ГРАД
ПИРОТ

PROSPECTS IN THE PRODUCTION AND MARKETING OF ORGANIC PRODUCTS IN SOUTHEAST EUROPE

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Abstract: *Over the last decade, there have been significant changes in consumer preferences and behavior. An important place in the transformation takes the increased interest in a healthy lifestyle and protection of the environment. These processes are increasingly affecting food production and trade in the countries in Southeast Europe.*

The paper outlines the basic parameters of this evolving market in Bulgaria and the Balkans. Special attention is paid to certified organic food products as a distinct segment with different categories: fresh food, packaged products and beverages. The specifics of the competitive environment in the countries and the prospects for growth in the medium term are outlined.

In the region, there is a relatively limited but steady and rising demand for organic products. In the long term, the share of the cost of organic products in the household budget can be expected to increase and the assortment to be increased as well.

Keywords*: Organic products, prospects for growth, countries in Southeast Europe, basic parameters of the market.*

1. Introduction

Organic farming means an agricultural management and food production system that is in line with natural cycles. This set of practices seeks to minimize environmental impact and use natural substances and processes in agriculture and livestock farming. The main characteristics of organic production are:

- practices that support soil fertility;
- rotation of crops to make efficient use of available resources;
- strictly limiting the use of chemically synthesized substances such as pesticides, fertilizers, antibiotics, etc.;

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- a ban on the use of genetically modified organisms (GMOs) and products produced by them;
- a ban on the use of ionizing radiation for the treatment of organic food;
- application of high animal welfare standards.

Organic farming is part of an expanded supply chain that also includes food production, distribution and retailing. Each unit in this chain contributes to consumer confidence, food quality, environmental protection and the welfare of farmed animals.

Products marketed as organic must be certified and labeled with a national or regional logo. Such is the practice in the European Union, USA, Canada, Japan, China, Australia, New Zealand, Brazil, Mexico, Russia, Ukraine and in nearly 90 countries around the world. The current legal framework on organic production and labeling of organic products in the European Union is laid down in Council Regulation (EC) No 834/2007. Detailed rules on organic production, labeling and control are set out in Regulation (EC) No 889/2008 and in Regulation (EC) No 1235/2008 on the import arrangements for organic products from third countries.

This survey covers the Central and Southeastern Europe region and includes data for the period 2011-2016. For the purpose of the survey, a total of 18 countries are covered. First, there are eleven countries that joined the EU since 2004, and Greece, which is geographically and economically part of the region: Bulgaria, Greece, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Hungary, Croatia and the Czech Republic. Apart from these, six other Southeast European countries, which are candidates for EU membership or are considered as potential candidates, include the Western Balkan countries (Albania, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro) and Turkey. This broad group of countries shares many common features that distinguish it from both Western and Eastern Europe (within the post-Soviet space). This is the level of income, the degree of development of economies, values and cultural characteristics.

2. Consumer Attitudes towards Bioproducts

The development of the market for organic products is driven by several leading trends in consumer behavior. First is the pursuit of a healthy lifestyle. Another trend is the influence of ethical considerations in the realization of consumer choice. Environmental concerns are an important factor that can influence consumers' attitudes and decisions to buy certified organic products.

Healthy lifestyles are increasingly perceived as a comprehensive concept that encompasses not only physical health, but also mental and emotional equilibrium, including food, exercise and sports, attitudes to nature and to oneself. Such an approach requires a more conscious choice of nutritional alternatives and includes the consumption of products with additional benefits, including willingness to pay for products and services that support healthy lifestyles.

Another important trend affecting the demand for organic products is the gradual increase in the number of consumers and ethically motivated purchasing decisions (Euromonitor 2017b). Such solutions are most often related to environmental concerns and the pursuit of sustainable development, animal welfare, working conditions and the desire to have a positive impact on the communities in which the products are produced.

