

# **Export Market for Organic Food: Present Status, Constraints and Future Scope**

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## **FOREWORD**

Global trade in organic foods has grown tremendously over the past years. Organic production has considerable potential in our agriculture sector in Sri Lanka. Amongst the producer countries, Sri Lanka maintains a reputation in organic crop production and exports as defined and specified by the International Federation for Organic Agriculture Movement (IFOAM). The major market channel for organic produce in Sri Lanka is the export market and major certified products exported at present are value added tea, spice based products, coconut based products, fruit based products and herbs.

The future of organic farming is promising in Sri Lanka primarily as an export or specialized commodity enterprise rather than a general agricultural programme. In future, the agricultural exports essentially need to be organic as the global demand for organic products is increasing. Therefore, the research team has attempted to find out the opportunities and constraints in the organic food sector. The study mainly focuses on obtaining views of the exporters involved in developing supply chains that serve certified organic export market. The major objective of this study was to identify the present status, challenges, constraints and future prospects of the organic food export sector.

I congratulate the research team for successfully undertaking this study and hope the findings and recommendations would be useful for the policy makers and other stakeholders towards organic sector development.

**E.M. Abhayaratne**  
**Director**

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**Ruvini Vidanapathirana**  
**Nalaka Wijesooriya**

## EXECUTIVE SUMMARY

Organic food is safer, healthier and as a result, the demand for organic food is ever growing. Global trade in organic foods has grown tremendously over the past years. Organic production has considerable potential in our agriculture sector in Sri Lanka. However, the term 'organic' has been widely misused in Sri Lanka without having very clear understanding about it. Ecological farming systems, applying compost on crops, natural homegarden practices, neglecting lands without applying natural and artificial inputs cannot be defined or termed as organic. Organic is a kind of labeling system that is granted for ecological production when the whole process is certified by an accredited third party organization.

Amongst the producer countries, Sri Lanka maintains a reputation in organic crop production and exports as defined and specified by the International Federation for Organic Agriculture Movement (IFOAM). According to IFOAM and FiBL statistics, the total area under organic agriculture in Sri Lanka in 2011 was 19,469 ha. The major market channel for organic produce in Sri Lanka is the export market. Major export destinations include European countries, USA, Japan and Australia. The market in the Middle East is also a growing one.

With the increased use of inorganic agro chemicals and fertilizer in agriculture, acute environmental hazards have been created especially in developing countries. Loss of bio diversity, water pollution and soil degradation are the major issues arising from it. This situation has become a threat to a healthy supply of food for humans. The government's agricultural policy has identified the importance of expanding the organic agriculture sector in the country to ensure a higher price for organic products. The future of organic farming is promising in Sri Lanka primarily as an export or specialized commodity enterprise rather than a general agricultural programme. In future, agricultural exports essentially need to be organic as the global demand for organic products is increasing. Further, the local demand will be high in future as people are more conscious on health and the demand will increase with the development of tourism industry in the country. Therefore, this study attempted to find out the opportunities and constraints in the organic food sector. The study mainly focused on obtaining views of the exporters involved in developing supply chains that serve certified organic export market. The major objective of this study was to identify the present status, challenges, constraints and future prospects of the organic food export sector. Interviews were conducted with government and non-governmental organizations as well as the private sector organizations which are the leading stakeholders responsible for promoting organic food sector. A structured questionnaire survey was administered to all the local exporters involved in organic food products.

The main certified organic products exported from Sri Lanka are value added tea, spice based products, coconut based products, fruit based products and herbs. Organic certification (external certification) is required in order to access distant and

international organic markets. This is done on the basis of organic standards. For meeting the requirement of the organic export sector in Sri Lanka, certification is carried out by foreign certification agencies. There are two such certifying organizations (Control Union and Institute for Market Ecology-IMO) involved in organic certification in the country. At present, there is no government regulatory authority to handle inspection and certification in the country.

At present there are 38 certified organic food exporters in the country exporting spice based, fruit based, coconut based products and tea and herbal extracts. They are certified by the Control Union and IMO certification agencies operated in the country. There is a growing trend of entering the organic food export market. Exporting companies have different business models for the production and supply of organic food requirement for exports such as maintaining own estates/farms, out-grower systems, certified suppliers and certified processors. There is a growing market for products that are jointly fair-trade and organically certified. Farmers who deal with organic food exporters receive benefits from the exporting companies such as receiving premium prices, benefits through fair-trade premium, training related to farming, extension services, receiving organic fertilizers, and provision of technical advice to enhance knowledge.

The major constraints faced by the exporters were insufficiency of raw materials for export, high cost of certification, lack of research and development and high cost of production. In addition, the major constraints faced by the farmers linked with exporters were high conversion period, high labour cost, lack of awareness, lack of proper marketing ventures and lack of proper inputs. About 58 percent exporters reported that they are not able to meet the export demand required by the importers due to non-availability of raw materials to match the demand of foreign markets, inadequacy of organic farmers to cater to the demand, shortage of affordable raw material, lack of modern technologies, high investments in food packaging (ex: tetra packing, freeze drying, vacuum drying), and limitations of packing materials. There is a growing demand and potential for organic coconut water, virgin coconut oil, herbal plant extracts, vegetables, fruits and rice in Europe, USA, Canada and Middle Eastern countries. India, China, Vietnam, Thailand and Philippines are the major competitors in organic food exports.

The study recommends that the government should take measures such as improving the quality of research for development of value added products, training programmes for producers, promoting certification programmes, developing national policies for organic food production and promoting Sri Lanka's organic products at international fairs. Providing a substantial subsidy for the organic growers could be a vital measure for the development of the sector. Export promotion activities should be supported, recognizing the special nature of organic markets. Organic exporters should be encouraged to join forces to promote and market their products. It is important to provide tax concessions to the organic food processors and exporters. Subsidies for organic inputs are essential as they contribute to a green environment. Establishment of the third country registration unit as NOCA under the Ministry of Export Development as the control authority in

Sri Lanka is important to deal with all the matters connected to the use of the term 'organic'.

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## ABBREVIATIONS

CRI	-	Coconut Research Institute
DEA	-	Department of Export Agriculture
EDB	-	Export Development Board
EU	-	European Union
FLO	-	Fair-trade Labelling Organization
FMP	-	Fair Trade Minimum Price
HORDI	-	Horticultural Research and Development Institute
ICB	-	Inspection and Certification Bodies
ICS	-	Internal Control System
IMO	-	Institute for Market Ecology (Switzerland)
IPM	-	Integrated Pest Management
IFOAM	-	International Federation of Organic Agriculture Movements
JAS	-	Japan Agriculture Standard
LOAM	-	Lanka Organic Agriculture Movement
NOCA	-	National Organic Control Authority
NOP	-	National Organic Program (of USA)
NPOP	-	National Programme for Organic Production (India)
SLAB	-	Sri Lanka Accreditation Board
SLSI	-	Sri Lanka Standard Institute
SOFA	-	Small Organic Farmer Association
TRI	-	Tea Research Institute
USDA	-	United States Department of Agriculture

# CHAPTER ONE

## Introduction

### 1.1 Background of the Study

Organic is an environmentally friendly, culturally sensitive, socially just and economically viable sustainable agricultural system that maintains an efficient management system. According to a survey conducted by the Sri Lanka Nature Forum in 2008, the total land occupied under the organic agriculture is 25,335 ha. Certified organic agricultural lands are 19,191 ha. Private sector companies handle 18,492 ha on organic agriculture. Organic food is safer, healthier and as a result the demand for organic food is ever growing. Global trade in organic foods has grown tremendously over the past years. Once a marginal and localized food system, the organic sector is now one of the most rapidly growing segments of the global food market and the global demand for organic products is increasing by 15%-20% per annum. The organic agriculture industry finds itself with enormous market opportunities worldwide to supply a range of certified organic products. Asia has a very active organic movement (around a quarter of IFOAM's 703 members are from Asia). Among the more significant countries producing organic products in Asia are China, India, Indonesia and Sri Lanka. While some consumers prefer locally-grown organic foods, the demand for a variety of foods year-round makes it impossible for any country to source organic food entirely within its own borders. As a result, many developing countries have begun to export organic products successfully (Yussefi and Willer, 2002). In Sri Lanka, there is a growing interest and demand for producing organically grown food products for export. According to UNESCAP, Sri Lanka is one of the major organic producers in Asia. The organic market in the country has been described as a “niche market”.

Domestic market for organic agricultural products is mainly confined to the urban market which is a growing market. Supermarkets are the most dominant market method for organic products in Sri Lanka. The domestic market is dominated by fruits, fruit drinks and rice varieties. The major market channel for organic produce in Sri Lanka is the export market. Bulk of the volume of organic agricultural products is exported. Major export destinations include European countries, USA, Japan and Australia. The market in the Middle East is also a growing one. There are private sector organizations and non-governmental organizations responsible for exporting organic food (Kariyawasam, 2007). There are non-certified and certified organic food produce in Sri Lanka. Non-certified organic products are usually consumed locally. The main certified organic products are value added tea, spice based products, coconut based products, fruit based products and herbs.

Modern organic agriculture is practised based on standards and certification. It differs from Integrated Pest Management (IPM)/conventional agriculture, particularly on the level of fertilizer and agrochemicals used. Further, it differs from

subsistence agriculture as it produces for the market, including export markets. This has created new export opportunities for the developing world. Organic certification (external certification) is required in order to access distant and international organic markets. This is done on the basis of organic standards. For meeting the requirement of the organic export sector in Sri Lanka, certification is carried out by foreign certification agencies. There are two such certifying organizations (Control Union and Institute for Market Ecology-IMO) involved in organic certification in the country. At present there is no government regulatory authority to handle inspection and certification in the country. LOAM (Lanka Organic Agricultural Movement), Export Development Board and the Department of Export Agriculture have been engaging in promoting exports. For many years, and with great success, the private sector alone has developed the concepts and markets for organic products.

Consumers in developed countries and few in developing countries have become more health conscious and they have started spending on greener, healthy and natural food. They are willing to spend more on organically produced and labeled products. As a result, farmers in developed countries are encouraged to convert their inorganic farms into organic farms and are often fully supported with financial incentives and technical assistance. Thus the developed countries play a major role in the world market. The developing countries have also realized the importance of organic farming and are taking suitable steps in this direction (Kumar and Jain, 2003). Organic agriculture offers trade opportunities for farmers in the developing countries. This organic market expansion makes it possible for farmers to reap the benefits of a trade with relatively high price premiums (Yussefi and Willer, 2002). However, this market is not very well known to most farmers, especially those living in the developing countries. Organic exports are sold at impressive premiums, often at prices about 20 percent higher than identical products produced on non-organic farms.

Organic production has considerable potential in our agriculture sector in Sri Lanka. However, the term 'organic' has widely been misused in Sri Lanka without clear understanding of it. Ecological farming systems, applying compost on crops, natural homegarden practices, neglecting lands without applying natural and artificial inputs cannot be defined or termed as organic. Organic is a kind of labeling system that is granted for ecological production when the whole process is certified by an accredited third party organization. Without a third party guarantee on the compliance of set international standards on organic production methods, a product cannot be labeled, termed or called as organic (Ranaweera, 2008).

## **1.2 Justification of the Study**

Export market for organic food sector had been studied by many researchers in the Asian countries and they have identified barriers and constraints for the development of the sector. But, there has been relatively little research done to assess the organic food industry in Sri Lanka.

Garibay and Jyoti (2003), in a study of the domestic and export markets of Indian organic products conducted in order to find out market opportunities and challenges for Indian organic products found that exporters encountered problems such as lack of information on availability and certification, high price expectations in relation to quality and low consistency of quality and constraints in exporting organic products. As a solution to these problems the Indian Government is carrying out different measures in order to improve the trade image of India to increase and improve interest in Indian organic products.

Kumar and Jain (2003), in a study of present status of export and market potential of organic products in India together with the problems in India found that the high quality production of tea, spices, rice and ayurvedic herbs, traditional methods like crop rotation and mixed cropping system for maintaining pest and disease management, low/no use of agrochemicals in mountain areas, cheap and availability of labour, participation of NGOs in organic products market, marketing network and various schemes and supports for exports of organic products by the Government are some of the comparative advantages for Indian organic products. The high price expectations, low quality, slow shipment, import restrictions, lack of national certification, lack of market intelligence, poor customer service, lack of proper marketing networks, low involvement of Government and lack of subsidies are the major constraints in organic product marketing.

Subrahmanyam and Nagasree (2005) conducted a study on export of organic products from India. The study found that constraints in organic food export sector in India were high cost of certification, non-availability of permitted organic inputs, lack of awareness and information. The study suggested recognition of more Indian Certification Agencies, development of Internal Control System (ICS), tax concessions and subsidies for organic inputs, market intelligence about price premium, creation of organic boards, organic export zones and conducting awareness and training programmes for boosting organic exports.

Rosairo (2006) in a study of organic vegetable marketing in Sri Lanka to identify the market potential for organic vegetables found that local consumers are willing to purchase pesticide-free vegetables creating a huge demand, provided conditions such as organic certification, price, convenience of buying, cleanliness and packing are met. The study suggested that strong policy mechanisms should be developed in order to formulate and implement strategies and also framing and maintenance of stable policies that can back-up this industry are needed.

Santacoloma (2007) conducted case studies in five selected countries (i.e. India, Thailand, Brazil, Hungary and the Czech Republic) on marketing strategies and organizational structures under different organic certification schemes. The studies found that the constraining factors were high costs of the supply chain. i.e. payment of premium during conversion period, transportation cost, processing costs undermine organizations' sustainability, lack of available technologies in pest and fertilizer management as well as very restrictive organic post-harvest and processing both for farmers and lead organizations. This study recommended that financing

mechanisms should be established to support the initial phases of organic projects, market development should be supported in three major areas: strengthening of value chain linkages, development of information technologies and development of local markets and assistance should be given to incorporate small-scale farmers in the organic supply chain.

With the increased usage of inorganic agro chemicals and fertilizer in agriculture, acute environmental hazards have been created especially in developing countries. Loss of bio diversity, water pollution and soil degradation are the major issues arising from it. This situation has become a threat to a healthy supply of food for humans. The government's agricultural policy has identified the importance of expanding the organic agriculture sector in the country to ensure a higher price for organic products. The National Agricultural Policy of the Ministry of Agriculture stated;

- Doubling export agricultural crops by 2020 giving an additional boost to the export agricultural sector
- Exploring and promoting foreign markets for crops with high export potential
- Facilitating promotion of all forms of agro-based exports
- Establishing food safety and quality assurance mechanisms for crops with export potential that could meet international food safety standards.

The future of organic farming is promising in Sri Lanka primarily as an export or specialized commodity enterprise rather than a general agricultural programme. Vegetables, fruits and spices grown without fertilizer and pesticides bring premium prices, thereby enhancing the economic viability of these production units. According to the policy in agriculture, the extent of export agricultural crops will be doubled by 2020 giving an additional boost to the export agricultural sector. Therefore, it is important to know whether the organic food sector has a potential to meet the demand of the niche markets within the country or globally. This has been identified as one of the research issues by the CARP in the document on Socio-economic Research Priority Areas for 2010-2016. In future, the export needs to be essentially organic as the global demand for organic products is increasing. Similarly, the local demand will be high in future as people are more conscious on health and the demand will increase with the development of tourism industry in the country. Hence, the organic food production and marketing could be greatly expanded in Sri Lanka and it is important to identify global trends as well as local trends in demand and supply of these products. Therefore, this study attempts to find out the opportunities and constraints of organic food sector and the policies influencing the adoption of organic food production with the objective of promoting the expansion of organic food export in Sri Lanka. This report targets the exporters involved in developing supply chains that serve certified organic export markets.

### **1.3 Objectives of the Study:**

1. To review the present status of export market for organic food
2. To find out the action taken by various stakeholders to support organic food industry



3. To identify challenges and constraints of organic food processors and exporters

## **1.4 Methodology:**

### **1.4.1 Data Collection Methods**

Four interrelated data collection mechanisms were used to elicit the necessary information for the study.

#### **I. Review of Literature**

A comprehensive review of existing literature on research outputs and personnel experience in the area of organic food industry (export market) in the country and the review of published information was conducted.

#### **II. Key Informant Interviews**

Interviews were conducted with various government (EDB, DEA, NOCA), non-governmental (LOAM, Sri-cert) and private sector organizations (Control Union, IMO) which are the leading stakeholders responsible for promoting organic food sector in the country to understand the present situation of the industry.

#### **III. Structured Questionnaire**

Structured questionnaire survey was employed for all the exporters who presently export organic food products from Sri Lanka. The list of exporters registered under Inspection and Certification Bodies (Control Union and IMO) were used to understand the present export performance of the organic food products and to identify challenges, constraints and barriers and their suggestions for the development of the industry. Further, the information needed for SWOT analysis was gathered from the questionnaire survey.

For Likert-scale analysis to obtain respondents views, pre-tested items were recorded on all selected items using a likert-point scale as given below.

Low (Disagree)	= 0
Moderate (Partially agree)	= 1
High (Agree)	= 2
Very high (Fully agree)	= 3

#### **IV. Focus Group Discussion**

Focus group discussions were conducted with the NGOs dealing with producing certified organic food products for the exporting companies and with four farmer organizations dealing with exporters. A list of NGOs was obtained according to a

survey conducted by the Sri Lanka Nature Forum in 2008. The number of farmer organizations had to be limited as the exporters were not willing to share them as it was confidential.

