Organic market report 2011

Soil Association

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Foreword

In common with many other parts of the economy, the organic market had a tough year in 2010. However, there are signs that the rate of decline experienced in the previous two years has slowed. Based on our survey of the latest market data this year, recovery is finally within our reach.

The organic market may have suffered a setback in the economic downturn, but there are positive signs of resilience and recovery. Some products have already started to experience growth again – including butter, yoghurt, beef, beer and cider. Organic vegetable box sales grew by 1%, suggesting that consumer interest in seasonal and local produce is undiminished. And baby food sales continued to grow (up 10.3%) as new parents continued to choose an organic start in life for their babies.

There are many different consumer motivations for buying organic, from high animal welfare and a guarantee of GM-free food to wildlife-friendly farming practices and the banning of over 300 additives and pesticides under organic standards. There is also powerful evidence that those consumers who care about these diverse benefits have stayed loyal to organic, even during these tough economic times.

However, there is no doubt that those of us involved in the organic movement need to get better at communicating the benefits of organic to a wider audience. That is why the Soil Association is happy to support a campaign led by organic businesses – 'Why I love organic'. The campaign is straightforward in its message – organic farming is good for nature, kind to animals and produces great-tasting food. We hope it will contribute to a greater understanding of the benefits of organic food and farming – with a knock-on impact on sales.

As well as working to support the development of the market, the Soil Association is building the political and environmental case for supporting organic food and farming. We campaign on issues such as food security, factory farming, GM, cloning and climate change. We also want to demonstrate that a transformation of the UK's food culture can succeed at grassroots level too – through our leadership of the Food for Life Partnership as it works to improve school food, and through our campaigns to improve food in hospitals and nurseries.

We are indebted in our work not only to the committed support and campaigning of Soil Association members but also to a wide range of organisations and companies that work closely with us. In the context of this report we are particularly grateful to Triodos Bank, which has sponsored the report's production and is a leading lender to so many organic businesses.

Given the current uncertainties in the UK and global economy, it would be rash to make any predictions for the future organic market. But the instability caused by climate change, population growth and resource depletion mean that business as usual in food and farming is not an option. As Caroline Spelman, Secretary of State at Defra, remarked at the Soil Association's 2011 conference: 'Organic farmers are the pioneers of sustainable farming and have valuable lessons to pass on to the rest of the sector.'

Roger Mortlock
Soil Association deputy director

Summary

17 of 20 households eat organic

£33 million is spent on organic products every week

▶ Sales of organic products were worth **£1,731 million in 2010** – a decrease of 5.9% on the previous year. Shoppers spend more than £33 million a week on all things organic.

▶ The rate of **decline slowed down significantly** throughout the year. Sales of a wide range of products started growing again, including butter, yoghurt, beef, beer and cider, herbs and spices, pulses and packet soups.

▶ The year's biggest success stories were in sales of organic **beef (up 18%)**, organic **baby food (up 10.3%)** and organic **textiles (up 7.8%)**.

▶ The **outlook for 2011 is cautiously optimistic** – the market is on course to level off. Waitrose and Marks & Spencer anticipate modest growth, while Tesco, Sainsbury's, Morrisons and the Co-operative predict level sales year on year.

▶ Seventeen out of 20 households (86%) buy organic products. **On average consumers bought organic products 15 times in 2010**, compared to 16 times the previous year.

▶ **Dairy products and fresh fruit and vegetables are the most popular** categories, accounting for 30.5% and 23.2% of sales respectively.

▶ Organic products continue to attract **shoppers from across the social spectrum**. Those in the more disadvantaged socio-economic groups account for a third of spending.

▶ Sales through the multiple retailers fell by 7.7% to £1,252 million. **Multiple retail accounted for 72.3% of the organic market.**

▶ Sales through independent retailers accounted for the remaining 27.7% of the market, falling by 0.75% to £479.8 million. **Box scheme and mail-order sales grew** by 1% in 2010 to £155.8 million – an encouraging result in tough trading conditions.

▶ The UK's organic land area decreased by 0.6% to 738,709 hectares (ha). This represents **4.2% of UK farmland**, equivalent to more than the combined area of Somerset and Wiltshire.

▶ The proportion of land that is farmed organically varies widely within the UK, from a high of 9.1% in south-west England to 1.3% in Yorkshire and Humberside, eastern England and Northern Ireland. The number of UK organic producers fell by 4.2% to 7,567 in 2010, from a record high of 7,896 the previous year.

▶ Production of organic vegetables and organic milk both fell in 2010 but **cereal production is on the increase**, buoyed by high grain prices and strong demand for milling wheat.

▶ Poultry and egg production are set to fall in 2011 because of a combination of faltering consumer demand, high feed prices and the cost implications of impending changes in the EU organic regulations.

▶ January's VAT hike appears to have had only a marginal impact on the organic market so far. **Consumer confidence in the wider economy is fragile**, however, and the impact of public spending cuts in April will be crucial in determining the timing and strength of recovery in the organic market.

The organic consumer

A broad appeal
Organic food and drink have a broad appeal, with 17 out of 20 households (86%) buying organic products in 2010. On average consumers bought organic products 15 times during the year, compared to 16 times in 2009.

The appeal of organic products extends across the social spectrum. Consumers on higher incomes spend most but those in the C2, D and E social groups – which cover manual and casual workers, pensioners, students and people on benefits – account for around a third of spend.

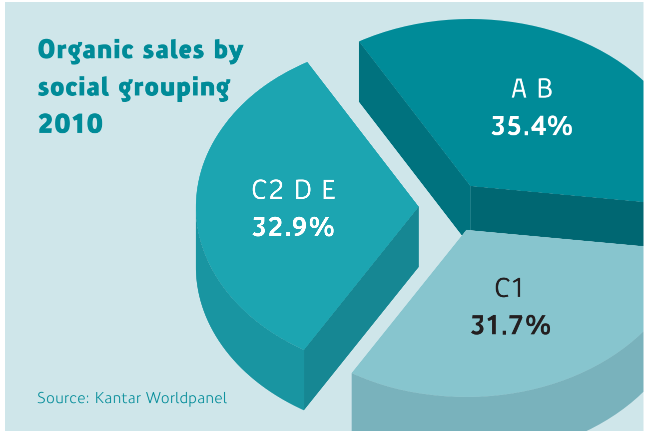
The committed core
A committed core of consumers – the 8% of households who buy organic products more than once a fortnight – account for 54% of sales.

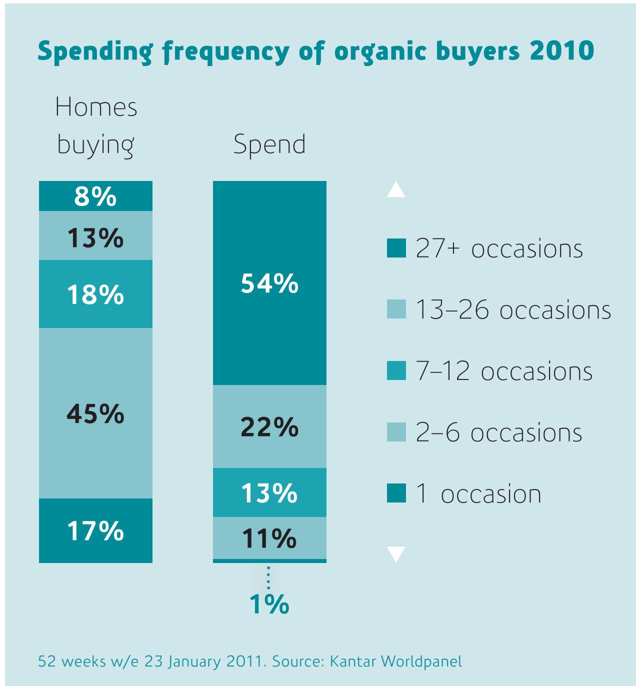
More than three-quarters of the money spent on organic products comes from 21% of organic consumers.*

