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GAIN Report

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Finnish Organic Market

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Organic Products

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Report Highlights:

The Organic market in Finland is increasing rapidly, demand exceeding supply. Food retailers are responding by offering more organic products in their stores. The utilization of products in public school kitchens is also increasing. Best opportunities for U.S. organic products lie in products not produced domestically (dried fruits and nuts, wines, rice etc.) and processed fruits and vegetables.

General Information:

I. MARKET OVERVIEW

The organic market in Finland is increasing rapidly. In 2010, the turnover of organic food products reached 80 million Euros (US$ 105) and every fifth Finnish household purchased organic products on a regular basis, compared to 17% in 2008. In 2011, sales are expected to reach 110 million Euros (US$ 144) and this trend is expected to continue. However, in comparison to its neighboring countries, Sweden (3%) and Denmark (7%), the market share in Finland of 1.2% is still low.

The demand for organic products is growing much faster than supply. So far, the restricted supply of organic products in Finnish food retail outlets has been the main obstacle for growth. However, food retailers are now increasing shelf space for organic products to meet consumer demand. In the first half of 2011, the stores have seen a growth of over 40% in the sales of organic products. Most organic food products are marketed through the major retail food chains (84%).

Although the increase in consumption has led to an expansion in domestic production, the government subsidies also play an important role. The organic acreage was very small until the early 1990s when the Ministry of Agriculture first started subsidizing farmers for conversion to organic farming. In 2011, 7.9% or 180,706 hectares of Finnish farmland was certified organic. The growth rate compared to the previous year was 9%. The average size of an organic farm has increased by over one hectare per year and was 44.5 hectares in 2011. Organic farms are in average 10% bigger than conventional farms.

Despite the increase in domestic production, Finland continues to import various food groups, both organic and non-organic, to meet consumer demands. Because of its extreme Northern latitude, the climate conditions and brief growing season limit the variety of crops produced locally. Finland, therefore, must import those crops grown in more temperate climates, such as rice, coffee, tea, wine, nuts and various fruits. It is worth noting, though, that many of the food items not produced domestically, are available from other EU Member States. Since these Member States enjoy the advantages of free trade with, and proximity to Finland, most of Finland's overall foreign trade occurs within the EU**.** However, there are opportunities for organic ready-prepared meals, ethnic foods and processed fruits and vegetables, where the variety and availability in Finland is still much more limited than that found in the United States.

II. CONSUMPTION AND MARKET SECTORS

<u>Consumption</u>

Fueled by the promotion efforts of organizations like Luomuliitto Ry (Finnish Association for Organic Farming) and Organic Food Finland, and aided by government subsidies, Finland's organic food industry shows great promise. Overall, consumer demand for organic food products has risen at a steady, but moderate rate over the past several years. In 2010, however, sales or organic food products boosted. Recent studies indicate that currently, 22% of Finnish consumers "regularly" purchase organic food products, up from 17% in 2008. Conversely, the number of consumers who have never tried organic products has declined from 32% to 27% during the same period.

The trend toward organic foods is expected to continue and consumer surveys have identified the following primary reasons for the appeal for organic food products: taste, purity, freshness, animal welfare, environmental considerations.

Reportedly, organic food products with the highest market shares in 2010 were eggs (over 8%) and vegetable oil (7%). Other product groups are: grains (5.2%), flours (5.1%), tomatoes (4.5%), breakfast cereals (3.9%) and fruit and berries (2.8%).

Market Sectors

Retail Food Sector

Retail chains are the primary distribution channels for organic products in Finland (84%). A few central wholesalers (S-Group, K-Group, Suomen Lähikauppa) together dominate the food industry with an aggregate market share of 88.1%. These chains have closely knit wholesale and retail arrangements comprising a compact and efficient goods delivery system and a nationwide network of retail shops as well as department stores and supermarkets. They also have hotel and restaurant chains and catering services. The centralized system makes distribution economical; purchases from abroad can be made in viable quantities considering the relatively small size of the market. Almost one-third of the total wholesale trade in Finland is transacted through these wholesale organizations.

The rising popularity of organic products has led to a shortage of products in retail food stores. The retailers are now actively increasing the number of organic products in their stores. The S-Group reported that organic food sales increased by 50% in the first eight months 2011 compared to last year. The share is still small, however, with organic products comprising just 1.2% on total food sales of S-Group. The K-Group aims to double the selection of their private label Pirkka organic products from the currently fifty to one hundred in 2012. In order to better coordinate the supply and demand for organic products, the organization “Pro Organics” was established in March 2011. Major players in the Finnish food sector, including S-Group and K-Group, are members of the association.

Only 16% are sold through other outlets, such as specialty stores, open markets, health food stores etc.

HRI Food Service Sector

Organic products are increasingly finding its way into schools and restaurants in Finland. Many school kitchens, mainly in the larger urban areas, are planning to gradually increase the share of organic foods in school meals. A voluntary program, “Steps to Organic”, has been developed and serves as a support network for professional kitchens that want to increase their use of organic products. The first step is to take at least one organic product or raw material into permanent use in the kitchen. In 2010, about 500 kitchens, mostly in the public sector, had joined the program.