**Table 1.1: Description of Data Collection Groups**

<b>No.</b>	<b>Description of the Interview Groups</b>
<b>Certified Organic Food Exporters</b>	
1	Bio Foods (Pvt) Ltd
2	EOAS Organics (Pvt) Ltd
3	MA'S Tropical Food Processing (Pvt) Ltd
4	Stassen Exports (Pvt) Ltd
5	S.A. Silva & Sons Lanka (Pvt) Ltd
6	Cecil Natural Foods (Pvt) Ltd.
7	Renuka Agri Foods PLC
8	Lanka Organics (Pvt) Ltd
9	PODIE (People's Organization for Development Imports and Exports )
10	Gemi Teas Colombo (Pvt) Ltd
11	Greenfield Bio Plantations (Pvt) Ltd
12	HDDES Extracts (Pvt) Ltd
13	Expolanka (Pvt) Ltd
14	Pripa Organic (Pvt) Ltd
15	Saraketha Holdings (Pvt) Ltd
16	Amazon Teas (Pvt) Ltd
17	Mackwoods (Pvt) Ltd
18	Finlay Teas (Pvt ) Ltd
19	Sunshine Tea (Pvt) Ltd
20	Ruhunu Foods (Pvt) Ltd
21	Consolidated Business System (Pvt) Ltd
22	Dani Foods Lanka (Pvt) Ltd
23	Enrich Tea and Food Exports (Pvt) Ltd
24	C.W. Mackie PLC
25	Tropical Health Foods (Pvt) Ltd
26	Smith Foods (Pvt) Ltd
27	Empire Teas (Pvt) Ltd
28	Vintage Teas Ceylon (Pvt) Ltd
29	Sunfrost (Pvt) Ltd
30	George Steuarts (Teas and Marketing) Pvt Ltd
31	Wichy Plantation company (Pvt) Ltd
32	NMK Agro Industries (Pvt) Ltd
33	A.F. Jones (exporters) Ceylon Ltd
34	Pristine Kokos (Pvt) Ltd
35	Serendipol (Pvt) Ltd
36	The Tea & Herb Company (Pvt) Ltd
37	Millenium Tea (Pvt) Ltd
38	MJF Group of Companies

**Table 1.1 (Contd....)**

<b>NGOs link with Exporters</b>	
1	Center for Human Development (Tholangamuwa)
2	Future in our Hands (Badulla)
3	GemiSevaSevana (Galaha)
4	Isuru Sanwardana Kendraya (Awulegama)
5	Shakthi Samuhika Organization (Badalkumbura)
6	Center for Environment and Natural Resources Development (Matale)
7	Maduwa Organic Cinnamon Producers Association
8	Organic Coconut Growers Association
<b>Farmer Associations link with Exporters</b>	
1	Small Organic Farmers' Association/SOFA (Gampola)
2	Kirindiwela Farmer Association (Gampaha)
3	Tibbatugoda Cinnamon Farmers' Association (Gampaha)
4	Watnapaha Famers' Association (Gampaha)
5	Dedigama MahaPerakum Export Agriculture Development Society (Kurunegala)
6	Maho Farmers' Association (Kurunegala)

Source: Control Union, IMO, LOAM

#### 1.4.2 Analysis of Data

The Likert-scale was used to analyze the responses of views of constraints and entry barriers in the organic food export market in rank scale. Descriptive statistical tools were employed to present the data. Average grading was calculated as follows;

$$\bar{X} = \frac{\sum_{i=1}^n x_i}{n}$$

$x_i$  = Score for the given criteria by  $i^{\text{th}}$  respondent

$n$  = Number of respondents/sample size

#### 1.5 Limitations of the Study

There is no official data in government sources or information available on the number of organic farmers, their extent of land etc. in the country as a whole. Further, the export statistics of organic products are not available with EDB. As there is no separate HS code for organic products, relevant data could not be obtained from the Department of Customs. Exporting companies interviewed were reluctant to provide the extent of company owned lands and extent of contract out-growers and the export statistics of each company.

#### 1.6 Organization of the Report

The report consists of five chapters. First chapter presents introduction including justification of the study, objectives and methodology of the study. Second chapter presents literature review related to global perspective of organic farming, organic

standards, certification and regulations. Third chapter illustrates the present status of organic food industry in Sri Lanka which describes the different organic products export, the structure and business models of the production systems for export market, certification of organic products, SWOT analysis, action taken by the different stakeholders for the development of the organic food sector. Chapter four analyzes the constraints, challenges, barriers for the entry into organic food export market, future scope and suggestions to improve the organic food sector. The last chapter concludes with the study findings and sets out recommendations.

## CHAPTER TWO

### Literature Review

#### 2.1 Organic Agriculture

##### 2.1.1 Definitions

There are many definitions to explain organic agriculture as discussed below.

- The International Federation of Organic Agriculture Movement (IFOAM) describes organic agriculture as follows:

Organic agriculture includes all agricultural systems that promote the environmentally, socially and economically sound production of food and fibres. These systems take local soil fertility as a key to successful production. By respecting the natural capacity of plants, animals and the landscape, it aims to optimize quality in all aspects of agriculture and the environment. Organic agriculture dramatically reduces external inputs by refraining from the use of chemo-synthetic fertilizer, pesticides, and pharmaceuticals. Instead it allows the powerful laws of nature to increase both agricultural yields and disease resistance.

- Organic production is defined by the United States Department of Agriculture (USDA) as follows:

A production system which avoids or largely excludes the use of synthetic compounded fertilizer, pesticides, growth regulators and livestock feed additives. To the maximum extent possible, organic farming systems rely upon crop rotation, crop residues, animal manures, legumes, green manures of farm organic waste and aspects of biological pest control to maintain soil productivity and tilth, to supply plant nutrients and to control insects, weeds and other pests (cited in Browne et al, 2000). For example, under the organic milk production system, disease free milch animals are given pesticide free feed and fodder and in the manufacture of organic dairy products, special care is taken to exclude artificial or chemical ingredients like colour, flavour, sweetness or stabilizers. The organic farming involves IPM practices like use of bio-pesticides, bio-fertilisers and vermicompost. The other components of organic farming are crop rotation, intercropping, and green manuring (Singh, 2005). It is also referred to as biological farming, regenerative farming, bio-dynamic farming, and low input sustainable agriculture. The Codex Alimentarius Commission of the WHO recommends another definition of organic farming as “a holistic production management system which promotes and enhances agro-eco system health, including biodiversity, biological cycles and soil biological activity” (Government of India, 2001; Singh, 2005).

- The National Organic Standards Board of the U.S. defines organic farming as an ecological production management system that promotes and enhances bio-diversity, biological cycles and soil biological activity. The focus is on ecologically compatible production systems and processes, not on the product itself or specific inputs.

The concept of organic farming originated in the U.K. during the 1930s and certified organic produce has been available since the 1970s. Organic quality standards apply both to crop and animal production and the processed foods. The principles of organic agriculture include concerns for safe food production, environment, animal welfare and social justice. Sustainability and organic farming are closely linked as organic farming incorporates human (social), economic and environmental aspects of sustainability. In fact, organic farming is one form of sustainable agriculture with maximum reliance on self-regulating agro ecosystem (Singh, 2005). The other alternatives include Low External Input Sustainable Agriculture (LEISA) and Integrated Farming Systems (IFS).

Major objectives of organic agriculture include improving soil fertility and quality and enhancing bio-diversity on the farm, in both time and space. Synthetic fertilizer and pesticides are seen as an impediment in this process, and are not allowed to be used in the production. These aims are integrated with the farmers' primary objective of operating a viable farm.

Organic agriculture relies on crop rotation, green manure, compost, biological pest control and mechanical cultivation to maintain soil productivity and control pests, excluding or strictly limiting the use of synthetic fertilizer and synthetic pesticides, plant growth regulators, livestock feed additives and genetically modified organisms.

Organic agriculture is a sustainable and environmentally friendly production method, which has particular advantages for small-scale farmers in developing countries. Practical experiences, a large number of reports, and outcomes of many inter-governmental meetings have highlighted the trade and sustainable development opportunities offered by organic agriculture for developing country farmers, particularly smallholders. Organic agriculture contributes to poverty alleviation and food security with a combination of many features, most notably by:

- increasing yields in low-input areas over time;
- conserving bio-diversity and nature resources on the farm and in the surrounding area;
- increasing net income and/or reducing costs of externally purchased inputs;
- producing safe and varied food; and
- being sustainable in the long term.

A study on India has noted that while organic production is seen to bring a number of private benefits to the farmer, there are also a number of good benefits that support the case for public intervention in this sector. These include pollution reduction, food safety, less soil erosion, conservation of bio-diversity, animal welfare, and the maintenance of rural communities and employment.

The organic farming is said to avoid completely the use of agro-chemicals and rely primarily on natural 'on farm' inputs and resources. These include farm yard manure (FYM), compost, bio-gas slurry, bio-fertilizer as sources for soil enrichments and bio-pesticides as well as bio-control measures to control pests and diseases. Scientists permit the use of naturally occurring nutrients like Rock Phosphate and soil amendments in organic agriculture. But the exhaustibility and chemical nature of these 'external inputs' have to be viewed carefully. However, many cultural practices such as the mulching, crop rotation and mixed cropping (with legumes) are perfectly compatible with organic agriculture. To get continuous supply of farm yard manure and compost, the organic agriculture needs to be integrated with animal husbandry (Prakash, 2003).

The organic agriculture is supposed to create environmental goods of various kinds. The organic cultivation not only enhances over the years, the productivity of the agricultural system but also stabilizes the integrity of the entire ecosystem. Though yields decrease normally during the period of conversion from chemical intensive to organic cultivation, there will be substantial increase in the yield afterwards. In addition to the direct productivity gains and the reduction in the costs to farmers, organic agriculture benefits enormously the consumers who get healthy, pesticide free agricultural produces. There is also wide spread perception that the organic products possess several quality attributes in terms of better taste, palatability, nutritive values and culinary benefits such as better cooking as well as the keeping qualities (Prakash, 2003).

According to the Organic Trade Association (<http://www.ota.com>), the term organic refers to the production, processing and distribution of products based on a system maintaining and replenishing soil fertility without the use of toxic persistent pesticides and fertilizers. Organic products are produced without the use of antibiotics, synthetic hormones, genetic engineering, sewage sludge or irradiation and they are minimally processed without artificial ingredients, preservatives or irradiation (Organic Trade Association, 2010).

## **2.2 Global Perspective of Organic Farming**

### **2.2.1 Present Status of Organic Agriculture in the World**

According to the latest FiBL-IFOAM survey on certified organic agriculture worldwide (data as of end of 2011), data on organic agriculture are available from 162 countries. There are 37.2 million hectares of organic agricultural land (including in-conversion areas). The regions with the largest areas of organic agricultural land are Oceania (12.2 million hectares, 33 percent of the world's organic agricultural land) and Europe (10.6 million hectares, 29 percent). Latin America has 6.9 million hectares (18.4 percent) followed by Asia (3.7 million hectares, 10 percent), North America (2.8 million hectares, 7.5 percent) and Africa (1.1 million hectares, 3 percent). The countries with the most organic agricultural land are Australia (12 million hectares), Argentina (3.8 million hectares), and the United States (1.9 million

hectares). There has been an increase of the organic agricultural land in Asia, Europe, North America and Oceania.

**Table 2.1: Organic Production in Different Regions of the World (2011)**

Region	Extent of Land (ha)	As a Percentage of World
Oceania	12,185,843	32.7
Europe	10,637,128	28.6
Latin America	6,857,611	18.4
Asia	3,706,280	10
Northern America	2,790,162	7.5
Africa	1,073,657	2.9

Source: FiBL-IFOAM Survey 2013

There were 1.8 million producers in 2011. Thirty-four percent of the world's organic producers are in Asia, followed by Africa (30 percent), and Europe (16 percent). The countries with the most producers are India (547,591), Uganda (188,625) and Mexico (169,570).

About one third of the world's agricultural land (12 million hectares) and more than 80 percent (1.5 million) of the producers are in developing countries and in emerging markets (FiBL-IFOAM, 2013).

## **2.2.2 Global Market for Organic Products**

Consumers' concern about health is a main driving force for the growth in demand for organic food. Many consumers wish to avoid eating food that contains the residues of pesticides, veterinary medicines or growth stimulants. Organic food does not contain these and certification is a guarantee of this. Many people also want to avoid artificial additives that are added to processed food, which are absent in organic food.

Since consumption of organic food products is the best remedy to prevent numerous health hazards caused by conventionally produced foods, the global market has experienced exceptionally high growth in demand for organic foods in the United States, Europe, and in other countries, yet market shares remain quite small (Piyasiri and Ariyawardana, 2002). However, in developing countries, the growth of organic sector is quite slow and faces tremendous challenges.

In many developed countries and in some of the developing countries with higher income, the sale counters of retail chains and supermarkets have been given special 'green status' to promote and sell organic and natural foods. The organic food processing companies are being nurtured and labeled as environmental friendly companies. Worldwide markets for organic foods are expanding, with annual growth rates of 15 to 30 percent in Europe, the United States and Japan. While there is an interest in organic foods among higher income groups and better educated



population segments nearly in every country consumers in the United States, Europe and Japan drive demand expansion.

The major organic products sold in global markets include dried fruits and nuts, processed fruits and vegetables, cocoa, spices, herbs, oil crops and derived products, sweeteners, dried leguminous products, meat, dairy products, alcoholic beverages, processed food and fruit preparations.

The organic market grew from US\$13 billion in 1998 to US\$33 billion in 2005. Countries like Denmark, Austria, Switzerland, and Sweden have organic market shares in the range of 4% to 6%, while market shares in the bigger countries, such as the United States, Germany, the United Kingdom, France, and Italy are in the range of 2% to 4% (Willer, 2008).

In spite of the slowdown in the global economy, international sales of organic products continue to rise. According to Organic Monitor estimates, organic food and drink sales reached almost US\$ 63 billion in 2011. The market has expanded by 170 percent since 2002. Demand for organic products is mainly from the North America and Europe; these two regions comprise more than 90 percent of sales. Although organic farming is now practised in every continent, demand is concentrated in these regions. Production of organic foods in other regions, especially Asia, Latin America and Africa is mainly export-gearred. The organic food sector in some countries is almost entirely depending on exports. In 2011, the countries with the largest organic markets were the United States, Germany, and France (FiBL and LOAM, 2013).

### **2.2.3 Present Status: Organic Agriculture in Asia**

Organic agriculture developments in Asia are market-driven and mostly export-oriented with the exception of industrialized food importing countries, such as Japan, Korea, Singapore and Malaysia. During the initial growth period, local organic markets were slow to develop. But now, the markets are expanding quite rapidly due to increasing health concerns (especially driven by food scandals).

Asia has a two-tier organic food industry. The first-tier comprises producer countries that have large agricultural sectors. China, India, Thailand, the Philippines, and Vietnam are in the first-tier. These countries mainly grow organic products for the export market. Important organic agricultural products include fruits, vegetables, herbs, spices, rice, tea, and other ingredients. The second-tier countries are large consumers of organic foods but not important producers. The most affluent Asian countries are in the second-tier; they include Japan, South Korea, Taiwan, and Singapore. Demand for organic products is concentrated in these countries, although relatively few are produced here.

The total organic agricultural area in Asia is nearly 3.7 million hectares. This constitutes ten percent of the world's organic agricultural land. There are almost 0.6 million producers. The leading countries by area are China (1.9 million hectares) and India (1.1 million hectares); compared with 2010, organic agricultural land increased

by almost one million hectares, mainly due to major increases in China and India. Market and trade data remain scarce (FiBL and LOAM, 2013).

**Table 2.2: Leading Asian Countries Producing Organic Products (2011)**

Country	Extent of Land (ha)	As a Percentage of Asia
China	1,900,000	51.3
India	1,084,266	29.3
Indonesia	74,034	2.0
Thailand	34,829	0.9
<b>Sri Lanka</b>	<b>19,469</b>	<b>0.5</b>

Source: FiBL-IFOAM Survey 2013

The Asian market continues to show high growth in terms of organic food production and sales. Organic crops are grown across the continent, with some countries becoming international suppliers of organic commodities. Demand is concentrated in Japan, South Korea, Singapore, Taiwan and Hong Kong, the most affluent countries in the region.

As in other parts of the world, demand is surpassing supply with large volumes of organic foods imported into each country. The number organic trade fair is also on the rise which is a reflection of the growing demand.

There are two streams of organic agriculture in Asia, one as part of sustainable farming and the other as export-oriented organic projects. The first is supported by NGOs, and the other initiated by the business sector. The sustainable agriculture movement emerged in 1970s as reflection to green revolution, while the commercial organic farming is the products of commercial collaboration between Asian food exporting countries (Panyakul, 2004).

According to Organic Consumers Association (2004), Asian consumers are in line with the global trend of increased use of organic products, but American, European and Australian producers are getting profits. High startup costs, hot climatic difficulties and the shortage of reliable labeling schemes have left the Asian organic farmers struggling to grab a slice of the fast growing organic market.

Asian consumers are demanding organic foods as they become more aware of food safety and ecological issues. Food scandals, especially those involving Chinese products, are making consumers concerned about food safety. The Asian market has many impediments to market growth. The lack of standards in the region is hindering trade of organic products. Few Asian countries have introduced mandatory standards for organic agriculture and foods; most countries either do not have national standards or have voluntary standards. Consumers therefore cannot distinguish between legitimate organic products and competing products that are often marketed on similar attributes such as “chemical-free” or “low pesticide.” There is also lack of equivalency between national standards. Producers and importers therefore have to get multiple certifications for their organic products.

### **2.2.3.1 Role of International Federation of Organic Agriculture Movements (IFOAM) in Supporting Organic Agriculture in Asia**

The establishment of International Federation of Organic Agriculture Movement (IFOAM) has provided an impetus to promote organic agriculture through a set of Standards and Guideline across the world. The unique nature of International Federation of Organic Agriculture Movement (IFOAM) is that it is the single movement, which has been able to bring almost all the organic activists across the globe under one umbrella. Activists associated with IFOAM come from various corners in the world representing different disciplines. During its thirty years of existence, it has gained recognition from small-scale organic farmers in the third world to the level of gaining consultative status in the international organisations such as UN and FAO.

IFOAM, a unique worldwide movement in the organic sector through its structures (member associations, world board members, regional groups, working groups etc.) need to seek mechanisms to contribute, through its mission, for national level development of organic agriculture in Asian countries. The need for such mechanisms would articulate the existing initiatives with the aspirations and expectations of national organic agricultural movements. They demand for constant efforts and activities required for the promotion and development of holistic organic agriculture, that is strongly backed by the IFOAM principles towards the sustainability of agriculture in the third world, particularly in Asia and Africa (Saminathan, 2003).

Going by the mission of IFOAM, the worldwide adoption of organic agriculture is gradually seeping through the vast influence made by the green revolution agriculture in Asia. Involvement of IFOAM or realisation of its work could be seen at various levels in developing countries - supporting and/or strengthening the organic movements active in national, sub-regional and regional levels. This level of support is realised either directly or indirectly. Implementation of identified projects and programmes by IFOAM on identified specific subject areas and resulting output from such efforts have helped to strengthen organic activists/groups in the third world and in Asia. Results of such projects have contributed to fill in the information gap, which often prevails at the level of agricultural policy/decision making bodies at national and regional levels. Benefits of facilitation and support provided in having access to authoritative information, exchange of knowledge and information and its diffusion through conferences, trade fairs and publications have contributed to develop this sector making the IFOAM Basic Standards (IBS) available and its regular revision, efforts taken for harmonizing the organic standards have now slowly started reaching the governments in the Third World. Accreditation of certifying bodies and the benefits of organic produce marketing and related services of International Organic Accreditation Service (IOAS) reach smallholder organic farmers in the Third World through IFOAM accredited organic certification agencies. Lobbying and advocacy work carried out by IFOAM (e.g. the issue on GMOs) and services rendered to members and associates were other areas of significant involvement by IFOAM. The array of work carried out by IFOAM has helped and

contributed for creating wider awareness among members and associates and has sensitized not only them but also other organic activists. This has helped to draw attention towards relevant and burning issues, which influence the organic agriculture sector development. In this line, the role of IFOAM has been felt at various scales and in different geographic regions.

Consolidating the development of sub-national, national and regional movements towards the adoption of holistic organic agriculture, as defined by the IFOAM calls for further active involvement by IFOAM in Asia and Africa. Generally, in the Third World, particularly in Asia, the efforts of IFOAM need to be further realised at national level through respective governmental mainstream organisations in the sector of agriculture.

### **2.3 Organic Standards, Certification and Regulation**

Organic standards have long been used to create an agreement within organic agriculture about what an "organic" claim on a product means, and to some extent, to inform consumers. Regional groups of organic farmers and their supporters began developing organic standards as early as the 1940's. Currently there are hundreds of private organic standards worldwide. In addition, organic standards have been codified in the technical regulations of more than 60 governments.