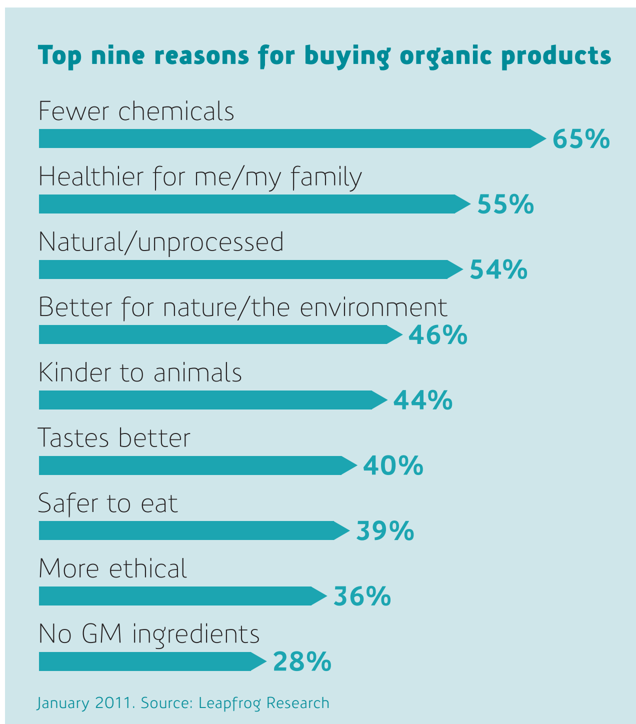
Motivations for purchase
Avoiding potentially harmful chemical residues in food is the strongest motivating factor for buying organic products.

In the past year health concerns have become more influential for organic consumers, while environmental and animal welfare considerations appear to have overtaken taste as a motivating factor.

*For a useful analysis of the varying attitudes and motivations of light, medium and heavy organic buyers and organic 'detractors' see Timmins C (2010), *Consumer Attitudes towards Organic Food*, Beaufort Research/Organic Centre Wales (www.organiccentrewales.org.uk/uploads/ca_survey_br_phase_2_report.pdf)





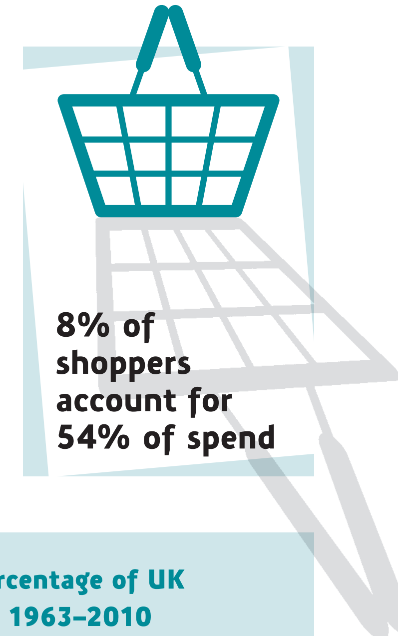


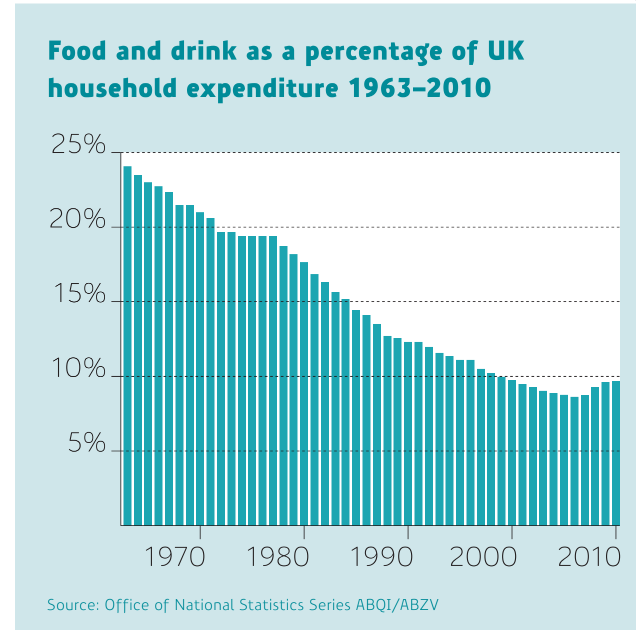
Feeling the pinch
After falling steadily for decades – from 24% in 1963 to an all-time low of 8.6% in 2006 – the proportion of our income that we spend on food and drink has edged up to almost 10% in the past two years. A combination of low wage inflation, high food-price inflation and rising unemployment is squeezing family budgets.

In the organic sector this squeeze is apparent in the way some shoppers have 'traded down' to less expensive options. Organic eggs are now 3.5% of the egg market, compared to 5.5% two years ago. Demand for organic mince and stewing beef grew in 2010, while sales of joints and steaks fell.

Provenance versus price
In research among mums aged 25-50 who had seen Yeo Valley Organic's autumn 2010 television advertising campaign, around two-thirds said they cared a great deal about environmental issues and the origins of their food – and were happy to pay more for the best quality.

But significantly three-quarters also said that they choose the most affordable food, and only around a third said that they always buy organic products.





The UK organic market

Sales of organic products were worth £1,731 million in 2010 – a decrease of 5.9% on the previous year. UK shoppers continue to spend more than £33 million a week on all things organic.

The decline in organic sales experienced in 2009 has slowed down significantly. Sales of a wide range of products have started growing again, including butter, yoghurt, beef, beer and cider, herbs and spices, pulses and packet soups.

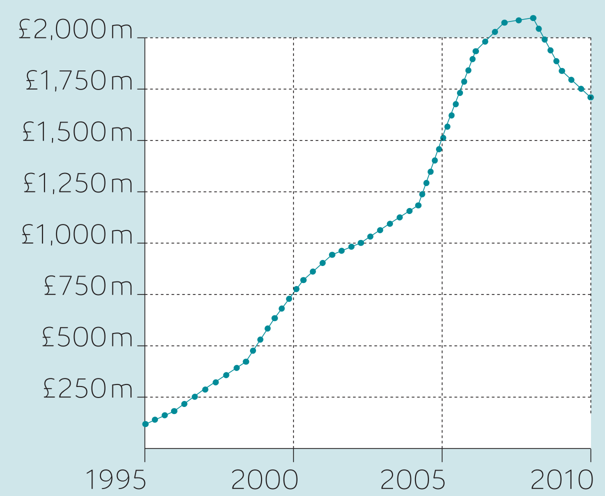
The year's big success stories were baby food, beef and textiles. Organic baby food sales increased by 10.3%. Organic beef sales were boosted by a narrowing of the supermarket price premium over non-organic beef. Clothing and textile sales increased by 7.8%.

The most popular items in the organic shopping basket are dairy products and fresh produce (fruit, vegetables and salad). Together these represent 53 pence in every pound spent on organic products brought to the home.*

The biggest brand in the organic market is dairy company Yeo Valley Organic. Sales of its organic yoghurt increased by 14.9% in 2010 on the back of a new product range and a high-profile television advertising campaign.

*Kantar Worldpanel monitors the spending habits of a demographically representative group of 25,000 GB households. Its calculations are based on households scanning purchases that they bring home from the shops, and so may miss 'impulse' purchases such as an office worker buying and eating an organic yoghurt at lunchtime, or buying and eating an organic chocolate bar on the way home.

