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A CROSS COUNTRY COMPARISON OF THE DEVELOPMENT OF THE ORGANIC SECTOR IN DENMARK, GERMANY, UNITED KINGDOM AND THE NETHERLANDS

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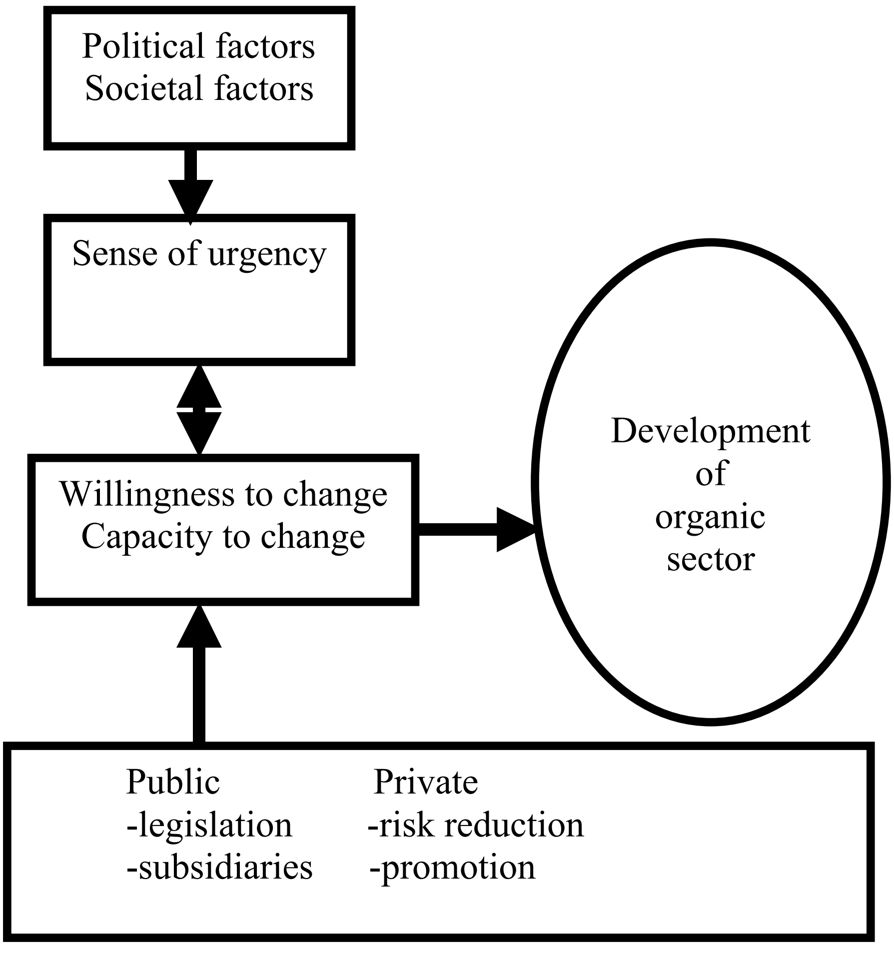
Abstract

The aim of this article is to test the thesis "commitment of retail chains as well as favourable policy conditions are the main drivers of the steady market growth of organic agriculture in Europe." (Yussefi and Willer, 2003). Therefore, the role of government policy and of retail chains in four European countries – Denmark, Germany, the United Kingdom and the Netherlands – are analysed. It seems that the collaboration between government, chain participants and NGOs is of considerable importance, in which active stimulation and the provision of guidance to the channel from the retail chains, in combination with an active and stimulating government policy, can cause an impulse in growth. It should be noted that other factors must also be present in order for market players to convert; likewise, consumer demand should be well developed.

