Organic market report 2013

Soil Association

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Soil Association

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Foreword

In a prolonged economic downturn it is hardly surprising to find subdued sales of a wide variety of goods and services. The UK organic sector is not immune to the challenges of the wider financial environment.

Despite a 1.5% decrease in sales overall, however, there are areas of significant growth for organic products. These include parts of the dairy sector, large specialist retailers, home delivery, non-food products and catering. This report also identifies a number of important trends, opportunities and challenges for the UK organic market:

ONLINE AND INDEPENDENT SUCCESS

Organic shoppers are increasingly choosing the convenience and variety offered by online shopping and specialist stores over the inconvenience and frustration of finding more limited ranges and stock at many supermarkets. Multiple retailers will need to ensure full ranging of organic products and invest in their own-label ranges (whose sales fell by 11.2% in 2012) if they are to regain ground from the leading home-delivery specialists Ocado, Abel & Cole and Riverford (whose organic sales increased by 10.3%).

YOUNG SHOPPERS ARE LEADING THE WAY

The 'Jamie Generation' of ethically aware consumers under 35 significantly increased their average spending on organic products in 2012, pointing to a healthy future for the organic market.

THE CATERING MARKET IS OPENING UP

Organic catering and restaurant sales rose by 1.6% in 2012, despite a general tendency to eat out less in tough economic times. The Food for Life Catering Mark is proving a key factor in opening up opportunities for organic producers: the number of meals served under the scheme increased by 40% in 2012 to 140 million.

SUPPLY SHORTAGES THREATEN GROWTH

Some supermarkets have turned their predictions of falling demand into a self-fulfilling prophecy by dramatically cutting organic ranges and shelf space, reducing availability for shoppers who want to carry on buying. This has triggered disproportionate cuts in production of some commodities, such as eggs, causing supply shortages. It is important for all retailers to work more closely than ever with their organic suppliers to ensure the higher farmgate prices, better planning and decent forward contracts that are needed to restore producer confidence and safeguard future supply.

OUR GOVERNMENT IS OUT OF STEP

European sales of organic products have increased by more than 25% since the start of the global economic downturn in 2008. Our government has much to learn from its European counterparts, who back the organic sector strongly through a combination of environmentally based producer support, firm targets for public-sector procurement of organic, and investment in promoting organic products.

Despite the relative neglect of our policy makers and some supermarkets, there is much cause for optimism in the success of specialist retailers, the enthusiasm of young shoppers and the long-overdue questions being asked about our reliance on cheap, low-quality, untraceable food in the wake of the horsemeat crisis. It may be difficult to anticipate precisely when the UK organic market will return to growth, but we can predict increasingly confidently that it will do so.

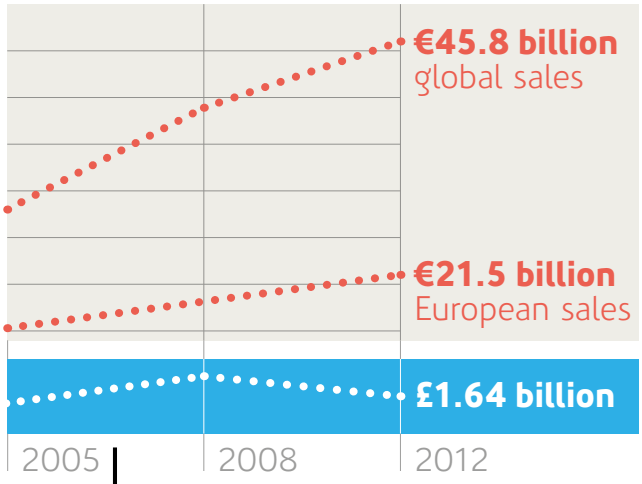
Rob Sexton
Chief Executive,
Soil Association Certification Ltd

Overview

THE UK AT A GLANCE

Land	Sales	Businesses
656,000 ha	£1.64 billion	6,929
-8.7%	-1.5%	-4.9%

GLOBAL GROWTH v UK DIP



TOP GLOBAL MARKETS

USA	GERMANY	FRANCE
€21 billion	€6.6 billion	€3.7 billion

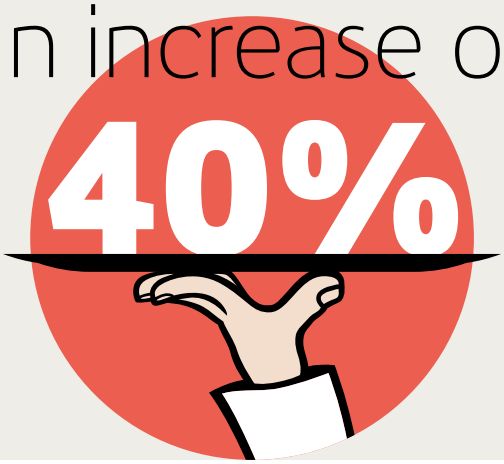
YOUNGER SHOPPERS INCREASED THEIR ORGANIC SPEND

FOOD FOR LIFE:

140 million meals served

an increase of

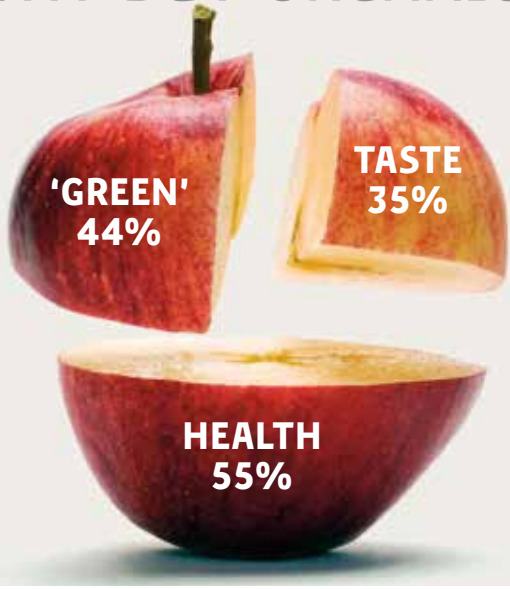
40%



CATERING & RESTAURANT SALES UP 1.6%

BOX SCHEME & HOME DELIVERY SALES UP 4.4%

WHY BUY ORGANIC?



The organic consumer

Four out of five households buy organic products (80.3%). More than half of shoppers (55%) say they believe it is important to do so, while only 6% think shopping organic is 'not at all important'.

HEALTHIER, GREENER, TASTIER

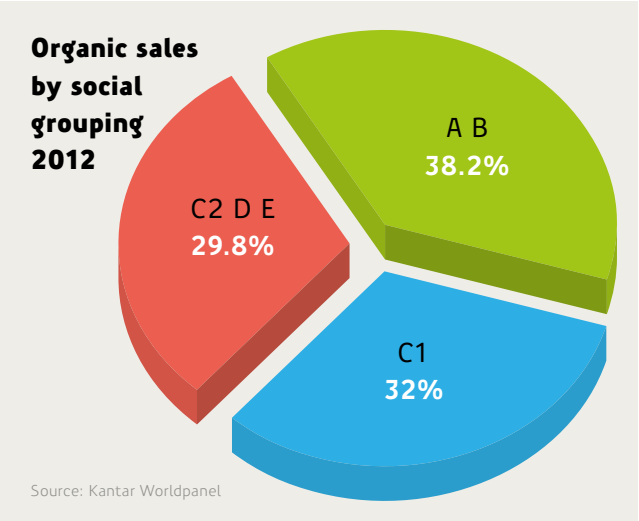
Health, caring for nature/the environment and taste are the three most significant motivations for buying organic products. More than half of organic shoppers cite healthy eating (55%) and avoiding chemical residues (53%) as reasons to purchase. Nearly half are motivated by care for the environment and nature (44%), while around a third mention the taste of organic food (35%) and animal welfare (31%). Taste and environmental factors appear to be less influential than they were two years ago, but health motivations have remained constant.