Food Processing Sector

In 2010, there were about 500 registered food processors, packers and traders in organic production. Finland is one of the biggest producers of organic oats. Other organic food products produced in Finland are: rapeseed oil, potato flour, liquorice, shiitake mushrooms and wild berries.

Major producers of organic food products in Finland are Valio Oy (dairy products), Helsingin Mylly Oy (milled products) and Fazer Oy (bakery products).

III. MARKET ACCESS

Control and Inspection

The organic food industry throughout the European Union is regulated by Council Regulation 834/2007, which details minimum guidelines for the production, labeling and inspection organic food products imported into the EU.

In Finland, the production, processing, importing and marketing of organic products are controlled through the Finnish Food Safety Authority (Evira) and Rural Departments of Finland's 15 regional Employment and Economic Development Centers.

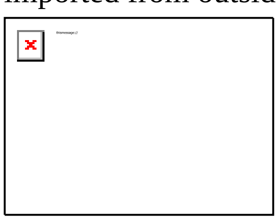
The Finnish Customs authorities works closely with Evira and carry out border controls for organic products from countries outside the EU. Evira inspects samples of organic feed, food of animal origin and organic livestock. Other samples are inspected by the Customs Laboratory.

Organic alcoholic beverages are controlled by the National Supervisory Authority for Welfare and Health (Valvira).

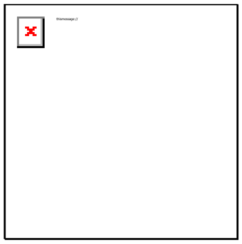
To import U.S. organic products into the EU, importers must work through their competent authority to obtain an import authorization. The products must, at a minimum, provide guarantees equivalent to those set under EU organic legislation. In Finland, such an authorization must be applied from Evira. It is most important that the U.S. exporter work closely with the importer to make sure that the products destined for this market are in full conformity with the country's organic rules and regulations.

Organic Labeling

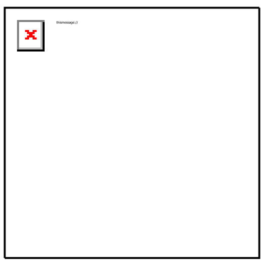
As of July 1, 2010, the EU organic label "Euro-Leaf", must appear on the packaging of pre-packed organic food that have been produced in any of the EU Member States and meet the necessary standards. There is a two-year transition period to comply with these new labeling rules. For products imported from outside the EU, the use of the Euro-Leaf is, however, optional.



Alongside the EU label, national labels can also be used. In Finland, there are two established Finnish organic labels, the "Luomu" label and the "Ladybird" label. The "Luomu" label applies to agricultural products produced under supervision of the Finnish authorities, according to conditions set in the EU regulations on organic agricultural production. The "Luomu" label can also be used on imported products as long as the last stage in production, packaging or labeling takes place in Finland.



The "Ladybird" label is the Organic Association's label and is granted to farmers, food processors and manufacturers who produce organic products according to the association's standards. The standards require a certified quality control system and that at least 75% of the ingredients of the product are of Finnish origin.



In addition, there are other organic labels such as the Demeter biodynamic label. The Finnish Biodynamic Association has its own standards for the Finnish biodynamic production based on the international Demeter standards.
All the above national labels must have at least the same minimum requirements as the EU regulations on organic standards. Although the national labels have been traditionally used in Finland, the EU label is more and more taking over. Many products are now labeled only with the EU logo and the use of national labels is slowly phasing out.

IV. KEY CONTACTS

<u>MAJOR FOOD RETAILERS</u>

<u>Retail Chain</u>	**<u>Companies responsible for purchasing and logistics:</u>**
S-Group: Suomen Osuuskauppojen Keskuskunta SOK P.O. Box 1 FIN-00088 S-GROUP Tel: +358 10 768 011 Fax +358 10 768 2390 www.s-kanava.fi	S-Group: Inex Partners Oy P.O. Box 230 FIN-02631 ESPOO Tel: +358 10 76 87 000 Fax: +358 10 76 87 190 www.inex.fi
K-Group:	K-Group:

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Stockmann Group
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Stockmann Group (+ Tuko Logistics)
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Tel: +358 9 121 5915
Fax: +358 9 121 5671
www.stockmann.com

Satotukku OY (fruit & vegetable wholesaler)
Porttisuontie 9
FIN-01200 VANTAA
Tel: +358 9 251 59100
www.satotukku.fi/english.htm

REGULATORY AGENCIES

Finnish Food Safety Authority (Evira)
Mustialankatu 3
FIN-0790 HELSINKI
Tel: +358 20 690 999
Fax: +358 20 772 4350
Email: info@evira.fi
www.evira.fi

Finnish Customs Office
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Fax: +358 20 492 1812

http://www.tulli.fi/en/

OTHER RESOURCES

Luomuliitto Ry (Finnish Organic Association)
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