Summary of interim report of the Organic Working Party.

Index

This is a summary of the full report found at **www.gov.im/consultations/organicwp**

1. Executive summary

This document is a summary of the full interim report, which can be accessed at **www.gov.im/consultations/organicwp** or paper copies are available from DAFF on 685838.

1.1 Why develop the Manx Organic market?

It is not the intention of the Organic Working Party (OWP) to compare the relative benefits of organic versus conventional Manx production systems or their produce. Consumers make their choices, and the purpose of the OWP is to establish the scale of opportunity the Island's food sector faces as a result of consumers choosing to buy Organic products.

On the Isle of Man there is evidence of strong and increasing demand by consumers for organic produce, for example one supermarket on the Island indicates they sell around twice the level of organic vegetables of an equivalent UK store. Organic food is a premium market which is currently supplied by importing the majority of produce. This report estimates a retail value of around £1.7m for Organic food on the Island and current growth projections increase this to £2.6m over the next 5 years.

There is also a multiplier effect which adds further value, since new business activity needs services and creates opportunities (e.g. organic restaurants, eco-tourism) which in turn may create additional wealth. There may be further opportunities for the export of surpluses.

In the light of the challenges currently facing the Isle of Man agricultural industry, and particularly as it approaches the end of red meat derogation in 2010, it is important that organic should be acknowledged as a high value sector which would need rapid further development in order to allow it to become properly established by 2010.

1.2 The Role of the Organic Working Party

Following the recent initiatives by the Department of Agriculture, Fisheries and Forestry (DAFF) to improve the profile and culture of local food purchasing, plus the highly active lobbying of the Manx Organic Network, the Department established the Organic Working Party (OWP). The OWP were asked to review the opportunities and issues associated with the Manx organic market and subsequently propose an Organic Action Plan (OAP) for the Island. The OAP should establish the actions, funding and priorities involved in developing each viable market opportunity identified in the action plan.

Further copies of this summary document and a fuller version are both available at **www.gov.im/consultations/organicwp**. The purpose of the combined reports is to indicate the opportunities and issues identified by the OWP from its work to date (which has focussed on primary production), in order to consult stakeholders on the content and achieve feedback on the ideas and proposals contained. Following this consultation, the Organic Action Plan will be developed and is scheduled for release during Spring 2008.

1.3 Opportunities and issues identified to date

These have been separated into topics which affect all Organic sectors in the Isle of Man and those which are sector specific. For each individual sector this report considers the current and projected organic market and the opportunities and issues it faces. These issues vary depending on the stage in development already achieved and the inter dependency on other sectors.

The key cross sector issues identified can be summarised as:

- Consistency of supply and seasonality will remain key issues, particularly given the tendency for this market to be supplied by smaller producers. Therefore co-ordination and co-operation between producers will be a critical factor to match production to the market's needs if the product is to become a mainstream proposition or be sold through local supermarkets. This may require improved market trend data.
- The balance between supply and demand must be monitored carefully.
- Product pricing will have to be competitive though there is evidence that many consumers will see locally produced Organic as a premium product compared to imported equivalents.
- Organic production requires different technical knowledge and skills, which is an area where support, advice and training will be important.
- The current blurring of the term "organic" is disadvantaging certified producers who are carrying the cost of compliance. There is also risk of damage to consumer confidence and the organic brand through inappropriate labelling of conventionally produced products. This is an area which should be addressed and may require government support to help offset the significant transitional costs as improved certification and compliance are adopted.
- A significant barrier to all areas of Organic production is the limited amount of locally produced organic cereals and proteins for feedstuffs and flour or affordable imported equivalent. Mixed farms are often able to produce sufficient protein and cereal crops for their own livestock utilisation. This is likely to remain the only sustainable organic production system however other possibilities should be assessed.
- Initial methods of selling product are anticipated to be on a more direct basis which suits the variable supply levels, this may require Government support to help the transition to achieve a regular supply of quality products. However, once established, Manx organic has scope to become a regular supplier to local supermarkets, and ultimately develop markets off island.
- Current marketing legislation and practices should be reviewed, to ensure they do not restrict the ability of the Manx Organic producer to adopt the less formal routes to market such as farmers markets, local independent and farm shops, box schemes etc.
- A cohesive strategy for marketing Manx organic should be developed and ideally co-ordinated by the industry, possibly through a producer co-operative. The marketing should be complementary with the overlapping "local" food market.
- The interwoven importance of both Organic and other local foods and their marketing strategies should be reflected by cross department initiatives, including a review of Government procurement policy, together with initiatives

and/or policy review in respect of education, health, planning, trading standards and tourism.

- The current Government support programme affecting producers, processors and retailers wishing to convert to organic should be reviewed, to achieve faster and more appropriate support.

In addition it is projected that the organic sector overall will begin to realise its potential at varying stages over the next five to ten years as some sectors are well advanced whilst others are embryonic.

1.4 Consultation Process

The OWP is seeking the views of all Stakeholders regarding the issues identified within this report to establish any perspectives which have not been included. This will subsequently provide an open, transparent and joint thinking approach to the drafting of the Manx Organic Action Plan.