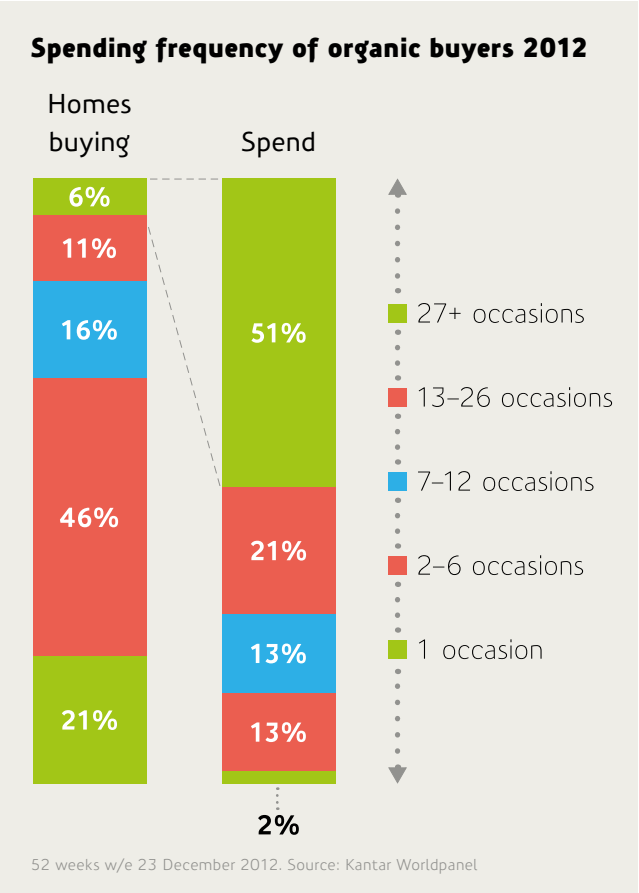
YOUNGER SHOPPERS LEAD THE WAY

The youngest organic shoppers (under-28s) are spending more on organic products than they did a year ago. Retired people and 'empty nesters' still account for almost half of all UK spending on organic products (48.6%) but the 'Jamie Generation' of ethically aware under-35s (16% of sales) significantly increased their average spending in 2012. Leading London retailer Planet Organic says students are an increasingly important part of its customer base, accounting for 10% of all purchases in its five stores. Student purchases increased by 15% in 2012, well above the 5% increase in transactions for the stores as a whole.

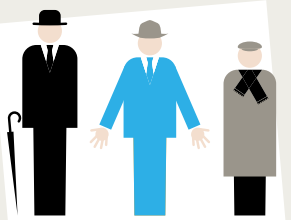
REAL FOOD, REAL QUALITY

Organic consumers are much more interested in food quality, provenance and buying local than the average shopper, and more than twice as likely to also buy Fairtrade products. In-depth research suggests that organic consumer motivations can be grouped together into four broad and sometimes





Ethically aware under-35s increased their average spend



Middle-income Britain's share of organic spending has decreased

overlapping areas of motivation: living healthily, being a global citizen (or 'doing the right thing' from an ethical perspective), preferring 'real food' (predominantly meaning natural and unprocessed) and seeking out quality (some choose organic options for treats or 'special occasion' cooking).

THE COMMITTED CORE

More than three-quarters of households buy organic products but sales are dominated by a small core of committed shoppers. A third of organic shoppers (33%) account for well over three-quarters of spending (85%), while just 6% of shoppers are responsible for half of all sales (51%). The most committed buyers are aged 28-44: this is the age bracket where organic products attract the highest spend compared to the national average for all age groups.

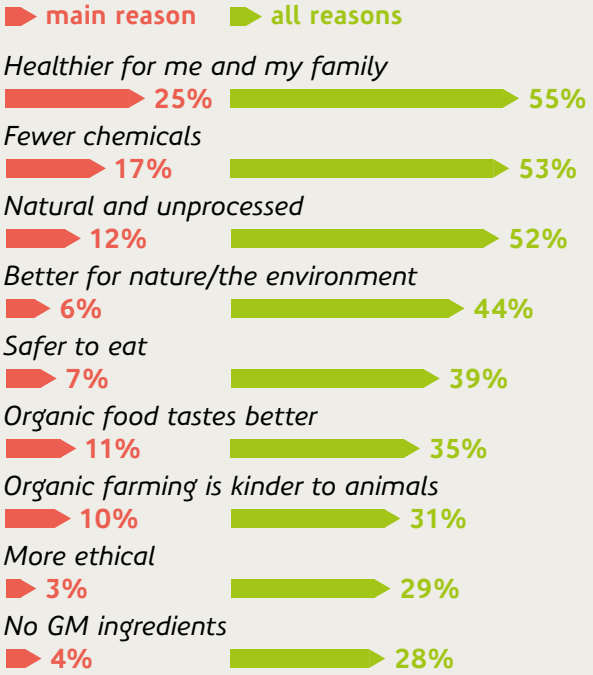
THE SQUEEZED MIDDLE

Middle-income Britain's share of organic spending has decreased in the past year. The proportion of spending attributed to middle-income C1 shoppers, which includes professionals in administrative and clerical roles rather than management positions, has decreased from 34% to 32%. The implication is that this is the group which is tightening its belt most in the face of austerity cuts and tax increases.

REGIONAL HOTSPOTS

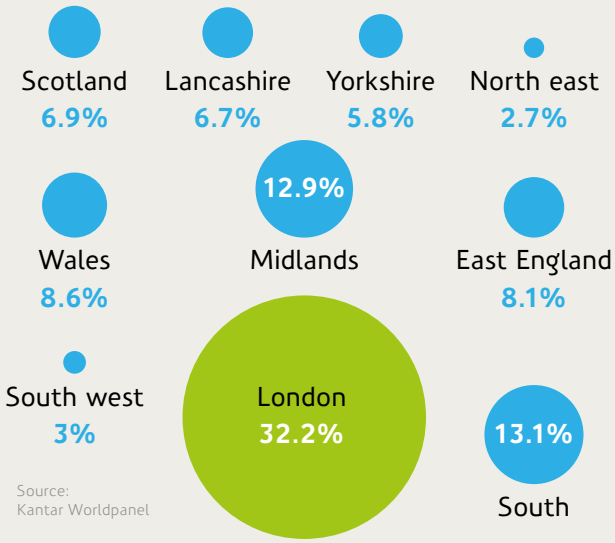
Organic products are most popular in London, the south east and the east of England. These are the regions where shoppers spend above the national average on organic food and drink. London alone accounts for nearly a third of organic sales nationally (32%), with significant spending online.