Introduction

Yussefi and Willer (2003) consider the commitment of retail chains as well as favourable policy conditions to be the main drivers of the steady market growth of organic agriculture in Europe in the 1990s. In this paper, we like to further analyse this thesis. We will accomplish this using the following framework:

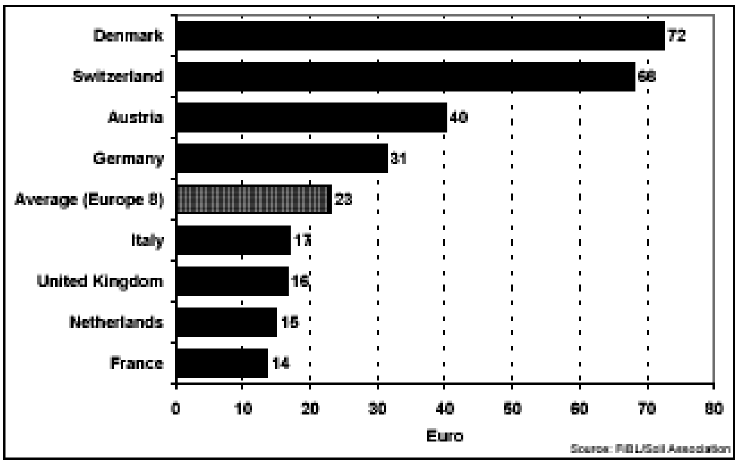
Figure 1 Framework



The sense of urgency is fed by political and societal factors. This sense of urgency is dependent on and also feeds (a) the willingness to change and (b) the ability to change. These two factors determine whether and how far the organic sector will develop itself. The willingness to change will depend mostly on how much perception players share concerning the current situation and the desired future outcome. The ability to change is, among other factors, dependent on the technical and social-economic context in which traditional and organic agriculture are practiced. Consider in this the will and the ability to bear the financial and other risks, the cost of land usage and the organization of the chain itself. The willingness and the ability to change can be either hindered or stimulated by players in the public and/or private sector. The government can direct by means of laws and regulations and subsidies or charges. Factors controlled by the private sector include, amongst other things, risk reduction (e.g. supply guaranties for farmers) and stimulants for demand (e.g. promoting, informing and lowering of consumer prices).

Based on consumer indices (see figure 2 below), and the difference between public and private activities to develop the organic sector, a number of countries have been selected to show the relationship between (1) private and public stimulants, (2) change and the willingness to convert and (3) the development of the organic sector. Denmark, Germany, the United Kingdom and the Netherlands have been selected.

Figure 2 Per capita sales of organic produce in selected and other European countries (Yussefi and Willer, 2000)



The Development of the Organic Sector in Four European Countries

Denmark

Development

The period up until the year 2000 is marked by a considerable growth in supply as well as in demand. The increase in supply was a result of choreographed measures by the government and the industry. The demand increased due to tailored promotional activities by the retail sector (mainly price reductions).

Public/Private involvement

In the late 1980s up until the early 1990s, the Danish organic sector was developed politically by the government stimulating and supporting production. Subsidies were granted to farmers who wished to make the transition and also for the continuation of organic production. Denmark was (together with Austria) one of the first countries in Europe in which the government actively invested effort in organic agriculture. These financial sources were far ahead of EU measures aimed at this goal. The Danish government opted for the coordinated management of the organic sector. Not only the supply side was stimulated by the government, but the demand side was also given considerable attention. The Organic Food Council played an important role in this process: in this forum the policies of the different stakeholders were geared to one another. Retail chains played also an important role. By lowering the prices – of dairy products in particular – they persuaded consumers to buy the products. Furthermore, higher prices were paid to dairy farmers so that they could meet the increased demand.

When switching from traditional to organic agriculture, cooperation between government and chains can only be helpful if the former does not differ too much from the latter. The transition from traditional to organic dairy farms is not too large, and thus the difference in production costs between the two products remained minimal in Denmark. At the consumer level, this resulted in a slight increase in prices, which the consumer was prepared to pay. Within this framework, the cooperation between the parties involved led to dynamic development in organic agriculture in Denmark. This was in contrast with organic pig farming, where the difference between traditional and organic methods is much greater. This results in a relatively large difference in production costs and thus a higher consumer price. The consumer is normally not prepared to pay this increase. That is why – despite the cooperation between the government, supermarkets and slaughterhouses – organic pig farming is not materializing as well as organic agriculture. In the end, it is down to whether the farmer wants to accept the financial and other risks, and whether the consumer is willing to pay extra for an organic product. (Meeusen et al, 2003)

Conclusion

The involvement of one of the biggest retail chains in Denmark – in cooperation with the processing industry and the primary sector – has led to enormous growth in organic agriculture. The harmonization of efforts by the industry with government policies was of the utmost importance. In Denmark, there are coordinated public, public/private and private stimulating activities. At the same time, factors that influence the ability to make the transition should not be underestimated: the sector can not develop as well if the difference between organic and traditional production is (too) large.