Consumers want assurance that products labeled "organic" are indeed produced according to organic production methods, and producers want to know that other producers also claiming to produce organic products are competing fairly. The "organicness" of a product cannot be established by looking at the harvested product or by testing it. Rather, it is ascertained through documentation and inspection of the whole production process. Organic certification systems were developed in the early 1970s and by the 1980s there were organic certification bodies in most OECD countries. Today, there are 70 countries that have a domestic certification organization, and a dozen internationally active organizations offer organic certification services in virtually all countries in the world.

Organic certification was first instituted in the 1970s by the same regional organic farming groups that first developed organic standards. In the early years, the farmers inspected one another on a voluntary basis, according to a general set of standards. Today, third-party certification is a much more complex and a formal process. Although certification started as a voluntary activity, the market began to demand it for sale transactions, and now it is required by the regulations of many governments for any kind of an "organic" claim on a product label.

When organic farmers and traders operate in an anonymous market, third party certification has been developed to show and guarantee that a product has been produced organically. Third party certification is the formal and documented procedure by which a third party assures that the organic standards are followed. Certification leads to consumers' trust in the organic production system and the products.

Certification of organic products has a 30-year history and has been practiced in most OECD countries for more than 20 years. Initially, products were sold without any formal, third-party certification. Certification of organic products was initiated as a means for organic producers to:

- Increase the image and identity of organic products in the market place.
- Increase consumer confidence in labeling chains.
- Protect legitimate producers from misleading or fraudulent claims made by competitors.

Late in the 1980s and early in the 1990s, international trade in organic products picked up. Food companies in major importing markets sourced mainly raw materials for processing, or fresh products such as fruit and vegetables. Either through regulations or in response to market demand, a need emerged to certify these products also. This was done primarily by importers contracting (and paying) the certification body that already certified the importer to make inspections and certification of the production abroad. In this way the concept of organic certification was introduced into developing countries - a service by Foreign Service providers to exporters for requirements set in the importing market.

A key element in organic standards is the prohibition of synthetic fertilizers and pesticides, but the standards also require that measures be taken to at least maintaining or improving soil fertility, such as the use of proper crop rotation and minimizing leakage from manures. Standards also have requirements on how to avoid contamination or mingling with non-organic (conventional) products. The requirements for certification include documentation of farming practices and full traceability of trade flows. This is in particular seen as very demanding by smallholder farmers. At the next level, certification bodies have to go through a lot of procedures, e.g., accreditation, in order to gain international recognition.

In order to market products as organic in the global market, organic producers have to undergo certification by a recognized certification body. E.g., the European Union has a regulation for organic products, which means that all products marketed in the European Union have to fulfill the EU standard and be certified by a recognized certification body.

The certification process focuses on how the product is produced and the traceability of the products in the trade from primary producers (even some of the inputs) to the end outlet. The certification is based on standards. These vary according to the target market and can be both governmental (e.g., the EU regulation and the U.S. NOP) and private sector (e.g., Soil Association in the United Kingdom, Naturland in Germany, and KRAV in Sweden). While most of the requirements in those standards are identical, the interpretation and additional information requirements by authorities can cause considerable hindrance to market access when they are not taken care of.

Organic certification (external certification) is required in order to access distant and international organic markets. This is done on the basis of organic standards. In the major organic export markets of the EU, the USA and Japan, organic certification is legally regulated. This means that the certifier, the certification process and the products all have to comply with minimum legal standards.

In the EU the legal standard is set by the EU, and inspection and certification is carried out by private certifiers. Many European countries have one or more private certification bodies, which have their own set of (more specific or detailed) standards. These are based on the EU minimum legal standard but might include some extra requirements.

In the US the National Organic Program (NOP) develops, implements, and administers the national production, handling, and labeling standards for organic agricultural products. The NOP also accredits certifying agents (foreign and domestic) who inspect organic production and handling operations to certify that they meet United States Department of Agriculture(USDA) standards.

Organic certification can have other benefits too, including improved public relations, improved access to support networks (NGOs, for example) and laying the groundwork to acquire other standards, such as ISO, Fair-trade, and Global GAP.

The certification process normally follows three main steps:

- Application, which will normally include payment of a fee, a commitment by the producer to follow the relevant standards, and an extensive description of the production unit.
- Inspection, i.e. a visit to the site to verify that the production follows the standards and is consistent with the declaration of the producer.
- Evaluation of the inspection result and the formulation of a certification decision. This decision often includes a number of corrective action to be taken by the producer. A certificate is issued.

This process is repeated annually. In addition, there will be ongoing updates via communication, such as when a processing company wants to produce a new product using the certified facilities, or when a producer or processor needs to issue a transaction certificate.

Cost of certification is often quoted as an obstacle especially for small products and sometimes also requirements such as documentation. In many EU countries as well as in the USA there are government programmes to support certification costs.

Third-party certification has been a very important tool for the development of the organic market. Through certification, organic products are given a distinct credible image, which is particularly useful in marketing situations with a distance between producers and consumers, for international market certification can be considered a must as all major markets require certification for products marketed as organic.

### **2.3.1 Certification Bodies**

There has been modest growth in the number of certification bodies in most regions of the world, though the number has increased rapidly in some European countries. Most certification bodies are in the European Union, the United States, Japan, South Korea, China, Canada and Brazil. Generally, certification bodies operating internationally are based in a developed country and offer their certification services for the developing countries. Most of Africa and large parts of Asia still lack local service providers. Asia has 165 certification bodies, most of them based in South Korea, China, India and Japan.

### **2.3.2 Period of Transforming from Non-organic to Organic**

Farmers who wish to engage in organic exporting need to go through a conversion period in order to achieve organic certification. When production is already 'organic by default' (i.e. no agro-chemicals have been used in the last 3 years), conversion can usually be achieved in just one year (for export to the EU). The certifying body will monitor the situation in the first year although the products will not yet be certified as organic and will not fetch a premium price. Usually the conversion period can start from the date the farmers registered and signed an agreement committing them to follow organic farming regulations. The precise requirements can vary between different certifiers and this will need to be discussed with your certifying body.

In places where agrochemicals have been, or are being, used or practices which are not allowed in organic farming occur, the conversion period will be three years. The certifier sets out a conversion plan for each farm, which needs to be followed. It is important to make early contact with the certifier to know the actual approach towards conversion and the specific requirements.

### **2.3.3 Group Certification**

For farmers' organisations with many small-scale farmers obtaining certification is a complicated process, as it involves inspecting many farms, certification can be achieved through group certification.

Group certification is a special form of certification that limits the costs of inspection for farmer organisations or larger groups of small holder farmers contracted by an exporter. An Internal Control System (ICS) is used to guarantee the same level of control as individual certification. This involves the group itself taking responsibility for ensuring the organic integrity of the products and the production process, through internal monitoring. The external certifier will check the Internal Control System and inspect a sample of the farms before issuing a certificate.

### **2.3.4 The Internal Control System**

An Internal Control System (ICS) is the part of a documented quality assurance system that allows an external certification body to delegate the periodical inspection of individual group members to an identified body or unit within the certified operator. This means that the third party certification bodies only have to inspect the well-functioning of the system, as well as to perform a few spot-check re-inspection of individual smallholders.

The rationale behind ICSs for group certification is two-fold:

- 1) to facilitate smallholder certification i.e. simplify certification and reduce its cost for smallholders through coordinated documentation and
- 2) to implement and maintain a high quality assurance system for organic standards in smallholder production.

Group certification enables smallholders to access organic markets and enables developing countries to commercialize their products at the international level. ICSs also provide a good basis for sound quality systems to ensure organic quality and provide consumers of the North with imported organic products at reasonable cost. An Internal Control System (ICS) enables a group of growers to ensure that all the registered farmers comply with the organic production standards. It avoids/prevents the need for individual inspection of each small-holder by the external certification body, which would be very inefficient and expensive. An ICS involves setting out clearly defined procedures (documented in the ICS manual) and the recording and filing of relevant information. This documented system is evaluated annually by the external certification body, which mainly evaluates how well and efficiently the Internal Control System is working. As part of this process a sample of farmers will be externally inspected.

The ICS arranges for the registration and annual internal inspection of all farms, provides a list of all farmers in the group and manages a buying system. It provides a protocol for dealing with problems and arranges for training the staff and farmers. Every growers' group needs to tailor these general requirements to meet its own unique situation.

### **2.3.5 Fair-Trade Market in Organic Food Marketing: Overview and Structure**

Fair-trade is a fast growing niche market and a social standard that aims to improve the working conditions and welfare of small-scale producers and plantation workers. There is a growing market for products that are jointly Fair-trade and organically certified. Fair trade is an important basis for organic production and trade as a means to bridge the concerns of the developed and the developing world (Yussef and Willer, 2003).

Organic agriculture and Fair-trade aims at reducing the trade and environmental issues caused due to human impact on the global ecosystem (e.g. loss of natural resources) and poverty and inequality (e.g. People in industrialized countries earn



53 times more than those in underdeveloped countries). The organic agriculture and Fair Trade systems have been developed by NGOs to promote the production, trade and consumption of organic and Fair-trade products. NGOs and farmer organisations take ecological and social concerns into account, involving monitoring, certification and labeling of organic products.

These products are guaranteed to be pesticide free, environmentally friendly and produced in a socially responsible manner. Examples include coffee and tea.

Fair-trade companies pay a guaranteed minimum price to producers, plus an extra allowance called the 'Fair-trade premium' - which producer organisations must use for organisational strengthening and community development.

Fair-trade has two differing sets of goals. For production in hired labour situations, the primary aim is to improve the conditions for the workers. For smallholder farmers it is to provide them with a fair price for their produce.

The minimum price structures established under the fair trade system protects farmers from such exploitation. Fair trade is not a charity. In the system, a cost covering price with some profit margins is assured for farmers to live without charity and other external support. Long term contracts are usually signed by trading partners and as a result market assurance is generally built up. Also the FT premium can be used for socio economic improvement of farmer community and workers in the plantation sector. This helps not only FT farmers and workers in the system but also the other communities in the social system in general.

Fair trade market is ever growing since consumers want to support marginalized producers and workers in the developing countries. Many consumers feel better when they pay extra premium for the product and the extra premium is used to improve the socio economic standards of poor farmers or underprivileged workers.

The organizations working with a Labeling Scheme have together founded the Fair-trade Labeling Organisation International (FLO). The Fair-trade Labeling Organizations International (FLO) is the worldwide umbrella organisation for Fair-trade standard setting and certification. FLO is the association that sets the worldwide Fair-trade Standards that include social and ecological values, but more emphasis is on social standards. FLO aims to improve the income and market position of poor farmers and workers in the developing countries, through the Fair-trade standards and by opening Fair-trade markets for them. The Fair-trade certifications are mostly carried out by local inspectors mandated by FLO-Cert GmbH, the independent certifying unit of FLO. The members of FLO are the National Initiatives (NIs) that promote together with the market players (retailers using the label on their products) to support fairer trade and the consumption of such products ([www.isealalliance.org/.../1A...](http://www.isealalliance.org/.../1A...)).

## **Inspections and Audits**

No producer organization can be certified without an initial on-site inspection. Many Fair Trade producer organizations are large, including hundreds and sometimes thousands of farmers. This makes it impossible for the auditor to visit every single farm. Accordingly, Fair Trade Labeling Organization (FLO-CERT) operates a 'group certification' model. This includes the auditing of the producer organization itself as well as random checks of a representative sample of individual farmers.

A full Fair Trade audit can last from four days for a small producer organization and up to six or seven weeks for the large cooperatives. The time the auditor spends on the ground depends on the size of the producer organization, its complexity, and the number of certified products it seeks to sell.

The cost of certification depends on the number of working days required to inspect the producer group. Following an audit, a report is sent to Fair-trade Labeling Organization (FLO-CERT) for evaluation. The decision to certify is taken by a specialized certifier, who is supervised by an independent certification committee.

After they receive their initial Fair Trade certification, producers are inspected on-site on annual basis. In some circumstances where organizations have demonstrated excellent compliance over many years, they may qualify for a 'desk-top' review as part of a three year inspection cycle.

## CHAPTER THREE

### Present Status of Organic Food Industry in Sri Lanka

#### 3.1 Development of the Organic Agriculture System

Sri Lanka has a civilization dating back to more than two thousand five hundred years, based on agriculture was determined by the rainfall and suitable soil conditions. The agricultural practices of the people from the past up to recent times were well in line with nature. Under these traditional agricultural practices, organic agriculture was not a novel concept. It was based on local resources and it was a non-chemical practice. The Kandyan homegarden practices are one of the best evidence for the cropping systems which existed in Sri Lanka. The other important factor regarding the traditional agriculture was that it was done for subsistence. Conservation farming used indigenous knowledge and traditional agricultural equipment and tools. The systems developed by the people were efficient and effective systems, with such elaborate practices such as Kakulama in rice cultivation and Chena cultivation for field crops and crop rotation system, and agro-forestry system. This situation changed during the last century, when the subsistence agriculture changed to a market oriented agricultural productions. The use of chemicals was intensified after the green revolution. The current conventional agricultural practices are market oriented commercial agriculture with high chemical usage. Subsistence farming has also increased amounts of agro-chemicals (Kariyawasam, 2005).

Organic agriculture, in the traditional context, is subsistence farming or non-chemical agriculture. Conservation farming used indigenous knowledge and traditional agricultural equipment and tools, whereas modern organic agriculture is market oriented and production has to adhere to certain standards or at least accepted norms in cultivation methods and practices. Modern organic agriculture is practised based on standards and certification. It differs from IPM/conventional agriculture, particularly on the level of fertilizer and agrochemicals used. Further, it differs from subsistence agriculture as it produces for the market, including export markets.

The organic movement in Sri Lanka started in the 1980s through contact and inspiration of local NGOs with the Philippine Organic Agriculture Movement. In 1982, a group of local NGO representatives, planters, scientists and environmental officers had drafted a Memorandum of Association to create a movement named Lanka Organic Agriculture Movement (LOAM). This can be seen as the official starting point for the dissemination of organic agriculture in Sri Lanka. LOAM was planned to be registered as a company limited by guarantee. The primary objectives of LOAM were to promote organic agriculture, to establish, improve and maintain standards for organic agriculture and to create awareness of organic products among the people of Sri Lanka. Only in 2001 LOAM was registered as an official legal body. Nevertheless activities in the field of organic agriculture continued and evolved to an

advanced stage of development, so that particularly two groups can be distinguished. On the one hand organic smallholders who mainly resource poor farmers linked with NGOs and Some have united in producer co-operatives. On the other hand large scale organic plantations managed by private owners or as company projects, who are sometimes associated with surrounding smallholders.

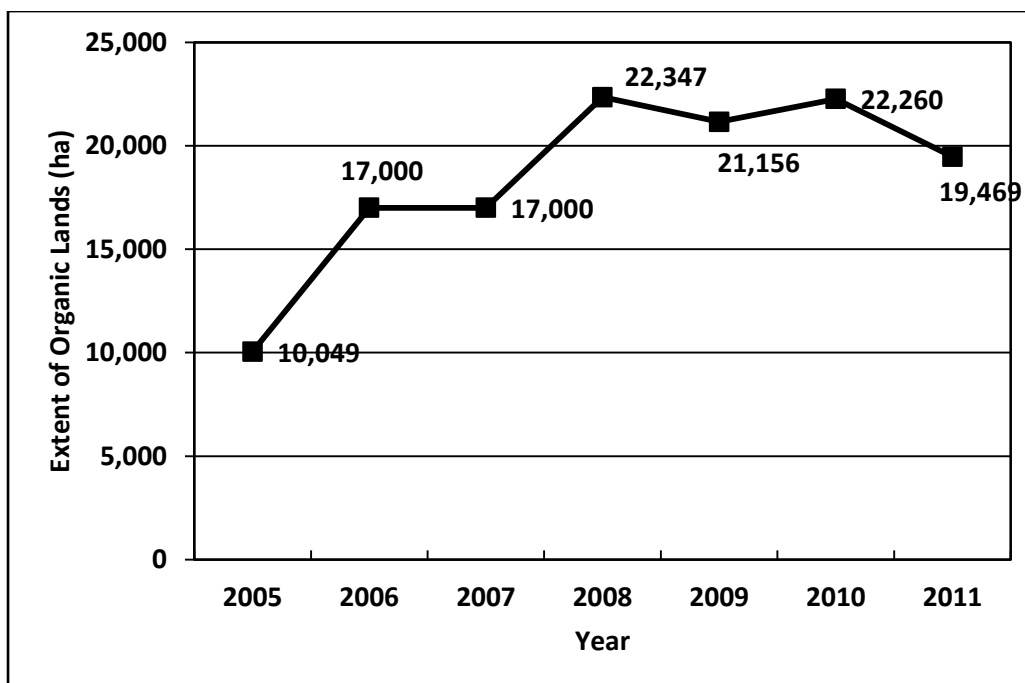
Organic production has a considerable potential in the agriculture sector in Sri Lanka. However, the term organic has been widely misused in Sri Lanka without having very a clear understanding about it. Ecological farming systems, applying compost on crops, natural homegarden practices, neglecting lands without applying natural and artificial inputs cannot be defined or termed as organic. Organic is a kind of labeling system that is granted for ecological production when the whole process is certified by an accredited third party organization. Without a third party guarantee on the compliance of set international standards on organic production methods, a product cannot be labeled, termed or called organic (Ranaweera, 2008).

Sri Lanka as a country full of natural resources has a huge potential to considerably fulfill the needs of ever-growing market demand for organic products in the world. Our capacity to supply various products already grown under ecological systems for years after conversion has improved within a shorter period of time.

### **Benefits of Organic Food Industry compared to Conventional Farming**

- High price premiums
- Organic food market is continuously growing with export opportunities
- Assured market with a good price
- Minimize environmental pollution
- Better product quality and safety
- Health benefits to farmers and consumers

Amongst the producer countries, Sri Lanka maintains a reputation in organic crop production and exports as defined and specified by the International Federation for Organic Agriculture Movement (IFOAM). According to IFOAM and FiBL statistics, the total area under organic agriculture in Sri Lanka in 2011 was 19,469 ha. Figure 3.1 shows how the extent of organic agriculture lands had changed between 2005 and 2011. It had increased by 122% from 2005 (10,049 ha) to 2010 (22,260 ha) and shown a decrease in 2011.



Source: FiBL-IFOAM Survey 2013

**Figure 3.1: Growth of Organic Agricultural Lands in Sri Lanka (2005-2011)**

### 3.2 Export of Organic Food Products

When designing export promotion programs, the special nature of the organic markets needs to be understood. The outlets or programs designed for conventional products, may not be the right ones for organic; exporters used to selling bulk commodities are often less inclined to understand the more demanding and quality conscious organic markets. Handling practices and treatments need to be adopted. Personal contacts between seller and buyer important in all business are even more important for organic exports. Organic exporters need to cooperate in their export marketing activities.