Top reasons for buying organic



October 2012. Source: Leapfrog Research/Organic UK

Share of organic sales within Great Britain



Source: Kantar Worldpanel

The UK organic market

The organic market is subdued on the high street but booming online and in large specialist retailers. Organic shoppers are increasingly choosing the convenience and variety offered by home delivery and specialist shops over the inconvenience and frustration of finding more limited ranges and stock at many supermarkets.

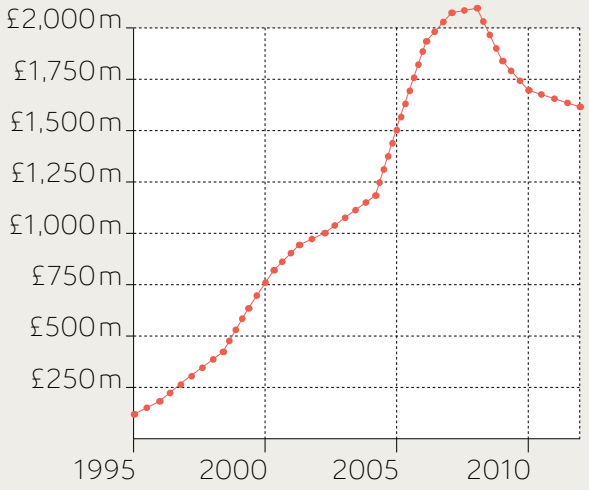
The three leading organic home-delivery specialists (Ocado, Abel & Cole and Riverford) increased their combined turnover by 10.3% in 2012, while the seven leading multiple retailers saw their organic sales fall by 3.8%. The organic market as a whole contracted by 1.5% to £1.64 billion.

Online purchases now represent 10.1% of spending through the major retailers on organic products, compared to just 5.7% of all food and drink spending. The online boom means that shoppers now spend £4.1 million on organic products online every week.

In the supermarkets the most popular organic purchases are dairy and 'chilled convenience' products (31% of spending) and fresh fruit and vegetables (23%). Between them these two groups of products accounted for 54 pence in every pound spent in 2012.

The most encouraging trends are in the dairy sector, where sales of yoghurt and cream increased by 9.9% and 14.1% respectively and milk sales began to grow again towards the end of the year. Yeo Valley Organic, the biggest dairy company in the market, increased its sales by 6.6% and is predicting further growth in 2013. Rachel's Dairy increased its sales by 15%, buoyed by particularly strong growth in demand for its large fruit yoghurts.

UK sales of organic products 1995–2012



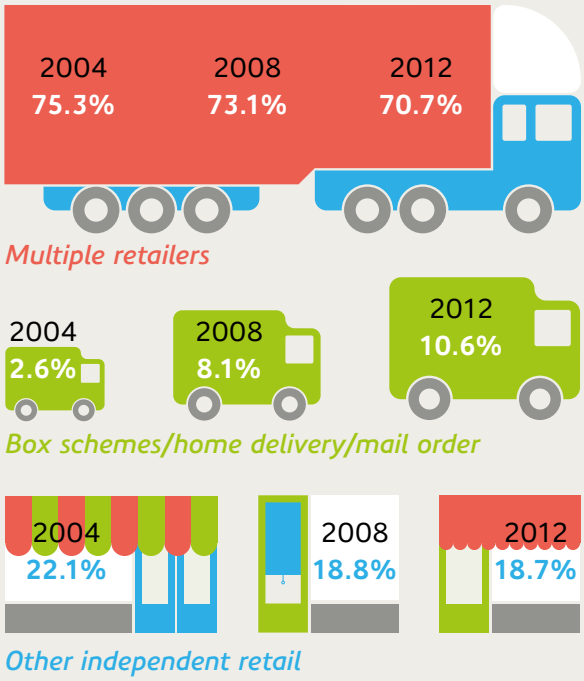
Source: Soil Association, Organic Market Report

Share of the UK organic market 2011–2012

Multiple retailers			
2011 **£1,189.6m**	2012 **£1,161.4m**	-2.4%	▼
Box schemes/home delivery/mail order			
2011 **£167m**	2012 **£174.3m**	+4.4%	▲
Farm shops and famers' markets			
2011 **£48.1m**	2012 **£41.3m**	-14.1%	▼
Catering			
2011 **£15.7m**	2012 **£15.9m**	+1.6%	▲
Other independent retailers			
2011 **£246.6m**	2012 **£249.1m**	+1%	▲
Total			
2011 **£1,667m**	2012 **£1,642m**	-1.5%	▼

Source: Soil Association

Share of the UK organic market 2004–2012



Source: Soil Association

Product shares of the UK organic market 2012 and change in sales value*	share	2011 to 2012
Dairy/chilled convenience	30.8%	-4.8% ▼
Fruit, vegetables and salad	22.8%	-7.7% ▼
Baby food	13.9%	-2.6% ▼
Beverages	6%	-6.5% ▼
Fresh meat	5%	-5.9% ▼
Fresh poultry and game	1.6%	-29.9% ▼
Fresh fish	0.6%	+1.4% ▲

*Multiple retail sales only

Sources: Kantar Worldpanel; Soil Association

Multiple retailers

Ocado is the striking success story among the major retailers in 2012. The online grocer increased its organic sales by 6.4%, overtaking Asda and Morrisons to become the UK's fourth-largest organic retailer. It extended its range of fresh produce and anticipates further growth of 10-15% in 2013.

Of the 1,400 organic products available from Ocado's website, around 10% are branded products from Daylesford and Laverstoke Park. Waitrose own-label organic products account for eight out of ten of Ocado's biggest-selling organic lines. Waitrose itself also increased its organic sales, by 1.1%. Its results were buoyed by the increasing popularity of the Duchy Originals from Waitrose range.

The only other major retailer reporting growth is Morrisons, supported by its expansion in the south of England. It has also reviewed its organic offering and has just relaunched its M Organic range. There is a striking contrast between sales of organic brands in the leading supermarkets (up 2.2% in 2012), and the performance of own-label products (down 11.2%). In this context it is encouraging to see Morrisons making a renewed investment in its own-label range.

Ocado's success reflects a broader trend of organic shoppers looking increasingly to specialist retailers and online shopping as organic ranges and shelf space on the high street are cut by some supermarkets. Organic sales across the multiple retailers fell by 2.4% to £1.16 billion in 2012, while their online sales increased by 4.1%.

Tesco has introduced a new organic zone on its website and is piloting an online home-delivery box scheme in London, while Sainsbury's saw its online organic sales increase by a remarkable 48%.

The UK organic market

Multiple retailers organic sales 2012	share of sales organic	2011 to 2012
Tesco	1%	-6.9% ▼
Sainsbury's	2%	-1.1% ▼
Waitrose	4.8%	+1.1% ▲
Ocado	9%	+6.4% ▲
Asda	n/a	-10% ▼
Morrisons	0.5%	+3.5% ▲
Co-operative	0.4%	-9.3% ▼
Marks & Spencer	1%	-20% ▼

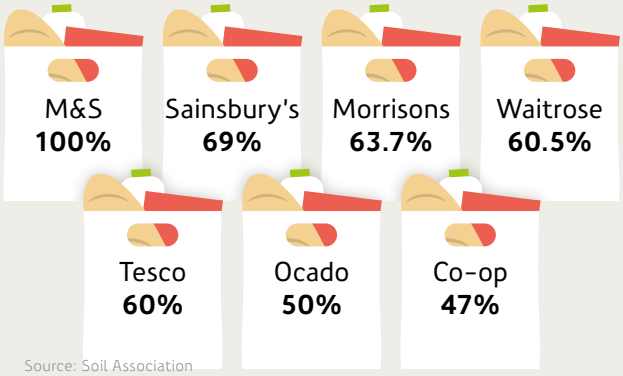
Sources: Kantar Worldpanel; Soil Association

ORGANIC SALES ONLINE 2012

Ocado	100%
Asda	8.5%
Tesco	8.4%
Sainsbury's	7%
Waitrose	3.5%

Source: Soil Association

Own-label share of organic sales 2012



Source: Soil Association

Amazon has enlisted new organic suppliers and offers a wide range of non-perishable products.