The driving forces that form the described trends in consumer behavior are very similar. First, there is a long-term change in the global economic order leading to the emergence of emerging economies (China, India, Indonesia, Brazil, etc.) and a reduction in the relative weight of the G-7 countries (PwC 2017). Expanding the middle class in emerging markets leads to a change in eating habits, increased intake of ready-to-eat foods and a more sedentary lifestyle. There is a correlation between disposable income and the consumption of meat in developing countries (Euromonitor 2017c, p. 11). Many emerging economies are trying to reduce the environmental impact of the concentration of production activities that meet demand in the global economy, and awareness of the need for pollution reduction and the transition to better working conditions (Euromonitor 2017b, p. 12) is growing.

Global demographic changes - increasing life expectancy, decreasing fertility rates, but continuing population growth and urbanization - simultaneously lead to the search for more opportunities for healthy living and sustainable development challenges.

Pressure on the environment and efforts to reduce it have a powerful impact on policies at national and global level, but also on consumer behavior. The goals of sustainable development formulated by the UN in 2015 put not only issues such as combating climate change, access to clean water and energy but also responsible production and consumption. The set of targets sets benchmarks for assessing the progress of the countries (World Bank 2017), but also for the behavior of the companies.

Progress in information and communication technologies directs consumers towards preventive health care. The abundance of information is complemented by devices and applications for personalized monitoring of the body's condition.

Changes in the global business environment shape the leading trends that drive demand in the direction of products that guarantee a quality green living, traceability of supplies and responsible attitude to the environment by consumers and producers. In the markets for organic food in Western Europe, the declining price difference between organic and conventional foods, the support of the sector by public policies, the increase in the cost of organic products by regular consumers and the possible overcoming of mistrust by a side of uninterested consumers by adding new benefits to products such as local produce, ethical values and additional health and quality of life benefits (O'Doherty Jensen, Denver and Zanoli 2011).

In Central and Southeastern Europe, the emphasis is on the taste and health characteristics of food and its safety (Żakowska-Biemans 2011; Krause and Spicka 2017). Ethical considerations in the purchase of organic products are of a lower rank than the perceived health effects (Nikolova 2011, Imami et al., 2017). A serious barrier to consumption is still the low level of awareness of organic products (Goranova, Stefanov and Tananeeva 2011; Maksimović, Milošević and Jovanovic 2017). More traditionally oriented consumers and price-sensitive customers show a relatively low tendency to purchase such products (Demirtas, Parlakay and Tapki 2015, Perić, Nikčević and Vujić 2017).

In the region, which also includes Bulgaria, additional efforts are needed by producers, processors, traders and public institutions to promote organic products, providing reliable information on the differences between organic and conventional production, and overcoming the mistrust of certification and quality control. Along with these measures, the demand for organic products is directly related to the level of income in individual countries and across population groups.

3. Organic food production

The world's organic food production area covers 50.9 million ha or one percent of the arable land, according to data from a total of 179 countries in 2015 (Willer and Lernoud 2017). Although the smallest in terms of geography, Australia is the continent with the largest areas for organic production: a total of 22.8 million ha, the main part of which is grassland. For comparison, 12.7 million ha are covered in Europe, which is the world's second largest production center. The majority of them are located in the EU Member States: 11.1 million ha in 2015 and 11.9 million ha in 2016 respectively.

In Central and Southeastern Europe, organic production takes place at 3.4-3.5 million ha, respectively in 2015 and 2016. In the EU Member States, about 2.9 million ha are harvested with organic farming and livestock breeding (Table 1). The main producer within the non-EU region is Turkey with 0.5 million ha.

Table 1. Production of Organic Products in Central and Southeastern Europe, 2016

	Areas, thousand ha	Share of agricultural land, %	Manufacturers	Processors
Albania	0,5	0,0	39	22
BiH	0,5	0,0	36	8
Bulgaria	160,6	2,4	6 964	175
Greece	342,6	8,0	20 197	1 495
Estonia	180,9	15,7	1 753	135
Latvia	259,1	12,3	4 145	48
Lithuania	221,7	7,1	2 539	65
Macedonia	3,2	0,2	509	17
Poland	536,6	4,0	22 435	705
Romania	226,3	1,8	10 083	150
Slovakia	187,0	9,5	431	36
Slovenia	43,6	8,9	3 513	310
Serbia	14,4	0,4	286	44
Turkey	533,2	1,3	67 879	1 422
Hungary	186,3	2,4	3 414	442