UK sales of organic products 1995–2010

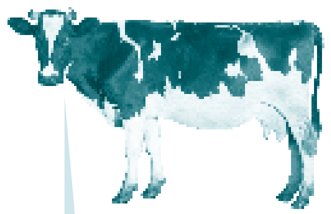


Source: Soil Association, organic market report

Share of the UK organic market 2009–2010

Multiple retailers				
2009	£1,356.8m	2010	£1,252m	▼ -7.7%
Box schemes/home delivery/mail order				
2009	£154.2m	2010	£155.8m	▲ +1%
Farm shops				
2009	£32.67m	2010	£31.55m	▼ -3.4%
Farmers' markets				
2009	£18.96m	2010	£17.82m	▼ -6%
Catering				
2009	£16.47m	2010	£15.33m	▼ -6.9%
Other independent retailers				
2009	£261.1m	2010	£259.3m	▼ -0.7%
Total				
2009	£1,840.2m	2010	£1,731m	▼ -5.9%

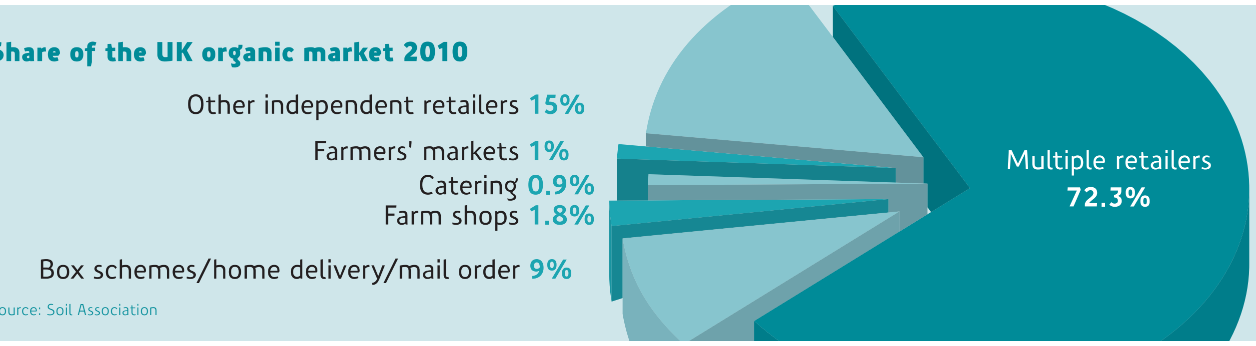
Source: Soil Association



30p in every organic pound is spent on dairy products

Box scheme, home delivery and mail order sales increased

Share of the UK organic market 2010



Source: Soil Association

Product share of the UK organic market 2010*

	share	value	2009 to 2010
Dairy	30.5%	£528m	▼ -2.7%
Fruit, vegetables and salad	23.2%	£402m	▼ -6.3%
Baby food†	7.8%	£135m	▲ +10.3%
Beverages	7.5%	£130m	▼ -3.2%
Fresh meat	4.8%	£83m	▼ -5.8%
Confectionery	3.6%	£62m	▼ -8.3%
Eggs	2.9%	£50m	▼ -9.4%
Chilled convenience foods	2.2%	£38m	▼ -36%
Fresh poultry	2%	£35m	▼ -13.2%
Breakfast cereals	1.8%	£31m	▼ -15.2%
Bread	1.2%	£21m	▼ -20.6%
Fresh fish	0.7%	£12m	▼ -16%
Other	11.8%	£204m	▼ -13.9%

*Multiple retail sales only

†The Kantar Worldpanel data for baby food in this table relate to milk and finger food as well as the smaller baby food category. According to IRI data, the organic percentage of the total market for baby food alone is 48.1%.

Sources: Kantar Worldpanel; Soil Association

Organic percentage of the total grocery market 2010*

Dairy	3%
Fruit, vegetables and salad	2.3%
Baby food†	25.3%
Beverages	0.4%
Fresh meat	0.9%
Confectionery	1.2%
Eggs	3.5%
Chilled convenience foods	0.3%
Fresh poultry	0.8%
Breakfast cereals	1.1%
Bread	0.6%
Fresh fish	0.6%
Other	0.9%

*Multiple retail sales only

†The Kantar Worldpanel data for baby food in this table relate to milk and finger food as well as the smaller baby food category. According to IRI data, the organic percentage of the total market for baby food alone is 48.1%.

Sources: Kantar Worldpanel; Soil Association

The UK organic market

Multiple retailers

Sales through the multiple retailers fell by 7.7% to an estimated £1,252 million. Multiple retail accounted for 72.3% of the organic market. The leading organic retailer is Tesco, with 28.1% of multiple retail sales. It says yoghurt, beef and fish were its best-performing organic products in 2010, with own-label products accounting for around two-thirds of its organic sales overall.

The year's most successful multiple retailer was Waitrose. Its total organic sales almost held their own, down 0.5%, while sales of its own-label organic products increased by 0.9%. A key factor in this success is the 9.2% sales growth since its September launch of Duchy Originals from Waitrose, a new range of over 230 organic lines that includes fresh milk, eggs and meat as well as prepared and frozen foods and grocery items.

The Co-operative Group's organic turnover expanded by 48.7% as a result of taking over Somerfield and the addition of Somerfield stores into its figures. Actual organic sales through Cooperative and Somerfield outlets fell by 4.9% and 12.4% respectively, but this dip partly reflects the impact of stores being sold off by the combined group.

Independent retailers

Sales through independent outlets (including box schemes, mail order, farm and health-food shops, farmers' markets and catering establishments) fell by 0.75% to an estimated £479.8 million. Independent retail accounted for 28.7% of the organic market.

Organic share of leading retailers' total food and drink sales 2010

WAITROSE	5.7%
MARKS & SPENCER	1.5%
TESCO	1.4%
CO-OPERATIVE	0.7%
MORRISONS	0.5%
OCADO	12.0%

****

PLEASE RETAIN AS PROOF OF PURCHASE

Source: Soil Association

Leading multiple retailers in the UK organic market 2010

	market share	Sales 2010 v 2009
Tesco	28.1%	▼ -7.3%
Sainsbury's	24.4%	▼ -7.0%
Waitrose	21%	▼ -0.5%
Asda	8.9%	▼-15.0%
Morrisons	6.8%	▼ -5.6%
Co-operative (inc. Somerfield)	3.8%	▼ -4.9%* ▼-12.4%†
Marks & Spencer	2.3%	▼ -7.7%

*Co-op †Somerfield Source: Soil Association

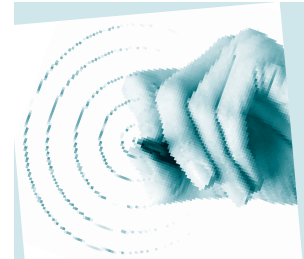
Leading multiple retailers' best-performing organic categories 2010

Tesco	Sainsbury's	Waitrose
Yoghurt	Beef	Chilled/deli
Beef	Ready meals	Fruit
Fish	Fruit & veg	Alcohol

Morrisons	Co-op	M&S
Fruit & veg	Milk	Frozen
Tea & coffee	Eggs	Dairy
Bakery	Yoghurt	Vegetables

Source: Soil Association

290,000 Food for Life meals are served each day



3,200 schools are working towards Food for Life targets

Box schemes and home delivery
There are hundreds of home-delivery box schemes for organic products in the UK. These range from individual producers with under a hundred regular customers to large operations delivering tens of thousands of boxes each week. Box scheme and mail-order sales grew by 1% in 2010 to £155.8 million – an encouraging result in tough trading conditions.