The protracted economic downturn has undoubtedly dampened demand for organic products, but a disproportionate reaction by some supermarkets has depressed sales further by reducing availability for those who want to continue to shop organic. This not only damages the market in the short term but also affects the prospects for future growth, by triggering reduced production.

The egg market provides a stark example. Organic egg production fell by 9.7% in 2011, partly as a consequence of retailers reducing orders and shelf space. Sales of organic eggs were then held back in 2012 by supply shortages in some quarters. Ocado reports that it could not source enough organic eggs for its customers in 2012, and Waitrose is now expressing similar concerns about the availability of UK-produced eggs, beef and salmon in 2013.

Independent retailers

There was a 0.7% increase in sales through independent outlets, encompassing box schemes, mail order, farm and health-food shops, farmers' markets and catering. The independent sector is now valued at £480.6 million.

The big winners were large specialist retailers in urban areas, well placed because of their location and their extensive ranges to pick up custom from the supermarkets. Whole Foods Market reported 9% annual growth in its most recent UK results, and opened a seventh store in Cheltenham in November 2012. Planet Organic increased sales by 10% and predicts further growth of 8% in 2013, while As Nature Intended is also reporting strong growth.

The Food for Life Catering Mark is helping boost the catering sector

Unicorn Grocery, a large workers' co-operative in Manchester, put its 10% increase in turnover down to a combination of reduced organic ranges in the supermarkets, a trend towards cooking from scratch instead of eating out, and good value for money as a result of buying directly from producers where possible.

BOX SCHEMES AND HOME DELIVERY

Box scheme, home-delivery and mail-order sales increased by 4.4% to £174.3 million. This third successive year of healthy growth was spearheaded by Abel & Cole and Riverford, the two leading independent box schemes, whose turnover increased by 20% and 8% respectively.

Abel & Cole's weekly deliveries reached the 50,000 mark, increasing by a quarter. It attributes its success to improved service and product quality, allied to new marketing methods. Riverford cites the introduction of new products and increased deliveries as the main factors behind its growth.

The picture was less healthy for the smallest box schemes, whose sales dipped. These small operators tend to be isolated from the urban hotspots of organic shopping and lack both the range of products offered by their larger rivals and the marketing resources needed to attract new customers.

FARMERS' MARKETS AND FARM SHOPS

Some small farms and farm retail businesses are struggling to weather the economic storm. Sales of organic products through farmers' markets and farm shops fell by 14.1% in 2012, reflecting the closure of some businesses while others achieved modest growth.

Restaurants and catering

The Soil Association calculates that organic sales through restaurants and catering rose by 1.6% in 2012. The value of this sector is now £15.9 million – a little under 1% of the UK organic market.

Interest in organic products continues to be stimulated by the Food for Life Catering Mark, the UK's fastest growing food service best-practice scheme. Over 140 million Catering Mark-accredited meals were served in 2012, a 40% increase on the previous year. Twenty per cent of England's schools are now part of the scheme, along with the UK's largest chain of nurseries and 15 universities.

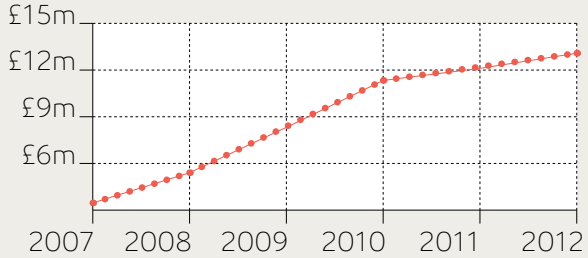
In August 2012 there was a significant breakthrough in the business sector, as Pearson became the first FTSE 100 company to achieve the Catering Mark.

The Catering Mark is gaining momentum in Scotland, supported by funding from the Scottish Government and the European Agricultural Fund for Rural Development – in 2012 the number of accredited meals served rose to 3.5 million. In Wales over a million Catering Mark meals were served through seven institutions: one hospital, four universities and two local authority school meal contracts.

On the high street one of the companies championing organic sourcing is McDonald's, which uses UK-produced organic milk in all its tea and coffee and in children's Happy Meals. In 2012 the company used 21.1 million litres of organic milk, a 5.5% increase on the previous year.

The UK organic market

Sales of Soil Association-certified organic textiles 2006–2012



Source: Soil Association Certification

Non-food products

TEXTILES

Soil Association Certification, the UK's leading certifier of organic products to Global Organic Textiles Standards (GOTS), saw the turnover of its textile licensees (business to business as well as retail) increase by 10%. The Soil Association approved inputs scheme for dyes and printing inks is growing steadily, with ten new companies joining in the past year. The number of GOTS-certified textile facilities globally reached 2,995, a 10.4% increase on the previous year.

The wool market is also buoyant: in 2011-12 sales of organic wool through the Wool Board increased in volume by 8.5% to 215,000kg and in value by 25%, bolstered by a 15% increase in the price per kg.

The latest edition of Textile Exchange's *Organic Cotton Farm and Fiber Report*, published in mid-2012, calls for industry action to increase global organic cotton production, which fell by 37% in 2010-11 as a result of seed shortages, the advance of GM cotton, tougher traceability rules in India and some companies switching to lower standards of production. In contrast, Textile Exchange says the global market for organic cotton grew by at least 10% in 2011-12. The Soil Association launched a campaign in September in partnership with GOTS to encourage consumers, brands and manufacturers to 'cotton on' to organic (see www.cottonedon.org).

Soil Association Certification's largest textile licensee is Continental Clothing, which specialises in designing and manufacturing items to sell wholesale to the imprintables industry. Its turnover grew by 35% in 2012, boosted by range expansion, a doubling of warehouse capacity and high-profile opportunities such as a two-month promotion with organic vintage prints to mark the 50th birthdays of both Carnaby Street and the Rolling Stones. A notable smaller-scale success was wool manufacturer Curlew Weavers, which doubled its sales in 2012.

HEALTH AND BEAUTY

The Soil Association calculates that UK sales of certified organic health and beauty products increased by 5.6%, to £31.8 million.

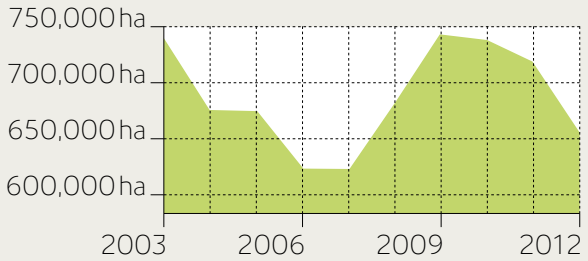
Neal's Yard Remedies, the market leader and Soil Association Certification's largest health and beauty licensee, increased its organic sales by 12.9%. It opened a new store in Hereford, bringing its total to 40 in the UK and 83 globally, and added 20 new organic lines to its range.