We would welcome your comments which should be supplied to The Secretary of the OWP, c/o DAFF, Rose House, Circular Road, Douglas or by e mail to OWP@gov.im or to Viv Davies, who is Chair of the OWP and Secretary of the Manx Organic Network and can be contacted on vivdavies@manx.net.

Closing date for responses is **Friday 16th November 2007**.

2. Rationale for the development of the organic sector on the Isle of Man

The key rationale for the development of local organic production and food chain is the need to ensure that existing and growing consumer demand for "premium" organic produce is supplied through increased and profitable Manx production. This will allow the substitution of imports and improve local farm income, a win:win situation for the consumers, producers and Island's economy. There may also be scope for high value exports.

The organic food sector is growing fast, as consumer demand increases. Soil Association and Department of Environment, Food and Rural Affairs (Defra) figures show that in the year to January 2006 UK organic sales increased by 30 per cent, passing the £1.6 billion mark. (At the same time, the area of land under organic management in England increased by 12.8 per cent to 720,000 acres). There is clear feedback from the major Island based retailers that in the Isle of Man we are experiencing similar if not faster growth trends and the OWP have estimated a local retail market value of £1.7 million and UK projections by Data monitor, suggest this may increase to £2.6m within 5 years.

With the 2010 end of derogation on meat and lamb there will be significant challenges for Manx producers from cheaper imports, so it is vital to ensure all profitable markets are supplied. Organic, as a premium product, potentially provides one part of that strategy, both for on Island consumption and for premium priced export.

Evidence reviewed by the OWP suggests that it is the wish of many consumers to have the choice of purchasing foods produced organically, and where possible produced in the IOM, which these consumers believe brings the added benefits of freshness, enhanced traceability, investment in the local economy, low food miles and reduced fossil fuel consumption.

Such consumers already pay a significant premium for imported food produced to certified organic standards. This premium is often justified in consumers' minds by ongoing press coverage of food scares and a growing collection of research regarding the nutritional content of organic food.

Research by the University of Essex for the Soil Association revealed that organic farming in the UK provided 32% more jobs per farm, attracted both younger people and more new entrants into farming, and was more likely to be involved in on-farm processing, marketing and retailing relative to equivalent non-organic farms.

Overall, the perception of the benefits of the organic system from a sustainability and environmental perspective is one of the many complex drivers that attract consumers to organic products.

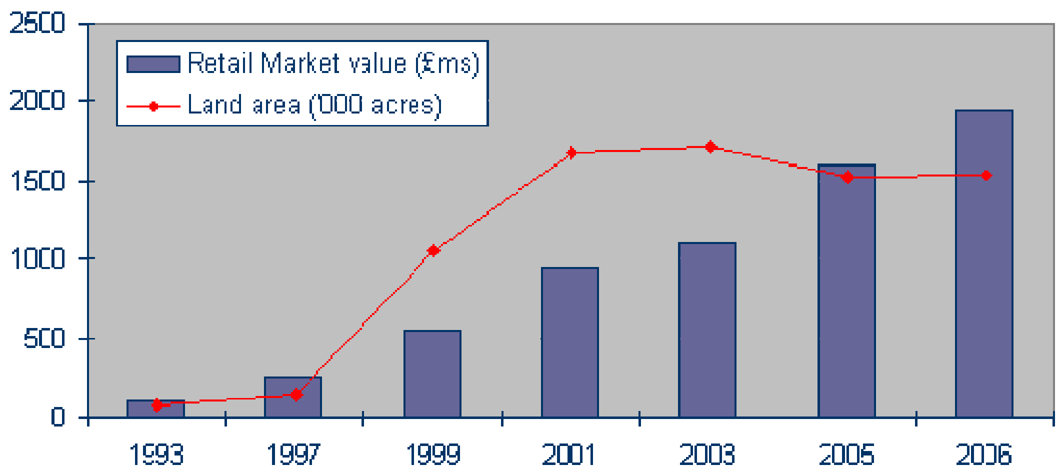
3. Overview of Organic market

3.1 Trends in Production

Organic production trends continue to show growth rates well above those for the market as a whole. In terms of UK processors and growers, the latest Defra figures show an 8% increase in the number of producers and growers since January 2006, and a 13% increase in the number of processors (which include abattoirs, bakers, stores and wholesalers).

The graph below indicates that there has been ongoing growth in UK Retail market value which now totals £2 billion according to the Organic Market Report published by the Soil Association on 31 August 2007. Additionally, in most UK regions, there has been an accompanying growth in converted land area which now totals around 1.5 million acres. During 2005/6 the total UK land area reduced, due to large areas of Scottish hill and upland land being withdrawn once the support obligations were completed by the individual farmers. This trend in Scotland is not expected to continue.

Graph - Trends in UK Organic land area and Retail value of Organic Market



Source: DEFRA and Soil Association

As at June 2007 there were 3,107 acres of organically managed land in the Isle of Man, which represents 3% of the total farmed area. This compares well with England which has 3.5%. However almost 60% of the Island's organically managed land is currently in conversion compared to 18% in England. This emphasises the scale of increase in production that the Island faces over the next couple of years.