Germany

Development

In comparison with Denmark, Germany is still in a growth phase. The Danish organic sector is already in what is being called the adult, matured phase, with notable differences for each product. (Meeusen et al, 2003)

Public/Private involvement

In Germany, the emphasis is placed on a favourable government climate with regard to organic agriculture. The BSE-crisis provoked discussion on whether to switch entirely to organic agriculture. The government, together with all parties involved – consumers, farmers, food industry, retail stores and politicians – wants to form a alliance for healthy food. With this respect, the government also wants to give a new impulse to the organic sector, and strives for a '20% share of organic products in 2010'.

In the year 2000, the natural food shops in Germany play an important role in the organic sector, which was characterized by a one third increase in the number of these shops at the end of the 1990s. These shops are the force that has built up and driven the sector, and preserved the high standards. However, little or no growth is expected here. In the natural food shops, consumers buy organic products specifically because of their 'naturalness', because they consider the regional origin of the produce to be important, and because they sympathise with the organic philosophy. This is therefore a select group of consumers; as a result, the strong increase of the sector will not come automatically. However, a step towards the further professionalization of the natural food shops has been made, though many believe that a lot still has to be done before it will become a professional distribution channel.

The government wants to stimulate demand for organic products, foreseeing a significant role for the retail chains in this. The government wants to reach agreements with approximately five of the largest food companies, and thus wants to work on the development of organic agriculture in *cooperation* with the market parties concerned: public-private cooperation.

However, the German people and the retail chains have up to now been very price oriented (discount shops have there roots here). A real transition towards organic produce is yet to come. Hardly any chain development has been accomplished around organic production; the supply is also small in scale, and the distribution system is fragmented. The transition towards large(r)-scale chains is slowly emerging, which offers growth potential. (Meeusen and Hoste, 2002)

Conclusion

The organic sector in Germany is still in a growth phase. It is mainly stimulated through government policy; retail chains only add organic produce to their range sporadically. The natural food shops – and the small-scale distribution system linked to it – still play a major role in the organic sector. Therefore, the government aims to provide an impulse to the growth of the organic sector by means of public-private cooperation with retail chains.

United Kingdom

Development

The developments of the organic sector have been stormy. The demand for organic products has grown fast, with the retail sector being the driving force in this. The favourable "climate" for organic agriculture also plays a role.

Public/Private involvement

There is a broad support base for organic agriculture in the United Kingdom. Both social groups and the government support such initiatives, partly due to the resulting reductions in environmental pollution, but more particularly as it offers more choice to the consumer. The government formulates policy to develop organic initiatives, but emphasizes the importance of the market mechanism: the development of the organic sector in the United Kingdom is particularly market-driven. The large retail chains are the driving forces behind the enormous demand for organic produce, and they are active in the development of (British) production chains. 'Buy British' is an important purchase argument and plays a large role for retail chains. They prefer products from British soil. Some retail chains focus more on this than others. Furthermore, retail chains strive for long-term cooperation, in which they want to reach guarantee agreements for sale, as retail chains attach great value to the traceability of their products with regard to food safety. The retail chains offer support to the farmers in the transition process to bridge any gaps during that period; they develop chain information systems with which supply and demand can be coordinated; and they sponsor congresses and research. The activities of Sainsbury and Tesco are worthy of particular mention in this respect. (Meeusen, Blacksmith and Nienhuis, 2002)

This enormous increase and professionalization of organic agriculture is accompanied by some criticism in the UK from the primary sector, which sees it becoming an 'ordinary' market, in which supply and demand determine the price, in which farmers are 'played off against each other', and it is just as tough as in traditional agriculture. The past has already taught them that a reduction in demand can cause the organic sector to fall back rapidly (Meeusen et al, 2002).