Three of the top five Soil Association Certification licensees are specialist ingredients suppliers for personal care products – Statfold Seed Oil, Azelis UK Life Sciences and Inovia International. The three biggest consumer brands after Neal's Yard Remedies are Essential Care, intimate lubricant maker Yes and fast-growing Pai Skincare, which more than doubled its turnover in 2012.

Among the new products on the market are the Inlight skincare range (already available in nine countries, and produced through a partnership between UK organic pioneers Mariano and Loredana Spiezia and the Centre for Homeopathic Medicine in Naples) and the newly certified Nourish skin range with innovative active ingredients from Natural Products Factory.

Organic farming in the UK

Organically managed land in the UK 2003–2012



Source: Defra

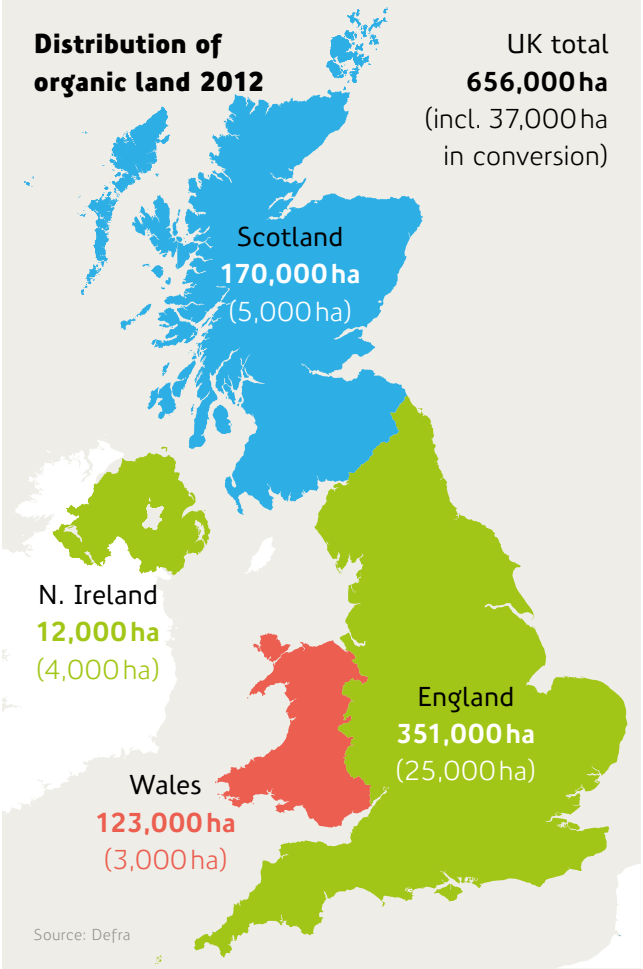
It has been a challenging year for nearly all farmers, organic and non-organic. High feed and fuel prices have compounded the impact of the worst weather conditions for many years.

First the dry start caused germination problems with spring crops. Then the wettest conditions for many years took their toll on crop yields and quality, left many pastures in need of repair and increased the incidence of diseases such as fluke.

In spite of these challenges, there are good reasons for organic producers to be optimistic about the future. The intensification of interest in where our food comes from in the wake of the horsemeat crisis can only serve to reinforce a long list of underlying positives: increased average profitability for organic enterprises in the past five years, increased spending among younger shoppers, rising farmgate prices as supply tightens, the opening up of the catering market, the strength of specialist retailers, unerring market growth in the rest of Europe and the boom in online sales.

What producers need in the current climate of uncertainty over CAP reform and lukewarm support from supermarkets is an injection of certainty and commitment from both policy makers and retailers to ensure that production levels stabilise and supply shortages do not stifle a return to growth.

Distribution of organic land 2012



Source: Defra

Organic land and organic producers

In July 2012 the UK's organic land area was reported to be 656,000 hectares (based on data to the end of 2011). This is an 8.7% decrease from the previous year, and constitutes 3.8% of the agricultural land area.

Percentage change for organic land 2011 to 2012

UK	-8.7	▼
England	-7.3	▼
Wales	+3.4	▲
Scotland	-10.1	▼
N. Ireland	-20	▼

Source: Defra

Total UK agricultural area that is organic 2012

UK	3.8%
England	3.9%
Wales	8%
Scotland	3%
N. Ireland	1.2%

Source: Defra

Organic farming in the UK

Numbers of organic producers and processors fell by 4.9% to 6,929. Farmers and growers account for 64% of this total and processors 33%, with a small number of enterprises that encompass both farming and processing (3%). The biggest reductions in numbers were seen in Scotland and in the Yorkshire and Humberside region of England (both down 7.9%).

As well as a year of unforgiving weather, 2012 was a year of numerous company mergers, business integrations and buyouts. These seem to have provided a measure of stability to national trading in key commodities. In the dairy sector the Arla Group merged with Milk Link, while in red meat Graig Producers and Meadow Quality merged. In the cereals sector Norton Organic Grain joined forces with Saxon Agriculture.

National trends

ENGLAND

The land area registered as organic decreased by 7.3% to 351,000 hectares – 3.9% of England's agricultural land. There is wide regional variation, with organic land peaking at 9.7% in the south west and at its lowest in the east of England, the East Midlands and Yorkshire and Humberside (all 1.2%).

New land entering conversion dropped by 16%, reflecting the impacts of improving farmgate prices in non-organic agriculture, uncertainties over CAP reform and government support, and varying retailer commitment.

NORTHERN IRELAND

The organic land area shrank by 20% in the year to January 2012 as producers responded to tough economic conditions – and in some cases the end of their support payments under the Organic Farming Scheme (OFS) – by reverting to non-organic production.

Producers experienced a difficult year: severe weather affected crop yields and livestock quality, and farmgate organic premiums were limited. The main organic poultry processor is currently selling 42,000 birds or bird equivalents per week, an indicator that the poultry sector has stabilised following a big drop in demand in 2010 and 2011. Numbers of organic beef and sheep producers also remain constant.

The most positive news is in horticulture, where farmers selling directly to the public are reporting growth and a number of new home-delivery box schemes have been established. The number of organic milk producers remains small, however, with prospective new entrants discouraged by a modest price premium and high feed costs.

SCOTLAND

Scotland's organic land area decreased by 10.1% in the year to January 2012, while producer numbers fell for a third consecutive year. Some established farmers have expanded but very little new land has entered conversion.

The severe wet weather made life very difficult for almost all farmers, particularly over the crucial sowing and harvest periods. Agricultural output fell, input costs rose and productive capacity for 2013 was undermined.

Finished cattle prices and organic farmgate premiums have risen steadily in the past 12 months but the premium for organic lamb is lower than a year ago, despite consistent demand. Preliminary findings from the ninth annual survey of the Scottish Government-funded Organic Market Link project suggest production

UK organic production: supermarket sales and agricultural output 2011 to 2012

Cereals: all		output -7.7% ▼	Pork	sales -29.7% ▼	output +11.1% ▲
Cereals: bread	sales +1.5% ▲		Poultry	sales -29.9% ▼	output -26.7% ▼
Horticulture	sales -7.7% ▼	output -10% ▼	Eggs	sales -29.7% ▼	output -21% ▼
Beef	sales -1.1% ▼	output -4.4% ▼	Milk	sales -4.4% ▼	output -15% ▼
Lamb	sales -2.2% ▼	output +18.4% ▲	Fresh fish	sales +1.4% ▲	output +10 % ▲

Sales source: Kantar Worldpanel. Figures for arable and horticulture represent the land area under organic production at the start of 2011, compared to a year previously. Figures for all the other categories represent volume of production. Sources: Defra (arable, horticulture, eggs); Soil Association abattoir survey (meat categories); Organic Milk Suppliers'

of finished cattle will be slightly lower in the 2012-13 marketing season, while lamb and arable production are set to contract by over 20%.