Manx Organically managed land	**Acres**	**Proportion of total**
Converted land	1,290	1.2%
Land in conversion	1,817	1.7%
Total Organically managed land	**3,107**	**3.0%**

The rapid increase in local volumes of production in several sectors mean there is an urgent need to ensure sufficient markets are established for expected production, prior to facilitating any further significant levels of conversion in these sectors.

In terms of producers there are 5 certified organic producers and several in conversion. In addition we have one certified processor (the Meat Plant) with one preparing to certify (the Creamery). Two butchers have previously been certified, though ceased as the costs associated outweighed the benefits, based on the volumes of organic meat they were able to access and sell at that point.

3.2 Trends in market size

This analysis has used UK based statistics (Defra and others) backed up by the MON 2005 consumer survey and reinforced by the discussions the OWP has had with local multiples.

The UK trends are borne out by the MON 2005 Survey with 85% of the sample buying organic produce on occasion, including 65% buying organic vegetables. At the same time, 83% of the sample specifically bought Manx produce, and 59% said that, if available, it would be important for them that the Manx produce was organic.

The OWP has held meetings with three of the Island's largest retailers to test the UK trends to confirm that they apply at least equally to the Isle of Man, and to discuss their understanding of the impact of organic on their consumers, the outcome of which indicates that:

- Organic market share ranges from 2-8% of the total market value, varying significantly dependent on product. Vegetables appear to be between 4-8%, Milk around 4% and Meat 2-4%.
- Local retailers have expressed strong confidence of local consumer demand for organic produce. One supermarket executive remarked that they sell around twice the level of organic produce (vegetables and fruit) that an equivalent UK store would expect to sell
- Recent moves by some retailers to merge organic products back onto their normal shelves have significantly increased the sales within these shops.

3.3 Projected Organic market growth

In each separate produce sector of this report, the OWP has sought to quantify the potential "premium" market for Manx organic produce. In terms of primary production alone, it is estimated that this represents a combined retail value of £1.7m. A recent Datamonitor forecast for the UK would suggest that in the next 5 years, the local organic market value will rise to £2.6m

It may be that some instinctive organic customers currently elect to buy local over imported organic. The subsequent development of local organic supply may result in some substitution of local conventional sales.

The fragile balance between supply and demand has been a cyclical feature of this market in the UK for some time. Although the 9%-11% p.a. UK growth predictions represent a slowdown from the 20% growth p.a. in the 1998-2003 period during which time the organic market was becoming established, it remains substantial and is more than twice the growth rate for the whole market.

In the Isle of Man we have the opportunity to learn from the UK experience and take appropriate steps to minimise these fluctuations and carefully manage the development of the Manx organic market as it becomes established, ensuring supply is carefully marketed and yet not oversold to aid both the producer and consumer.

4. Cross sector Issues

A number of issues have been identified which affect all sectors and these are discussed in this section, whilst the subsequent sections consider sector specific issues.

4.1 Organic Certification

The maintenance of consumer confidence in the integrity of organic food is fundamental to the successful development of the organic sector. The mixed labelling of "low input" produce with descriptors such as "towards organic", "grown to organic principles", and "naturally grown" has the potential to both blur the boundaries of the organic market and to threaten the integrity of the branding and hence the trust of the consumer.

Sales under these descriptors also undermine the certified producer who has to operate to the standards and bear the certification costs whilst only commanding a similar price premium, for example at farmers' markets.

The Island's existing Protocol 3 obligations establish legal compliance obligations in order to access and trade freely within the EU market. The EU regulations regarding the Organic sector introduces a market wide set of labelling criteria and clearly prohibit the use of "organic" descriptions for the marketing of uncertified produce. Therefore Manx organic produce will only be able to be exported as organic into the EU if fully certified.

Therefore, the OWP have established that:

a. It is key that locally produced organic foodstuffs are certified at each stage of the supply chain in order to achieve full integrity.
b. The use of the term 'organic' in food should be restricted to certified organic produce by the time of the arrival of local organic milk production in October 2008.
c. The OWP is acutely aware of the financial and administrative implications of such a move and believe that initially the costs should be supported by DAFF to facilitate the development of this market.
d. The creation of a local certification body is not recommended as the external audit of internationally recognised bodies helps to ensure consumer confidence and would be required for any future export sales.
e. Improved links need to be established with the relevant forums responsible for the development of organic standards. This would provide the opportunity

to cover issues specific to the Island, not least those relating to branding and labelling.

f. Consideration should be given, at a later point, to registering an Isle of Man origin identifier to improve export potential. However this would not appear to be a priority at this time, given the existing strong local provenance or identity, and the lack of exports.

4.2 Government support

It is crucial that Government gives a clear signal that it is committed to a successful long-term future for organic production in the Isle of Man. In part this will be achieved by setting out clear targets for the development of organic agriculture in the Organic Action Plan and supporting the implementation of the plan.

