

Assessment of the European and North American Market for Organic Cacao, Coffee and Vanilla

Organic Monitor, June 2009

Introduction

Organic Monitor was commissioned by Food & Agricultural Organisation (FAO) of the United Nations to assess the European and North American market for organic ingredients: organic cocoa, coffee and vanilla. The purpose of the study is to investigate the market potential for Pacific Island Country (PIC) growers. The focus is on raw material of these organic ingredients: organic coffee beans, organic cocoa beans and organic vanilla pods.

This market brief gives an assessment of the European and North American market for organic ingredients. For the former, the focus is on Western Europe: Germany, UK, France, Italy, Spain, Austria, Switzerland, Sweden, Denmark and Benelux. No data is given for country markets as it is difficult to separate total European data by individual countries. This is because the European Union (EU) is a single market and there is facile trade of goods between countries. North America refers to USA and Canada, however data is not separated by country markets because both are part of the North American Free Trade Area (NAFTA).

The accompanying file (profiles.pdf) gives profiles of the leading importers of organic ingredients in Europe and North America. Although over 100 companies use such ingredients in each region, the majority do not import. Companies that import organic ingredients are profiled. Such companies include traders, processors, and end-users. Organic Monitor profiled 34 companies that buy organic ingredients in Europe, and 16 in North America.

Organic Monitor undertook primary research to prepare this market brief and company profiles. Over 100 interviews were conducted with leading organic ingredient traders, wholesalers, processors and end-users in Europe, and over 50 such interviews were conducted in North America. Secondary research was used to develop the initial contact list and to corroborate primary research. Market data like market sizes and growth rates are estimates based on the data collected.

The base year is 2008 for all data analysis that includes market size and end-user analysis. Market sizes for organic ingredients are in volumes. Years are calendar years, January to December.

Research Methodology

The research methodology involved both secondary research and primary research techniques. Although the starting point was secondary research, the bulk of the reports were prepared from primary research since fresh information was needed to meet the project objectives.

A. Secondary Research

The starting point was a comprehensive review of secondary sources for information on organic ingredients. Since Organic Monitor has been tracking the organic food market since 2001, we have accumulated a wealth of information / data on these product markets. The research team reviewed a number of reports that have published by Organic Monitor. These included:

- The Nordic Market for Dairy Alternatives (2007)
- The UK Market for Value-Added Milk (2007)
- The European Market for Organic Food & Drink (2006)
- The Global Market for Organic Food & Drink (2006)
- The North American Market for Organic Food & Drink (2006)
- The Scandinavian Market for Fresh Organic Fruit (2002)

Following analysis of Organic Monitor's previous reports, a review was undertaken of our internal databases, as well as trade journals and relevant industry publications to obtain updated information on products, companies and markets.

B. Questionnaire Design & Test

Questionnaires were designed to undertake primary research. Separate questionnaires were developed for three specific groups: organic ingredient importers & traders, processors and end-users. These questionnaires were designed to update existing information in our internal databases, as well as collect fresh information on new product segments: coffee, vanilla and cocoa. Before actually starting primary research, the questionnaires were tested to ensure they captured the desired information.

C. Contact List Development

Using our proprietary databases, Organic Monitor developed a list of interview contacts. We have developed an extensive database of contacts in the organic food industry over the last 8 years.

The contact list comprised the following types of companies:

- i. Organic ingredient importers & traders
- ii. Organic ingredient processors and coffee roasters
- iii. Organic ingredient end-users e.g. manufacturers of organic beverages, bakery products, etc.

The advantage of collecting information from the supply-side, processors and end-users is that multiple perspectives are gathered which gives greater accuracy and allows cross-verification of market data.

D. Strategic Review

During the project, regular strategic reviews were undertaken in which the project manager met with the researchers and discussed project progress, interviews completed and research strategy. These strategic reviews ensure that 1) the project objectives are completely met, 2) the findings and recommendations provide the utmost strategic value to our clients, and 3) our client's research investment is fully maximised.

E. Primary Research Completed & Data Analysis

At the end of the project, over 150 interviews were conducted with key companies dealing in organic ingredients. The expert-opinion consensus model was used to calculate the market sizes for organic ingredients. The process allows data to be refined through a process of controlled feedback and iteration, and cross verification of both primary and secondary data-points. The collected data was analysed and confirmed at this stage, so that it could be entered into the final report.

Company profiles were prepared of prospective customers of PIC growers. These profiles are of companies involved in importing organic ingredients. The contact details of buyers and company details were collected at this stage.

F. Management Review

The project manager gave a final review of the data and information collected to ensure the project & research objectives were met. Meetings were undertaken with the researchers in which strategic recommendations were discussed. These strategic recommendations were then put in the report.

The European Market for Organic Ingredients

Market Overview

Figure 1 gives the key data for the organic ingredients market. It is shown that organic coffee comprises most sales volumes.

Figure 1

Assessment of the Organic Ingredients Market: Market Size & Projections for European Market

	<i>Market Size 2009</i>	<i>Projected Growth Rates 2008 (tonnes) 2010-13</i>	
Organic Coffee.....	38,000	2%	4-6%
Organic Cocoa	18,000	0%	2-4%
Organic Vanilla.....	60	0%	2-4%

Note: All figures are rounded

Source: Organic Monitor

The European market for organic coffee was estimated at 38,000 tonnes in 2008. Organic coffee is mainly imported as green beans, mainly from Latin America.

