74 percent planned to increase the volume of organic product they marketed (12, 1999).

Legislation

As said previously Serbia has adopted a Law on "Organic production and organic products" in 2006. This Law is just a beginning of regulations in organic food industry. If we look on developed countries we can observe over 15 years long experience of regulations improvement.

In 1991 the EU passed Regulation 2092/91 which lays down in detail how food must be produced, processed and packaged to qualify for the description 'organic'. The regulation also specifies detailed criteria for the inspection and subsequent certification of food producers and processors.

By harmonizing organic legislation throughout Europe the EU Regulation has established a level playing-field for manufacturers. This in turn has led to easier transfer of organic ingredients and finished organic foods within the EU. The Regulation also ensures that ingredients entering the EU must have

been produced to the same standards as ingredients produced within the EU. After some initial difficulties the Regulation has been welcomed by the Organic Food industry as it has enabled consumers to buy organic produce with confidence, and has reassured producers and processors that their market will not be contaminated by fraud.

A major amendment to the original EU Regulation was made in 1995. This amendment divides organic processed foods into two categories, depending on the proportion of organic ingredients present:

Category 1. Organic - Product contains a minimum of 95% organic ingredients by weight. Product can be labeled 'Organic' eg. Organic Cornflakes

Category 2. Special Emphasis - Product contains 70 - 95% organic ingredients by weight. Product can be labeled 'Made with Organic Ingredients' eg. Tomato Ketchup made with Organic Tomatoes.

In the USA organic regulations have been developed on a state-by-state basis - currently there is no national organic legislation. The US Department of Agriculture (USDA) attempted to bring in national organic standards. These standards would have permitted the use of GM ingredients, sewage sludge and irradiation in food labeled as 'organic'. The USDA received over 220,000 negative responses to these proposed standards, which have now been withdrawn for redrafting. It is possible the new USDA proposals will be based on the international standards drawn up by IFOAM, the International Federation of Organic Agricultural Movements.

The following guidelines are among some that are widely accepted in EU:

Organic products cannot be sold without a valid Certificate of Compliance issued by a registered Organic Certification Body

When a Certificate is issued it applies only to the products listed thereon

Records must be kept of all organic material purchased and all organic units produced

All organic ingredients must be produced by an organically certified supplier

Organic ingredients must be used unless a non-organic version is permitted by the Regulation

Organic raw materials and products must be clearly labeled and physically separated from non-organic products.

The system is subject to regular inspection. Every organic producer or processor is inspected at least once a year by the Certification Body with which they are registered. A further 10% are additionally inspected by special regulation body, to ensure that the organic inspection carried out by the Certification Body has been done to the appropriate standard.

Looking ahead

At this writing, no one can have a clear picture of exactly how the organic foods market is changing and what it will look like when the process is complete. Ultimately, however, we believe that as the organic foods industry continues to expand, new and established companies can coexist and prosper - provided that they squarely face the challenges posed by an immature distribution network and less than complete regulation. If they are successful, the organic foods industry has the potential to deliver significant market environmental and social benefits not only to its own suppliers and consumers, but also to society at large.

As we have seen, the structure and very nature of the organic foods industry are changing dramatically. Consumer demand for organic foods skyrockets - a trend that seems likely to continue into the next decade and possibly beyond - the range of firms that produces them has expanded dramatically. The organic market is no longer small and specialized, as it has traditionally been; it is becoming specialized but mainstream. Organic food is now sold in a wide variety of retail outlets: local health food stores, natural foods supermarkets and even mass marker supermarkets.

As the organic foods industry has grown, new and established firms have become ever more competitive. Large, national organic foods firms are adopting strategies used by mass market retailers, distributors and manufacturers to achieve success. Smaller, regional retailers, distributors and manufac-

turers have not used these strategies; rather, they rely on customer service and personal relationships to stay competitive. Among both groups, however, there has been significant uncertainty about whether all firms in the market can co-exist and prosper.

The uncertainty stems from a variety of concerns, among them a lack of basic data about the market. Although there are more people buying organic products and more products to buy, there are not enough data available at this writing to assess how much growth is due to new consumers versus traditional consumers of organic products. Similarly, data shortages make it impossible to assess how many manufacturers are new to the organic foods industry, how many are expanding their product lines and, among the latter, how they are expanding their lines. Farmers' responses to increased consumer demand are also difficult to gauge accurately without data on how many farmers are converting from conventional to organic farming methods.

The current lack of uniform organic food standards is a key problem. Although the industry has been successful in creating certification systems, there are currently too many; what the industry needs is standardization, particularly in light of the fact that European buyers do not accept all of Serbian certification systems (which effectively eliminates exports). In the long term, uniform standards will be essential for Serbian producers and manufacturers of organic foods who want to enter international markets.

Whether or not the rule is established in near future, it is clear that organic food will continue to be sold in mass market supermarkets, natural foods retail stores and smaller regional outlets, all targeting different groups of consumers. Although large firms, be they producers, distributors, or retailers have nearly eliminated small firms in conventional markets, we do not think that the organic food industry will follow suit. Instead, we believe that the future organic foods market may become highly specialized. Smaller regional outlets will likely target the consumer who buys organic food for philosophical reasons; mass market supermarkets will likely target new consumers of organic foods who are more concerned about health issues. Conventional stores may be more likely to carry organic products manufactured by conventional firms that have only recently entered the organic and natural foods industry. These firms are more likely to be the ones with which they are familiar, and which have not traditionally operated with a particular deference to the social and environmental aspects of organic farming.

However organic food is marketed in the future, a continuing concern will be to distribute a consistent supply of commodities along the marketing chain. Anecdotal information in trade literature, survey results and case studies provides documentation of small natural foods retailers that cannot provide enough commodities, at prevailing market prices, to meet market demand.

There is no hard evidence on out-of-stocks or other supply problems. Some question whether retail prices are failing to respond quickly enough to equalize supply and demand or whether prices farmers receive are failing to raise enough to provide incentives for increased production. Others believe that an immature distribution system is the problem. In any case, manufacturers seem to be responding by entering creative contracting arrangements with farmers to secure their needed supplies. We identify this as a possible area for public policy intervention.

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