It is acknowledged that funding initiatives will be most effective when they are provided to help initiate changes, with a clear schedule outlining their short term nature and subsequent withdrawal. This will facilitate initiatives, whilst ensuring they become commercially sustainable in the long term.

Issues identified to date in the current Government Support Schemes, with specific issues relevant to organic farming include the following:

a. **Organic Farming Scheme 2004.** The period of conversion is financially difficult, which is the reason for this Scheme. For this to be effective, it is crucial that support is available quickly and reliably. The existing Organic Farming Scheme contains a flat rate payment element which is intended to cover fixed conversion and certification costs; however this appears to be insufficient. This is especially true for smaller and horticultural units, which suffer disproportionately high costs.

b. **DAFF Farm & Horticultural Improvement Scheme 2006**. In utilizing the current interpretation of standard man hours per enterprise, the existing DAFF FHIS capital support scheme does not reflect the increased time required for many organic operations and also for direct marketing initiatives. This should be addressed.

c. **Decoupled Production Support.** The recent proposals for de-coupling support payments in proportion to historic payments may disadvantage individuals who have reduced output and therefore historic subsidy receipts, as part of an Agri-environment or Organic conversion scheme.

d. **Agri-Environmental Scheme.** Payments under the UK Agri-Environment scheme, of £24 per acre, rewards organic farmers who have completed conversion for entering into 5 year agreements to observe the environmental conditions of the scheme. This rewards organic farmers who make extra provisions to protect and enhance the environment. However it is important to acknowledge that throughout Europe, these schemes are substantially funded through reductions in their now decoupled production support. The current position not to significantly expand the budget and membership of the Agri-

Environment Scheme would appear to lose an opportunity to develop a specific organic farming strand similar to the UK Agri–Environment scheme.

Proposed future Government support includes the following:

a. **Additional Certification Requirements.** As discussed in the Certifications section above, support should be introduced for certification requirements (registration and inspection) for processors and retailers on a similar basis to that available to producers to ensure integrity throughout the food chain.

b. **Training and Technical support.** The management of an organic farm requires a subtly different set of skills and knowledge. This may require a coordinated and properly funded advice, training and technical support facility for organic producers.

4.3 Co-ordinated promotion and market development of the organic sector

The overlapping nature of "Organic" and "Local" product means great care is required in promotional activity, so as to promote both in a complementary and cost effective manner, whilst retaining a clear understanding of the differentiators to ensure that the pricing of Manx organic produce can reflect the additional costs incurred by the organic producers.

In general, to secure and expand the overall market and sharply expand the local share of that market, a programme needs to be developed which builds on existing and planned initiatives, to:

a. Ensure sustainable Public Procurement Policies are established and adopted on the Island.
b. Continue to develop new marketing and processing opportunities by, for example, focusing through the 'I love Manx' campaign on the quality of the Island's organic and local food offering.
c. Promote and support the catering market (including restaurant meals and ready meals).
d. Publicise, promote and reinforce the organic and local messages in the Isle of Man to help achieve the full potential for market development. Educate consumers and increase the awareness of the many benefits of these production systems.
e. Work with stakeholders and the Department of Tourism and Leisure to establish and market a quality food culture.
f. Educate young people about the merits of wholesome foods through schools, with initiatives such as the Year of Food & Farming which should be developed with the Department of Education to run in parallel with the major UK programme September 2007 - July 2008.
g. Consider the establishment of a Local Food Resource Centre to provide a focal point for the organic and local food sectors on the Island. This would be targeted to help the overall organic and local market; to facilitate the development of supply chains between producers and market outlets of all types, including direct sale to consumers as well as through independent and multiple retailers.

h. Facilitate diversification into eco-tourism as this is an acknowledged growth area, with Mintel estimating that in 2005, the UK eco-tourism market equated to 450,000 holidays. VISIT (Voluntary initiative for Sustainability in Tourism) projects this will have swollen to 2.5m trips annually by 2010. Actively embracing Manx organic may help the Island's Tourism industry compete more effectively in this growing sector.
i. Instigate initiatives to measure and monitor market trends in the organic sector.

4.4 Production issues

A significant barrier to all areas of Organic production is the limited amount of locally produced organic cereals and proteins for feedstuffs or affordable imported equivalent. Mixed farms are often able to produce sufficient protein and cereal crops for their own livestock utilisation and this is likely to remain the only sustainable organic production system.

A common issue is the relatively small size of the market and the need for a co-ordinated approach by Government and the industry, together with other initiatives which should be considered to encourage the following:

- The potential linkage of production units to allow complementary specialization of producers. Examples include cereal production in exchange for the supply of animal manure; store livestock producers supplying finishing units (for example the current lack of suitable land for finishing local organic hill lamb); or the potential for farmer cooperation to ensure as near as possible all-year round availability of supplies.
- For horticulture, the relatively small scale nature of the production facilities and their need to achieve critical mass to afford labour saving equipment means that ways of facilitating co-operation should be considered.
- The need for co-ordinated marketing of product to assist in supply management and allow access to larger outlets may require support and facilitation.