The organic cocoa market was worth around 18,000 tonnes. The ingredient is almost entirely imported as cocoa beans, mostly from Latin America.

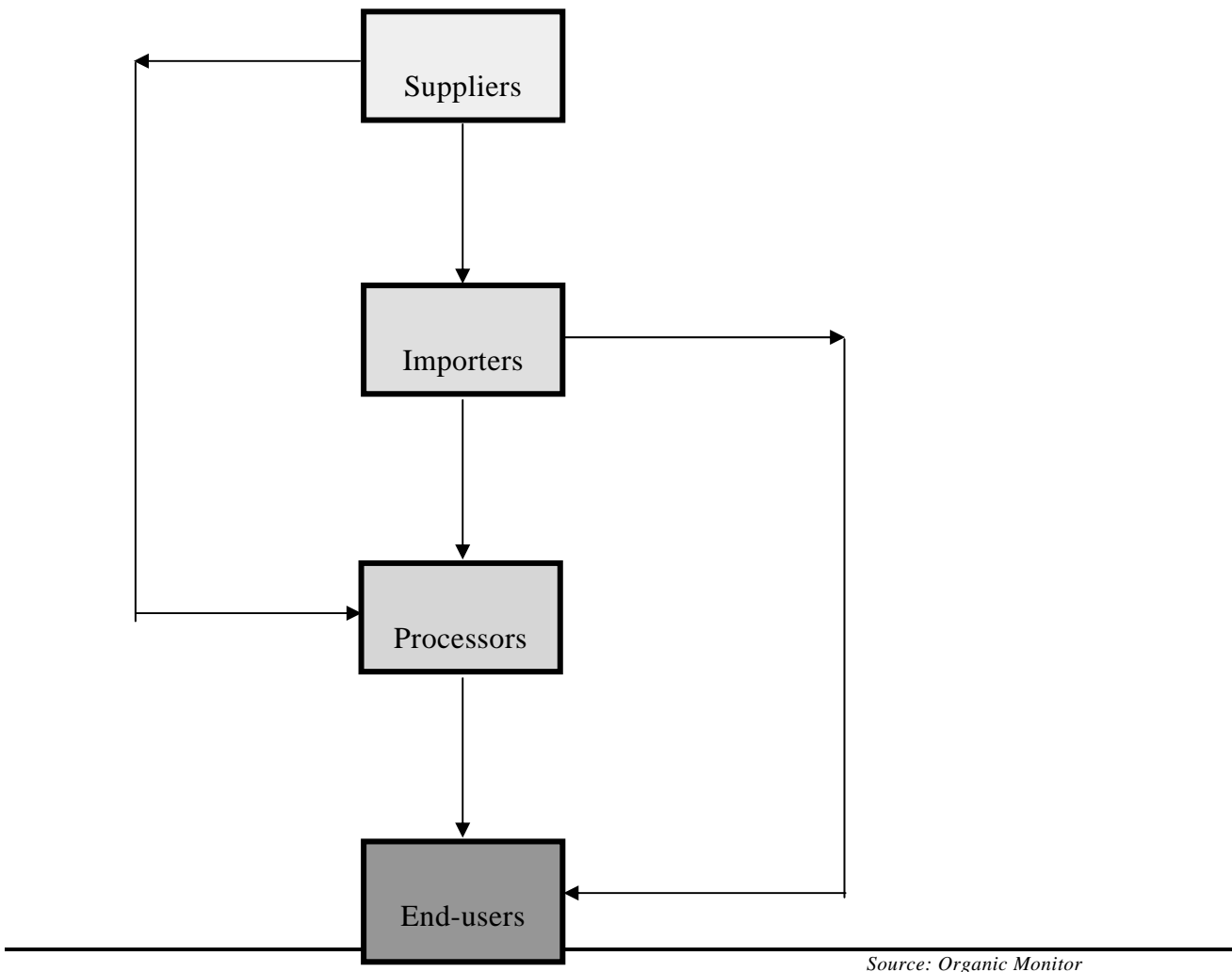
It is very difficult to estimate the size of the organic vanilla market because of the low volumes used by end-users. Organic Monitor estimates the European market is worth in the region of 60 tonnes.

Organic Monitor projects the organic ingredients market to show about 0-2 percent growth in 2009. The organic products market is stagnating because of the financial crisis, which has curtailed consumer purchasing power. Although consumer interest in organic foods remains high, expenditure is not increasing. Slightly higher market growth rates are expected when the economic climate improves.

Distribution Analysis

Chart 1 gives a general illustration of the supply chain for organic ingredients. The ingredients are made in developing countries, mostly in Latin America and Africa. Various types of companies are involved in exporting organic ingredients: large plantation companies, private enterprises, grower co-operatives as well as traders. For the purpose of this analysis, all such companies that export organic ingredients are referred as suppliers. Suppliers in these countries mostly export the organic ingredients as raw material.

Chart 1 Assessment of the Organic Ingredients Market: Distribution Structure for Europe, 2009



Organic ingredients are nearly all imported as raw material. For instance, organic cocoa and coffee come into Europe as beans, whilst vanilla comes in as pods and beans. Some organic ingredients are imported in processed forms like coffee powder / granules and vanilla extract, however the sales volumes is relatively low. Furthermore, the focus of this analysis is on raw material.