Sri Lanka organic producers and exporters are well aware of the demand for organic products in developed countries. Products available for the export markets are listed in the table 3.1. The channels adopted for the export of organic products are mainly through export companies. Organic products are mainly exported to the following countries;

Europe	: Germany, United Kingdom, Netherlands, France, Austria, Switzerland, Spain
America	: USA, Canada
Asia	: Japan, Singapore
Australia	

**Table 3.1: Organic Food Products Export from Sri Lanka**

Category	Type of Products
<p><b>Spice Based Products</b></p>	<p><u>Essential Oils</u> Black pepper oil, White pepper oil, Cardamom oil, Cinnamon bark oil, Cinnamon leaf oil, Citronella oil, Clove bud oil, Clove leaf oil, Clove stem oil, Gingelly oil, Lemongrass oil, Mace oil, Nutmeg oil, Vativer oil, Turmeric oil, Lime oil</p> <p><u>Spice powders</u> Black pepper powder, White pepper powder, Cardamom powder, Clove bud powder, Ginger powder, Cinnamon powder, Cinnamon tea cut, Lemongrass powder, Nutmeg powder</p> <p><u>Oleoresins</u> Black pepper oleoresin, White pepper oleoresin, Cardamom oleoresin, Clove Oleoresin, Cinnamon oleoresin, Ginger oleoresin, Nutmeg oleoresin, Turmeric oleoresin</p> <p><u>Sterilized Spices</u> Black pepper, White pepper, Cardamom, Cinnamon quills, Clove bud, Clove stem, Ginger, Gotukola, Lemongrass, Mace, Nutmeg</p>
<p><b>Coconut based Products</b></p>	<p>Organic desiccated coconut, Coconut chips (raw, toasted), Organic coconut milk, Organic cream coconut, Coconut oil, Coconut water, Coconut milk powder</p>
<p><b>Tea Products</b></p>	<p>Green tea, Black tea, Flavoured tea</p>
<p><b>Fruit based Products</b></p>	<p>Dehydrated fruits (Pineapple rings, tidbits and dices, Mango halves, strips, tidbits, papaya strips, dices and spears, banana whole and chips and fruit cocktail)</p> <p>Fruit juices (pineapple juice, papaya juice, mixed fruit juice, passionfruit juice)</p> <p>Fruit pieces in natural juices (Mango, papaya, pineapple, fruit cocktail)</p>
<p><b>Other Products</b></p>	<p>Nuts (Cashew), Garcenia, Tamarind, Coconut treacle, Ginger, Herbal Extracts</p>

Source: HARTI Survey Data, 2012

### **3.2.1 Organic Tea**

Among the organic agriculture sector in Sri Lanka, organic and biodynamic varieties of tea occupy the major share with respect to the extent of cultivation and production. Organic tea varieties are sold as value added teas, which fetch premium prices in many international niche markets. Sri Lanka pioneered organic tea production and marketing in the world. The first organic tea estate was established in Haldummulla in 1983, which made the first organic tea exports in 1987. Presently, organic and biodynamic tea production is expanded in the corporate and small holder sector and organized farmer groups in different agro-ecological regions.

A 30-50% lower yield of organic tea is experienced than that of conventional tea under field conditions. Sri Lanka organic tea industry caters black, green and silver tip teas in bulk and processed teas, value-added teas with flavors and environmentally friendly packages, which fetch minimum of 2-3 fold premium prices in the international markets. The main destinations of the Sri Lanka organic teas are UK, Germany, Italy, France, USA, Canada, Australia, Singapore, Japan and Spain. The Tea Research Institute, The Tea Board and The Export Development Board are the supporting the growing organic tea industry in Sri Lanka (Mohotti, 2011).

### **3.2.2 Organic Coconut**

Among coconut producing countries in the world, Sri Lanka maintains the fourth position having a total extent equivalent to 20 percent of the cultivable land in the country. From the total coconut production, approximately 70 percent is consumed for culinary purposes leaving only 30 percent for the processing industries. Most of the processed coconut products use little or no chemical inputs in the manufacturing processes. Therefore, an opportunity exists for exploitation of organic market trends for coconut. Organic virgin coconut, desiccated coconut, coconut chips, coconut flour, coconut cream, coconut oil, coconut water are some of the high value products having niche markets.

In Sri Lanka approximately 10,000 ha of coconut lands have been certified as organic coconut and they export organic coconut products (Jayasekara, 2011).

### **3.2.3 Organic Spices**

Spices are the predominant groups in the Export Agriculture Crop Sector in Sri Lanka. Cinnamon, black pepper, cloves, nutmeg, vanilla, ginger and turmeric are the most important spice crops. Sri Lankan spices have gained reputation worldwide for their intrinsic quality, identity associated with inherent aroma and flavor and as those are free from contamination.

**Table 3.2: Companies Engaged in Exporting Organic Food Products at Present**

<b>Name of Exporter</b>	<b>Type of Major Food Product</b>	<b>Year Started Organic Food Exports</b>
Bio Foods (Pvt) Ltd	Tea, spices, coconut	1993
EOAS Organics (Pvt) Ltd	Spice, spice and herbal extract	1999
MA'S Tropical Food Processing (Pvt) Ltd	Spices, coconut	2005
Stassen Exports (Pvt) Ltd	Black and green tea	1984
S.A. Silva & Sons Lanka (Pvt) Ltd	Coconut	1996
Cecil Natural Foods (Pvt) Ltd.	Fruits, coconut	1996
Renuka Agri foods PLC	Coconut	2002
Lanka Organics (Pvt) Ltd	Tea, spices, coconut, herbs, fruits	1992
PODIE (People's Organization for Development Imports and Exports )	Spices	2004
Gemi Teas Colombo (Pvt) Ltd	Black, green and white tea	2003
Greenfield Bio Plantations (Pvt) Ltd	Tea, spices, coconut, herbs, fruits	1992
HDDDES Extracts (Pvt) Ltd	Spices, Spice and herbal extractions	2001
Expolanka (Pvt) Ltd	Fruits, coconut	2009
Pripa Organic (Pvt) Ltd	Fruits	2005
Saraketha Holdings (Pvt) Ltd	Fruits, spices, vegetables	2008
Amazon Teas (Pvt) Ltd	Black and green tea, spices	2005
Mackwoods (Pvt) ltd	Spices, fruits, coconut	2000
Finlay Teas (Pvt ) Ltd	Tea	2002
Sunshine Tea (Pvt) Ltd	Black and green tea	2005
Ruhunu Foods (Pvt) Ltd	Spices	2008
Consolidated Business System (Pvt) Ltd		2011
Dani Foods Lanka (Pvt) Ltd	Spices	2010
Enrich Tea and Food Exports (Pvt) Ltd	Spices, coconut, fruits	2012
C.W. Mackie PLC	Coconut, spices	2000

Source: Control Union and IMO, 2012

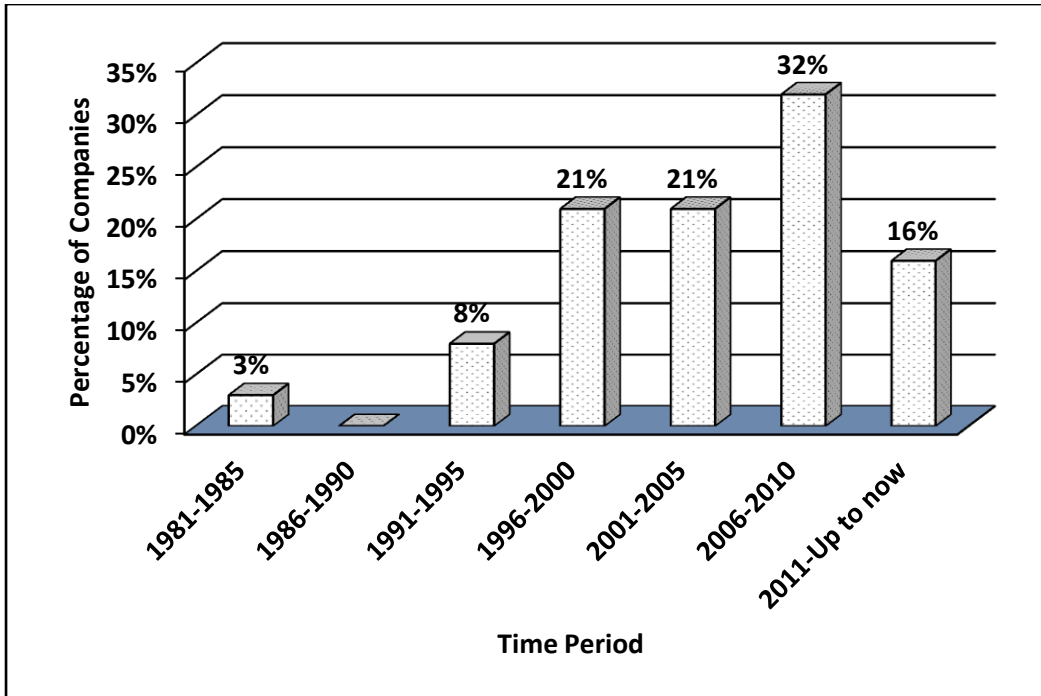
**Table 3.2 (Contd.....)**



<b>Name of Exporter</b>	<b>Type of Major Food Product</b>	<b>Year of Started Organic Food Exports</b>
Tropical Health Foods (Pvt) Ltd	Fruits	1997
Smith Foods (Pvt) Ltd	Coconut	2006
Empire Teas (Pvt) Ltd	Black and green tea	2000
Vintage Teas Ceylon (Pvt) Ltd	Black and green tea	2008
Sunfrost (Pvt) Ltd	Fruits	2011
George steuarts (Teas and Marketing) Pvt Ltd	Black tea	2009
Wichy Plantation company (Pvt) Ltd	Coconut	2008
NMK Agro Industries (Pvt) Ltd	Coconut	2010
A.F. Jones (exporters) Ceylon Ltd	Black and green tea	2011
Pristine Kokos (Pvt) Ltd	Coconut	2012
Serendipol (Pvt) Ltd	Coconut	2007
The Tea & Herb Company (Pvt) Ltd	Tea	1998
Millenium Tea (Pvt) Ltd	Tea	2011
MJF Group of Companies	Tea	2006

Source: Control Union and IMO, 2012

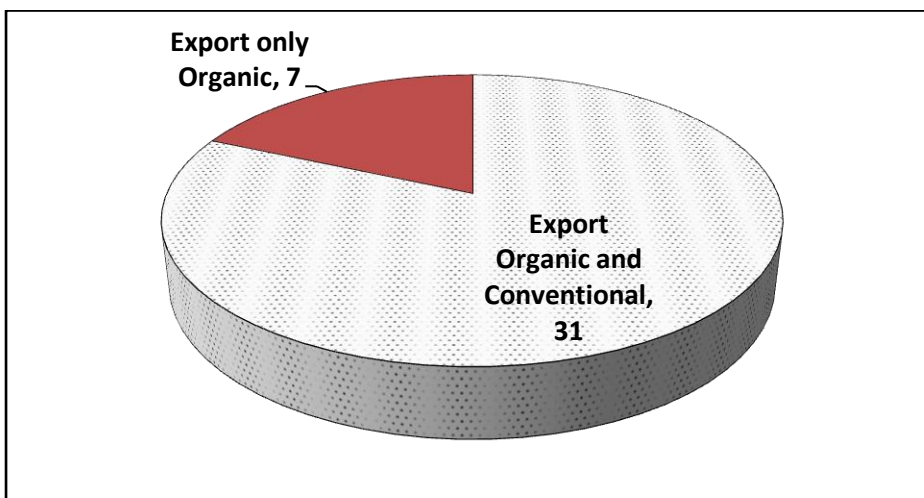
Out of the total companies, about 48 percent of exporters (18 companies) had entered the organic food export market during the period of 2006-2012 (figure 3.2). It shows that there is a growing trend in entering the organic food export market 2000 onwards.



Source: HARTI Survey Data, 2012

**Figure 3.2: Year of Commencing the Organic Food Export**

Out of the all exporters, there are only seven companies which deal solely in products produced by organic farming (export 100% organic products). They are Bio Food, EOAS Organics, Pripa organic, PODIE, Tropical Health Food, Serendipol (Pvt) Ltd and Pristine Kokos. The rest deal partially in organic products exports, exporting both organic and non-agricultural products. Out of those companies about 13 companies export less than 10% of organic products out of the total exports.



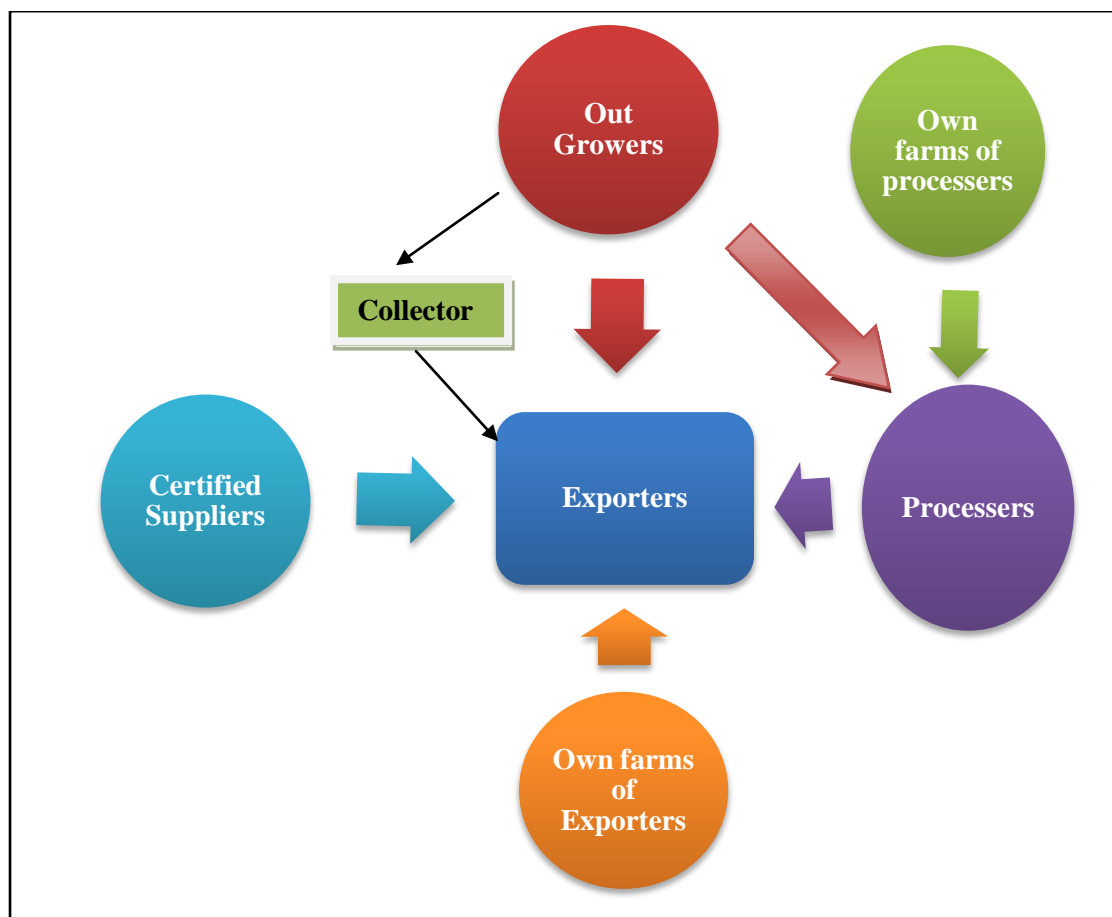
Source: HARTI Survey Data, 2012

**Figure 3.3: Number of Companies Exporting Organic Products exclusively/Partially**

### 3.3 The Structure and Business Models of the Production Systems for Export Market

Supply chain management is one of the key issues for the success of developing export market. Efficiency and quality management are determining factors and need particular attention. Key issue in quality development is the establishment of a quality assurance system throughout the supply chain. This involves quality of raw materials, procurement control system, processing quality, packaging and stock management.

Exporting companies have different business models for the production and supply of organic food for exports as illustrated in the figure 3.4. Exporters have their own estates or farms, out-growers (groups/individual farmers), certified suppliers and certified processors to obtain organic food requirement.



Source: HARTI Survey Data, 2012

Figure 3.4: Marketing Channels for Organic Food Exporters

***Own production:***

The Company manages and controls production. The company usually has a long term rental contract for the land, hires local farmers to work on the farm and employs its own local management and supervisory staff. Fifteen out of the 38 exporters followed this model.

***Contract Out-grower System:***

The Company contracts all of its production to local farmers, on an individual basis or through the farmer groups. Farmers' land is certified organic in the same way as 'own production'. Farmers can sell directly to an exporting company as an individually contracted farmer or as an out-grower and when farmers are organised in their own organisation they deliver to their organisation, which takes care of collection, bulking, grading and sorting the product and quality control. These contractual arrangements often include the provision of inputs e.g. bio-pesticides and organic fertilizers, and technical and managerial assistance. There are no written agreements between the farmers/farmer groups with the company. In this system, the exporting company will be the certificate holder (i.e. the organic certificate will be in the exporter's name) and the company will take responsibility in running the Internal Control System. Out of the exporters interviewed, sixteen companies follow this model.

There is no agreement between exporters and growers. Exporters purchase only the required quantity for export. They have internal control system to monitor farmers' fields and to advise.

***Certified Suppliers and Processors:***

Sometimes the exporting companies of organic products (eg: Lanka Organics, Greenfield Bio Plantations (Pvt) Ltd, Bio Foods (Pvt) Ltd, Mackwoods (Pvt) Ltd, Pripa Organic (Pvt) Ltd) supply certified products for other exporters to fulfill their organic food export requirement. Most of the organic tea exporting companies (11 companies) practises this system by paying higher prices for the suppliers. In this situation, the companies do not certify the lands of suppliers. They only need to obtain the certification for processing and the transaction certificate. Out of the total exporting companies interviewed, seventeen companies follow this model.

Further, some of the NGOs act as certified suppliers for exporters and in this situation; the exporting companies have to certify the lands of these organizations.

In addition to above production systems, there are independent farmer organizations (eg: SOFA supply to Bio-food company) which maintain certified smallholder groups. In such cases the independent farmers' organisation is usually the certificate holder is responsible for running the ICS and providing training to the farmers.