4.5 Route to market issues

Several multiples have explicitly stated they are keen to expand locally produced sales, though cautioned that they must have consistent supplies of competitively priced high quality goods. Larger retailers state that their purchasing mechanisms are best suited to dealing with a limited number of suppliers, which emphasizes the need for coordinated marketing, underwritten by secure supplies so as to achieve a single or minimal number of points of contact for the retailers

The existing marketing legislation and practices are seen as a barrier to the development of niche food products at a farm or artisan level. A change could allow some producers to go down the direct marketing route, via farm gate, farmers markets or other small local retail outlets, utilising opportunities to add value by further processing.

The small size of these markets often means the existing Marketing Associations cannot profitably supply such markets due to the scale of their overheads. Examples would be yoghurts, artisan cheese and smoked meat products where their production on a commercial level would require significant capital investment. However such products could be developed by individuals who may not depend totally on an income from the business during the development period.

The relatively small size of the existing market means it is essential to develop cost effective routes to market for local organic produce, in parallel with the development of the local organic production base. This must recognise the expected ongoing growth in the organic share of total market as well as the current very low share provided by local organic here in the Island.

5. Sector specific issues

For each individual sector, this report seeks to consider its current and projected organic market, including how it is currently being supplied, plus the issues each sector faces in order to maximise its potential. These issues vary dependent on the stage in development already achieved and the inter-dependency on other sectors. Detailed below is a summary of the OWP's findings to date in respect of each sector. Each sector is considered in more detail in the full Interim Report which is available at www.gov.im/consultations/organicwp.

5.1 Milk and Dairy

5.1.1 Milk and Dairy: Current and projected Organic Market

Island organic liquid milk sales are estimated by the Isle of Man Creamery to be around 315,000 litres, equating to 4% of local market and worth £240,000 per annum at point of sale. Whilst this is currently entirely imported milk, it is expected that locally produced organic liquid milk should more than satisfy current demand by late 2008.

However, growth in annual demand for organic liquid milk is estimated to be around 8-9%, in line with the UK annual average for the overall Milk and Dairy sector. In addition, a report launched by OMSCo in January 2007 indicated an increase in sales of over 65% over the past year, and further that, with UK demand outstripping supply, some retailers were importing milk to sustain continuity of supply. These may provide opportunities for the further development of the Manx organic milk sector for the future.

In addition to liquid milk, this sector also comprises other dairy products, including ice-cream, yoghurt and cheese. At present this sub-sector, estimated to be worth £150,000, is being supplied by imports to the Island, rather than by Manx producers, though cheese production is also expected to start in 2008. It is expected this will also allow the export of high quality organic cheese, using existing potential production, which is already in conversion.

5.1.2 Milk and Dairy: Production issues to be addressed

i. The rapid increase in local volumes of production by the conversion of a significant sized producer for milk means there is an urgent need to ensure **sufficient markets are established for expected production**, prior to facilitating any further significant levels of conversion in this sector.

ii. **Seasonal supply, quality and consistency** issues will require careful monitoring and are more vulnerable to fluctuation due to the single producer situation.

iii. There appear to be opportunities for independent production for local niche dairy products, however any development of independent milk production, needs to be balanced by measures to address the dairy industry's need to maintain a **critical minimum level of milk intake at its central processing plant** (the Creamery) to ensure economic production levels, thus ensuring that a satisfactory level of payment to Manx dairy farmers is possible.

5.1.3 Milk and Dairy: Sales issues and opportunities

a. The supermarkets are currently the major vendors of organic dairy products, with imported organic milk, cream, cheese, yoghurt, probiotic drinks and ice cream available at the majority of the larger branches of supermarkets on the Isle of Man. However, subject to an assessment of initial capital costs, there may be a number of opportunities for such niche dairy products, also including artisan cheese making, to be developed by small local processors and sold through **local small retail outlets, farm shops and farmers markets**, where these small scale products are highly attractive.

b. There are clear opportunities for the **export** of mainstream cheddar cheese and it is likely that artisan product sales could gradually be developed off Island. It is also possible that on occasions the market may allow the export of organic liquid milk to English regions, for example if there is a surplus and if UK market is still in deficit in 2008-2009.

5.2 Lamb and Beef

5.2.1 Lamb and Beef: Current and projected Organic Market

Organic red meat products are estimated to have a current retail value on the Island of around £420,000. However, at present, only around 20% of this is met by on Island production. Retailers are either importing organic red meat or simply not offering an organic option, hence the low levels of local supply of Manx organic lamb and beef are severely restricting sales, with just 0.6% of total production being certified organic.

UK market share is now around 1% of supermarket sales; however it is estimated that significantly higher levels of meat sales take place through outlets such as butchers, farmers markets and direct sales, indicating that combined organic meat sales may represent 2-4% of the market. During 2006, organic meat sector sales growth was 12% in UK supermarkets, with beef growing at 20%. This trend is expected to continue.