The Scottish Government has continued to be supportive of Scotland's organic sector through its Organic Futures action plan, and is planning to launch new support measures in the summer.

WALES

The organic land area in Wales grew by 3.4% in the year to January 2012 but is set to fall when the 2012 figures are published. Under 3% of the Welsh organic land area is in conversion, reflecting reduced interest from new applicants because of challenging market conditions and uncertain political support.

November's annual producer survey by Organic Centre Wales indicates that Welsh organic livestock and dairy production increased in 2012, delivering about 7,500 finished beef cattle, 210,000 finished lambs and 80m litres of milk. But large numbers of organic lambs (45% of finished, 80% of stores) and store cattle (45%) were sold as non-organic – a reflection on flat demand and small organic premiums.

Producer confidence varies significantly between sectors. Around 60% of finished cattle producers are confident that current prices are high enough to continue beef production but only 23% of finished lamb producers feel likewise. Horticultural and egg producers are more confident than a year ago, whereas milk producers have become less optimistic about continuing production at current prices. In recent visits to a wide range of organic farms and businesses, Organic Centre Wales found that most in the sector believe the worst is behind them – and a number are reporting significant increases in sales.

Sector by sector

ARABLE

Arable farmers were faced with high disease levels, poor seed quality and a shortage of winter seed. Yields were generally around a third below average, although some spring wheat achieved good protein levels, above 12%. Demand was strong for nearly all crops, with wheat prices increasing by 28% over the year. The exception was oats, where a combination of residual crops from 2011, imports and an expanded UK growing area dampened the market. Export trade was significantly reduced.

HORTICULTURE

Horticulture experienced yield reductions in the 15-50% range and farmgate prices rising by 10-20%. Pests such as leek moth and cabbage whites were reduced but slug numbers rocketed. Supermarket sales have continued to decline but demand from the biggest box schemes was strong. Some growers have ceased organic production after three poor seasons in five years but the long-term prospects still look positive. Much depends on whether growers can secure the markets and prices they need to keep growing organically.

BEEF AND LAMB

Beef and lamb producers had to contend with high feed prices and cheap imports. Cattle supplies were short throughout the year as farmers looked to sell their animals as store cattle rather than incur high feed costs. Farmgate prices for organic beef increased by 8% to £4.30/kg, with premiums constant around the 65-70p/kg mark. Liver fluke and grass quality problems delayed lamb production by up to two months. New Zealand lamb was available at prices 30% lower than in 2011, pushing down prices for UK producers. Farmgate prices for organic lamb fell to as little as £3.60/kg in the winter months but

a recovery in the second half of the year saw an organic premium of 40p/kg restored.

PORK

Pork producers saw their sales in established organic marketplaces grow, but supermarket sales fell by nearly 30%. Production fell by 11% in the year to January 2012 and is set for a further significant reduction. The generally poor economic outlook and high feed prices sent 30% of UK organic pig producers scurrying into other forms of business. Core producers have stuck at it, reducing their costs where possible, but there is little scope for the sort of price increases needed at every link in the chain to help revive the sector.

POULTRY

Feed costs continued to rise in 2012 and feed quality was variable at best, contributing to an increase in retail prices that affected sales volumes for much of the year. Despite this, sales have recently levelled off and there are some green shoots of recovery in consumer demand. Retailers seem to be willing to promote organic chicken again, and increases in shelf space look likely to lead to better sales. The increased need to 'bed up' organic birds because of the recent cycle of wet summers and cold winters has come at a time when suitable bedding material is expensive and in short supply. It is essential, however, to ensure good house and range conditions that meet industry 'welfare outcome indicators' and consumer expectations.

EGGS

Egg producers saw supermarket sales drop by nearly 30%. Some retailers contributed to the fall in sales by reducing shelf space and availability, leading to supply shortages in some quarters. Egg sales as a whole have not fallen but free range sales have stopped growing, suggesting that price is the key factor affecting the organic sector as shoppers tighten their belts in the economic downturn. Sales have held up better among retailers whose customer base is more affluent. Production will only pick up if there is a clearly demonstrated lift in demand, backed by fresh commitment from the retailers and sustainable prices for producers – something that seems to be an elusive combination in the current climate.

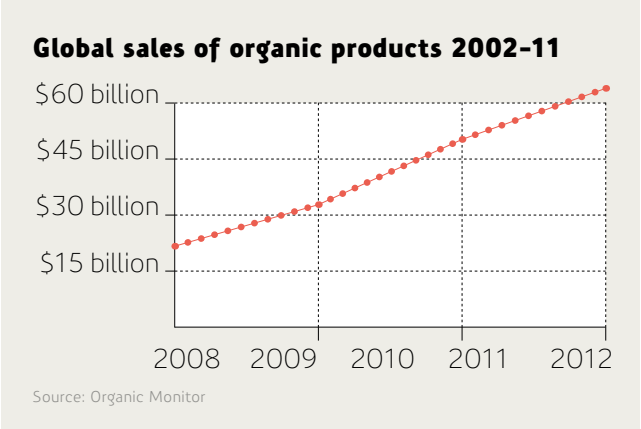
MILK

Milk sales fell by 4.4% in volume terms over the year but Nielsen Scantrack data show a 0.5% increase in market value. This reflects more favourable farmgate prices, which have gone some way towards compensating producers for lower demand. Some retailers have reduced their organic ranges in response to the economic downturn, and this has put the brakes on the market. It has not helped that milk remains a key category for supermarket price wars, with reduced non-organic prices putting additional pressure on organic sales early in 2012. Encouragingly, however, sales volumes started to grow again in the last five months of the year and market value increased by 1.5% year on year.

SALMON

Salmon producers report a broadly positive year, despite problems with sea lice and amoebic gill disease. Production is on the increase both in the UK and elsewhere in Europe, and UK supermarket sales increased by 1.4%. Aquascot is planning to increase production by 27% in 2013 in response to increased demand from Waitrose in particular. Recent industry investment has benefited fish welfare by improving feeding systems, wrasse management and disease control. Farmgate prices reached as much as £6.40/kg during the year, mainly because of high prices for feed that can account for up to 70% of production costs.

The global context



Global sales continue to rise. Organic Monitor estimates that organic food and drink sales worldwide reached almost $63 billion (more than €45 billion) in 2011 – a 25.1% increase since the start of the global economic downturn in 2008.

According to the latest figures collected by the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agriculture Movements (IFOAM), organic farming is practised in 162 countries. In 2011 37.2 million ha of farmland were managed organically, and organic farming had a 0.86% share of agricultural land among the countries included in the survey. About another 32.5 million ha are organic wild collection areas and non-agricultural land, giving a total organic area of 69.7 million ha.