This net growth in sales value was driven mainly by the bigger operations. The online home-delivery specialist Ocado increased its organic sales by 16% to around £60 million, and organic products now constitute 12% of its turnover. Abel & Cole increased its turnover by 13%. Box schemes with a turnover above £2 million saw their combined sales grow by 9%.

Riverford Organic Vegetables increased its sales by 1.5%. It reports that the second half of the year was significantly better than the first: it delivered 41,000 boxes a week in December 2010, compared to 39,500 12 months previously.

The picture among smaller box schemes was mixed, with some experiencing dramatic growth and others significant decline. The net effect was a 6.9% decline in sales among the smallest operators.

Farmers' markets and farm shops
There are over 500 farmers' markets in the UK, according to the National Farmers' Retail and Markets Association (FARMA). A survey conducted by FARMA on behalf of the Soil Association in 2009 found that organic sales accounted for an estimated 9.5% of the £2 billion turnover of farmers' markets. The Soil Association estimates that the value of sales through farmers' markets fell by 6% in 2010, to £17.82 million.

FARMA says there are over a thousand farm shops in the UK, selling local food produced on the farm directly to the public. The Soil Association estimates that sales of organic products through these outlets fell by 3.4% in 2010, to £31.55 million.

Catering

Taking its own data and trends in the wider restaurant trade into account,* the Soil Association estimates that organic sales through the catering and restaurant trade fell by 6.9% in 2010. This puts the value of the organic catering and restaurant sector at £15.33 million.

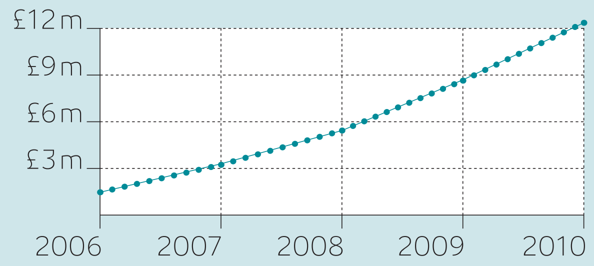
The number of schools serving organic food is increasing through the work of the ground-breaking Food for Life Partnership (FFLP) – the Big Lottery-funded initiative led by the Soil Association in conjunction with the Focus on Food Campaign, Garden Organic and the Health Education Trust. The FFLP now works with over 3,200 schools across England. Children are provided with meals that are freshly cooked with seasonal, local and organic ingredients, as well as being free from transfats, undesirable additives and GM.

The FFLP is supported by the Food for Life Catering Mark, an accreditation scheme to recognise best practice among public and private-sector caterers working to the three Food for Life targets – bronze, silver and gold. This tiered structure allows caterers to make step-by-step progress towards more sustainable sourcing, using the Catering Mark logo on marketing materials to promote achievement.

*The analyst Horizons says the total food-and-drink markets through restaurants (£9 billion) and contract catering (£1.3 billion) were at the same level in 2010 as in 2009. Because of high food-price inflation, this represents a reduction in the market in volume terms.

The UK organic market

Sales of Soil Association-certified organic textiles 2006–2010



Source: Soil Association Certification Limited

There are now 48 Catering Mark award holders, serving over 280,000 meals each day in schools, universities, nurseries, hospitals and restaurants. The leading Catering Mark company in terms of meals served is Harrison Catering, which provides 39,500 meals each day in 263 schools across the London boroughs of Ealing, Bexley, Lambeth, Southwark and Wandsworth.

Among those leading the way in sourcing organic ingredients is Oldham Metropolitan Borough Council, which holds silver accreditation and is striving to reach gold. Operating in 98 schools on an ingredients budget well below the national average of 70 pence per meal, its catering team serves meals that contain organic milk, minced beef, yoghurt and eggs as well as MSC-certified fish – all with a strong emphasis on local procurement.

Non-food products

Textiles*
UK sales of organic textiles grew by 7.8% in 2010. Organic cotton accounted for around 91% of the market. The remainder consisted of wool, linen and other fibres. About four-fifths of UK demand for organic cotton is due to major retailers and brands such as Marks & Spencer, Nike and GAP incorporating organic cotton into their manufacturing. The remaining fifth represents fully certified organic products.

*A more extensive version of this section is available separately from the Soil Association, including additional company examples and more information on the Global Organic Textiles Standards.

†The GOTS standards, which the Soil Association helped develop, are the only internationally recognised organic textile standards ensuring organic integrity at every step of the supply chain – from harvesting through production and processing to manufacturing and labelling. All chemical inputs such as dyes must be biodegradable and non-toxic, while a range of accessories (including PVC, plastic inlays, nickel and chrome) are prohibited on environmental grounds. Employment conditions in factories must meet the standards of the International Labour Organisation.

Market growth in 2010 was driven mainly by certified products, with use of organic cotton by mainstream companies remaining relatively static. Soil Association Certification Ltd, the UK's leading certifier of organic products to Global Organic Textiles Standards (GOTS),† saw the turnover of its 75 textile licensees increase by 35% to £12 million.

Seasalt is the Soil Association's leading organic textile licensee in terms of turnover. Turnover increased by 49% in 2010, with organic cotton accounting for around 41% of sales.

The fastest-growing Soil Association licensee is Continental Clothing, which specialises in designing and manufacturing T-shirts, sweatshirts, hoodies and other items to sell wholesale to the imprintables industry. The company doubled its product lines and enjoyed a twelvefold increase in its turnover in Soil Association-certified products in 2010.

Arguably the highest-profile company in the market is People Tree, thanks in part to its association with actress Emma Watson. People Tree's turnover increased by 17% in 2010.

Export revenue grew particularly strongly in 2010 for companies with a foothold in continental Europe. Soil Association-certified babywear brand Organics for Kids increased its turnover by 40% in the year to September, mainly driven by export growth.

Exports now account for 40% of sales, while UK wholesale and website retail orders represent 56% and 4% respectively. The company sources all its organic cotton from Turkey and manufactures all its products in the UK.

Selected Soil Association-certified health and beauty companies 2010

	No. of organic lines	Turnover
Essential Care	40	▶ unchanged
Neals Yard Remedies	144	▲ up 10%
Sophyto	10	unknown
Spiezia	35	▲ up 15%
Yes Pure Intimacy	4	▲ up 20%

Source: Soil Association

Health and beauty
The turnover of Soil Association health and beauty licensees increased by 16%. Their combined sales reached £19.5 million, an eightfold increase in just five years.

Despite this success the Soil Association estimates that UK sales of certified organic health and beauty products fell by 23%, to £27.7 million. The discrepancy between Soil Association licensees' turnover and the market as a whole is accounted for by the addition of three new licensees in 2010 and by buoyant overseas markets for SA-certified products – which do not show up in UK sales figures.

The UK market leader in organic health and beauty, Neals Yard Remedies, increased its organic sales by 10% in 2010. It extended its popular Frankincense range and opened new stores in St Albans, Solihull, Totnes and Tokyo. It also launched new skin-brightening lines and the first SA-certified colour cosmetics. The company now has 38 UK high-street stores and 18 more in Japan and the Middle East.

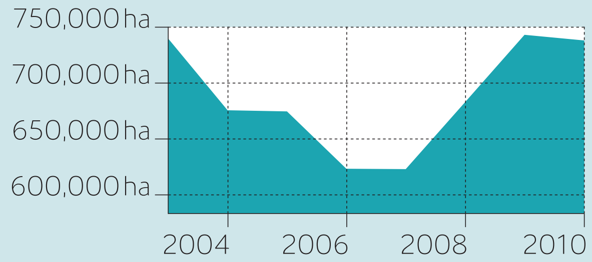
A leading performer in the US market is US-based SA licensee Sophyto, which specialises in professional anti-ageing skincare. It formed a major new partnership with Walmart in 2010 that saw its products launched into 150 Sam's Club stores throughout the US and offers additional opportunities internationally.