**Box 1: Grower Group Association (ex: Small Organic Farmers' Association/SOFA)**

*SOFA is an umbrella organization consisting of 46 branch societies distributed in different districts in Sri Lanka. SOFA is the first grade small farmer organization certified by FLO-CERT. It has obtained fair-trade certification for tea in 1998 and spices in 2006.*

*At present there are 2396 farmers producing organic tea, spices and paddy in 1603 ha of certified lands. There were only 189 farmer families at the beginning in 1997 and it has increased up to 2450 farmer families in 2011.*

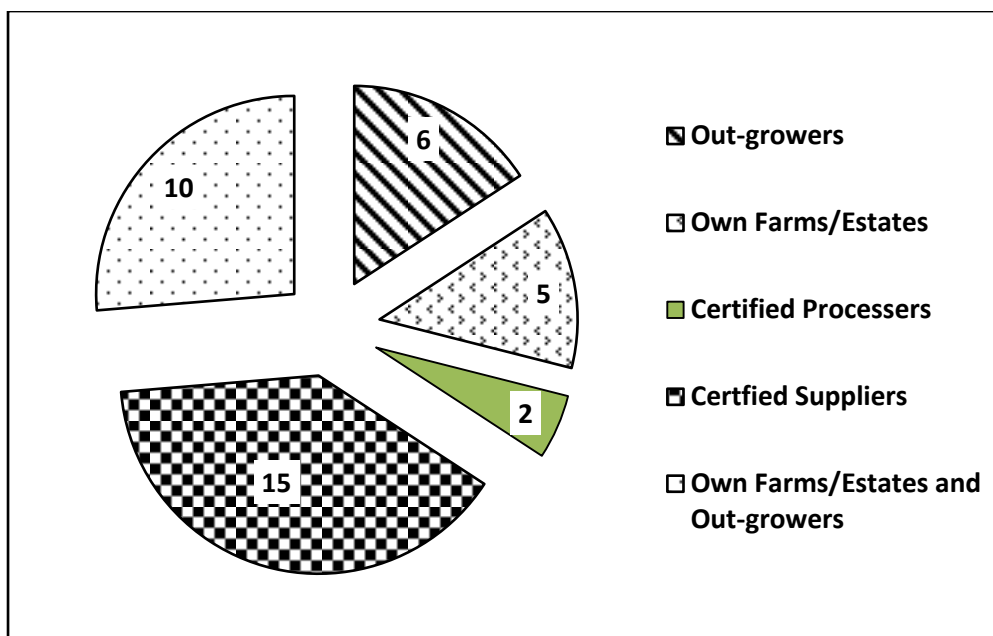
*There are 45 farmer societies under SOFA and from each society 7 farmers participate in the Annual General Meeting and 2 farmers participate in Board meetings. Board meetings are conducted at regional level. Farmer communities conduct 5 meetings per year. Producers annually democratically elect the members for their respective societies in order to carry out the suggestions and implement the programs forwarded at village level by the small farmers. Office bearers of the SOFA mother organization are annually elected at the General Assembly. Extension officers frequently visit farms and advise them.*

*Organic inspection and certification facilities are provided by the SOFA for farmers linked with them. Products are collected from the farmer societies and supplied to SOFA. They distribute those products to Bio-Food Company where the processing and exporting is undertaken. Through this independent association, the company is able to obtain assured quality products.*

*It utilizes fair-trade premiums for social and economic development of the producers. Services provided are distributing plants, agricultural equipment, conducting training and demonstration programmes, women development programmes, providing grants for educational facilities for the children of producers and conducting corporate social responsibility programmes.*

Source: Survey Information

Farmers in an organic chain can sell their produce in one of the two ways; either directly to an exporter or to their organisation. Selling to middle men is not allowed as an organic chain needs to be transparent with long-term contracts and investments; neither of which can be provided by middle men.



\*No. of Exporters using each Type of Organic Production and Supply System  
Source: HARTI Survey Data, 2012

**Figure 3.5: Different Models of Organic Production and Supply System Practised by Organic Food Exporters**

### 3.4 Standards, Certification and Accreditation in Organic Food Industry

To address the issue of 'quality' aspects of organic produce market, the instrument emphasized are the 'organic standards and certification', the adequacy and relevance of which need to be assessed properly.

Organic certification is a process through which an independent third party called the 'accredited' agency verifies and issues certification for a unit of production and carries out production based on the set organic standards and guidelines. The certification covers the whole chain of activities starting from production to processing, but the minimum requirement for export is that it must meet the legal standards of the country of import. Certification leads to consumers trust in organic production system and products. Certification offers organic farming a distinct identity and credibility and makes market access easier (Prakash, 2003).

Certification of organic products has emerged as an important issue in their marketing. Certification not only assures consumers that a product that is not observably different from non-organic food was grown, processed and packaged according to rules that limit or ban synthetic inputs while protecting the environment, it also assures producers that unscrupulous use of the term 'organic' does not defraud them of price premiums and market shares and makes the market more efficient by reducing information asymmetry along the marketing chain. It can be very costly for governments to set domestic standards for organic foods if only few crops are grown organically and volume traded is small. In such situations, private certified bodies fill the void (Lohr, 1998).

The need of certification of organic farming was realized with the establishment of regulations by the European Union (EU) for organic products and production. By setting these regulations, it was aimed at creating an overall system in organic production that combines best environmental practices, high level of biodiversity, protection of natural resources and application of high animal welfare standards and production methods in line with the consumer demand. These regulations on organic production of agricultural products (EEC 2092/91) were first established in 1991 and revised in 2007 (EC 834/2007) on the title "Organic production and labeling of organic products. Later in 2008, two more regulations as mentioned below were added as detailed rules for implementation of EC 834/2007, namely (a) EC 889/2008; Detailed rules on organic production, labeling and control and (b) EC 1235/2008; Detailed rules on imports of organic products from third countries.

In EC 834/2007, a control system had been proposed, in which control authorities in EU could delegate control task to a particular control body that is accredited to ISO/IEC Guide 65; General requirements for bodies operating product certification systems and are approved by the competent authorities. The controls are determined on the basis of an assessment of the risk of occurrence of irregularities and infringements regarding the compliance with the requirements of the regulation. All farmers, processors and operators excluding wholesalers dealing only with pre-packaged products and those selling to the final consumer or user are subject to a verification of compliance at least once a year by certification bodies. In this framework, certification bodies that certify farmers, processors and operators against EU and national requirements will become control bodies (Wickramasinghe, 2011).

Sri Lanka Standard Institute has developed the National Standard; SLS 1324: Sri Lanka Standard for Organic Agriculture Production and Processing, in compliance with the EU requirements. These standards have been formulated based on guidelines or basic standards provided by IFOAM, Codex Alimentarius, National Association for Sustainable Agriculture Australia Limited and LOAM (Lanka Organic Agriculture Movement). These standards prescribe the methods of production, processing, handling, storage and transportation of organically produced agricultural products. A standard for organic agriculture defines how production system must be managed, covering all aspects of soil fertility, pest control and so on with an emphasis on proper recording and labeling.

As organic certification requires compliance with standards, training of farmers and control of all the steps in the chain, organic certification provides a reasonable guarantee of good quality. Certified organic food processors often have quality and food safety assurance systems as well.

At present, Sri Lanka Accreditation Board (SLAB) is operating accreditation schemes in the fields of testing laboratories, calibration laboratories, medical laboratories, certification bodies and inspection bodies. An accreditation scheme for organic certification has also been developed identifying current needs of the country and few assessors have been trained to conduct conformity assessments in the areas of

organic production. In order to facilitate conformity assessments conducted by SLAB in organic certification bodies, an interpretative document named 'specific criteria for organic certification' has also been prepared, in addition to system documents, under the guidance of a Technical Advisory Committee appointed for the purpose. This specific criteria document must be used in conjunction with ISO/IEC Guide 65.

As far as testing laboratories are concerned, SLAB was admitted as a signatory to the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement (ILAC MRA) in December 2009. The test reports produced by SLAB accredited laboratories are accepted worldwide today. Therefore, the laboratories that carry out testing organic products for determination of composition of fertilizer and soil conditions, feed material and additives, etc., as detailed out in EC 889/2008, should be upgraded with necessary testing facilities and accredited to ISO/IEC 17025 for receiving due recognition from importers of organic products and avoiding unnecessary non-tariff barriers in trade.

Currently SLAB is a member of Pacific Accreditation Cooperation (PAC) and an associate member of International Accreditation Forum (IAF). The SLAB expects to achieve international recognition for accreditation of certification bodies including organic certification by being a signatory to IAF Multilateral Recognition Agreement (MLA) by the year 2012 (Wickramasinghe, 2011).







All the organic production methods are monitored by Inspection and Certification Bodies (ICB) that are accredited by EN 45004/45011 or ISO 65. Most of developed countries have set up the minimum requirements as organic regulation and therefore products are checked at customs with relevant documentary proofs to support the claim that the product is organic. These regulations are formulated based on guidelines or basic standards provided by the International Federation of Organic Agriculture Movements (IFOAM) and Codex Alimentary. An ICB sets its own standards satisfying the minimum requirements stipulated by the EU or the country regulations. An inspector visits the project site and audits whether the organic practices followed by a licensee or a new applicant complies with standards set by the same ICB. The ICB evaluates the compliance of the findings of the inspector with its own standards and based on satisfactory levels of compliance, a certification is granted for the products to be called organic (Ranaweera, 2008).

### **Organic Standards**

According to the country of import, the exporting companies have to follow different organic standards and the certification bodies operate in that particular country do inspection and certification according to those standards.



**Table 3.3: Organic Standards followed by the Exporters**

Type	Organic Standards	Symbols
Country specific regulations	EU regulations	
	US regulations	
Private labeling	Naturland	
	Demeter	
Natural standards	Bio suisse	
	EU standards	
	USDA (NOP)	
	JAS	

### 3.4.1 Implication of Organic Certification for Market Structure and Trade

Certification of organic products serves three functions. First, it assures consumers that a product that is not observably different from non-organic food was grown, processed and packaged according to rules that limit or ban synthetic inputs and that protect the environment. Second, it assures producers that unscrupulous use of the term organic does not defraud them of price premiums and market share that can be earned from certified foods. Third, it makes the market more efficient by reducing information asymmetry along the marketing channel from producer to consumer (Lohr, 1998).

To fulfill these functions, certification must be a credible process. It can be described as setting standards, verifying that standards are followed by inspecting the facility and operating records and approving the producer or processor. Approval confers the license to display the certifier's label on the product. The label conveys information about the production process to intermediaries and consumers. Organic premiums will be paid only when label confidence exists.

### 3.4.2 Certification Bodies

Export marketing of organic products also places high demands on the certification bodies. They need to service the exports with certificate, forward inspection reports to other certification organisations, respond to queries from importers, authorities or certification bodies in importing countries.

Certification services are available globally. For export purposes, the simplest solution is to buy the services from international certification bodies. However, there are advantages in a domestic certification body. There are two certification services available in the country. i.e. Control Union and IMO. Control Union has a local office and local trained inspectors operating in the country whereas IMO has one representative and inspections are done by foreign inspectors.



Control Union



IMO

**Figure 3.6: Logos of Control Union and IMO**

***Control Union Certifications (CU):***

Control Union Certifications, a member of the Control Union World Group is an international inspection and certification body and is accredited by the Dutch Council for Accreditation on the European quality standard EN 45011 for the inspection and certification of the CU organic program according to the EU regulation 834/2007 and 889/2008.

Control Union Certifications have also been accredited under the USDA National Organic Program (NOP) by the United States Department of Agriculture and by the Japanese Ministry of Agriculture, Forestry and Fisheries (MAF). Control Union Certifications is allowed to perform inspection and certification among others in the fields of organic production (NOP, EU, JAS), input, textile production, organic exchange, global gap, FSC, PEFC, HACCP, BRC, GMP, GTP and ISO 9001 ([www.controlunion.com](http://www.controlunion.com)).

At present, the Control Union facilitates inspection and certification services for 34 organic food exporting companies.

***IMO:***

At present, IMO undertakes inspection and certification of 5 organic food exporting companies.

***Local Certification Bodies: Sri-cert:***

Local certification helps ecological farmers to join organic farming with a shorter period of conversion at low cost. It also helps promoting local consumption of organic/ecological food at competitive prices for healthy living.

“Sri-cert” is the Organic Certification Service in Sri Lanka. It intends to facilitate small scale organic farmers to touch the foreign market while attracting the local market by providing the organic certification for their products.

Sri Cert is a partner organization of Certification Alliance and it offers a low cost, one stop service for organic producers seeking local and international certification for organic products. Being part of Certification Alliance (CertAll) allows organic sector organisations in emerging markets to develop competency and offers an internationally accredited inspection and certification service to local operators, at a reasonable cost. Sri Cert provides extension services to establish small farmer groups and to educate producers to follow standard and organic agricultural practices. Further, it helps strengthen and develop the livelihood of local communities who associate with the Sri Cert.

All agronomic and agricultural practices at the field level are monitored and consulted by the Internal Control Unit of Sri Cert which comprises local inspectors to ensure the products are produced strictly under organic certification standards. Product samples are checked frequently at company laboratory and samples are sent to external laboratories for higher precision.

The Company has been established to achieve the following objectives:

- To run Organic Agriculture certification body concerning with the Internal Control System **(ICS)** and Participatory Guarantee System **(PGS)**
- To facilitate local Organic certification standards and policies
- To train groups of people as Organic Agriculture field inspectors
- To facilitate to obtain Organic certificates for illegible poor farmers
- To encourage existing exporters to identify local organic products among local and international markets

***Cost of Inspection and Certification:***

Most certifiers charge inspection and certification fees based on the number of person days involved plus fees for the issue of certificates. The company must pay a fee based on the number of inspection days needed (including travel days) and the certification costs (eg: administration, certificates etc). The cost for inspection fee is only Euro 400-600/day. Other costs (eg: travel and boarding costs, costs for analyses and cost for sending certificates by registered mail) will be invoiced directly based on real made costs.

**3.4.3 Fair Trade in Organic Food Export**

Sri Lanka, being a developing country depends heavily on agricultural production. Consequently the sustainability of the agriculture sector has to be targeted as a priority. Income generation for farmers from agricultural production has to be assured to keep farmers in the system with increased confidence. An educated

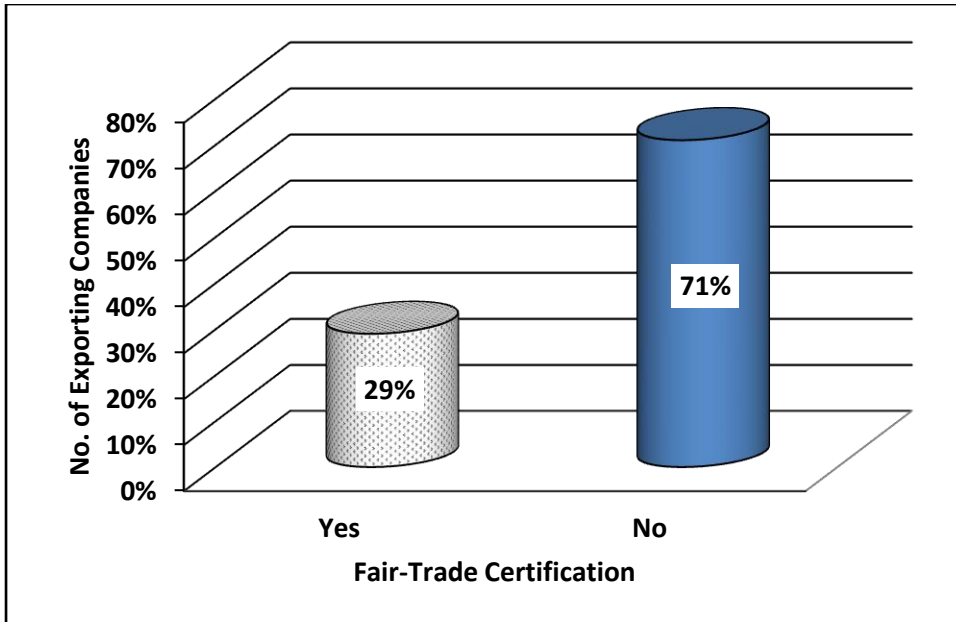
future generation can be attracted to agriculture when a fair income is guaranteed from agricultural productions.

Fair Trade is an organized social movement and market based approach that aims to help producers in developing countries obtain better trading conditions and promote sustainability as well as improve the social standards while reducing the environmental impact. There is a growing market for products that are jointly Fair-trade and organically certified. Fair Trade is an organized social movement and market-based approach which advocates the payment of a fair price as well as social and environmental standards in areas related to the production of goods to alleviate global poverty and promote sustainability.

Sri Lanka has been recognized as a pioneer in the promotion of fair trade tea by the Fair Trade Labeling Organization (FLO), which defines the standards for fair trade certification.

Fair Trade is another form of value addition to our exportable products and tea has been the biggest item sold under fair trade label in Sri Lanka. Sri Lanka has become the first Fair Trade labeled spice producing country in the World. Fair Trade Premium is useful for the improvement of socio-economic standards of the small farmer families and the estate workers. Having more products and projects registered under the Fair Trade system will improve the economy of the country and the socio-economic standards of poor farmers and estate workers. This is the way forward for the sustainable development of a developing country like Sri Lanka. However, it is important that all the forces in the Fair Trade system be united under one umbrella to optimize the benefit of the Fair Trade system for Sri Lanka. Well qualified external inspectors of FLO-CERT annually audit the entire operation of SOFA against the Fair Trade Standards.

Out of the total exporting companies of organic food products, about 29 percent companies obtained Fair Trade certifications. Most of the organic foods importing countries demand organic products with Fair Trade certificate. Therefore, most of the organic food exporters who do not have Fair Trade labeling are interested in obtaining it in future.



Source: HARTI Survey Data, 2012

**Figure 3.7: Companies with Fair Trade Certifications for Organic Food Exports**

**Fair Trade Minimum Price (FMP)**

Fair Trade minimum price is the minimum price that must be paid by buyers to producers for a product to be certified by the Fair Trade Standards. The FMP is a floor price which covers producers' average costs of production and allows them access to their product markets. The FMP represents a formal safety net that protects producers from being forced to sell their products at a too low price when the market price is below the FMP. It is therefore the lowest possible price that the Fair Trade payer may pay to the producer. When the relevant market price for a product is higher than the Fair Trade minimum price, then at least the market price must be paid.

**Box 2: Benefits Received by Farmers linked with SOFA via Fair-trade**

*SOFA is the first grade small farmer organization certified by FLO-CERT since 1998. SOFA is registered as a Fair Trade farmer organization under the Fair Trade Labeling Organization (FLO) and is strengthened with organic and biodynamic certified primary producers.*

*SOFA sees Fair Trade as a helping hand for small producers to reduce poverty by improving their income and social standards and moving towards a sustainable future. Utilization of Fair Trade premium for the development of the poor and primary producers focus mainly on three aspects.*

*01. Agriculture and land development*

*02. Social and Economic development of the members*

*03. Social Responsibilities*

*Services provided by the SOFA to farmers*

- Distribute plants (tea, vanilla, lemongrass, ginger, turmeric, cinnamon), dolomite, farm animals, agricultural equipment (knives, folks, spray tanks, mameeties, )*
- Trainings and demonstration programmes (basic agricultural practices, composting, soil conservation, organic liquid manure, environmental programmes, )*
- Welfare (chairs, temporary huts, cooking utensils, roofing sheets, )*
- Women development programmes (training programmes to make environmentally friendly packaging materials/reed boxes, tailoring, self-employment support programmes, grants for educational facilities for children, community centers for children, )*
- Corporate Social responsibility programmes (community centers, leaf collecting centers, donate sports items, support for religious activities, donate for orphanage, preschools, water supply projects, infrastructure development)*

Source: HARTI Survey Information, 2012

### **3.5 Policies Related to Organic Farming in Sri Lanka**

At present the agriculture sector of Sri Lanka is experiencing a two-fold pressure, i.e. protecting the environment and reaping the best harvest using naturally occurring inputs. The national policy target is to maximize the production through comprehensive approach minimizing the adverse effects on the environment. The policy of the present government is to provide chemical fertilizer to the farmer at an affordable price, under the fertilizer subsidy scheme adopted, in order to meet the national food demand. However, this has led to overuse of inorganic fertilizer in some crops while insufficient fertilizer use has been observed in some other crops (Karunathilaka, 2011).