Importers bring the organic ingredients into Europe. These companies either process the ingredients themselves or they pass them onto processors. The leading organic cocoa and vanilla importers are involved in processing. For instance, Barry Callebaut and Pronatec process organic cocoa into cocoa derivatives: mass, powder, butter and liquor. However, large organic coffee importers like Supremo and J.Th.Douqué's Koffie are trading houses that are not involved in processing / roasting. However, some companies like Taylors of Harrogate and Goppion Café are involved in importing and roasting.

Processors convert the organic ingredients into other formats: organic cocoa into mass, butter, powder and liquor; organic coffee into dried granules, powder and roast & ground; organic vanilla into powder, extracts and cuts. Important processors include Prova (France), Miko (Belgium) and Chocolat Bernrain (Switzerland).

The ingredients are then passed onto end-users who use them in their finished products. Organic cocoa is mostly used for confectionary applications, vanilla for flavourings, whilst coffee almost entirely goes into beverage production.

Wholesalers are often present between processors and end-users. Companies like Rasanco (UK) and Do-IT (The Netherlands) source organic ingredients from processors and supply end-users.

The leading coffee and cocoa companies are vertically integrated, involved in every step of the supply chain. For instance, the Swiss company Barry Callebaut owns cocoa plantations, is involved in importing, and processing organic cocoa. It also produces organic chocolate as finished products. Similarly, companies like Torrefazione Caffè Salomoni and Nestlé are involved in importing organic coffee beans as well as roasting.

The chart gives a general illustration of the supply chain for organic ingredients, however there are some variations. Some companies operate at various levels of the supply chain. For instance, many processors import direct. An example is the Italian company Alce Nero Mieliza which imports organic cocoa and coffee beans and undertakes processing.

Also, finished product manufacturers can undertake processing; chocolate manufacturers can buy organic beans, convert into cocoa liquor and butter and make chocolate. Some chocolate companies even import organic processed ingredients. For instance, the French company Chocolats Guillaume Daix imports organic cocoa mass from Bolivia.

Some leading organic and fair trade food companies are involved in setting up supply chains for their finished products. For instance, Alter Eco has secured the supply of organic coffee from grower co-operatives in Rwanda and Laos. It arranges for the import of organic coffee beans, roasting by a third party, and then distribution of the finished products.

Customer Analysis

Figure 2

Assessment of the Organic Ingredients Market: Most Prospective Customers in Europe

Company	Country	Coffee	Cocoa	Vanilla
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Care Naturkost	Germany	X	X	
Hamburg Coffee Company	Germany	X		
Tchibo	Germany	X		
Wertform	Germany	X		
Worless	Germany			X
Matthew Algie	UK	X		
Nestlé	UK	X	X	
Twin Trading	UK	X	X	
Wakefield & Company	UK	X		
Torrefazione Caffè Salomoni	Italy	X		
Malongo	France	X		
Prova	France			X
Tradin Organic	The Netherlands		X	
J.Th.Douqué's Koffie	The Netherlands	X		
Supremo	Belgium	X		
Suiker Export	Belgium	X		
Mapryser	Spain		X	X
Natra	Spain		X	
Erboristi Lendi	Switzerland			X
Pronatec	Switzerland		X	X
Barry Callebaut	Switzerland		X	X

Source: Organic Monitor

A large number of companies import organic ingredients in Europe. Importing is undertaken by traders, processors and end-users. The most prospective customers are adjudged to be those companies who import large volumes. Such companies are listed in figure 2. These companies typically import over 1,000 tonnes of organic coffee, over 100 tonnes of organic cocoa and / or 5 tonnes of organic vanilla. Contact details of these companies and other prospective customers are given in the accompanying file (Profiles.doc).

Various types of companies import **organic coffee**: traders, roasters and beverage producers. The import structure can be complex since retailers and brand owners can be involved in setting up supply chains with suppliers in Latin America, Africa or Asia. Over half of the organic coffee beans come into Europe via traders and roasters. The leading companies are Torrefazione Caffè Salomoni, Malonga, J.Th.Douqué's Koffie, Hamburg Coffee Company, Suiker Export and Matthew Algie. Although a number of beverage companies are involved in importing, Nestlé deals in the highest volume.

Compared to organic coffee, relatively few companies import **organic cocoa** beans. The four leading companies are estimated to import over 80 percent of total sales volume. Pronatec is the market leader, importing over 7,000 tonnes of organic cocoa beans. The Swiss company is vertically integrated, involved in sponsoring grower projects, importing, processing and production of finished products. Another Swiss company Barry Callebaut is also vertically

integrated. The Spanish company Mapryser is involved in importing and processing. The other leading importer is Tradin Organic.

No companies focus on **organic vanilla**, as they do for organic coffee and cocoa. Thus, many companies import organic vanilla in low volumes. The most prospective customers are adjudged to be the large processors: Pronatec, Worlee and Prova. Other companies like Tradin, Rapunzel and Mapryser also import direct, but deal in less than 2 tonnes of organic vanilla.

Some organic and fair trade companies would be interested in new suppliers, possibly in PIC. Alter Eco and Green & Black's are both involved in setting up supply chains for their organic ingredients. The two companies are not involved in processing themselves, but could be interested in entering contracts with new growers. Other such prospective customers are Gepa, Equal Exchange, Café Direct and DWP.