Among the UK's most striking export successes is Yes Pure Intimacy, which now exports to 54 countries. For Essential Care, maker of the first UK skincare range with dual organic and Fairtrade certification, exports have increased to 43% of turnover from 38% in 2009. Spiezia reports particular success with its online sales, which increased to 55% of turnover compared to 43% in 2009.

The leading specialist online retailer, So Organic, has a turnover of around £2 million and sells 60 brands across 2,500 lines. Sixty per cent of its products are certified organic, with Green People, Dr Hauschka and Lavera the best sellers. It plans to extend its online retail operation to the United States and Canada in 2011.

Organic farming in the UK

Organically managed land in the UK 2003–2010



Source: Defra

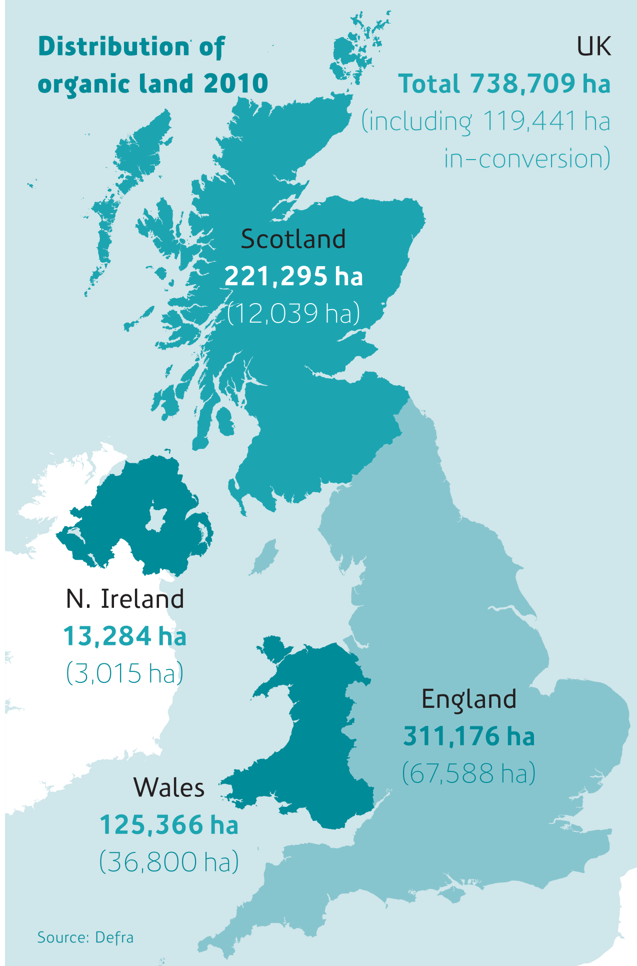
Organic land and organic producers

In July 2010 the UK's organic land area was reported to be 738,709 ha (based on data to the end of 2009). This represents a 0.6% decrease on the previous year, and constitutes 4.2% of the agricultural land area.

The cereals area shows an increase of 4.8% to around 60,000 ha, while the area under vegetables (including potatoes) decreased by 4.4% to 18,900 ha. Temporary and permanent pasture land make up the majority of organic land, and these show little change from the previous year. The temporary pasture area was reduced by 2.8% to 126,200 ha, while permanent pasture remained more-or-less static at 495,800 ha (up 0.3%).

The proportion of land that is farmed organically varies widely within the UK, from a high of 9.1% in south-west England to 1.3% in Yorkshire and Humberside, eastern England and Northern Ireland. The number of UK organic producers fell by 4.2% to 7,567, from a record high of 7,896 the previous year.

Distribution of organic land 2010



Source: Defra

National trends

England

During 2009, the most recent year for which data related to English farms are available,* England's organic land area increased by 1%. By the end of December 2009 a total area of 378,764 ha was under organic management.

Percentage change for organic land 2009 to 2010

UK	▼ -0.6
England	▲ +1
Wales	▲ +0.6
Scotland	▼ -4.3
N. Ireland	▲ +6.3

Source: Defra

Total UK agricultural area that is organic 2010

UK	4.2%
England	4%
Wales	8.4%
Scotland	4%
N. Ireland	1.3%

Source: Defra

*Defra collates and publishes data covering the previous calendar year in July each year. The 'organic land area' section of this report is based on that Defra data for all four nations of the UK. In our Scottish and Welsh round-ups, however, our contributors have used more up-to-date figures – the new data to the end of 2010, submitted to Defra for publication in July 2011.

The south-west is an organic hub with 9.1% of its farmland organic

UK organic land equivalent in size to one-third of Wales

Land in conversion amounted to 67,588 ha of this, showing a decrease over the year of 26%, while fully organic land increased by 10% to 311,176 ha.

Permanent pasture and temporary grass account for over 75% of the total, indicating the compatibility of traditional extensive livestock farming with organic approaches. The area of England under organic cereal cultivation increased by 5.5%, while the area in vegetable production fell by 4.8%.

Enquiries about converting to organic production were at a low level in all sectors in 2010. The stalling of interest in conversion is partly as a result of input costs rising but also because of a drop in consumer demand for organic products and a narrowing of the gap in farm-gate prices for organic and non-organic livestock.

Northern Ireland

At the end of 2010 the Organic Farming Scheme in Northern Ireland was providing support for 88 producers with approximately 4,900 ha of in-conversion land between them. In addition the organic management option within the NI Countryside Management Scheme was supporting six farmers with 183 ha of land.

Despite these new entrants, however, the proportion of farm land converted or in conversion to organic farming remains modest at around 1%. The prospect of stronger growth has in part been impeded by the numbers of producers who have reverted to non-organic production at the end of their five years of Organic Farming Scheme support.

Volume sales of organic vegetables in Northern Ireland fell by 3% in the year to the end of October 2010. Organic meat and poultry sales fell by 13% in the same period in volume terms. Although sales volumes for organic beef rose by 9%. The premiums for organic producers at the farm gate in Northern Ireland are currently very limited, predominantly as a result of high commodity prices.

Scotland

Between January 2010 and January 2011 the amount of organically managed land in Scotland fell by approximately 11%. The area of in-conversion land fell too, by around 50%.

Interest in conversion to organic production is currently at a very low level, primarily because of high organic feed costs, high farm-gate prices for non-organic cattle and sheep, and the perceived difficulty of accessing conversion and maintenance payments under the Scotland Rural Development Programme (SRDP).

Market prices for organic cattle and sheep in Scotland remained high throughout 2010. There were fluctuations in premiums over non-organic stock through the year; while these were low for a few months compared to some previous years there are now signs that premiums are growing again.

The arable sector has seen price rises in both the organic and non-organic markets. Organic grain has been trading at a 50%-plus premium over non-organic, and demand remains firm.

Wales

The area of organically managed land remained static in 2010. The organic land area stood at 124,681 ha at the end of 2010, compared to 124,617 ha the previous year. Of the 2010 total, most is fully organic with only 5,099 ha in conversion. This represents just over 8% of the agricultural land area.

Organic farming in the UK

The current lack of interest in conversion from prospective new entrants is reflected in low uptake of the Organic Conversion Information Service (OCIS) in Wales. There were only 43 registrations of interest in 2010.