The global trend towards using naturally occurring substances in food production systems became important recently with the increased concerns on healthy food consumption. Sri Lanka also responded to this global move by policy reviews, especially focusing the environmental issues. This has led to policy making and implementation to promote organic fertilizer production and its use through

- Implementation of an Organic Fertilizer Promotional Activity by the Ministry of Agriculture to encourage production and use of organic fertilizer.
- Promoting use of straw in rice cultivation
- Introducing methods of IPM (Integrated Pest Management) and IPNS (Integrated Plant Nutrient System)

### ***Establishment of National Organic Control Authority (NOCA):***

The National Organic Certification Guarantee Limited (NOCGL) under the Ministry of Agriculture is currently involved with the LOAM, EDB and other private sector organizations to form the National Organic Control Authority (NOCA). Cabinet approval for the establishment of NOCA is still pending due to lack of integration between relevant authorities. It was aimed to establish NOCA under the Ministry of Export Development as an apex body to deal with all matters connected with the use of the term “organic”. All the registration of Inspection Bodies, exporters, processors and producers will be carried out by the NOCA.

Non-EU member states which have provided evidence that production methods and inspection measures in the third country are equivalent to rules of council regulations and are eligible to be admitted to the third country register under EEC no. 94/92. At present, seven countries namely Argentina, Australia, Israel, Checkoslovakia, Republic of Hungary, Switzerland and India are listed in the third country list. Once the company is listed in the third country register, direct official admission is valid similar to a member of the EU. Local inspection bodies can be established in the listed country and the cost of certification could be reduced at least by half.

India has already obtained entry to third country register and benefited by reducing the cost of certification and their products are allowed in EU member countries without import authorization procedures.

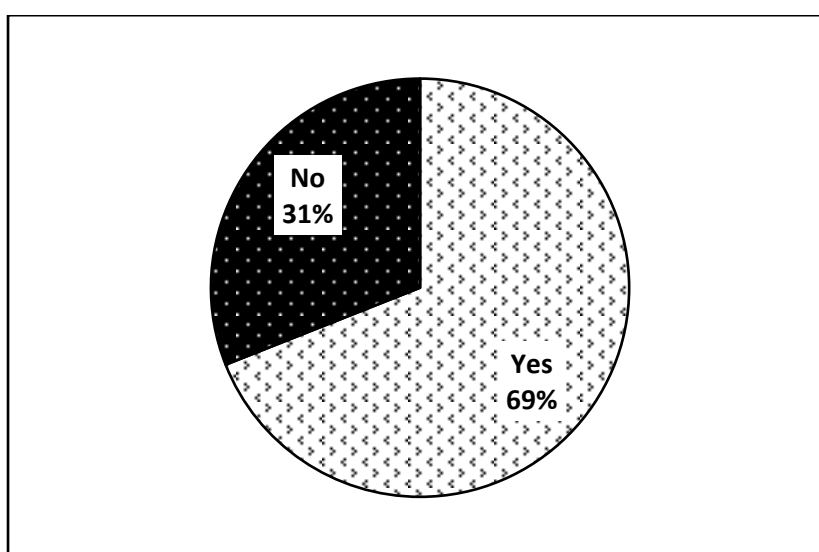
The countries with third country registration have direct official admission which is valid, similar to a member of EU. They also benefited by reducing the cost of certification and their products are allowed to EU countries without import authorization procedures. Importers have also benefited as they do not have to pay additional money to obtain an import license.

A statutory body in the name of ‘National Organic Control Authority (NOCA)’ under the Ministry of Export Development has been proposed to be established as the Control Authority in Sri Lanka. An Act is still pending approval of the Parliament. While NOCA being the competent authority, Sri Lanka Accreditation Board (SLAB) with the approval of EU could liaise with NOCA to facilitate the registration process.

The certification bodies accredited by SLAB to ISO/IEC Guide 65 for a given scope can register with NOCA as control bodies. In order to develop equivalent production and control system in Sri Lanka, establishment of the NOCA is essential and a network of certification bodies and organic farmers and processors complying with EU regulations and national standard should be established (Wickramasinghe, 2011).

### 3.6 Implication of the Production Systems Adopted by the Organic Food Exporters for Farmers

Organic food exporters use different production and marketing models to fulfill the export requirement as discussed in the section 3.3. Out of the total organic food exporting companies, 16 companies are engaged with farmers to meet the requirement of organic food exports (see figure 3.5). Out of that, about 69 percent companies reported that there was a positive progress farmer participation in organic food production over the years.



Source: HARTI Survey data, 2012

**Figure 3.8: Progress of Farmer Participation in Organic Food Production**

The farmers linked with the contract out-grower system of organic food production with the exporting companies receive benefits from the exporting companies.

#### 3.6.1 Benefits Received by Farmers

Success of organic farming depends on the good relationship with the farmers. Farmers who link with organic food exporting companies are able to gain benefits such as

- Above market rate prices for their crop (premium price)
- Benefits through Fair Trade Premium (Social and environmental development related)
- Trainings related to farming
- Extension services



- Provide organic fertilizer
- Enhancing knowledge and educate them on market potential for organic cultivation
- Technical advice

In addition to above benefits the farmers linked with some of the exporters were able to get the following benefits as well;

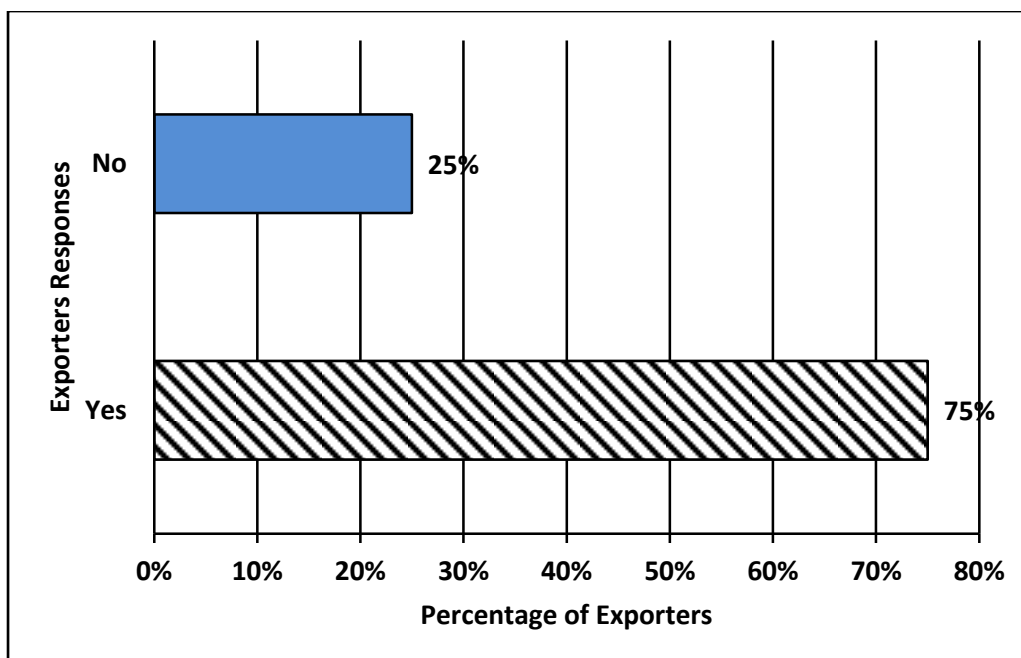
- Collective bargaining power through organizing under farmer organizations
- Health insurance for growers and workers
- Support farmers in the conversion period to sell their products by linking other buyers to farmers
- Farmers are given agricultural equipment
- Provide scholarships and give awards for best farmers
- Support to develop their infrastructure facilities

### **Training Programmes offered by the Exporters**

For the success of organic food production to meet the standards of exporting countries, the companies have to conduct training programmes for farmers. Some of these programmes are as follows;

- Organic and bio-dynamic farming
- Raw material processing - Composting and liquid fertilizer preparation
- Training on processing
- Post-harvest handling
- Cultivation practices and organic regulations
- Organic certification procedures via certification bodies
- Fair Trade via FLO

Out of the total companies dealing with famers (sixteen), twelve (75 percent exporters) reported that they conduct training programmes to farmers who supply organic food products for them.



Source: HARTI Survey Data, 2012

**Figure 3.9: Exporters' Responses for Conducting Training Programmes for Farmers**

### 3.6.2 Organic Premiums

Organic products fetch a higher price than conventional products. Price premium recognizes the fact that the organic production process generally costs more than the conventional production process. It also recognizes that well-proven societal, environmental and health benefits inherent in organic production are worth paying for. It assumes that farmers and their workers are paid above the cost of production, including a fair return for their investment.

The exporters normally are not sure of the conventional or the organic export price at the time of buying from the farmers. Normally, the exporter offers the farmer a premium of 10 to 25 percent over the conventional price. In some cases the organic quality is also linked to higher quality requirements (e.g., better drying or selection). Then the premium normally needs to be even higher to motivate farmers to produce the higher quality. But there are substantial variations and sometimes local prices experience a price hike.

The organic premium is defined as the price difference between an organic and a conventional product of the same quality. A buyer may have the aim of paying an organic premium of not more than 20 per cent on any of his commodities. In practice, the organic premium shows a much wider range, often between 10 per cent and 50 per cent (at import level), depending on the commodity and the market. In certain products the organic premium can be much higher, especially on rare or technically complicated products.

The export market price of an organic product is determined partly by the organic market in the importing country and partly by the buyer, the influence of fair trade, price premium etc. In the domestic market, though there is no formal premium price system, organic produce (not certified) is usually sold at higher prices in Colombo. This is because of the difference in quality between organic and conventional produce and consumer demand for chemical-free produce.

According to exporters, the premium is not paid as a percentage from the actual product value. It is calculated based on the market price, value addition for certifications (both organic and fair-trade) and a certain price is decided. This price always stays above the prevailing market price for conventional products.

### **3.7 Maintenance of Quality and Safety Standards by the Exporting Companies**

For the export market, the quality of the organic food products needs to be assured from the production to marketing. Hence, the exporters have to monitor the entire supply chain in order to assure whether the required standards for certified products have been reached. Different companies use different procedures to assess the quality of products.

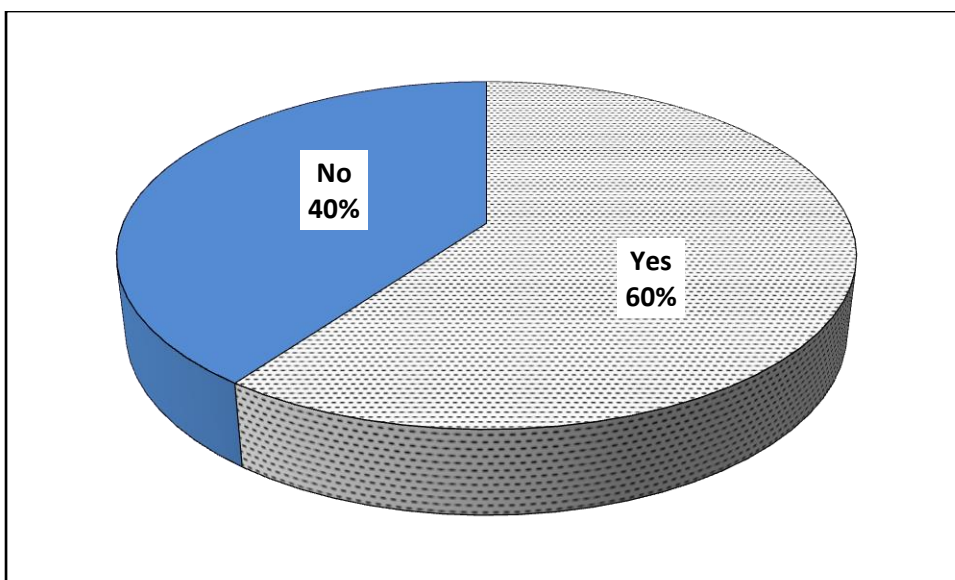
#### **Procedures followed to assure whether farmers practice organic farming in a proper manner**

- Internal control systems practiced by the company
- Extension services provided by the company via field level extension officers
- Random inspections by the field staff
- Improved and well equipped laboratories for quality control
- Samples are sent to other countries for testing

#### **3.7.1 Internal Control System for Organic Food Production for Export Market**

An Internal Control System (ICS) enables a group of growers to ensure that all the registered farmers comply with the organic production standards. It avoids/prevents the need for individual inspection of each small-holder by the external certification body, which would be very inefficient and expensive. An ICS involves setting out clearly defined procedures (documented in the ICS manual) and the recording and filing of relevant information. This documented system is evaluated annually by the external certification body, which mainly evaluates how well and efficiently the Internal Control System is working. As part of this process a sample of farmers will be externally inspected.

Out of the total companies interviewed, about 60 percent exporters follow internal control system in organic food production and marketing.



Source: HARTI Survey Data, 2012

**Figure 3.10: Exporting Companies with Internal Control System in Production and Marketing of Organic Food Products**

### 3.8 Domestic Market for Organic Food

The domestic market for organic products is not yet developed as the export market. In a survey done among the organic consumers in Sri Lanka (PALM Foundation 1999), it was revealed that consumers wanted fresh, attractive, tasty, nutritious and convenient organic foods. Consumers wanted to purchase produce of high quality at affordable prices. Prices did not seem to influence their choice when there was a guarantee of organic produce. Although a high proportion of consumers in urban and metropolitan areas like to consume organic produce, if supplied on a regular basis, no outlet in Sri Lanka has the capacity to supply organic vegetables and fruits everyday. A considerable number of consumers would be able and willing to pay higher prices, if a guarantee of supply and quality were assured.

Out of the total organic food exporters in the country, there were only 4 companies markets their products (certified products) in the domestic markets. They are Bio Food (tea and spice products), Cecil Natural Foods (fruit juice), Pripa Organic (fruit juice) and Saraketha Holdings (vegetables and fruits). These products are available in leading supermarkets of the country and some of the companies have their outlets in Colombo. Some companies market the products obtained from the fields under conversion period as “Eco products”.

### 3.9 Analysis of Strengths, Weaknesses, Opportunities and Threats (SWOT)

This section explains Sri Lanka’s organic sector using SWOT-analysis: Strengths, Weakness, Opportunities and Threats. It outlines the sector’s strengths and successes, while also listing the limitations.

**Table 3.4: Strengths, Weakness, Opportunities and Threats in the Organic Food Export Market**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Highest quality standards in product and processing</li> <li>• Strong internal control system</li> <li>• Established international markets</li> <li>• Dedicated partnership with farmer groups</li> <li>• Long standing market experience</li> <li>• Indigenous knowledge of our traditional farmers</li> <li>• Well balanced ecosystems including the Kandyan Homegardens</li> <li>• Long term credibility with buying partners</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of certifications</li> <li>• High cost of production (labour and input cost is high)</li> <li>• Lack of research and development</li> <li>• Price fluctuations</li> <li>• Limited availability of own farms for exporters</li> <li>• Inability to match the increasing demand</li> <li>• Price Competitiveness</li> <li>• Lack of extension programmes</li> <li>• Lack of organic inputs, ingredients and packing materials</li> <li>• Lack of market information</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Increasing demand for organic food in the world, expanding international market</li> <li>• Tourism oriented organic food supply to hotels within the country (integrated with agro-tourism)</li> <li>• Demand for our products are with the taste compared to other countries</li> <li>• High premium price for value added organic products</li> <li>• Emerging markets and untouched markets</li> <li>• Large no. of small scale organic potential spice farmers scattered in the mid country region.</li> </ul>	<ul style="list-style-type: none"> <li>• Competition from India and other countries in the region manufacturing similar products</li> <li>• Receive low premium prices</li> <li>• Seasonal availability issues</li> <li>• Low priced product availability in the market from African and Asian countries</li> <li>• Lack of government support</li> </ul>

(Source: Exporters' Responses, 2012)

### **3.10 Role of Different Stakeholders for Development of Organic Food Sector**

In the organic supply chain, institutional development is required both for providing business and technical services and establishing the quality assurance system. Diverse stakeholders take part in the chain with different functions. Farmers are responsible for the production of certified organic produce.

Processors/exporters/NGOs are responsible for conducting farming activity, monitoring procurement and processing and exporting the organic produce. They

are also occasionally responsible for ensuring inspection and the certification process. The inspection and certification agency conducts the inspection and grants certification. National or international organizations give accreditation to certifying agencies and supervise the development and implementation of organic standards and policies for organic products. The importing country verifies the imported produce by a declaration document sent by the exporting country.

Stakeholders are grouped according to the nature of their role played in the development of the organic sector in the country.

**Table 3.5: Role of Different Stakeholders**

<b>Stakeholder</b>	<b>Role</b>
Government Ministry of Agriculture Organic Fertilizer Division	Conduct training programmes on compost production and use, provide technical instructions, registration of organic fertilizer producers.
Government Institutions - Dept. of Export Agriculture - Tea Research Institute (TRI) - Coconut Research Institute (CRI) - Horticultural Research and - Development Institute (HORDI)	Training and awareness, research and development, regulatory
- Export Development Board (EDB)	Provide opportunities for exporters to find new markets and consolidating existing markets
- Sri Lanka Standard Institute (SLSI)	Set standards for O/A production and processing complaints of non-compliance with EU requirements
- Sri Lanka Accreditation Board (SLAB)	Operate accreditation schemes for certification bodies
Organic Movements: Lanka Organic Agriculture Movement (LOAM)	Interact with government and private sector uniting organic stakeholders, promote and create awareness of O/A, technical assistants, advisory support, policy advocacy
Certification Bodies (Control union, IMO, Sri-cert)	Inspection and certification services
Companies (38)	Operators, processing, packaging and export
NGOs	Organize farmers for production, facilitate link with exporters

Source: Survey Data, 2012

The key government stakeholders in the development of policy are the Ministry of Agriculture and Departments such as Department of Agriculture, Department of Export Agriculture. There are other agencies such as Export Development Board. The

Ministry of Agriculture aims at promoting the use of organic fertilizer and there is a separate division named Organic Fertilizer Division for promotion. The role of this division is to organize training programmes on compost production and use, registration of organic fertilizer producers, encouraging them to make quality organic fertilizer and to provide technical instructions to those interested in producing compost. In addition, there are no promotional programmes undertaken to expand the organic food export sector in the country.

Governmental organizations such as the Department of Agriculture, Department of Export Agriculture, Agrarian Services Department, and research institutes do promote the use of compost and other organic manure, such as cowdung and poultry manure, among farmers based on their research findings.

The DEA introduced the promotion scheme in 1998 where selected villages were developed in a cluster farming approach. Growers in these villages were trained to produce organic fertilizer using crop residue available in the farm itself and to bring only the essential materials from outside. Currently over 150 such organic villages exist with export agricultural crops throughout the country and over 60 such villages have developed their links with organic spice and beverage crop product exporters.

Horticultural Crop Research and Development Institute of the Department of Agriculture has started conducting research on crop performance, yield etc., under an organic mixed cropping system. In addition, some of the universities conduct research on natural ways of soil fertility management and pest and disease management. The Tea Research Institute also conducts research on organic amendments of tea soils and natural or biological pest and disease management.

In 1994, a group of like-minded NGO activists, planters, scientists and environmental activists created the movement named Lanka Organic Agriculture Movement (LOAM). This is a crucial step towards organized movements on organic agriculture in Sri Lanka as the formation of an umbrella body. The primary objectives of LOAM were to promote organic agriculture, to establish, improve and maintain standards for organic agriculture and to create awareness of organic products among the people of Sri Lanka. There are different other examples just like private sector initiatives/network organizations involved in organic agriculture such as Small Organic Farmer Associations (SOFA), Lanka Organic Coconut Growers' Association.

LOAM played a major role in policy development and it has successfully influenced Government policy. It was engaged in preparation of guidelines (2005) and also development of standards for organic agriculture (2007).