End-User Analysis

The sales breakdown of **organic cocoa** by end-users is given in figure 3.

Figure 3

Assessment of the Organic Ingredients Market: Sales Breakdown of Organic Cocoa by End-User Sector, 2008

		Tonnes
Confectionary.....	60%	10,800
Beverages.....	15%	2,700
Desserts.....	10%	1,800
Others.....	15%	2,700
TOTAL	100%	18,000

Note: All figures are rounded

Source: Organic Monitor

Confectionary companies are the main users of organic cocoa. An estimated 10,800 tonnes went to companies that make organic chocolate, spreads, biscuits and related products. A large number of companies make such products. Important end-users include Maestrani, Chocolate Benrain, Brinkers Foods, Zotter Schokoladen, and Rapunzel.

A number of beverage companies use organic cocoa in products like hot chocolate, soya drinks and related drinks. About 2,700 tonnes went to these applications in 2008. Important end-users include Clipper and Equal Exchange.

The organic desserts sector has about 10 percent share. Organic cocoa is used in puddings, cakes, gateaux, ice-cream and related products. Important end-users include Alpro and Byodo Naturkost

Other applications have about 15 percent share. Bakery companies use organic cocoa in products like buns, croissants and muffins. Leading end-users include the German companies Leckers and Bohlsener Muehle.

It is very difficult to assess the consumption of **organic vanilla** because many companies use low volumes of this ingredient. It is estimated that over half of total sales volume goes to confectionary applications: organic chocolate, biscuits and cakes. Organic vanilla is also used by manufacturers of desserts, puddings, bakery products and beverages.

Almost all **organic coffee** is consumed as a beverage. Only about 1 percent goes into other applications in food products and cosmetics.

Pricing Analysis

This section gives sample prices of the organic ingredients. These prices are indicative and should be used as a guide since prices vary according to various factors like product grade, country sources, volume bought and contract type.

a) Organic Coffee

Central American coffee, FOB: US \$ 0.35 to \$0.45 per pound

Peru coffee, from shipment: US \$ 0.20 to \$0.27 per pound in the NY market exchange

Brazil coffee from shipment: US \$ 0.22 per pound

Arabica Coffee from Uganda: US \$0.10 per pound and 700 FOT in Hamburg

b) Organic Cocoa

The following are CIF (Cost, Insurance and Freight) prices:

Organic cocoa: \$1850 per metric tonne

Criollo organic cocoa: US \$5000 per ton; and US \$3000 per ton

Espanola organic cocoa from the Dominican Republic: US \$1000 per ton but it can be as low as \$500 per ton

Organic cocoa from Ghana: \$100 - \$ 200 per ton

c) Organic vanilla

Average wholesale price of organic vanilla: \$30 per kg

Average wholesale price of conventional vanilla: \$20 per kg

Import Analysis

Organic coffee comes into Europe from a large number of countries. It is estimated that about 90 percent comes from Latin America. The major country sources are Mexico, Colombia, Peru, Honduras and Costa Rica. The remaining 10 percent mainly comes from African countries like Ethiopia, South Africa, Rwanda and Tanzania. Low volumes also come from Indonesia, Vietnam, Laos, India and Papua New Guinea.

Although some organic coffee is imported as roasted beans and in dried granular format, the bulk is imported as green beans. Organic coffee is usually imported as green beans, roasted and packed in Europe. A growing trend is that brand owners, especially in the case of fair trade coffee, like to set up the supply chains for their organic coffee. Just one leading brand of organic coffee is imported as the finished product, Percol of Food Brands Group. Percol has fresh & ground coffee and granulated coffee.

Latin America is also the main source of **organic cocoa**. About 90 percent comes from Latin American countries that include Ecuador, Bolivia, Peru, Mexico, Costa Rica and the Dominican Republic. The leading organic cocoa importers, Pronatec and Barry Callebaut, have grower projects in these countries. About 10 percent of organic cocoa is imported from Ghana, Uganda, Cameroon, Tanzania, Ivory Coast and other African countries.

Organic cocoa is nearly all imported as cocoa beans. Processors import the beans and transform them into cocoa derivatives: mass, butter, liquor and / or powder. The derivatives can be alkalized if a low pH is required.

Madagascar is the main source of **organic vanilla**. Over 90 percent of organic vanilla is estimated to come from this country. Other sources include Sri Lanka, India, Uganda, Indonesia and Comoros Islands.

Buyer Requirements

This section gives an outline of the requirements of buyers / importers of organic ingredients. The prerequisite for any new suppliers of these organic ingredients is that the products must be certified organic by a recognised agency. If fair trade ingredients are required then buyers usually seek products certified by a FLO labelling initiative. However, other fair trade standards like those of IMO and Ecocert are also becoming increasingly recognised.

Organic coffee buyers scrutinise the quality of the bean. Importers state the colour and the size of the beans are the first criteria for selection. Bean samples are then analysed for moisture, acidity, fermentation, aroma and such characteristics. Traceability is very important for fair trade coffee; indeed, fair trade companies like Alter Eco and Gepa like to source organic coffee beans directly from growers in developing countries. They arrange for the import, roasting of the beans, packing and then distribution of the finished products.

