

Current Situation and Prospects of Organic Agriculture in Eurasian Economic Union

English Language Executive Summary

Photo credit: LLC "Agro", Tomsk region, member of the Union of Organic Farming

In recent years, the five member countries of the Eurasian Economic Union (EAEU)—Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and the Russian Federation—have witnessed a surge of interest in developing organic agriculture (OA). This type of agriculture helps to establish high-margin agricultural production as well as to support better growth in the agro-industrial complex. This area is considered to be supplemental to traditional agricultural industry, and its promotion follows the global trend of producing healthy and wholesome food. In addition, the development of OA helps EAEU members expand the export of agricultural output, create the enabling environment for diversified and resilient agricultural systems, boost the profitability of small farms, and reduce farmers' dependence on expensive inputs and resource-intensive practices. Each member country promotes OA according to its specific interests and perceptions, influenced by the experience of advanced countries that have successfully developed market segments for organic products.



Органическое сельское хозяйство в странах Евразийского экономического союза: текущее состояние и перспективы



This report aims to assess the current state of OA and prospects for its development in the EAEU, given the potential integrated cooperation and development of a common market for organic products. Two considerations make this exercise relevant.

First, similar processes are taking place in all EAEU member countries. The parties have moved from initial attempts to implement OA to ad-hoc and fragmented national policies that support development of this agricultural activity. Laws regulating the production and sales of organic products have been passed—laws that are better in some countries (Armenia and Kazakhstan),

not so good in others. Limitations of the current legislative framework are already obvious and can be addressed if international experience is employed in a rational and critical manner. Searching for a country's "own way" results in major financial and economic losses for organic producers and impedes OA development.

Second, with export-oriented organic production in EAEU member countries, forecasting global organic market developments becomes extremely important. The global organic market demonstrates steady and accelerated growth, with demand outpacing supply. Organic goods produced by EAEU members are in demand, and this situation opens up huge opportunities for EAEU producers.

Country studies suggest that EAEU member countries are facing similar challenges:

- ✓ *Underdeveloped domestic markets for organic products*
- ✓ *The need to cater to international markets*
- ✓ *Weak financial institutions and lack of comprehensive state support that would promote organic production*
- ✓ *Lack of national statistics reflecting the production and export of organic products*
- ✓ *Lack of classification systems for agricultural land*
- ✓ *The tough stance taken by big agribusiness in Belarus, Kazakhstan, and Russia that upholds its own interests, sometimes to the detriment of OA development*
- ✓ *Low awareness of the advantages of organic products for consumers and the environment, and low awareness of labeling requirements*



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The majority of countries have established national, nonfinancial OA development institutions. The most successful of these are associations that comprise key stakeholders: organic producers (agribusiness), academia (agricultural universities and research centers), and nongovernmental organizations (NGOs).

Organic production in EAEU member countries has the following features:

- ✓ *In Armenia, Belarus, and the Kyrgyz Republic, key producers are small farmers and their associations (cooperatives).*
- ✓ *In Kazakhstan, the majority of producers are small businesses, but the bulk of output appears to be produced by big agricultural firms.*
- ✓ *In Russia, organic production is dominated by medium-sized businesses and organic divisions of big agro-firms.*

In all EAEU member countries, the share of land used for OA out of the total agricultural land area is significantly below the world average of 1.5 %, with Russia having the largest (0.3 % percent) and Belarus the smallest (0.02 percent) share. The current share in Russia equals the world average of 20 years ago.

Given the scale of Russia's economy, its specialization largely defines overall EAEU specialization. In Russia, three crops account for some 70 percent of all organic crops: wheat (37.9 percent), soybeans (20.9 percent), and corn (10 percent). The most competitive organic product market for Russia, Kazakhstan, and the Kyrgyz Republic is the wheat market; for Russia and Kazakhstan it is the soybean market; for Russia and the Kyrgyz Republic, the corn market; and for the Kyrgyz Republic, Belarus, and Armenia, the bean market. Organic product processing and retail in EAEU countries are underdeveloped. In

Armenia, these areas are occupied by companies that are rather big by country standards. Armenia started to develop OA earlier than other EAEU member countries, so big business getting into organic product processing and retail may be a universal trend that other member countries are likely to experience. Furthermore, the development of processing infrastructure will help to diversify the organic products that are exported and make it more profitable; it will also encourage domestic demand for organic products and promote regional value chains.

OA promotion is not met with unanimous acclaim, however. Lobbyists of big industrial agribusiness



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(despite labeling this topic as crucial for national agriculture). The outcome is disappointing: Belarus and Russia are revising their initially optimistic OA development outlook dramatically downward.