NGO activities on organic agriculture particularly focus more on the dissemination of knowledge through awareness, training, demonstration, extension, and exposure visits. NGOs are the promoters of organic agriculture and they include various steps shown below;

- Organizing the farmers
- Educating them on the benefits of organic farming vs. conventional farming

- Providing training to farmers
- Providing technical assistance
- Providing organic seeds and inputs
- Organizing the export of the products via exporters

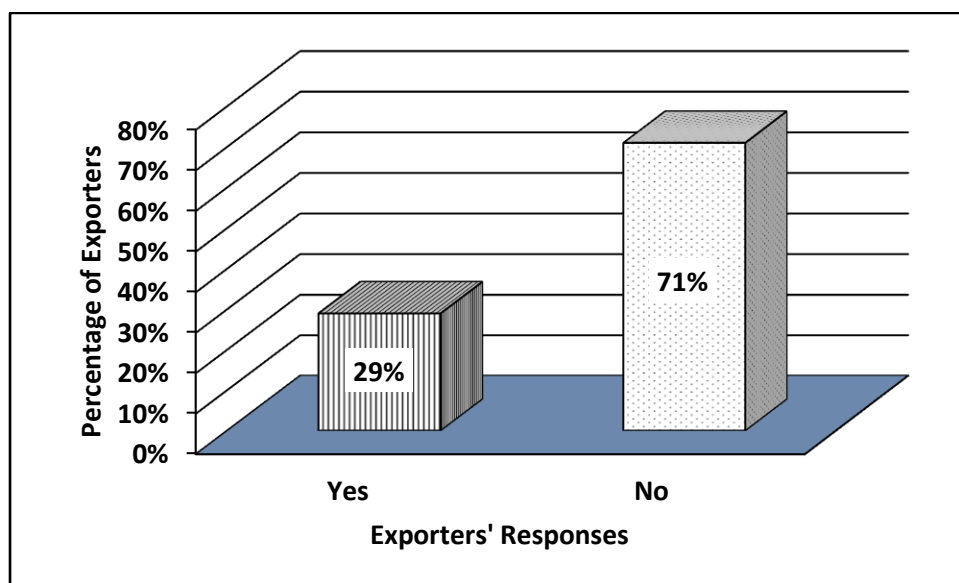
The Export Development Board helps organic exporters to participate in international trade fairs (for example, BioFach, Germany and Foodex, Japan) to explore market opportunities for certified organic produce.

**Box 3: Role of Trade Fairs**

*The trade fairs also play a significant role in organic products trading. In the trade fairs, people from different parts of the world interact with the exporters. This is also a good avenue to create awareness about the organic produce available across the world. Bio-Fach (Germany) is the world's largest organic trade fair. This fair provides good opportunity for trading in organic products among global consumers. It has now entered Japan, USA, China and Brazil.*

**3.10.1 Institutional Support for Organic Production Development**

Out of the total organic food exporters, 71 percent reported that they did not receive any institutional support either from any Government or Non-governmental organization (figure 3.11). Others reported that they got support from EDB to participate in trade fairs. Some of the exporters received support for cultivation and advice from the Department of Export Agriculture.



Source: HARTI Survey Data, 2012

**Figure 3.11: Exporting Companies which Received Institutional Support for Organic Production Development**



## **CHAPTER FOUR**

### **Challenges, Constraints and Future Scope of the Organic Food Export Sector**

#### **4.1 Introduction**

The lucrative markets of the developed world have so far acted as the primary driving force behind the development of the “certified organic sector” in Sri Lanka. Private sector companies play a major role in the development of the organic export sector in the country. This chapter explains the challenges, constraints and barriers encountered by the exporters in meeting the export demand and further explain the future prospects of the industry.

#### **4.2 Challenges in the Organic Food Export Sector**

The exporters’ have highlighted the challenges they encountered in exporting organic food. There are challenges faced in both in terms of production and marketing aspects.

As given in the table 4.1, most of the exporters highlighted that limited availability of raw material for export, competition from other countries due to high cost of production, price competitiveness with conventional products, to find suppliers to meet expanding demand and to keep the supply chain and the frequent fluctuations of local market price of raw material are the major challenges faced by organic food exporters in the country.

**Table 4.1: Challenges for Exporters**

Challenges	Percentage of Responses (N=38)
Competition from other countries (due to high cost of production)	79
Premium decrease due to high competition	42
Limited availability of raw materials for export	92
Price competitiveness with conventional products	79
To find suppliers to meet expanding demand and to keep the supply chain	53
Limited marketing initiatives compared to strong marketing channels for non-organic foods	26
Fertilizer subsidy programme	42
Strong promotional campaigns from private sector for chemicals and fertilizer	39
Limited organic inputs for food production (stabilizers, preservatives etc.)	31
No special tax concessions or any other support for the organic agriculture and organic product exports	45
Need to find markets for innovative products	26
Frequent fluctuations of local market prices of raw materials	53

Note: Column totals do not sum to 100 due to multiple responses

Source: Survey Data, 2012

Most of the other Asian countries produce similar products and it creates competition in the international trade. Table 4.2 explains the competitive countries for the major organic products export from Sri Lanka. As the cost of production in the country is higher compared to most of the other exporting countries in the region, we are unable to compete though our products are of better quality. Therefore, reducing the cost of production is challenging to the country and government support is essential through incentives to maintain low cost of production.

**Table 4.2: Competitive Countries for Organic Food Products**

Organic Food Product	Competitive Countries
Tea	India, Vietnam, China
Coconut value added products	Thailand
DC Coconuts	Indonesia, Philippines
Fruit based products	India, Thailand
Spices	India, Vietnam

Source: Survey Data, 2012

General agricultural policies in the country still favour conventional farming with subsidized inputs. An important means of promoting organic production is to

eliminate existing disincentives for organic food such as distorting subsidies for chemical fertilizer.

### **4.3 Constraints Faced by the Exporters**

Agriculture constitutes a major livelihood activity employing most of small-scale smallholder farmers. Organic agriculture offers opportunities for small scale farmers to practice sustainable production improving productivity, outputs and access to markets. However, low awareness on organic agriculture; lack of trust on the integrity of organic products; market demand in excess of supply; and limitations associated with foreign certification systems greatly hinder progress in the sector.

According to the constraints indicated by the exporters during the pre-testing period, the major constraints were identified and they are gradual according to a Likert Ranking Scale. The exporters have given the following ranking choices as;

Low (Disagree) = 0

Moderate (Partially agree) = 1

High (Agree) = 2

Very High (Fully agree) = 3

The table 4.3 presents the ranking results of the constraints faced by the organic food exporters. Many exporters rated insufficient raw materials for export, high cost of certification, lack of research and development and high cost of production as the major constraints in exporting organic food products.

Organic production takes place under different conditions and norms (private standards as well as regulations). Due to the lack of recognition by both government and non-governmental institutions, certification of international organic product chains has become a complicated and costly service. The demanding nature of regulatory requirements makes certification more difficult as well as expensive, for export certification.

**Table 4.3: Constraints Faced by the Exporters**

<b>Constraints</b>	<b>Average Grading</b>
Insufficient raw materials for exports	<b>2.20</b>
Product damage or contamination during transport, storage or processing	0.60
Lack of trained labour	0.77
High incidence of pest and disease attacks	1.71
Product loss due to weather	1.11
High cost of certification	<b>2.46</b>
Long conversion period	1.94
Lack of research and development	<b>2.51</b>
High cost of production	<b>2.03</b>
Lack of essential organically permitted inputs	1.66
Finding buyers	1.09
Collecting of products from farmers	1.49

Note: Average grading was calculated based on a number of responses on different levels and by using weighted average method.

Source: Survey Data, 2012

Labor is important in the production process and can be an impediment to the adoption of organic agriculture. Compared to large-scale mechanized agricultural systems, organic farming appears more labor intensive. Many techniques used in organic farming require significant labor(e.g., strip farming, non-chemical weeding, composting).

Buying organic products from many farmers and maintaining multiple certifications is a complex enterprise that requires a lot of administration.

Some exporters face difficulties obtaining supply of certain ingredients and processing aids. Certain ingredients and processing aids are not currently organically produced or their supply is so limited that few processors can purchase them.

#### **4.4 Constraints Faced by the Producers Linked with Exporters**

According to the focus group discussions made with the farmer groups linked with some of the exporters, following constraints in production and marketing of organic food products were noticed.

- Lack of awareness in organic cultivation practices and certified organic production
- Long conversion periods
- High labour cost
- Lack of skills in managing complex problem in the farm land

- Lack of proper marketing ventures
- Lack of proper inputs
- Lack of sufficient organic technology to support production
- The companies do not purchase the total produce
- No certification and labeling
- Poor investment capacity
- Small holding
- Less risk bearing capacity

#### **4.5 Barriers of Entry to Organic Food Export Market**

The organic market targets consumers who attach more value to the quality, origin, health and other ethics around the production, processing, and marketing of products. It is a market with high entry barriers, as it requires time and investment in order to acquire the necessary certifications, and needs on-going compliance and expenses to maintain the certification. It is a market quite different from the commodity markets in which most other exporters are operating in the country.

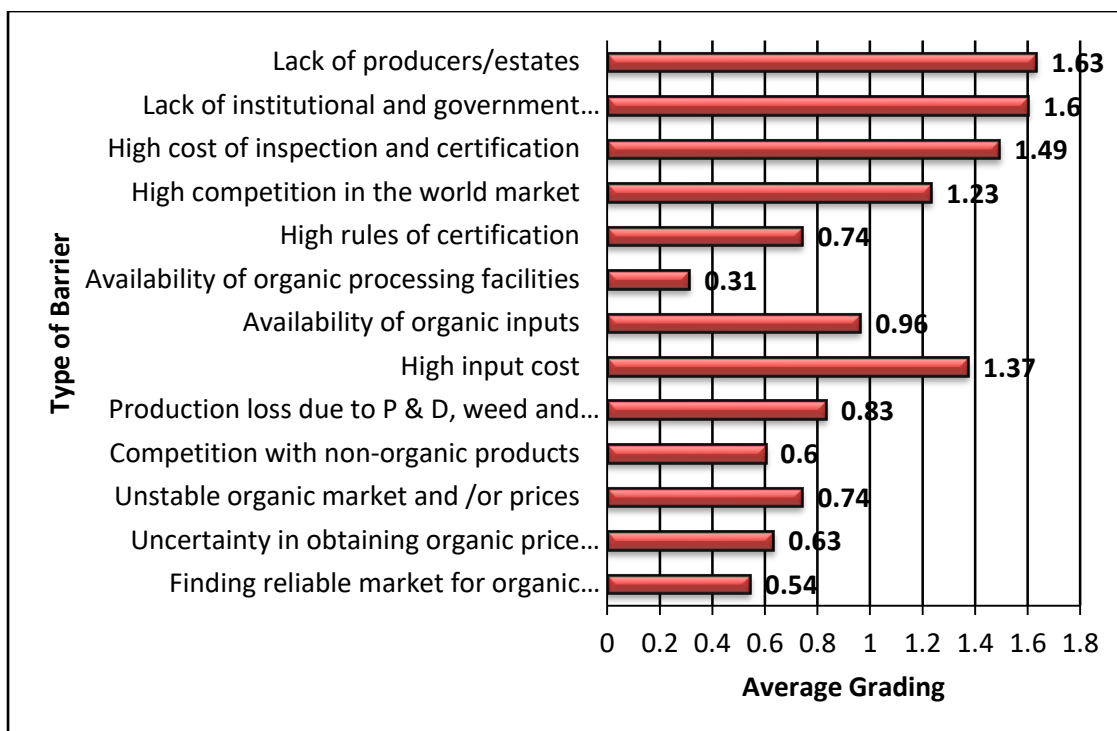
The questions were based on a Likert Ranking Scale. The exporters were given the following ranking choices.

Not a barrier = 0

Moderate barrier = 1

Severe barrier = 2

The figure 4.1 presents the ranking results for the barriers for entry into organic food export market. The more exporters rank lack of producers/estates, lack of institutional and government support, high cost of inspection and certification, high competition in the world market and high input cost as severe barriers for organic food exports.



Note: Average grading was calculated based on a number of responses at different levels and by using weighted average method

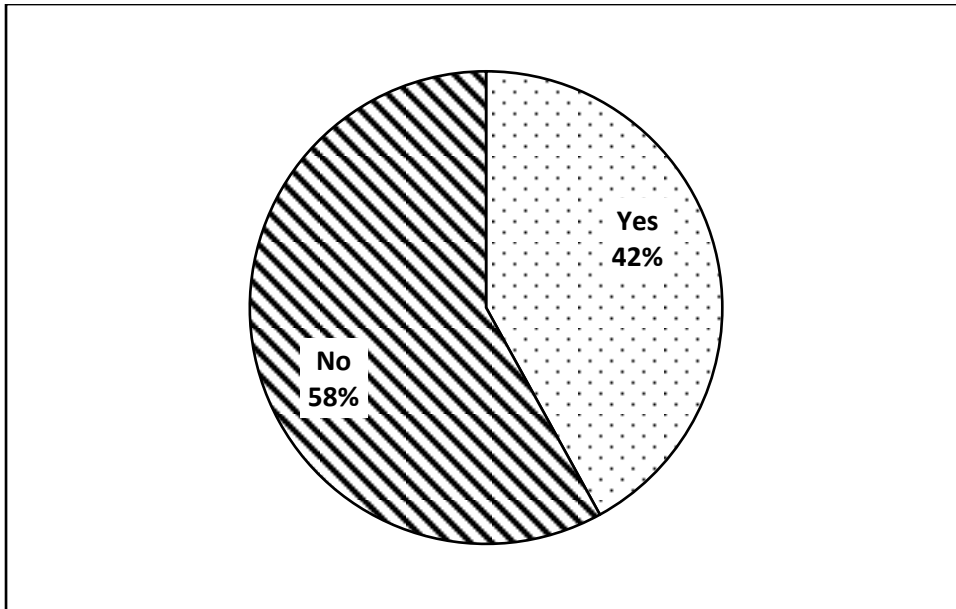
Source: Survey Data, 2012

**Figure 4.1: Barriers of Entry to Organic Food Export Market**

For organic products export, the supply is insufficient to meet the export demand. There are a number of barriers to conversion, both real and perceived that must be overcome for rapid expansion of the grower base.

**4.6 Export Demand for Organic Products**

Of the total exporters, about 58 percent of exporters were not able to meet the export demand required by the importers (figure 4.2).



Source: Survey Data, 2012

**Figure 4.2: Exporters' Ability to Meet the Export Demand**

The reasons highlighted by the exporting companies which were not able to meet the export demand for organic products were as follows;

- Unavailability of raw materials to match the demand from foreign markets
- Inadequate number of organic farmers to cater to the demand
- Lack of availability of raw material at an affordable price
- Lack of modern technologies and high investments in food packaging (ex: tetra packing, freeze drying, vacuum drying)
- Limitations of packing materials

#### **4.7 Future Scope**

With an increased demand in the international markets, Sri Lanka has the potential in expanding and generating significant foreign exchange earnings in the organic food sector. Further, avenues in ecotourism and health shops, leisure and recreation shall link with the organic industry as expanded income generating opportunities and sustainability.

##### **4.7.1 Potential Organic Products**

There is market saturation in some organic products. Unless there are unique qualities, such as special health benefits or product innovation, such goods have low market potential.

According to the exporters and other key informants' view, the export potential is high for the following products given in the table 4.4.

**Table 4.4: Potential Organic Products and Potential Countries**

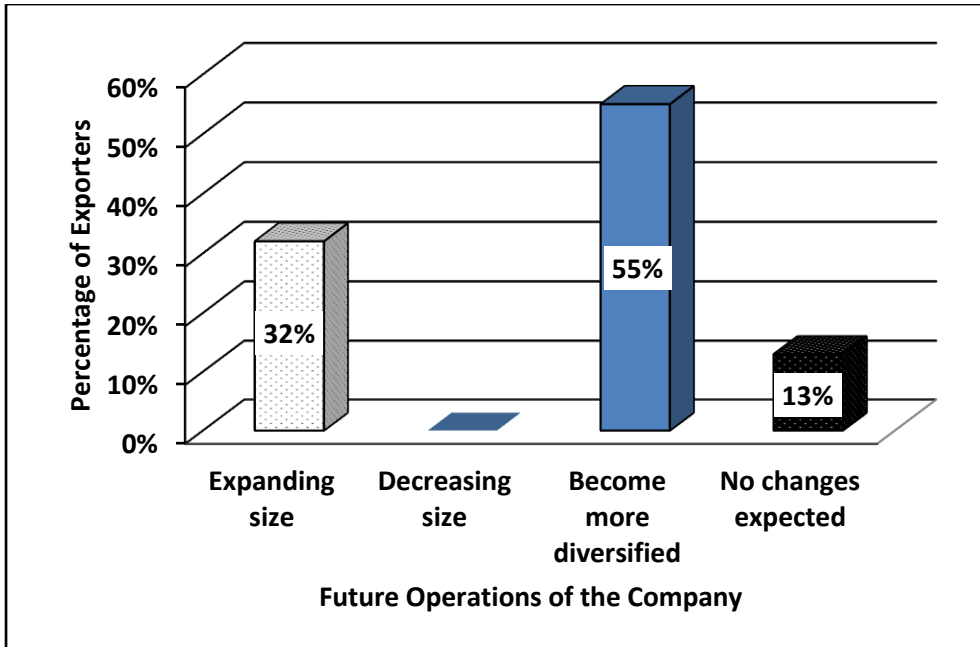
<b>Product Category</b>	<b>Potential Organic Products</b>	<b>Potential Countries</b>
Herbal Plants	Herbal drinks, Dehydrated Plants and extracts	Europe, USA
Coconut based products	Coconut water, virgin coconut oil, coconut flour, coconut sugar	Europe, Japan, USA, Canada
Vegetables		Middle east
Rice		USA, Europe
Fruit based products	Anoda, Rambutan, ripe jak fruit	Europe, Middle east
Tea	Iced tea, value added tea	USA, Canada
Other products	Pharmaceutical products (eg: coffee and turmeric extracts)	USA, Europe

Source: Survey Data, 2012

There is a growing demand for coconut based products especially organic coconut water and virgin coconut oil in Europe and USA. Further, the demand is high for organic herbal plant extracts in these markets. Therefore, the exporters are keen on expansion of these products. Middle East countries are also a growing market for organic food markets. At present, we export vegetables and fruit based products to these countries and there is a demand in these countries for organic products of these items.

Out of the total exporters interviewed, the majority of them (87 percent) are willing to expand the quantity of organic products export in future and diversify their product range.





Source: Survey Data, 2012

**Figure 4.3: Future Expectations of Organic Food Export Sector in the Country**

According to the list of registered organic food exporters in the Control Union and IMO (major certification bodies), some more companies that who intend to export products in future have already obtained the organic certification. Therefore, the export of these products will be increased further in future.

#### **4.8 Suggestions to Improve the Organic Food Sector**

In order to expand the export market for organic food sector, the following suggestions were made by them. Most of the exporters highlighted that there should be more support from government institutions for farmers, processors and exporters on organic food production, farmers' education and possible assistance for cultivation, more research and development on value addition.