5.2.2 Lamb and Beef: Production issues to be addressed

a. One of the key issues for this sector is the **management of producer numbers to meet but not exceed demand**. There are currently four certified organic red meat producers, one of which does not sell any Organic product.

Existing Organic Production Capability	**Number**	**Proportion of total**	**Potential Production** *(Notes 1 and 2)*
Suckler Cows (number)	88	0.9%	20.4t
Ewes (number)	635	1.1%	13.3t

Note 1: *the potential production figures are calculated using standard performance figures sourced from the Organic Farm Management Handbook and assumes all stock are finished with Organic status, which is not currently the case. The actual current production levels are below this level.*

Note 2: *This assumes all stock is finished with Organic status, which is not currently the case.*

There is some further potential production in conversion which should lead to a significant increase in red meat production capacity.

New Production capability currently in conversion	**Number**	**Proportion of total**	**Potential Production** *(refer to Note 1 above)*
Suckler Cows (number)	80	0.9%	18.6t
Ewes (number)	500	0.8%	12.4t

The rapid increase in local volumes of production for red meat, together with potential for improved efficiency in current production, should result in production almost doubling over the next few years. In order to facilitate this, there will need to be effective promotion and careful supply management.

b. Based upon input received by the OWP from the red meat industry, it is suggested that this sector requires improved co-ordination and clarity of market requirements to improve the **seasonal consistency** of organic red meat, together with its **ability to achieve the required grading within the 30 month timescale**.

Consistency of supply has not been achieved due, in the main, to the small number of producers and their size of operation. A particular priority for lamb is co-operation between producers to enable a planned approach to achieving a consistent supply and also to allow individuals to specialise and hence improve product quality.

Of particular issue for farmers is the fact that a proportion of Manx organic red meat is not ultimately sold as organic. This is due to one of two reasons:

- Manx organic red meat, and in particular beef, does not achieve the required grading within the given time frame, largely as a result of the predominantly grass diet of the organic animals, which is only supplemented in late winter and early spring by on farm grown winter fodder, rather than imported concentrates.

This is particularly relevant for animals born at certain times of the year. Manx organic lamb and beef not achieving the necessary grading will then be sold as non organic. Whilst the % rejected is often similar to that for non-organic meat, in respect of organic meat there is a more significant financial impact as the organic status, and thus price premium, is also lost;

- If an organically graded animal is not ultimately able to be sold as organic and is then used commercially, then similarly no organic premium will be paid.

Whilst the Manx organic farmers are continuing to work to address the production issue, it may also be addressed by considering how the various grades of Manx organic meat are sold.

Supermarket retailers all commented on the need for a high quality consistent 12 month supply, indicating that they believe their customers are rarely tolerant of seasonal variations and will not accept significant reductions in grading or appearance. This is a major challenge to our small supply base. Therefore, **maximising the use of smaller retailers, such as the Island's current network of butchers, together with the exploration of other markets, should be progressed**, such as farm gate and farmers markets, where grading and consistency requirements may be more flexible than those of the supermarkets to allow the dedicated Manx organic consumer to be able to make an informed choice.

In addition the processing of different grades of meat is being considered, with the possibility of the Meat plant taking advantage of the fact that mince forms a disproportionately large proportion of sales for red meats, typically around half of the total volume (source: MLC). This also represents an ideal opportunity to manage the inherent imbalance of fore and rear cuts available from the local organic carcases.

c. Investigation should be made into whether the **current system of processing** of meat remains appropriate for the organic sector. Currently, the Meat plant is the producers' only "purchaser" of Manx organic meat, however the organic meat market is small in comparison to the conventional sector, and its specific interest and concerns may not be separately dealt with due to the Isle of Man Meat's need to prioritise their efforts. In addition, the break in communication from the ultimate market to original producer may have a detrimental affect over the continuity, adequacy and quality of supply.

   An alternative system would be to return greater control to the organic producer by considering changing the system of meat processing to segregate the processing of meat from the ultimate marketing of meat. Sections 6.2.4 and 6.2.5 of the full Interim Report, available at www.gov.im/consultations/organicwp, address this matter in detail, identifying that one option (which takes into account the Meat plant's need to achieve critical production levels in order derive full benefit from economies of scale) could be for the organic producer to be charged a processing fee per animal by the Meat plant and the ultimate marketing of the product on behalf of the farmer (i.e. "sale" of the product to the Meat plant) becomes **optional**, allowing the producer to retain ownership of the organic meat to provide the opportunity to maximise returns by utilising alternative retail options or by adding value via additional processing. As noted in the full report, consideration of this matter would necessarily include consideration of measures to ensure the Meat plant remained financially viable.

Readdressing the system for organic farmers may provide a significant incentive for current conventional producers to change to an organic basis.

iv. Retailers consistently advise that products must be competitively priced, however production costs for all red meat producers are significant, placing continual pressure on the **margins available for producers**. The UK's Red Meat Industry Forum have advised that the cost of producing organic beef was on average 20% to 25% higher than the standard variety. This is echoed on the Isle of Man where the current farm gate price premiums of 65p/kg for organic beef and 35p/kg for organic lamb are in line with these percentage premiums. However, it should be noted that the premium between organic and conventionally produced meats may well widen post the loss of the red meat import control derogation in 2010.