Croatia	93,6	4,9	3 546	312
Montenegro	3,2	1,4	222	12
Chezch Republic	488,6	13,7	4 271	616
Общо	**3 482,1**	**5,0**	**152 362**	**6 019**

Source: Eurostat (2017); FiBL (2017) http://www.organic-world.net/statistics/

The average share of organic land in the region is approximately 5%, with around or under one percentage point in all non-EU countries. For the years 2015-2016 the organic production area increased by 2%. The greatest potential for increasing organic farming through the inclusion of new lands in the conversion regime shows Bulgaria, Croatia and Serbia. In 2015, in each of the three countries, more than 50% of the declared areas are in transition towards sustainable use; in Bulgaria - 81.8% (Eurostat 2017).

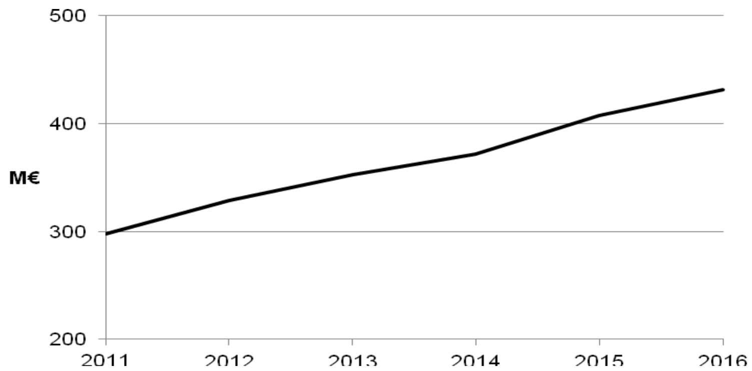
At the end of 2016, 152,362 farmers and 72 aquaculture producers who produce organic products are registered in the region. The number of processors is 6 019. Between 2010 and 2015, the number of producers in Bulgaria, Romania and Croatia doubled, which is the largest reported growth for the European Union. The largest number of producers is in Turkey (68,000) - they account for nearly 45% of all registered in the EUSIC, exceeding those in Italy, which has the largest number of farmers engaged in organic farming in the EU (about 53,000).

4. Development of organic products market

The world market for organic products is estimated at around 75 billion euros in 2015. The US has a leading position with sales of 39.7 billion US dollars (35.8 billion euros), followed by the EU with sales of 27,1 billion euros. Overall, the market is dominated by developed countries with high incomes per capita. China is the only emerging economy in the top ten in sales. According to data from leading markets for fresh produce, about one-third is for vegetables, about 30% for fruits, over a quarter of the value of sales being made from organic meat and about 10% for other fresh products (Euromonitor 2017a).

Sales volumes in Central and Southeast Europe are estimated at around EUR 580 million (Willer and Lernoud 2017, pp. 225-227). Only the market for packaged organic food and beverages amounts to EUR 431 million in 2016 (Figure 1) as a result of sustained growth in recent years.

Figure1: Sales of packaged organic food and beverages in Central and Southeast Europe, million euro.



Source: Euromonitor (2017)

The average annual growth rate for the period 2012 - 2016 is 5.6%. Of course, the picture in individual countries varies widely: from 13.3% in Romania, Turkey (10.3%), Bulgaria (8.1%) to a drop in sales in Greece (-3%). Retail sales per person are well below the typical levels for old EU member states where one-third reach sales of over 100 euros per person per year. Somewhat exceptions are made by Slovenia and Croatia with 26.6 and 23.4 euro / person for organic products. In all other countries, data shows one-digit sales figures.

For Central and Southeastern Europe, it is characteristic that although some countries have achieved a high share of organic land, consumer spending, despite their growth, remains low as a share of total food costs. The interest in production is largely driven by the demand for organic products in Western Europe.