Organic cocoa buyers stated that bean quality and price are the most important factors they consider when looking at new suppliers. The cocoa bean quality must be high and prices must be competitive. The leading importers stated they would all prefer to work directly with growers, rather than traders.

Very few companies are importing **organic vanilla**. Mostly Bourbon vanilla is used in Europe; very few companies use Tahitian vanilla. Buyers said they look for high quality vanilla pods / beans. They undertake physical, optical and microbiological tests to check the colour, flavour and quality of vanilla. Buyers stated they look at vanilla quality and pricing when considering a new source.

Some importers stated they may want to visit the farms and facilities of a new supplier before entering long-term contracts. Others stated they would also check references to ensure a new supplier is reputable.

The North American Market for Organic Ingredients

Market Overview

Figure 4 gives the key data for the organic ingredients market. It is shown that organic coffee comprises most sales volume.

Figure 4

Assessment of the Organic Ingredients Market: Market Size & Projections for North American Market

	<i>Market Size 2009</i>	<i>Projected Growth Rates 2008 (tonnes) 2010-13</i>	
Organic Coffee	37,000	3%	5-8%
Organic Cocoa	7,000	0%	2-5%
Organic Vanilla	40	0%	2-5%

Note: All figures are rounded

Source: Organic Monitor

The North American market for organic coffee was estimated at 37,000 tonnes in 2008. Organic coffee is mainly imported as green beans, predominantly from Latin America. However unlike Europe, significant volume of processed organic coffee is brought into the region.

A major trend in the US is that companies are seeking organic and fair trade coffee. Indeed, about 70 percent of organic coffee is also certified fair trade.

The organic cocoa beans market was worth around 7,000 tonnes. The small market size compared to Europe is because many companies import organic cocoa derivatives like powder and mass. Many such organic cocoa ingredients are imported from Europe and Latin America.

As for organic coffee, many buyers are demanding cocoa beans that are certified organic and fair trade. Fair trade products are estimated to comprise over 30 percent of organic cocoa bean sales.

The organic vanilla market was worth around 40 tonnes in 2008. Only a few companies import organic vanilla beans into North America. Very little organic vanilla is also certified fair trade.

Except for organic coffee, demand for organic ingredients has slumped in 2009. No growth is projected in 2009. Demand for many organic confectionary products and desserts has been adversely affected by the economic slowdown. Market growth rates are expected to recover when economic conditions improve.

Distribution Analysis

Chart 2 graphically illustrates the supply chain for organic ingredients. The ingredients (organic coffee beans, cocoa beans and vanilla beans) are imported from developing countries, mostly in Latin America. Various types of companies are involved in exporting organic ingredients: large plantation companies, private enterprises, grower co-operatives as well as traders. For the purpose of this analysis, all such companies that export organic ingredients are referred to as suppliers. Although some organic ingredients are imported in processed forms like coffee granules, cocoa powder and vanilla extract, the bulk is imported as raw material.

Most organic ingredients come into North America via importers. These companies usually act as traders, importing and distributing to processors. Some companies, especially in the case of organic cocoa and vanilla, are involved in processing. For instance, Atlantic Cocoa and United Cocoa Processor process organic cocoa beans into cocoa derivatives: mass, powder, butter and liquor. Leading importers of organic cocoa and vanilla are usually involved in processing, whereas large organic coffee importers like Royal Coffee and Inter American Coffee are not.

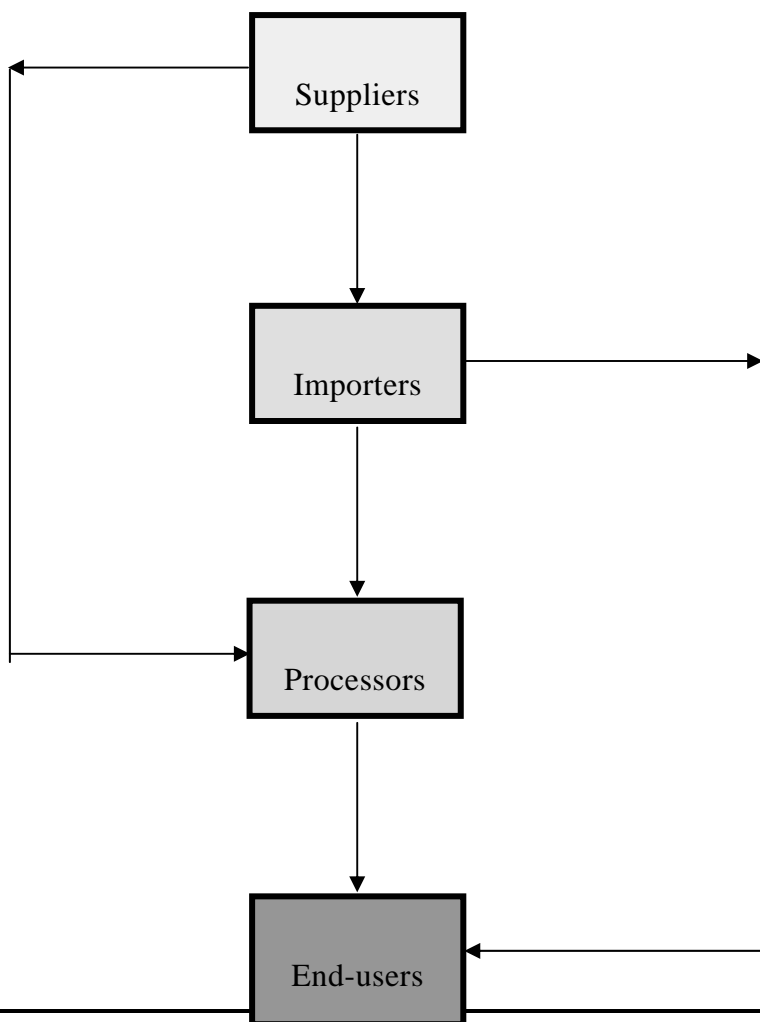
Processors convert the organic ingredients into other formats: organic cocoa into mass, butter, powder and liquor; organic coffee into dried granules, powder and roast & ground; organic vanilla into powder, extracts and paste. Important organic coffee processors / roasters include Allegro Coffee Company and Invalsa Coffee. Important processors of organic cocoa and vanilla are Atlantic Cocoa and DM Flavors respectively.