Australia, Argentina and the United States are the countries with the most organic land, while the Falkland Islands (35.9%), Liechtenstein (27.3%) and Austria (19.7%) lead the way in terms of the proportion of land under organic management. A third of all organic farmland is in Oceania (12.2 million ha), with 10.6 million ha in Europe, 8.4 million ha in Latin America and 2.8 million ha in Asia.

Demand for organic products is dominated by North America and Europe, which together account for more than 90% of sales. In 2011 the countries with the largest organic markets were the United States (€21 billion), Germany (€6.6 billion) and France (€3.8 billion). The highest average annual consumption per person was in Switzerland (€177), Denmark (€162) and Luxembourg (€134). The highest market shares of the food and drink market for organic products were in Denmark, Switzerland and Austria.

THE AMERICAS

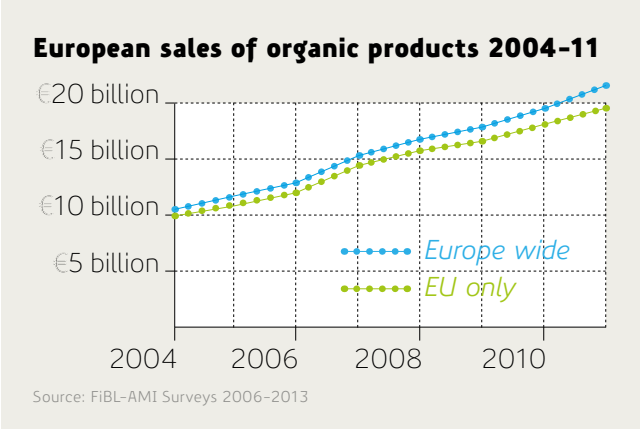
The North American organic market is the world's biggest, with large companies dominant throughout the supply chain. The organic land area is 2.7 million ha, and the market is worth €22.9 billion.

Sales of organic products in the United States grew by 9.4% in 2011, to €21 billion, and now account for 4% of food and drink sales. US export opportunities for Europe's organic sector – including UK companies – were boosted in June 2012 when EU organic standards were recognised as equivalent to those in the US, removing the need for separate certification for the US market.

Leading markets for organic food worldwide (% of global sales)

Source: FiBL-AMI-IFOAM Survey 2013, based on data from government bodies, the private sector and market research companies

The global context



Latin America, with 8.4 million ha of organic farmland, is an important producer and exporter of organic products. Its consumer markets are developing too: Brazil has the largest in the region, with growing consumer awareness fuelling growth.

EUROPE

Europe is a large consumer and producer of organic foods. Organic farming accounts for 2.2% of European farmland, and 5.4% of farmland within the EU.

European organic food sales increased by 9% to €21.5 billion in 2011. Germany accounts for 30% of sales, with France, the UK and Italy responsible for a further third. The highest per capita consumption is in Scandinavian and Alpine countries, and Denmark is the country with the highest organic market share worldwide: organic products comprise 7.8% of its food and drink sales.

ASIA

The Asian market for organic products is growing at a steady rate, as growing awareness of organic production methods increases demand. Most sales occur in the more affluent countries, such as Japan, South Korea, Taiwan, Hong Kong, Malaysia and Singapore. Japan is the largest market in Asia, followed by China and Korea.

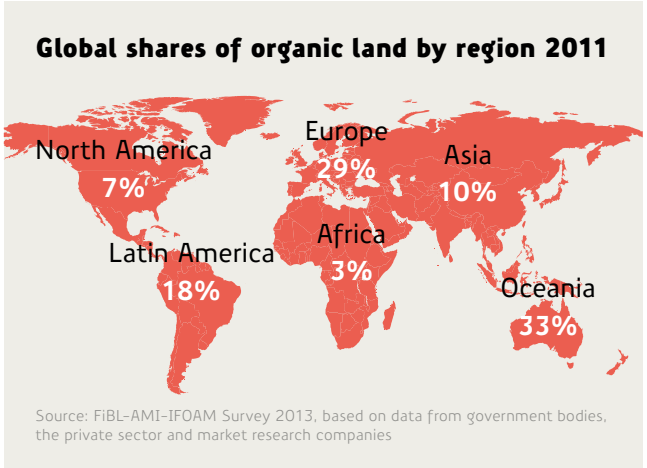
Most of the organic products sold in these countries are imported from Australasia, Europe and the United States. UK baby food pioneer Organix, for example, saw its sales in Malaysia and Taiwan grow by 26% and 22% respectively in 2012. The company also exported to Thailand and South Korea for the first time.

OCEANIA

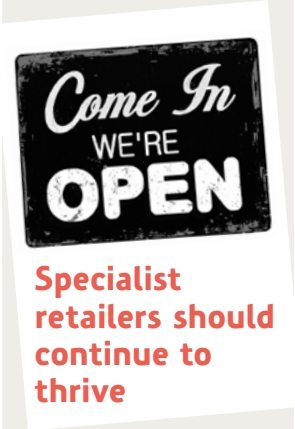
The market for organic products in Australia, New Zealand and the Pacific Islands is relatively small. The continent has about a third of the world's organic land but its share of global sales is only about 2%. Australia and New Zealand are particularly important producers, exporting significant volumes of organic beef, lamb, wool, kiwi fruit, wine, apples, pears and vegetables. Asia is the major destination, followed by Europe and North America.

AFRICA

Africa is a continent of mass small-scale organic production, with more than half a million producers farming just 1.1 million ha of organic land. Almost all certified organic production goes to the export market, particularly the European Union. Internal demand is also developing, especially in Egypt and in South Africa, which has Africa's largest organic market.



Looking forward



Specialist retailers should continue to thrive

But UK suppliers need better support from retailers

In 2013 two strong trends that have come to the fore in 2011-12 are set to intensify.

INDEPENDENT SUCCESS

First, the market share of the multiple retailers is likely to slip further as the independent sector asserts its strength – led by the biggest box schemes and larger high-street specialist shops. The major retailers now account for only 70% of organic spending, compared to over 80% a decade ago.

SUPPLY SHORTAGES THREATENED

Second, there is a danger that UK organic production will continue to tail off in the short term, threatening supply shortages. As the farming section of this report attests, UK production is stuttering in the face of high input costs, faltering consumer demand, unfavourable weather conditions, uncertainties over CAP reform and reduced support from major retailers and policy makers.

The march of independent retail is slowly but surely bringing the UK into line with the rest of Europe, where specialist shops and chains generally account for a higher proportion of the organic market. It is good news for most producers to see a more equal balance between independent and multiple sales.

SIGNS OF REVIVAL

It is not good news, however, to see the extent to which some major retailers are reducing and sidelining their organic offering – and the negative impact this is having on producer confidence and UK production.

The promising signs of revival in consumer demand in some sectors – especially organic dairy products and vegetables – are in danger of being snuffed out without a reliable UK supply base. While imports can fill the gap for a while, the committed core of organic shoppers want to support UK farmers and buy locally produced food where possible.

FRAGILE PRODUCER CONFIDENCE

A year ago this report highlighted the challenge of low consumer confidence – a phenomenon that affects the whole economy and is not something the organic sector alone can overcome. In 2012 the confidence of organic producers showed signs of becoming more fragile too. The latest producer survey by Organic Centre Wales (November 2012), found that a fifth of Welsh organic farmers intend to leave the sector in the next 12 months and more than two-thirds are considering reverting to non-organic production within five years.