Once again, a reassessment of how organic meat is processed and marketed might provide sufficient additional returns to make this sector viable for a variety of producers.

5.2.3 Lamb and Beef: Sales issues and opportunities

a. Larger retailers have clearly indicated that their purchasing mechanisms are best suited to dealing with a limited number of suppliers, which emphasizes the need for coordinated marketing, underwritten by secure supplies, so as to achieve a single or minimal number of points of contact for the retailers. Whilst such a sophisticated production management regime is currently operated by the Meat plant, given the current production issues, it would appear to be appropriate to initially focus upon the development of sales via butchers, farmers markets and direct sales.

   The network of on Island **butchers** provides the most obvious first stage in this process. However, butchers find the **cost of certification** disproportionately high per organic animal, and see no value in certifying if there is no statutory requirement to do so in order to supply organic meat. This matter requires further consideration.

b. In addition to the Meat plant itself being certified, there is an opportunity for the Fatstock butchery section to become certified to offer **pre-packed organic** to the supermarkets, together with the independents, the catering trade etc if it can generate demand.

c. As noted above, there are potential opportunities for **added value processing** for producers, and for subsequent sale both on and off Island.

5.3 Pork

5.3.1 Pork: Current and projected Organic Market

Currently there are no Manx organic pig and pork products available, nor any in conversion. All organic pig and pork products currently sold in the Isle of Man supermarkets and butchers are therefore imported. Based upon the UK consumption levels, this market is estimated to have a retail value on the Island of around £130,000 and has the potential to grow significantly in the future. It is also a sector that can add significant value through processing; for example bacon, smoked bacon, sausages etc.

5.3.2 Pork: Production issues to be addressed

a. The critical issue for this sector appears to be the lack of **availability of local and/or affordable organic feedstuffs**, which would currently restrict the opportunity to a mixed farming system.

   Feed is the single biggest component of the cost of each pig. Average prices for pig feed have doubled over the past year and further increases are anticipated in the foreseeable future. In September 2007, a report by BPEX, the British Pig Executive, confirmed that many pig farmers now face making a loss on each finished pig. These feed price increases are an uncontrollable factor for Manx farmers as these commodities are traded on world markets. Supplies have been significantly affected by poor harvests, low stocks and increased world demand.

   One option to address this matter would be for the Island to develop the supply of affordable organic feedstuffs. Should such a supply become available, this would enable the creation of the sector within 3 years.

   Alternatively, the only sustainable solution is for pig farmers to obtain a higher price for their product. The most realistic way to do this would appear to be by addressing the marketing issues identified for other meats (refer to 5.2.2.c above), and allowing organic pork producers and processors to maximise returns by seeking alternative markets, and providing added value processing. A UK poll by YouGov in September 2007 identified that 78% of pig and poultry customers would be prepared to pay more to cover rising costs in farming.

5.3.3 Pork: Potential sales issues and opportunities

The sector would face many of the same issues and opportunities identified for other meats.

5.4 Eggs and Poultry

5.4.1 Eggs and Poultry: Current and projected Organic Market

Despite a lack of current certified production, there is strong retailer feedback of increasing demand for Manx organic eggs and poultry. The potential value is estimated at £60,000 and £100,000 respectively using UK Defra consumption figures. Currently all organic eggs and poultry sold in the Island's supermarkets and butchers are imported.

In August 2007 the UK NFU revealed that purchases of chickens allowed to roam outdoors are rising at 10 times the rate of chickens mass produced in artificially lit sheds and the Soil Association's latest Organic Market Report identifies that sales of free range and organic eggs outstripped eggs from caged birds for the first time in 2006. At present it is fully anticipated that organic poultry meat growth in sales will increase in line with other organic meat sectors (12% in 2006).

5.4.2 Eggs and Poultry: Potential production and sales issues and opportunities

There is some potential egg production in conversion. This includes some potential expansion into poultry meat production.

The sector would face many of the similar **grain issues** identified for pork. Sales opportunities would also be similar to those identified in other sectors, with initial opportunities being **through local small retail outlets, farm shops and farmers markets**

5.5 Cereals

5.5.1 Cereals: Current and projected Organic Market

Manx organic cereal production is currently minimal and restricted to mixed farm for own use. This is a significant barrier, due to the Manx organic livestock sector's need for organic cereals for feed. Similarly, there is no organic grain grown for milling into flour, and hence no Manx organic flour or bread.

Supermarkets indicated that the lowest demand levels in their Manx shops, in comparison to the UK, appeared to be in imported organic bread, where some high prices are believed to reduce demand. All organic flour sold in the Island is imported.

Organic cereal production appears to have reduced in the UK, with a 7% fall in organic arable land during 2004/5, despite the substantial premiums being paid, this is believed to reflect the agronomic difficulties of organic cereal production. The Soil Association's Organic Market Report 2007 identifies that UK self sufficiency for organic cereals fell below 50% during 2006. This is an issue for the Isle of Man, as the livestock sector will need organic cereals for feed which is currently met through expensive imports.