Organic coffee is then passed onto retailers and / or the catering & foodservice sector. Most organic cocoa and vanilla goes to end-users that make finished products like desserts, beverages, chocolate and other confectionary products.

Wholesalers exist between processors and end-users. Companies like Organic Partners and Multiple Organics supply a wide range of organic ingredients to end-users. Some of these companies also import processed organic ingredients. For instance, Ciranda imports organic cocoa liquor and powder from Peru and Dominican Republic.

Chart 2 gives a simple depiction of the supply chain for organic ingredients, however there are many variations. Some companies are vertically integrated, operating at various levels of the supply chain. For instance, large coffee companies like Starbucks are involved in importing, processing, production and retail of finished products.

Chart 2 Assessment of the Organic Ingredients Market: Distribution Structure for North America, 2009



Source: Organic Monitor

Some leading cocoa and vanilla companies are also vertically integrated, involved in every step of the supply chain. For instance, Dagoba Chocolate is involved in importing and processing organic cocoa as well as production of organic chocolate. The chocolate company Blommer also has a high level of vertical integration.

Leading fair trade companies are involved in setting up supply chains for their raw material. For instance, Equal Exchange works closely with growers in Latin America for its supply of organic coffee and cocoa.

Customer Analysis

Most import organic ingredients are imported by traders and processors in the USA. The companies that import most volume of raw material are listed in figure 5. These companies

typically import over 1,000 tonnes of organic coffee and / or over 200 tonnes of organic cocoa. Contact details of these companies and other prospective customers are given in the accompanying file (Profiles.doc).

Figure 5

Assessment of the Organic Ingredients Market: Most Prospective Customers in North America

Company	Country	Coffee	Cocoa	Vanilla
Allegro Coffee Company	USA	X		
Equal Exchange	USA	X	X	
Green Mountain Coffee	USA	X		
Inter American Coffee	USA	X		
Peet's Coffee & Tea	USA	X		
Royal Coffee	USA	X		
Starbucks	USA	X	X	
Sustainable Harvest	USA	X		
Volcafe	USA	X		
Atlantic Cocoa	USA		X	
Blommer	USA		X	
Dagoba Chocolate	USA		X	
United Cocoa Processor	USA		X	
Amadeus Vanilla	USA			X
DM Flavours	USA			X
Nielsen Massey	USA			X

Source: Organic Monitor

Although roasters and beverage companies import, most **organic coffee** comes into North America via traders. The largest traders are Inter American Coffee, Sustainable Harvest, Volcafe and Royal Coffee. These companies import over 3,000 tonnes of organic coffee a year. A number of coffee companies also import significant volumes; they include Starbucks, Allegro Coffee Company, Green Mountain Coffee and Peet's Coffee & Tea.

Most **organic cocoa** is imported by processors. The two leading processors are United Cocoa Processor and Atlantic Cocoa, each importing over 1,000 tonnes of organic cocoa beans. Just two leading organic chocolate producers import organic cocoa beans. Dagoba Chocolate, part of the Hersheys Group, and Blommer. Both companies are vertically integrated: involved in importing, processing and production of finished products.

The three leading importers of **organic vanilla** are DM Flavors, Amadeus Vanilla and Nielsen Massey. These companies import the majority of organic vanilla beans into North America. Other companies, mainly traders, import organic vanilla powder, extracts and flavours.

End-User Analysis

Figure 6 gives the estimated sales breakdown of **organic cocoa** by end-users.

Figure 6

Assessment of the Organic Ingredients Market: Sales Breakdown of Organic Cocoa by End-User Sector, 2008

		Tonnes
Confectionary.....	66%	4,600
Beverages.....	14%	1,000
Desserts.....	10%	700
Others.....	10%	700
TOTAL	100%	7,000

Note: All figures are rounded

Source: Organic Monitor

About two-thirds of **organic cocoa** goes to confectionary applications. Most demand comes from companies that make organic chocolate, spreads, biscuits and related products. The leading end-users are Dagoba Chocolate and Blommer. These companies are also involved in imported and processing of organic cocoa beans.

Beverage applications have 14 percent sales share. Organic cocoa is used in products like hot chocolate, soya drinks, soft drinks and other beverages. About 1,000 tonnes went to these applications in 2008. Important end-users include Whitewave Foods and Equal Exchange.

The organic desserts sector has about 10 percent share. Organic cocoa is used in puddings, cakes, ice-cream and related products. Important end-users include Stonyfield Farm and Organic Valley.