The report looks into the prospects of national organic market development in EAEU countries. Declining real incomes are the main obstacle to this development. However, it is clear that without growing domestic demand, it will be impossible to ensure sustainable OA development. Country studies have produced a universal customer “portrait.” It can be assumed with confidence that organic product consumers in EAEU countries share the following traits:

- ✓ *Have a high income and a good education*
- ✓ *Are urban residents (capital cities and other densely inhabited areas)*
- ✓ *Have healthy eating habits*
- ✓ *Are parents of young children*
- ✓ *Are fairly well aware of the qualitative properties and benefits of organic products, but most consumers do not grasp the difference between organic and “green” products*
- ✓ *Are willing to pay a 40 to 100 percent premium for organic over conventional products*
- ✓ *As a rule, do not have a lot of trust in retail outlets attempting to sell organic products*
- ✓ *Are free from the cliché that is rooted in the popular mentality and claims that local (national) products are better than imported*

who cite such goals as the need to ensure food security may seek to undermine governments’ and public trust in organic products. This serves as another hindrance to OA development.

Limited resources and inadequate creditworthiness of small businesses, coupled with the need for farmers to sustain major additional costs during conversion to organic farming (losses due to non-use of land and expenditures needed to purchase organic technologies) cause the number of organic start-ups that succeed each year to be very low. Clearly, in this context governments are not in a hurry to develop and roll out special support measures targeted to organic producers

Medium-income groups are “conditional” consumers who are willing to buy products occasionally influenced by circumstances. They

offer growth potential. If the organic premium can be contained at 10 to 30 percent above the cost of conventional products, potential consumers will be joined by medium-income groups. However, a lot of customers shopping at markets and bazaars and oblivious to the actual situation assume that they buy safe and clean products. And since they normally do not know the difference between organic and “green,” they may believe that they are buying organic products.

Overall, basic concepts and therefore approaches to developing organic sectors in EAEU countries differ dramatically. A multitude of certification systems baffles consumers and makes it difficult to trace organic products. This puts obstacles in the way of trading in organic products in the EAEU domestic market. To ensure unobstructed trade, increase trade volume between EAEU members, and develop a common market for organic products, EAEU countries should harmonize their national requirements for organic products and their production processes. They should also develop equivalent accreditation and certification systems.

Boosting integrated cooperation in OA and bringing organic products to global markets can serve as a sustainable growth driver for high-margin agriculture in Eurasian countries. In addition, under the EAEU Agreement dated May 29, 2014, with the parties seeking to deepen their integrated cooperation in the agro-industrial complex, a Eurasian OA system will help to build the institutional framework needed to move from agreed to common agro-industrial policy.

With supranational regulations in effect, the development of EAEU integrated cooperation in OA can take the shape of an intergovernmental program. Such a program can identify issues, goals, and objectives; evaluate the implementation of suggested activities; provide justification for financing amounts and sources;



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and so on. Implementation of the program would allow the creation of an efficient mechanism for the sustainable and inclusive production of innovative, competitive, and in-demand products.

Currently, the total sales of organic products in EAEU markets are unlikely to exceed €200 million, or 0.25 of global sales; moreover, most of these products are imported. The irony here is that it is impossible to estimate these volumes with any acceptable degree of precision because EAEU countries do not keep statistical records of organic production and export. However, the land area that could be used for OA allows a manyfold increase of output. Thus,

establishing an adequate system to record and forecast production and export volumes is another task that could be addressed through integrated cooperation.

The result of such an intergovernmental program should be an integrated Eurasian digital platform that brings together all stakeholders and serves as an innovative ecosystem to ensure efficient OA in Eurasia. Absent integrated cooperation, OA development in the EAEU in the medium term is likely to be sluggish, with unsustainable growth below world average rates.

This is the general picture of OA development areas and opportunities in EAEU member countries. The report briefly describes country-specific features of the process. It includes nine sections, structured as follows:

- ✓ *Section 1 addresses key trends in the global organic market and the place of EAEU countries there; it also outlines the general principles of how OA functions.*
- ✓ *Section 2 presents key OA stakeholders, describing their respective roles and areas of activity.*
- ✓ *Section 3 focuses on benchmarking institutional aspects of OA in member countries (basic concepts, national initiatives*

and policies for OA development, legislative framework, and government support).

- ✓ *Section 4 discusses national resources for OA development (scientific and technological capacity, education and advice in support of OA).*
- ✓ *Section 5 describes market infrastructure and arrangements for the sale and use of organic products.*
- ✓ *Section 6 deals with socio-psychological aspects of organic markets; in order to identify consumer patterns, World Bank experts performed country studies of key stakeholders with surveys (Armenia, Kazakhstan, Russia), in-depth interviews (Belarus), and focus groups (the Kyrgyz Republic, Russia).*
- ✓ *Section 7 identifies key constraints and challenges to OA development in EAEU member countries. Section 8 includes an overview of OA development alternatives in the medium run.*
- ✓ *Section 9 outlines future integrated cooperation areas for EAEU countries to boost cooperation potential and build a common regional market for organic products.*