Organic Centre Wales estimates that Welsh producers sold about 65,000 organic lambs and 3,900 organic cattle. But some producers who had recently completed conversion struggled to find an organic market. Significant numbers of organic animals (including nearly half the finished lambs) ended up being sold on to the non-organic market.

The proportion of Welsh producers who intend to leave organic farming within five years has doubled in the past year, from 18% to 36%. The two main factors contributing to this mentality are poor prices/premiums (28%) and imminent changes in agri-environment support (22%) – changes that include the introduction of Glastir from 2012. The scheme is being reviewed by the Welsh Assembly Government in the light of low take-up.

Sector by sector

The following notes and the table on page 15 are based on a fuller account available online at **www.soilassociation.org/marketreport.aspx**

Arable yields were affected by an unusually dry spring and early summer. Rains posed problems with protein and hagberg levels at harvest. Prices were high, influenced by high non-organic prices and strong demand for UK organic milling wheat.

Use of organically managed land in the UK 2010

	hectares	2009 to 2010
Permanent pasture (incl. rough grazing)	495,759	▲ +3.0%
Temporary pasture	126,216	▼ -2.8%
Cereals	59,971	▲ +4.8%
Vegetables (incl. potatoes)	18,884	▼ -4.4%
Fruit and nuts	2,203	▲ +16.9%
Herbaceous and ornamentals	5,755	▲ +4.5%
Other crops	11,185	▲ +0.2%
Woodland	7,174	▲ +21.9%
Other	11,563	▼ -35.4%
Total	738,709	▼ -0.6%

Source: Defra

UK organic production: supermarket sales and agricultural output 2009 to 2010

	Sales*	Output†
Arable		▲ +4.8%
Breakfast cereals	▼ -15.2%	
Bread	▼ -20.6%	
Horticulture	▼ -6.3%	▼ -4.4%
Beef	▲ +18.0%	▼ -1.5%
Pork	▼ -27.7%	▼ -25.9%
Lamb	▼ -33.1%	▼ -8.6%
Table poultry	▼ -13.2%	
Chicken		▼ -7.2%
Turkey		▲ +3.8%
Eggs	▼ -9.4%	▼ -7.1%
Milk	▼ -5.8%	▼ -5.0%
Fresh fish	▼ -16.0%	
Salmon		▲ +20.0%
Trout		▼ -39.0%

*Source: Kantar Worldpanel

† Figures for arable and horticulture represent the land area under organic production at the start of 2010, 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' Cooperative (milk); Aquascot and Trafalgar Fisheries (aquaculture).

Estimated sales of organic livestock as non-organic 2010

	Beef	Sheep	Pigs	Chickens	Turkeys
Number of abattoirs responding to survey	13	11	6	7	4
Total killed as organic (headage)	30,458	174,055	49,180	3,931,034	3,591
Total sold as organic	23,090 (76%)	170,616 (98%)	49,180 (100%)	3,931,034 (100%)	3,591 (100%)
Change in total killed from 2009 to 2010	-1.5%	-8.6%	-25.9%	-7.2%	+3.8%
Estimated production volumes in 2011	+1.2%	unchanged	-1.7%	+13.6%	+3.8%

Source: Soil Association

Horticulture has seen some confidence returning, the market for smaller growers recovering best in the south. Among ten of the biggest organic suppliers/packers, sales were up for one and down for five. A good year for fruit crops saw strong local markets for juice and cider.

Beef production was static but promotions helped push supermarket sales up 18%, supported by better carcase utilisation. The average deadweight price was £2.99/kg, compared to £3.06 and £3.17 in 2008 and 2009. The farmgate price premium averaged 10%.

Pork prices and margins were reasonable, with a good match of supply and demand. Significant EU trade included exports of excess cuts and imports of cheaper bacon in particular. Production is likely to fall because of high feed prices and depopulation of one major herd.

Lamb supply was boosted by newly converting farms but many lambs were sold as non-organic. The average farmgate price was £3.42 (£3.72 in 2009). The average farmgate organic premium was 4% and the supermarket price premium 21%.

Poultry pastures were affected by variable weather: snows, a dry spring and flooding. Temporary over-supply in the early months of 2010 evened out later in the year. Costs are spiraling, with feed prices set to rise 30% and new feed regulations in 2012.

Egg producers endured a tough year: reduced shelf space, lower farmgate prices, higher feed costs. Fourth-quarter farmgate prices for all eggs were down 4.7% from 2009 to 2010. Free-range and barn egg production rose by 24% as the phasing out of cage egg production continued.

Milk production fell for the first time since 2004, following 50% growth 2006-09. Some producers ceased organic production in the face of static prices and high feed costs. A lack of new converters points to a supply crunch as demand grows.

Salmon production rose significantly but high feed costs, falling premiums and reversion to non-organic production all point to a contraction in 2011.

Trout production fell 39% in the face of reduced demand, a 60% increase in feed costs and supermarket delisting.

Policy and marketing round-up

Soil Association activities

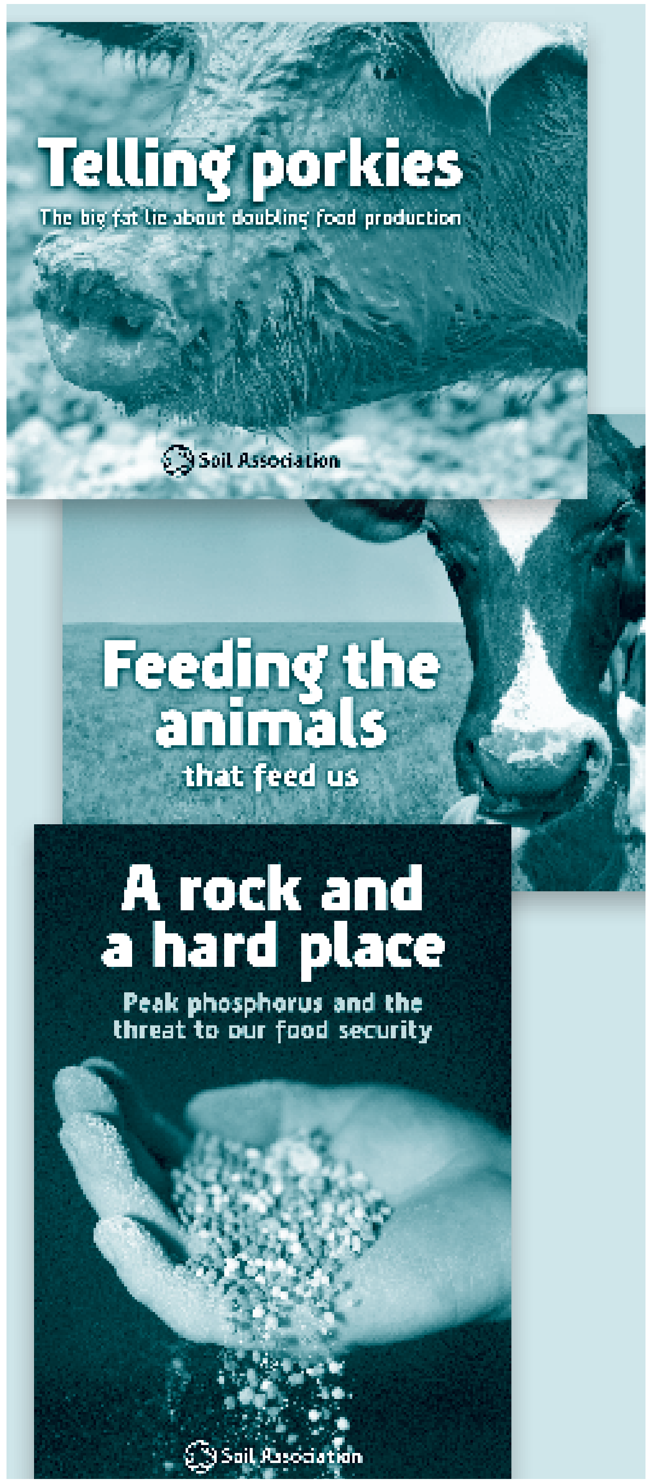
In food and farming policy 2010 was a year dominated by food security and animal welfare, as policy makers debated how to feed a rapidly growing population and campaigners fought plans to bring US-style indoor dairy and pig units to the UK. The Soil Association was in the forefront of campaigns against industrial livestock production and was an outspoken contributor to the food security debate, highlighting key issues in three hard-hitting reports:

Telling Porkies argues that the very framing of the food security debate is wrong because it is driven by a 'big fat lie' – the assertion that food production will need to double by 2050 to feed a projected population of nine billion. It shows how organic farming is capable of feeding the world into the future – provided that diets lower in meat and dairy are adopted and that food is more fairly distributed.