Other applications have about 15 percent share. Bakery companies use organic cocoa in products like buns, croissants and muffins.

Most **organic vanilla** goes into confectionary, dessert and dairy applications. About 90 percent of organic vanilla goes into products like chocolate, yoghurts, milk drinks, ice-cream, desserts and puddings. About 10 percent of demand stems from bakery companies, beverage producers, cosmetic companies and others.

The major use of **organic coffee** is as a beverage. Only about 1 percent goes into other applications that include food products and cosmetics.

Pricing Analysis

This section gives sample prices of organic ingredients. Ingredient prices are indicative and should be used as a guide since prices vary according to various factors like product grade, country sources, volume bought and contract type.

a) Organic Coffee

Organic coffee, CIF: US \$1.80 to \$3 per pound

Organic coffee at the low end of the scale comes from Mexico and Peru, whilst organic coffee from Ethiopia is at the upper end of the scale.

Ethiopian Coffee, CIF: US \$3 per pound

Peru coffee, FOB: US \$ 0.15 per pound on the NY market exchange

Central American coffee, FOB: US \$ 0.30 to \$0.40 per pound on the NY market exchange

b) Organic Cocoa

The following are FOB prices:

Organic cocoa "hispaniola" beans from the Dominican Republic, ICE (formerly NYBOT): US \$50 per metric tonne
Organic cocoa "sanchez" beans from the Dominican Republic, ICE: US \$75 per metric tonne
Organic cocoa beans from Madagascar, ICE: US \$700 per metric tonne
Organic cocoa beans from Peru, ICE: US \$200 per metric tonne
Organic cocoa beans from Ecuador, ICE: US \$300 per metric tonne

c) Organic Vanilla

Indian organic vanilla (7 inches long), FOB: US \$14-17 per kg

Import Analysis

Almost all **organic coffee** comes into North America from Latin America. Important country sources are Mexico, Brazil, Colombia, Peru, Honduras, Nicaragua, El Salvador and Costa Rica. Only about 5 percent of total volume comes from outside the Americas. Sources include Ethiopia, Rwanda in Africa, and Indonesia, India and Papua New Guinea in the Asia-Pacific.

The majority of organic coffee is imported as green beans. Organic coffee is usually imported as green beans, roasted and packed in the US. Very little is imported and processed in Canada.

Leading coffee companies and roasters in North America are involved in setting up supply chains in developing countries. For instance, Starbucks and Equal Exchange have invested in grower projects in Latin America.

Many brands of organic coffee are imported as the finished products. Two such brands are Café Bom Dia and Marques de Paiva, imported from Brazil by Café Bom Dia. Imported products come into North America as fresh & ground coffee and granulated coffee.

Most **organic cocoa** also originates from Latin America. About 80 percent comes from Latin American countries that include Peru, Ecuador, Bolivia, Mexico, Costa Rica and the Dominican Republic. About 20 percent of organic cocoa is imported from Indonesia, Vietnam, Ghana, Ivory Coast and other African countries.

Most organic cocoa is imported as cocoa beans. Processors import the beans and transform them into cocoa derivatives: mass, butter, liquor and / or powder. The derivatives can be alkalized if a low pH is required. Some traders import organic cocoa derivatives and supply to end-users; such companies include Multiple Organics, SunOpta and Ciranda.

The main source of **organic vanilla** is Madagascar. Other country sources are India, Comoros Islands, Malaysia and Uganda. Although most is imported as organic vanilla beans, a number of companies are importing vanilla derivatives. Some companies import organic powder, extracts and flavours. For instance, the natural food wholesaler Frontier Co-op imports organic vanilla extracts.

Buyer Requirements

This section gives an outline of the requirements of buyers / importers of organic ingredients. The basic requirement is that organic ingredients must meet USDA National Organic Program (NOP) standards. If buyers are looking for fair trade ingredients then they look for those that certified by a FLO labelling initiative.

Organic coffee buyers focus on the bean quality, specifically looking at the colour and size. Bean samples are then analysed for moisture, acidity, fermentation, aroma and such characteristics. Leading coffee companies and roasters like to be involved in grower projects in developing countries. This is most important for fair trade coffee.

Organic cocoa buyers stated they scrutinise bean quality when considering a new supplier. Buyers stated they would prefer to have large beans, no defects, no moulds, no contamination and good levels of fermentation.

Only a few companies are importing **organic vanilla** beans. Bourbon is the main type of vanilla sourced. Buyers state the bean quality is of utmost important when considering a new supplier. After bean quality, price and volumes are considered. It is common for buyers to undertake physical, optical and microbiological tests to check the colour, flavour and quality of vanilla.

It is standard practice for importers to get product samples before entering contracts with new suppliers. Buyers would also want to visit and inspect farms before entering long-term contracts. Others stated they would also check references to ensure a new supplier is reputable.

Strategic Recommendations

This section gives strategic recommendations to PIC growers. Recommendations are given according to two levels of organisational development.

I. No Infrastructure

These recommendations are for PIC growers who are not organised and / or those who are not producing ingredients on a significant scale.

Such PIC growers are advised to develop infrastructure by organising themselves into groups. They should consider forming grower co-operatives since they would have ownership of the enterprise and would be actively involved in decision-making. The advantage of developing groups / co-operatives is that resources and knowledge can be pooled and shared between the members.