Conclusion

The big private retail chains are the forces that develop the organic chains in Britain, and it is they who stimulate the bigger primary companies to make the transition to organic production. Experience teaches us that the withdrawal of private stimulation also causes the market of organic agriculture to fall.

The Netherlands

Development

The Netherlands has experienced a gradual growth of the organic sector, but is still in a growth phase, especially in terms of market development, which is still at the beginning of the learning curve (Meeusen, Smid and Nienhuis, 2002).

Public/Private involvement

In the Netherlands, the organic sector receives a great deal of attention from consumers, the government and from social groups. The Dutch government pursues an active policy aimed at stimulating the further scaling-up of the sector, with the target '10% organic in 2010'. With regard to this scaling-up, the Dutch government places the emphasis on market forces: a demand-led approach must be taken, in which the government has a supportive and facilitating role (Meeusen and Hoste, 2002; Meeusen et al, 2001). To accelerate the scaling-up process, the 'Market Development of Organic Agriculture' covenant – an initiative of the Dutch Ministry of Agriculture – has been drawn up. This covenant – between businesses, the government and social groups, in which the parties jointly strive for a consumer spending rate of 5% in 2004 – aims to provide support for businesses in the development of the market for organic products (stimulating demand through a broad and long-term consumer campaign) and aims at the further professionalization of the chains (including tackling bottlenecks in the supply chain). In this context, 'chain business programmes' have been developed, which contain a scheme of agreements between chain parties whereby the objective agreed upon in the covenant can be achieved. The 'Market Development of Organic Agriculture Task Force' has been established by the covenant parties as a powerful work group, which should play an active role at the development and implementation of the chain business programmes and shapes the support role desired by the government (Meeusen et al, 2001).

Partly due to their participation in the 'Market Development of Organic Agriculture' covenant, hypermarkets are the largest distribution channel in the Netherlands. However, natural food shops also have a relatively reasonable market share in organic produce. The small-scale chains which are linked to natural food shops, markets and direct sales as a distribution channel are accompanied by the typical problems which result from these: fragmentation, insufficient cooperation between parties, high costs, inadequate efficiency etc. However, Dutch natural food shops are undergoing a professionalization process (Meeusen, Smid and Nienhuis, 2002).

Conclusion

In the Netherlands is chosen for a market driven approach, in which the government has a facilitating role. The Dutch government offers financial means aiming at bringing chain parties together, identifying bottlenecks and solving these bottlenecks. Furthermore the government offers support for those links in the chain that consider the transition risks as (too) large.

Conclusions

The main conclusions, which can be drawn are as follows: (private) retail chains can reach a large group of people. In cooperation with the processing industry, primary sector, NGOs and the government, they can provide a great and significant stimulus for the demand for organic produce. In the countries included in the research that showed significant growth during certain periods, these significant impulses were caused by two main factors: on the one hand by the commitment of the larger retail chains through the provision of advice and information (introduction to sector and products), price reductions and an increased range (production demand), depending on the phase of development of the organic sector; and on the other hand, the growth of the organic sectors in these countries was stimulated by a favourable government policy which, depending on the phase in which the organic sector currently finds itself, concentrates on demand-oriented convert premium as a stimulation of supply, and subsequently on the development of demand.

The combination of public and private activities and stimuli seems to be the most successful option for encouraging the sustainable growth of organic agriculture. A comment, which must be made here is that the preconditions in the country concerned must be favourable, which means that the 'supplement' must be limited and the added value of the product must be clearly visible to the consumer, if good cooperation between chain parties, the government and NGOs wants to result in a real contribution to the development of the organic market.

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About the authors

Silvia Goddijn graduated in 2002 with her dissertation on “Corporate Social Responsibility”, the research for which was conducted at the Agricultural Economics Research Institute (LEI) in The Hague. She started working at LEI as a researcher in organizational development (business science). Research topics since then have included organic chains, sustainability of chains and Corporate Social Responsibility.

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