Feeding the Animals that Feed Us explores one of the major problems behind the unequal distribution of food – the use of so much land in poorer countries to produce grain for animal feed in the industrialised world.

A Rock and a Hard Place warns that global supplies of mined rock phosphate are going to peak around 2030. This threatens to create shortages of an important non-renewable resource, hitting agricultural yields and pushing up food prices, unless farmers can reduce their reliance on the artificial fertilisers that contain rock phosphate.

All Soil Association reports can be read online at **www.soilassociation.org**: click **What we do** followed by **Campaigns and policies** then **Our reports**



Yeo Valley Organic's ads helped boost sales by 14.9%

'Why I love organic' is aiming for mass appeal

Mega-dairies, pig factories and cloned meat
In the animal welfare arena the Soil Association was part of a campaign against the building of the 8,100-cow Nocton 'mega-dairy' in Lincolnshire. Plans for the unit were eventually dropped early in 2011. It has also been objecting to a planning application from Midland Pig Producers for an indoor pig factory for 2,500 sows and 20,000 piglets.

The cloning of farm animals hit the headlines in August when the Food Standards Agency admitted that beef from a cloned animal had been eaten in the UK in 2009. The Soil Association was among the voices calling for tighter regulation, arguing that cloning raises concerns about animal welfare, ethics, public safety, reducing genetic diversity within agriculture and the spread of animal diseases.

GM crops
Ministers authorised new field trials in Norfolk in 2010, seeking to test the blight resistance of GM potatoes. The Soil Association said the project was a waste of £1.7 million of public money, pointing out that conventional plant breeding has already produced a new blight-resistant variety that is commercially available.

The Organic Food Festival and Organic Fortnight
The popular Soil Association Organic Food Festival celebrated its tenth year on Bristol's harbourside, kicking off perhaps the most successful Organic Fortnight to date. Retailers credited Organic Fortnight with contributing to a significant uplift in organic sales.

Other developments

The organic industry achieved a major breakthrough in 2010 with the award of £1 million from the European Union to promote organic food and farming. The EU grant match-funds £1 million raised by more than 90 companies, and paves the way for a £2 million three-year advertising and public relations campaign from January 2011.

The new campaign, called 'Why I love organic', aims to increase sales of organic products significantly from 2011 to 2014. Its main messages focus on four key benefits – organic farming is better for nature and for animal welfare, and it delivers great-tasting, more natural food.

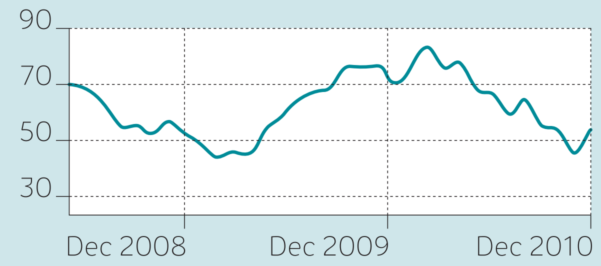
A number of the organic sector's major companies were also among the leading investors in brand advertising and marketing in 2010. OMSCo enlisted Springwatch presenter Kate Humble to promote the health and environmental benefits of organic milk, and announced its innovative sponsorship of a new Cub Scout Global Conversation badge. Alara rebranded and secured new listings for its mueslis in Waitrose, Morrisons and Tesco.

Green & Black's, voted the coolest food brand by consumers and brand experts for the fourth successive year, published a second cookbook and launched a new gift collection of 24 miniature bars. The year's most eye-catching campaign came from dairy company Yeo Valley Organic, whose rapping farmers and hip-hopping tractor featured in 32 ad breaks during ITV's X-Factor and Xtra-Factor through the autumn. Sales of the company's yoghurt increased by 14.9% in 2010, and the music from the ads was so popular that it charted in the top 100 downloads for seven weeks.

Looking forward

Soil Association trade support

Consumer confidence index April 2008–December 2010



Source: TNS-RI for Nationwide

Organic Fortnight is set to become Organic September

On the front foot

The Soil Association has wide-ranging plans to keep organic food and farming in the headlines and build the organic market in 2011. These include:

- Increased interest in and commitment to Organic Fortnight (which this year will become Organic September). Retailers plan to build on the success of the 2010 campaign.
- Staging the 2011 Organic Food Awards, which offer an opportunity for processors and producers to showcase their latest innovations. Prevous winners have benefited greatly, particularly through raising their profile during the September event.
- More hard-hitting reports to publicise key issues of concern, promote the benefits of organic production and challenge policy-makers.
- Twice-yearly trade briefings to share the latest news and market trends with leading companies in the organic market, supporting well informed and effective marketing of organic products.
- A series of learning and networking events for organic farmers, growers, and newcomers to the industry, facilitating the sharing of best practice.

Turning the corner?

The rate of decline in sales of organic products has slowed steadily and significantly through 2010 and into early 2011, indicating that the market is on course to level off during 2011.

The outlook for the year may be summarised as one of cautious optimism, with the timing and strength of any recovery likely to depend on three key factors: consumer confidence, retailer commitment and the wider economic picture.

Fragile confidence

Levels of consumer confidence rose steadily in the second half of 2009, then fell throughout 2010.

One of the strengths of the organic market is a committed core of frequent shoppers who represent only 8% of organic consumers but account for more than half of spending. The spending of this group has remained strong through the economic downturn since 2008, pointing to a certain organic market resilience that is likely to remain whatever 2011 has in store in the wider economy.

The key to an upturn in sales, however, is whether economic confidence levels increase among the wider public – including the lighter and more occasional buyers of organic products who have reduced their spending since 2008. Late spring and summer will be a crucial time, as public spending cuts start to bite.

Retailer commitment

Multiple retailers account for around three-quarters of the organic market, so their approach to organic products is pivotal. In 2009 and 2010 most retailers responded to a dip in consumer demand by reducing organic ranges and shelf space dramatically, and this depressed sales further by reducing availability for those who still wanted to buy. There are welcome signs of a more positive approach in 2011:

- Increased interest in and commitment to Organic Fortnight (this year will become Organic September).
- Sainsbury's, Tesco, Waitrose and Planet Organic have all given financial support to the 'Why I love organic' promotional campaign.
- There has been a revival in retailer promotions of organic products, with price and multi-buy discounts showing signs of success for milk and beef sales.
- A number of retailers are considering the consistency of messages across their organic ranges. Packaging/branding changes are anticipated to address this issue in the course of the year.

This renewed retailer interest reflects a sense that the organic market is either bottoming out or turning. Waitrose and Marks & Spencer anticipate modest growth in 2011, while Tesco, Sainsbury's, Morrisons and the Co-operative predict level sales of organic products year on year.

