

EXECUTIVE SUMMARY

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

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

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

The main certified organic products exported from Sri Lanka are value added tea, spice based products, coconut based products, fruit based products and herbs.

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

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

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

The study recommends that the government should take measures such as improving the quality of research for development of value added products, training programmes for producers, promoting certification programmes, developing national policies for organic food production and promoting Sri Lanka's organic products at international fairs. Providing a substantial subsidy for the organic growers could be a vital measure for the development of the sector. Export promotion activities should be supported, recognizing the special nature of organic markets. Organic exporters should be encouraged to join forces to promote and market their products. It is important to provide tax concessions to the organic food

processors and exporters. Subsidies for organic inputs are essential as they contribute to a green environment. Establishment of the third country registration unit as NOCA under the Ministry of Export Development as the control authority in Sri Lanka is important to deal with all the matters connected to the use of the term 'organic'.