REVIVING THE MARKET

In a survey of the Soil Association's top 100 licensees for this report, 37.5% identified price promotions as the most important factor in reviving the organic market. They know that in the current market, the cost-conscious consumer needs a helping hand. But this kind of activity does not come cheap and cannot go on forever.

Some major processors report having to spend eye-watering amounts on price promotions just to retain supermarket shelf space – and with it the all-important capacity to protect and increase sales. The retailers with the biggest shares of the organic market will need to do more to promote organic products and communicate their benefits if they are to play a fuller part in halting the slide in organic sales. It is in their interest to do so, both to protect their UK organic supply base and to retain the coveted and typically higher-spending organic shopper.

MIXED PREDICTIONS

Among the four biggest organic retailers both Tesco and Sainsbury's are predicting a fall in sales in 2013,

Looking forward

while Waitrose and Ocado are predicting growth. It is encouraging to see Tesco's recent investment in trialling an organic home delivery scheme in London and adding a new organic shopping zone to its website – developments that suggest a renewed focus on catering for the committed consumer.

A GLOBAL PERSPECTIVE

Against an uncertain background in the UK there is encouraging news in the continuing growth of organic food sales elsewhere in Europe and in North America. This growth shows no sign of abating, and indicates that the long-term prospects for the organic market in the UK should also be good. It is hard to anticipate when the UK market will return to growth, but less difficult to predict that it will surely do so. The new wave of interest in ethical shopping among young consumers has the potential to lead the organic revival.

To hasten market growth, it is instructive to look at how things are done differently in the rest of Europe. A strong and diverse independent sector is part of the picture, but the prevailing food culture and the differing nature of government support are also key factors that need to be considered and addressed.

GOVERNMENT BACKING NEEDED

Unless or until there is government backing for sourcing organic products and communicating the benefits of organic to the public, the onus will be on the organic industry to continue to do what it can to promote its message and change consumer attitudes to food over time – a challenging task in a faltering economy.

To cut through consumer confusion, marketing messages need to tell a distinctive but simple story that positions organic as the natural, common-sense, value-for-money choice.

Recipe for revival

Restoring growth in the organic market will require significant support from the Government and commitment from all the links in the supply chain.

CONSUMERS

Organic shoppers can go the extra mile to support their local organic shops and producers, and look online for organic products when they are not locally available. The message in these challenging times is 'use me or lose me': smaller local retailers and producers need committed consumers to survive.

RETAILERS

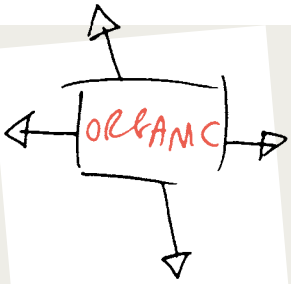
Retailers can invest more in their own-label organic ranges and in promoting organic products in store. Where possible they can make a good range of organic products available and prominent online. They need to work more closely than ever with their organic suppliers to deliver sustainable returns for farmers, safeguarding a strong UK production base and with it their future supply.

PROCESSORS AND PRODUCERS

Organic businesses can continue to communicate the organic message, stepping up the use of online marketing and social media to tell the story behind their brands and create a buzz around organic products. Research shows that family and friends are more likely to influence consumer behaviour than advertising or media coverage, and social media can help to leverage this power.

Where possible producers can invest more in direct sales, backed by a web presence that caters for the particular enthusiasm of organic consumers to buy online.

Sales in Europe and the US show no sign of slowing – good news for the long-term



Governments need to develop new organic action plans

GOVERNMENTS

Governments in London, Cardiff and Belfast can follow the lead of the Scottish Government and develop new organic action plans – changing times demand innovative approaches. It is high time our politicians looked long and hard at how the organic sector is supported in continental Europe, particularly Scandinavia, through a combination of environmentally based producer support, firm targets for public-sector procurement and investment in promoting organic products. UK organic producers are crying out for our policy makers to show the kind of leadership that has been demonstrated by their continental counterparts.

ORGANIC MARKET REPORT 2013
Researched and written by Martin Cottingham (independent researcher and writer).

The author and the Soil Association would like to thank all those who completed survey questionnaires, provided information or granted interviews. We are particularly grateful to the following companies, organisations and individuals for their input and contributions.

The organic consumer
Main research, data and insights – Kantar Worldpanel (Chris Cowan and Charles Moseley). Additional material from Leapfrog Research/Organic Naturally Different Campaign (Catherine Fookes) and Planet Organic (Peter Marsh).

The UK organic market
Multiple retail and product category data/insights mainly from Kantar Worldpanel. Independent retail data mainly from Soil Association research. Information for individual multiple retailers from Michelle Rowley (Tesco), Will Ingham (Co-operative), Tom Harvey (Marks and Spencer), Lucy Fry (Ocado), Philippa Hadfield (Morrisons), Grace Castle (Sainsbury's) and Rachael Craven (Waitrose). Additional input from Warren Anderson (McDonald's), Mike Bond (Soil Association), Marcus Bruegel (GOTS), Rob Haward (Riverford), Pauline Hili (Natural Products Factory), Rachel McFarlane (Abel & Cole), Nicola Nolan (Neals Yard Remedies), Maarten van Perlo (Soil Association), Loredana Spiezia (Inlight), Mariusz Stochaj (Continental Clothing), Georgina Thomas (Soil Association) and Abi Weeds (Essential Care).

Organic farming in the UK
Land area, producer numbers and conversion – Defra statistics; arable – Andrew Trump (Organic Arable); horticulture – Ben Raskin (Soil Association); livestock – Stuart Vile (Meadow Quality) and Tim Finney (Eastbrook Organic Meats); poultry – Andrew Maunder (Two Sisters); eggs – John Sayer (Stonegate); milk – Karl Burkitt (Organic Milk Suppliers' Co-operative); aquaculture – Alex Macinnes (Aquascot); national trends – England; Martin Davies (Soil Association), Northern Ireland: Albert Johnston (DARD), Scotland – David Michie (Scottish Agricultural College), Wales – Tony Little (Organic Centre Wales).

The global context
Helga Willer (FiBL)

Other Soil Association input
Holly Black, Helen Browning, Finn Cottle, Rosie Farthing, Emma Hockridge, Lee Holdstock, Georgina McLeod, Emma Rose, Rob Sexton, James Twine.

Soil Association trade support

The Soil Association is committed to helping get the UK organic market back to growth and working with businesses across the sector to achieve success. Its activities include:

- Lobbying government and the retailers on behalf of organic consumers and businesses to invest in organic production and products
- Supporting market development by bringing together all the links in the supply chain and leading initiatives such as the Food for Life Catering Mark
- Organising Organic September and other marketing events to provide opportunities for organic businesses and retailers to work together in promoting organic products
- Staging the annual Organic Food Awards and supporting the organic categories in the Natural and Organic Products Awards to highlight outstanding products and recognise enterprise
- Staging 'meet the buyer' events with retailers to enable producers and their products to reach a wider market
- Organising regular trade briefings to share the latest news and market data with leading companies in the organic market, supporting well informed and effective marketing of organic products
- Providing a series of learning and networking events for organic farmers, growers and newcomers to the industry, facilitating the sharing of best practice
- Publishing *Living Earth* and *Organic Farming*, leading magazines for organic consumers and producers respectively
- Providing dedicated business development support across all sectors to help market development, including specialist advice on export opportunities.

For more information about trade support services please contact:

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