**Table 4.5: Suggestions made by the Exporters**

<b>Suggestions</b>	<b>Percentage of Exporters (N=38)</b>
Need more support from government institutions for farmers, processors and exporters on organic food production	79
Farmers' education and possible assistance for cultivation.	66
More research and development on value addition	66
Tax concessions for organic food export sector	51
Need of product specific market promotion for organic food (trade fairs)	39
Educate exporters with new regulations	39
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Establish model farms and conduct training programmes for farmers	32
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Note: Column totals do not equal to 100 due to multiple responses

Source: Survey Data, 2013

## CHAPTER FIVE

### Findings, Conclusions and Recommendations

#### 5.1 Findings

In recent years, global awareness of health and environmental issues in agriculture has been spreading rapidly especially in the developed countries of EU, USA, Japan and Australia. As a result quality and sustainability in production of crops have become prime concerns in agriculture development. Sri Lanka has also made inroads into the world organic market in certain key sectors like tea, spices, coconut, fruits, herbs and nuts. The study mainly focused on obtaining views of exporters involved in developing supply chains that serve certified organic export market.

At present, there are 38 certified organic food exporters in the country exporting spice based, fruit based, coconut based, tea and herbal extracts. These exporters are certified by the Control Union and IMO certification agencies operated in the country. About 18 exporters (48 percent) had entered the organic food export market during the period 2006-2012. This shows that there is a growing trend in entering the organic food export market. However, many companies which recently entered the organic food market are smaller in size and market share, compared to the pioneers of organic food industry in the country. There are only seven companies which deal solely in organic food exports in the country.

Export companies have different business models for the production and supply of organic food requirement for exports such as maintaining own estates/farms, out-grower systems, certified suppliers and certified processors. In addition, some companies have independent farmer organizations maintaining certified smallholder groups. Some of the NGOs act as certified suppliers for exporters. As the cost of certification is high, the farmers cannot bear the certification cost and as a result the exporting companies have to bear that.

There is a growing market for products that are jointly fair-trade and organically certified. About 29 percent of organic food exporters had obtained fair-trade certifications. Most of the organic foods importing countries demand organic products with fair-trade certificate. Therefore, most of the organic food exporters which are not having fair-traded labeling are interested in obtaining that in future.

Out of the total organic food exporting companies, 16 companies are engaged with farmers (maintaining out-grower system) to meet the requirement of organic food exports. Among them about 69 percent companies reported that there was a positive progress of farmer participation over the last few years. There were no written agreements between farmers and exporters. Those farmers receive benefits from the exporting companies such as receiving premium price, benefits through

fair-trade premium, training related to farming, extension services, provision of organic fertilizers, enhancement of knowledge and provision of technical advise.

For the success of organic food production to meet the standards of exporting countries, the companies have to conduct training programmes for farmers. Out of the total companies dealing with farmers, 75 percent reported that they conduct training programmes.

Exporters offer the farmer a premium of 10%-25%. This premium is not paid as a percentage from the actual product value. It is calculated based on the market price and value addition for certification (both organic and fair-trade).

Companies follow different procedures such as Internal Control System (ICS), extension services by field level officers, random inspection by field staff, and existence of laboratory facilities etc to assure whether farmers practice the required quality standards for certified products. Out of the total organic food exporters, 60 percent follow the internal control system.

Out of the total organic food exporters in the country, there were only 4 companies which market their products (certified products) in the domestic market. These products are available in the leading supermarkets of the country and some companies have their outlets in Colombo. Some companies market the products obtained from the fields under conversion period as "Eco-products".

India, China, Vietnam, Thailand and Philippines are the major competitive countries for organic food exports.

Limited availability of raw material for export, competition from other countries due to high cost of production, cost competitiveness with conventional products, difficulty of finding suppliers to meet expanding demand and to keep the supply chain and the frequent fluctuations of local market price of raw material are the major challenges faced by the organic food exporters in the country.

The major constraints faced by the exporters were insufficient raw materials for export, high cost of certification, lack of research and development and high cost of production in exporting organic food products. In addition, the major constraints faced by the farmers linked with exporters were high conversion period, high labour cost, lack of awareness, lack of proper marketing ventures and lack of proper inputs.

Lack of producers/estates, lack of institutional and government support, high cost of inspection and certification, high competition in the world market and high input cost are the severe barriers for organic food exports in the country.

About 58 percent exporters reported that they are not able to meet the export demand required by the importers due to unavailability of raw materials to match the demand from foreign markets, inadequate number of organic farmers to cater to the demand, lack of availability of raw material at affordable price, lack of modern

technologies and high investments in food packaging (ex: tetra packing, frees drying, vacuum drying), and limitations of packing materials.

There is a growing demand and potential for organic coconut water, virgin coconut oil, herbal plant extracts, vegetables, fruits and rice for Europe, USA, Canada and Middle Eastern countries.

Majority of the exporters (87 percent) are willing to expand the quantity of exports in future and to diversify their product range.

Sri Lanka's organic sector has been growing but in a sluggish manner. Private companies and some of the NGO are the key organization in developing the organic sector. There is a virtual lack of government support to the organic growers and marketers. About 71 percent of organic food exporters reported that they had not received any institutional support either from government or non-governmental organizations.

## **5.2 Recommendations**

- Developing national policies for organic food production to export market is important.
  - Producers specially smallholders should be supported to comply with standards, certification procedures and regulations through training programmes, need to assist farmers in converting to organic agriculture by providing incentives and facilitating a market for products during the conversion period (eg: Eco-products).
  - Improving the research and development for value added products. In order to compete in the international market value addition of organic food products is important. Hence, promoting research and development of value addition in local organic production systems is essential and need to introduce locally adapted, high-quality, disease-resistant seeds and planting materials, bio-control agents and fertilizer.
  - Facilitate farmer linkages with the exporters and promoting Sri Lanka's organic products at international fairs.
  - Policy measures like giving incentives in the form of subsidies and tax concession for production and distribution of organic inputs can be implemented. At present, only few firms are manufacturing bio-fertilizer and bio-pesticides and most of them have to be imported. The Government could support the organic sector by working with and supporting certified export companies in developing organically permitted inputs and disseminating them among organic farmers.

The government has to play a regulatory role in this regard for long term sustainability of the system. This includes improving private sector participation in the agri-business sector through various incentive schemes, export promotion, trade agreements and legislative governance.

- Organic exporters should be encouraged to join forces to promote and market their products. It is important to provide tax concessions for the organic food processors and exporters. Subsidies for organic inputs are essential as they contribute to the green environment.
- Establish third country registration unit such as NOCA (National Organic Control Authority) under the Ministry of Export Development as the control authority in Sri Lanka is important to deal with all the matters connected with the use of the term “organic”.
- Farmers/farmer organizations are unable to enter export market directly due to high cost of certification. There should be a locally established certification scheme which is internationally recognized. Foreign certification body is rarely engaged in local development and they have little interest in developing the local market. Further, the local consumption of organic/ecological food can be promoted at competitive prices for healthy living. The availability of a national standard and a national certification body could reduce the costs associated with the certification which will improve the sector development. Producers, especially smallholders, should be supported to comply with standards, certification procedures and regulations. Special considerations should be given for certification of smallholders. Training programmes for farmer groups to set up internal control systems should be supported.
- Awareness raising and promotion of a local market for organic products is important. There is a need to increase awareness of the environmental, economic and social benefits of the organic production as well as trading opportunities. The Government can play a key role in raising awareness and promoting training and capacity building. Farmers’ associations and NGOs can also play an important role here. Commodity specific boards and institutes can also be instrumental. Training programmes for farmers and NGOs not only in organic agriculture methods (production, harvest, post-harvest techniques, basic standards etc) but also in marketing, promoting and diversifying their markets and the ways of meeting certification requirement should be implemented.
- Domestic market for organic food can be promoted by developing a home delivery system, mobile marketing of organic produce, development of tourist villages and by formation of associations of organic producers.
- Making provisions in the HS codes for organic exports is essential. This will ensure that organic products are classified separately.

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## Appendix 1

### Case 1: Bio Food (Pvt) Ltd.

Bio Foods (Pvt) Ltd. is a devoted organic and Fair Trade Company established in 1993 in the Central Province of Sri Lanka. Bio Foods is a processor and exporter of organic products such as green teas, black teas, spices, herbs and other post-harvest food items. Bio Foods Pvt Ltd works exclusively with Organic and Fair Trade certified small and medium producers groups; Small Organic Farmer Association (SOFA) & Marginalized Organic Producer Association (MOPA). Organically grown, chemical free raw materials are purchased from these producer groups, under various international certifications and subjected to strict internal control systems and quality parameters set by Bio Foods Pvt Ltd.

Bio Foods Pvt Ltd is engaged in processing and exporting Organic and Fair-trade Green Teas, Black Teas, Flavored Teas, Spices, Coconut milk, Extra Virgin Coconut Oil, Desiccated Coconut, Traditional rice and other post-harvest food items in its own processing units. Green tea is manufactured at James Valley Organic Tea Factory at Doluwa while black tea is processed at Avonlea Hill Organic Tea Factory at Diyathalawa in the world famous Uva High Grown tea region. Kinglynn Estate in Ohiya is where the specialty tea project of Bio Foods Pvt Ltd is situated and “Heavenly Special” and “Heaven Scent” are the premium products from this location. Well-equipped processing units are established to process organic spices, herbs and other products at Doluwa, Naula and Pannampitiya. Bio Foods Pvt Ltd is the World's First Fair-trade Registered Processor and Exporter for Spices. State-of-the art processing facility is in operation for Coconut and fruit products in Makandura.

The company exports organic products in bulk and consumer packs under different certifications such as NOP, JAS, Bio Suisse and EU to Europe (Germany, France, Italy, Switzerland, Sweden, Spain, Netherland, Belgium, Austria, UK), USA, Canada, Japan, Russia and South Africa.

As a devoted Fair-trade Company, Bio Foods Pvt Ltd assures the sustainability of farmer community in many aspects. A minimum price for all raw materials purchased is one of the criteria which guarantee the income sustainability of the farmers in the event of adverse market prices. Further, a definite percentage from the export volume is allocated to a community development fund for the purpose of uplifting the living and social standards of small and medium farmers and employees.

Bio Foods Pvt Ltd support producers during the in-conversion period of conventional to Organic agriculture.

#### ***Box 4: Marginalized Organic Producer Association (MOPA)***

*MOPA is an organization consisting of integrated producer societies established by marginalized producers, and workers from small biodynamic estates managed by Seethavally Bio Dynamics Pvt Ltd (subsidiy of Bio Foods Pvt Ltd), based on their geographical background. Marginalized producers are the small farmers, and medium scale producers with less than 50 permanent employees, who undergo difficulties in obtaining a justifiable price for their produce in the market, without any middlemen involvement. MOPA lead these small and medium scale farming communities in Sri Lanka with a genuine intention in bringing the marginalized producers and sophisticated end-users closer together, in order to contribute to the enhancement of natural process of organic production, while encouraging the sustainable development.*

*Overall management is done by the Board of Management representing the geographical locations and product range of the producers, and five major office bearers, all elected at the Annual General Assembly. As a certified Organic and Fair-trade producer organization, they are dedicated to environment friendly farming practices, adhering to organic principles and respecting the local ecological ethics, which enriches the soil structure and uplift the bio diversity in farm lands, thereby increasing the productivity. With 24 established producer societies around the country, their outreach covers 1638.3 hectares to date, with more than 800 farmer families as beneficiaries, of which most of the family members are involved in farming either full time or part time, with close to 50% of them being women.*

(Source: <http://www.biofoodslk.com>)

#### **Case 2: EOAS Organics (Pvt) Ltd.**

"EOAS" is a name synonymous with spice oils since 1894. The company ventured into production of spice oleoresin in 1999 and today, EOAS is well known and highly regarded throughout the international food and flavour industry for its exclusive products. The company produces both conventional and organic products. More than 95% of the products are organic. These products have secured firm confidence in sophisticated quality driven markets in USA and Europe.

Since 1999, EOAS has been ranked as the largest essential oil exporter in Sri Lanka. First they have started the extraction of cinnamon bark oil. The factory is located in Gonapola and they have four stores located at Ratmalana.

EOAS manages a large out grower network of farmers for different types of organic spices in spice growing areas. EOAS also possesses a number of organic spice

plantations of its own. This has helped the company in two ways. First to forge a long lasting relationship with the growers and second to procure raw materials that ensures total conformity with the specifications of the end products.

Organic Spice and Essential Oils are produced by EOAS Organics under the certificate of the SKAL, the Netherlands, IMO Switzerland, BIOSWIS, Switzerland and Kosher. EOAS cultivates cinnamon and other spices in its own plantations that span over 800 acres.

An outgrower system of spices is in operation since the yield from its own plantations do not meet the required demand. EOAS manages over 1,500 hectares of plantation under the outgrower system for pepper, nutmeg, and cardamoms in the central part of the country, where these spices are found in abundance. The farmers are constantly guided and recommendations given in organic farming in keeping with the rules of nature. Company pay premium prices for outgrowers: 20% higher price compared to conventional farmers. EOAS exports mainly consist of value added products.

The company has a research and development and quality control division. In addition to stringent quality control measures built into the processing operations, a modern well equipped laboratory monitors and tests the products at all levels of production. Raw materials, intermediate stages and finished goods are checked and tested by a dedicated team of chemists. Laboratory is capable of carrying out special tests such as pesticide residues and Aflotoxins, stipulated by customers.

The manufacturing equipment and processes employed by EOAS are capable of meeting customer requirements in product specifications, food safety and hygiene. EOAS uses only non-chlorinated solvents in the extraction processes in keeping with highest level of international standards. In Sri Lanka EOAS has the largest Solvent Extraction Plant, and a Pilot Plant.

Spice essential oil, sterilized spice powders, oleoresins, sterilized spices are the major spice based products exported by the company and at present, the organic products are exported to USA, Germany, France and United Kingdom.

### **Case 3: Lanka Organics (Pvt) Ltd.**

Lanka Organics is a pioneer producer, marketer and exporter of certified organic products. They have started exporting organic tea in 1992 and expanded its product range to spice, fruits, herbs and nuts. It exports its products to Europe, Japan and Australia. Other growing market includes USA and Canada.

The company has 9 farmer community projects in Kegalle, Kandy, Matale, Maho, Nikapotha, Hiriya, Dambadeniya, Nattandiya, Kirindiwela and 5 certified estates in Pahalagama, Hopeland, Karandagoda, Koswatte and Manikwatte. In addition, it has 1300 out-growers and processors to supply organic food requirement in different parts of the island. The company owns fair factories for organic food processing in

Watawala (Fruit and spice processing), Greenfield estate (tea), Pallekele (Spice factory) and Maho (Cashew factory).

#### **Case 4: Stassen Exports (Pvt) Ltd.**

Stassen is one of the largest producers and exporters of tea in Sri Lanka. Stassen Natural Foods have enhanced the quality of Ceylon tea with a range of high quality organic teas, which they produce in total harmony with nature. In 1984 the company pioneered the production of organic black tea and in 1987, earned the distinction of having the world's first certified organic tea garden. With the world's first certified organic tea garden and numerous other international accolades to its credit, Stassen has been a pioneer creating aromatic and distinctly flavoured organic teas which have become favourites of the world's finest connoisseurs. These teas are produced in total harmony with nature whilst using naturally occurring minerals and organic nutrients as per internationally stipulated standards. They are grown and harvested with utmost care to ensure the character and quality demanded from the best in organic teas.

At present, the company owns the Idalgashinna organic tea estate with 250 ha which is the world's first certified tea garden, producing both premium quality black and green teas. Idalgashinna is located in the Uva region and its elevation ranges from 1000 to 1900 metres. This estate has earned the distinction of producing some of the finest organic green teas, highly sought after by connoisseurs the world over.

It recently began an Organic Tea Project on 565 hectares of one of the island's finest black tea-growing regions of the Uva province. Organic Tea cultivation is coupled with a social development project directed at improving the quality of life of the workers of this area. The project conforms to the standards of the International Federation of Agricultural Movements (IFOAM) and is supervised and inspected by NATURLAND of Germany and the National Association for Sustainable Agriculture of Australia.

Stassen's organic teas are exported to USA, Europe, Canada, Australia, Russia, Japan and Middle East.

Commitment to the community:

Organic cultivation calls for both ecological awareness and social responsibility. There are worker welfare programmes. It provides healthcare, sanitation, good living conditions, education and recreation for the workers. Maternal and child welfare are priorities and community development has included organizing a rural bank, constructing new houses, initiating income generating projects and providing counseling services.

#### **Case 5: People's Organization for Development Import and Export (PODIE)**

PODIE is a processor and exporter of value added organic spices and allied products. Organically grown raw materials for these products are purchased from farmer and

producer groups based in the remote villages in Sri Lanka. These farmer and producer groups are organized as co-operative societies and affiliated to PODIE organization.

They have 12 farmer group community centers. These groups are based in different parts of this country.

1. Wannianunukula farmers (Puttalam) – Rice, chillie (40 farmers) – 30 acres
2. Kolugala spice growers (Kandy) - They grow Clove, nut-meg, mace, pepper, Cocoa, Coffee and vanilla. They cultivate their produce under the Kandyan home garden concept. (50 farmers)
3. Tibbatugoda cinnamon farmers – Gampaha district (70 farmers)
4. Matala farmer group - They grow Black & White Pepper, Clove, Nutmeg, Mace, Vanilla, Coffee and Cocoa. (47 farmers)
5. Gampaha farmer group - They cultivate Turmeric, Ginger and Lemon Grass. (42 farmers)
6. Kotmale farmer group - They grow Cardamom, coffee and vanilla (70 farmers)
7. *Dambadeniya Women's Association* - They produce different types of reed ware packing materials needed to pack their spice products for export market.
8. Pallebadda farmer group – Ratnapura district - They grow Cinnamon and Black Pepper (80 farmers)
9. Watinapaha farmer group – Gampaha district - They grow Lemongrass, Turmeric and Ginger.
10. Hambegamuwa farmer group – Sesame, mustard, chillie (50 farmers)
11. Nillambe farmer group – Vanila, black pepper, clove (30 farmers)
12. Kithulgala farmer group – Vanila (60 farmers)

The company conducts monthly meetings in these community centers to discuss the problems with farmers, acknowledge them and to join new growers. In addition to providing market for their produce and products, the company also provides assistance to develop their infrastructure to increase their productivity and also to enhance the quality of their produce to suit the international markets. The company also took the initiative to encourage farmers to go organic and thereby offer them a premium price for their organic produce. It pays 25-40% premium than the local market price. Price is decided at the Board meetings and farmer representatives from community groups are also members of the Board.

The processing and packing of the final products for export market are done at the factory in Negombo. For packaging of organic products the company normally uses environmental friendly materials such as Recycled Papers, Reed Ware, Glass Bottles, Terra Cotta containers and soft wood to pack our value added spice products. Most of the packing materials are also handmade and labour intensive. The production of natural packing materials is done by women members of the producer groups affiliated to PODIE. It has separate centers for packing materials. However at the request of any importer, they use other packing materials like HDEP, LLDP and Triple Laminated materials to preserve the aroma and moisture of the spices thus packed.

Products are mainly exported to Europe, Australia, Hong Kong and New Zealand.

Farmers' linked with the company get benefits such as; provision of bio-fertilizer, seeds and planting materials, agricultural equipment, training programmes on biodynamics, award for best farmers and scholarships for their children.