Organisational development in the form of private enterprise or grower co-operative is essential for exporting. Buyers in Europe and North America generally dislike dealing directly with small growers because of the low volumes involved and the resources required to educate / brief them on their ingredient needs. By forming groups / co-operatives, an export executive can be appointed who would be responsible for approaching and liaising with potential buyers. This person will be the single point of contact with potential customers and be able to initiate and maintain exports.

When PIC growers are organised, they are recommended to adopt the following recommendations...

II. Existing Infrastructure

These recommendations are for PIC growers who are already organised in groups and / or are currently exporting. If PIC growers are already exporting (possibly conventional ingredients), they are advised to approach the companies highlighted (profiles.doc). Such companies are the leading importers of organic coffee, cocoa and vanilla in Europe and North America. In most cases, these companies are buying organic and conventional ingredients; thus, no additional infrastructure would be required for organic ingredients.

If PIC growers are organised but are not exporting then they should consider developing export infrastructure. This could be in the form of appointing an export representative (as previously described), or partnering with existing exporters in PIC. PIC countries already export conventional ingredients; the companies involved can easily take on organic ingredients,

considering most importers in Europe and North America are buyers of organic and conventional ingredients.

The following recommendations are for all PIC growers, irrespective of their infrastructure:

III. Fair Trade

PIC growers are advised to adopt fair trade practices. The main advantage of fair trade is that it protects growers from fluctuations in commodity markets; thus PIC growers are guaranteed a fair price for their coffee, cocoa and vanilla. Fair trade also encourages the formation of co-operatives, proving the aforementioned benefits.

IV. Long-term Partnerships

Organic and conventional ingredients are generally bought 'on the market' or via fixed term contracts. The advantage of relying on market prices is that potentially high prices can be obtained by growers if there is shortage of supply. Conversely, low prices are given if there is oversupply of ingredients. The major advantage of fair trade is that it guarantees a minimum price to growers.

PIC growers are advised not to rely on market prices and enter long-term contracts with buyers in Europe and North America. If PIC growers do not enter fixed term contracts then they will be supplying their organic ingredients to traders who act as middle-men. Although these companies maybe easier to work with, they take high margins. These traders also do not offer loyalty, providing no guarantee to purchase from one year to the next.

By entering long-term contracts, PIC growers make a commitment to supply organic ingredients to buyers in Europe and North America. The prices they get maybe lower than market prices, however they receive a guarantee that their organic ingredients will be bought over a number of years. The business risk is thus reduced since they are protected from price volatilities and irregular supplies. If long-term contracts are entered, then the buyers will accept fluctuations in supply because of poor harvests and adverse weather conditions.

Many companies are looking at entering long-term contracts with new suppliers. Large coffee companies like Starbucks, chocolate firms like Blommer, ingredient firms like Pronatec as well as processors like Mapryser and Amadeus Vanilla.

V. Buyer Requirements

When surveying buyers in Europe and North America, the most important factor required for a new supplier was product quality. Almost all buyers stated product quality was more important than prices. PIC growers are therefore advised to focus on developing high quality cocoa, coffee and / or vanilla before considering exporting. It is essential that the product quality is high otherwise PIC growers will find it difficult to re-approach buyers if a poor first impression is given.

Buyers also stated long-term commitment is important when considering a new supplier. Some companies like Matthew Algie (UK) and Starbucks (USA) are prepared to invest in new growers by helping them with certification and improving product quality, however they would only do so if they get long-term commitment from them.

Conclusions

This market assessment study shows that a large number of companies and end-users buy organic ingredients. Although the applications vary between product types, most volume comes into Europe and North America via large companies.

PIC growers are suggested to work with two types of companies. The first are large traders and processors that include J.Th.Douqué's Koffie, Hamburg Coffee Company and Nestlé for organic coffee, and Barry Callebaut and Pronatec for organic cocoa. In terms of volume, these companies are the largest importers of organic coffee and cocoa in Europe. By targeting these companies, PIC growers could access the European and North American markets relatively quickly. However, some of these companies may not offer long-term commitments.

The second type is dedicated organic and fairtrade companies that include Alter Eco, Gepa, Equal Exchange and DWP. Such companies import relatively low volume, however they enter long-term arrangements with growers. Furthermore, these companies prefer to work closely with their suppliers, helping them with certification and quality issues. For instance, Alter Eco has set up supply chains to source organic coffee from growers in Rwanda and Laos. Such companies also prefer to work directly with growers, rather than export houses and traders.

PIC growers are advised to work with the prospective customers highlighted. Most buyers stated they are looking for new suppliers to diversify their source base. The length of the contract and volumes were less important than high quality ingredients and the reliability of the supplier. Even large companies like Starbucks stated they would be keen to work with new suppliers in developing their product ranges and enter contractual arrangements. Working with small growers from PIC was not cited as a problem for companies looking at new sources.

Finally, PIC growers are advised to supply organic and fair trade ingredients. This would enable them to access the organic and fair trade product markets. Although the global organic food industry (over US \$50 billion) is much larger than the fair trade products market (US \$4 billion), the latter is showing faster growth. The economic recession has dampened consumer demand for organic foods, whilst fair trade product sales are increasing at a rapid rate. The fair trade option would also favour PIC grower co-operatives.