5. Competitive environment in selected countries of Central and Southeastern Europe

Sales of packaged organic food in Bulgaria reach BGN 31 million in 2016 as a result of 7% annual growth in the market. This is supported by a stable institutional framework and the entry of organic products into retail chains. A positive trend is the increased recognition of certified and labeled products and the decline of the earlier wave to designate various groups of goods such as "eco", "organic", "green", etc., without being part of a system of tracking and quality assurance. The largest share of baby foods is: 36% of sales on the market, which also determines Hipp's leadership position with 28% market share. Second place is Bio Bulgaria with 17% market share, represented by the Harmonica brand. The forecast is that the market will continue to grow by 5% annually and will reach sales of BGN 40 million in 2021.

The market for organic products in Romania is 106 million lei (23.6 million euros) and grows by 13% in 2012-2016. Sales, as in other countries in the region, are mainly concentrated in groups of consumers with - high incomes in big cities. Leading categories are dairy products and baby foods.

The continuing recession in Greece also has a negative impact on the organic food market. It has shrunk to 43 million over the past five years, decreasing on average by 3% per year. The forecasts are for this development to continue at the same rate and by 2021 the sales volume will be approximately 37 million.

The Turkish market is estimated at 340 million Turkish lira (102 million euros): 285 million - packed food and 55 million - beverages. The main factor for growth of 10% is the increased demand for healthy products by the urban population. The forecasts are that market growth will accelerate to reach 541 million Turkish lira in 2021.

Central European countries' markets show more signs of development than the Balkan countries. The level of consumer awareness of the characteristics of organic products is higher and there are relatively well-established distribution networks. Greater maturity in the markets in Poland, Hungary, the Czech Republic and Slovakia is the reason for moderate growth and is expected to remain within the range of 3-5% by 2021. In view of the size of the population, the largest market is in Poland, followed by the Czech Republic, Hungary and Slovakia (EUR 21 million).

The review of product categories and the competitive environment points to substantial similarities between countries in the region. From the point of view of growth rates and the degree of market penetration, two sub-groups can be identified: those in Central and Southeast Europe. It is common for all countries in the region that consumption is mainly centered on wealthier groups of customers in urban centers. The majority of consumers are the motivator for health care - more often for children - and higher security for the control of food quality, guaranteed by the manufacturer's obligations regarding the certification of products as organic.

The only company with a presence in the whole region is Germany-based multinational company Hipp, a leader in many markets in the organic baby food sector. The remaining producers maintain positions in their national markets. This leads to a great fragmentation and is a prerequisite for attracting traders with new product lines.

6. Conclusion

In Central and Southeast European countries, there is a relatively limited but stable and rising moderate demand for organic products. Purchases of organic products are mainly made by residents of urban centers with higher incomes. The behavior of consumers follows the general trend in emerging economies around the world. The share of the cost of organic products in the household budget for food can be expected to increase and to increase the range of products offered.

The volume of organic production in Central and Southeast European countries exceeds domestic consumption. Proximity to Western Europe and the Common Regulatory Framework attract many new producers to the sector. At the same time, the lack of dominant players in most product categories creates the potential for dynamic competition in the market and the development of new niches, including through exports of products to other countries in the region.

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PERSPEKTIVE U PROIZVODNJI I MARKETINGU ORGANSKIH PROIZVODA U JUGOISTOČNOJ EVROPI

Sažetak: *Tokom poslednje decenije došlo je do značajnih promena u potrošačkim prioritetima i ponašanju. Važno mesto u transformaciji podrazumeva povećano interesovanje za zdrav način života i zaštitu životne sredine. Ovi procesi sve više utiču na proizvodnju hrane i trgovinu u zemljama jugoistočne Evrope.*

U članku su prikazani osnovni parametri ovog tržišta u Bugarskoj i na Balkanu. Posebna pažnja posvećena je sertifikovanim organskim prehrambenim proizvodima kao poseban segment različitih kategorija: sveža hrana, pakirani proizvodi i pića. Izložene su specifičnosti konkurentskog okruženja u zemljama i izgledi za srednjeročni rast.

U regionu postoji relativno ograničena, ali stalna i sve veća potražnja za organskim proizvodima. U dugoročnom periodu može se očekivati povećanje udjela troškova organskih proizvoda u budžetu domaćinstva i povećani asortiman.

Ključne reči: *organski proizvodi, perspektive rasta, zemlje jugoistočne Evrope, osnovni parametri tržišta.*