Predicting growth

Among the leading organic brands and companies confidence is strong: in a recent survey of the Soil Association's 'top 100' licensees 69% said they expected their sales to increase in 2011, and 45% of these anticipated growth of more than 10%.* The £1 million fund assembled by more than 90 companies in support of the Organic Trade Board's 'Why I love organic' campaign shows that the organic industry is fighting back in a united and coherent way.

The success of the recent Yeo Valley Organic advertising campaign flags up the potential of 'Why I love organic' and well-conceived brand advertising to reinvigorate the market. The campaign helped to boost the numbers of households buying Yeo Valley products by more than half a million, and created a wider buzz that can only be of benefit to the organic sector as a whole. Thirty per cent of mums who had seen the 'rapping farmers' TV ad said they had talked about it with friends, and the proportion agreeing that the company's products are 'for everyone' rose from 45% pre-advertising to 61% afterwards.

*The survey was completed by 32 of the top 100, covering a wide range of market sectors. Only one of the 32 respondents predicted that its sales would decline in 2011.

The wider economy

January (increased VAT) and April (increased fuel duty and public spending cuts) are potentially the two biggest pressure points in 2011 as far as consumer confidence and economic recovery are concerned.

January's VAT hike appears to have had only a marginal impact on the organic market so far, with a slight slowing of the steady improvement in the annual rate of sales decline seen throughout 2010. April threatens widespread redundancies among public-sector workers in particular, however, and this will be an acid test for the recovering organic market – unemployment and the fear of unemployment are clearly key factors in consumer confidence.

On your side

The Soil Association is committed to helping get the market back to growth and working with businesses across the sector to achieve success. For more information about support services please contact:

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Phil Stocker (pstocker@soilassociation.org)
Finn Cottle (fcottle@soilassociation.org)

Methodology and data sources

The organic consumer
Data/insight on organic consumer spending supplied by Kantar Worldpanel. Further material from Haygarth UK, Organic Centre Wales, the Organic Research Centre/CORE, Leapfrog Research, Yeo Valley Organic.

The UK organic market
Multiple retail sales calculated using a combination of organic turnover data supplied in February 2011 by six retailers – Co-operative, Marks and Spencer, Morrisons, Sainsbury's, Tesco and Waitrose – and an estimate of Asda's sales obtained by applying Kantar Worldpanel's measurement of Asda's year-on-year sales performance (-15%) to the retailer's 2009 organic sales figure. Together these seven retailers account for over 95% of multiple retail sales, and data on their market shares in 2010 were used to extrapolate a figure for total multiple retail sales from their combined turnover figure.

Box scheme, farmers' market and farm shop sales calculated using data from a Soil Association survey of independent retailers (January 2011). Other independent retailers' sales calculated from a combination of Soil Association survey returns from licensees and Kantar Worldpanel data on sales through non-certified high-street chains such as Spar, Londis, Costcutter and Mace. Catering market estimated with reference to Horizons data on the UK hospitality market, Kantar Worldpanel data and Soil Association survey returns from organic retailers with high-street outlets.

Organic farming in the UK
Organic land area, numbers of producers and regional distribution data collected by Defra from the organic certification bodies. Organic abattoir data taken from a survey conducted by the Soil Association in January-February 2011. Abattoirs were asked for a market prediction, and this was weighted against their 2010 throughput to give overall sector predictions.

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The organic consumer
Main research, data and insights – Kantar Worldpanel (Ed Garner and Steve Reid). Additional material from Haygarth (Sophie Daranyi), Organic Centre Wales (Sue Fowler), the Organic Research Centre (Susanne Padel), Yeo Valley Organic (Ben Cull).

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 Bates (Tesco), Chris Brown (Asda), Ian Burgess and Will Ingham (Co-operative), Malcolm Copland (Marks and Spencer), Philippa Hadfield (Morrisons), Holly Lee (Sainsbury's) and James Morrison (Waitrose). Additional input received on baby food – Anna Rosier (Organix); catering – Mike Bond and Jenny Collins (Soil Association); health and beauty – Amanda Barlow (Spiezia), Stuart Burlton (So Organic), Martyn Cole and Maarten van Perlo (Soil Association Certification Ltd), Dan Brickell (Neals Yard Remedies), Susi Lennox (Yes Pure Intimacy), Karen Sinclair Drake (Sophyto), Abi Weeds (Essential Care); textiles – Deborah Isaacs (People Tree), Lee Holdstock (Soil Association), Jane Shepherd (Organics for Kids), Georgina Thomas (Soil Association Certification Ltd), Helen Rowe (Seasalt), Mariusz Stochaj (Continental Clothing).

Organic farming in the UK
Land area and conversion – Defra statistics; arable – Andrew Trump (Organic Arable); horticulture – Ben Raskin (Soil Association); livestock – Bob Kennard (Graig Producers) and Tim Finney (Eastbrook Organic Meats); poultry – Tim Perrett (Soil Association); eggs – John Sayer (Stonegate); milk – Huw Bowles (Organic Milk Suppliers' Co-operative); aquaculture – Alex Macinnes (Aquascot) and Alistair Watret (Trafalgar Fisheries); national trends – England: Phil Stocker (Soil Association), Northern Ireland: Steven Johnston (CAFRE), Scotland – Richard Huxtable (Scottish Agricultural College), Wales – Tony Little (Organic Centre Wales).

Policy and marketing developments
Input from Mike Bond, Finn Cottle, Emma Hockridge and Isobel Tomlinson (all Soil Association); Ben Cull (Yeo Valley Organic); Sophie Daranyi (Haygarth); Esther Straub (Green & Black's).

Looking forward
Input from Finn Cottle and James Twine (Soil Association), drawing upon Soil Association survey returns from multiple and independent retailers and a third of the 'top 100' licensees of Soil Association Certification Ltd.

Other Soil Association input
Molly Conisbee, Rosie Farthing, Amy Leech, Roger Mortlock.

Layout
E&P Design

Triodos Bank
Putting its money where its mouth is




At Triodos Bank, organic food and farming have always been at the heart of what we do. We believe organics are a key ingredient in a more sustainable society, and fundamental to tackling the converging social and environmental challenges facing us today. That's why Triodos Bank has pioneered finance for the organic market since 1980. Today we lend over £140 million to more than 1,400 organic food and farming businesses across Europe, including 325 in the UK. It's also why we're proud to sponsor this year's Organic Market Report.

Our experience has shown how crucial independently owned and run businesses are to the organic market-place, providing a source of inspiration and innovation; creating new opportunities and developing new ways of adding value to their business. From the humble veg-box to the resurgence of farmers' markets across the UK, independents have created the trends which have seen the organic market grow over the last decade.

Many of the organic businesses we support in the UK are independents. Crooked End Farm in Ruardean, Gloucestershire, for instance, grow a variety of fruit and vegetables, meat and eggs which they sell at their farm shop and through farmers' markets. Triodos Bank has worked with the business since 2008, most recently providing finance to support the further development of their farm shop. As well as supplying the local community with excellent value organic produce, they work in partnership with another of our independent customers, Model Farm, who run a meat box scheme in and around Ross on Wye.

Brenda Pennell from Crooked End Farm says, 'Triodos Bank are absolutely brilliant. I'd gladly recommend them to anyone who wants a bank that really understands and is committed to organics. Knowing you have the full support of your bank is absolutely priceless'.

The challenges highlighted in this report in many ways reflect the wider challenges facing all of us. There may not be any easy answers, but working together we can find solutions and face these challenges together.

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