5.5.2 Cereals: Potential production and sales issues and opportunities

There is some potential production in conversion to produce milling wheat, as well as livestock grain grown largely for own farm consumption. However there are other farms in production and/or conversion where the opportunity exists to provide Manx organic cereals, for sale and own use, as part of their crop rotation.

In respect of Milling Wheat for flour the key issue is the ability to sell to a mill, or utilise a mill which has organic grain as part of its processing and is certified to do so. This is an area which has been investigated by Laxey Glen Mill, both in terms of utilising the Mill itself and in terms of using a separate milling unit.

Following release of the 2007 Organic Market Report on 31 August 2007, Soil Association Food and Farming Director, Helen Browning commented that "The significant short-fall in UK grown cereals is a major concern, forcing greater reliance in imports for livestock feed – but of course it is also a major opportunity for current non-organic cereal farmers to convert and supply a guaranteed and growing market."

5.6 Vegetables

5.6.1 Vegetables: Current and projected Organic Market

The combined Vegetable and Fruit sector is the most complex of all the sectors. On the one hand, it is the largest single potential opportunity with an estimated combined retail market value on the Island of £680,000. The vegetable market is estimated to have a retail value of around £300,000, potatoes of £80,000 and soft plus top fruit market around £300,000. Beyond the Island, this market is large and growing. UK projections assume an ongoing growth rate of 13%, which retailers indicate is the same here.

The fact that the products often lend themselves to informal and small scale routes to market such as farmers' markets and box schemes due to their tolerance of ambient temperatures, means that it is likely to be a sector which could be readily marketed on the Island.

On the other hand, it is the sector which is dominated by the multiples which have built a very strong position, based on importation of a wide range of organic vegetables and fruit all year round from across the world. As there is very limited local certified organic production, the majority of fruit and vegetables sold on the Island are in respect of products imported from the UK and overseas, via the supermarkets.
Nevertheless, there are many factors in support of building an important and sustainable local organic vegetable production base:

- Vegetables are the normal, accepted consumer entry into fresh organic produce
- The Market Research carried out by the Manx Organic Network during 2005 indicating strong demand for local organic.
- The relatively short shelf life and high value of these products means local production has real competitive advantage.
- The consumer is becoming more aware of the significant and increasing advantages of local production, given its freshness, traceability, low food miles and environmental benefits; this should guarantee high levels of trial for local organic produce.
- On the Island, this sector of organic produce has the advantage of a clear route to market initially through existing direct selling via local markets.

5.6.2 Vegetables: Production issues to be addressed

a. There are currently two certified producers, a medium scale mixed farmer supplying main crop potatoes, carrots, broccoli, cabbage and cauliflower when in season, together with a very small scale producer supplying a variety of fruit and vegetables. Whilst there is some further production in conversion, supply is anticipated to remain far short of demand.

   In these areas of vegetables where there is currently production, **consistency of supply** has not been achieved due in the main to the small number of producers and their size of operation. Therefore there are significant gaps in the product availability, which are not just due to seasonality.

   Supermarket retailers all commented on the need for a high quality consistent 12 month supply of competitive products. They believe their customers are rarely tolerant of seasonal variations and will not accept significant reductions in quality or appearance. This is a major challenge to our small supply base.

b. Improved clarity of market requirements, co-ordination and **co-operation between producers** may allow a planned approach to achieving a consistent supply and also to allow individuals to specialise and hence improve product quality. This may require protected cropping to extend the seasons.

   Evidence from more established organic markets off-Island suggests the local horticultural market is initially most likely to be supplied by a coordinated group of smaller growers, with larger scale conventional producers perhaps coming in later and targeting the multiples as the local production base develops.

c. **For these smaller producers, the issues of certification are extreme**. Current conversion and maintenance schemes are skewed to larger, farm-scale production and modifications are required to give full support to a smaller acreage, horticultural infrastructure. Reinforcing this disadvantage, the apparent delays in the processing of financial support from government schemes are of particular concern for smaller scale producers and such delays could be critical in their ability to respond sufficiently quickly to the ongoing growth of the market.

d. In addition, smaller scale businesses in the horticultural sector struggle to **invest in the advantages of some of the new advanced labour-saving technology**. This requires innovative thinking. Co-operative ownership of machinery or individual entrepreneurs producing crops in rotation across a larger number of individual organic units may allow cost effective utilization of such labour-saving equipment.

5.6.3 Vegetables: Sales issues and opportunities

Careful planning will be required to assess whether Manx producers can produce the goods with an acceptable price/value relationship, acknowledging that certain consumers may be unwilling to accept a local mix of potentially higher prices than imports combined with seasonal non-availability issues.

There is a need to consider a phased approach to supplying the market for the embryonic horticultural sector, acknowledging that during the initial periods whilst supply consistency is poor, informal routes to market are likely to be more flexible.

An example might be:

a. Initially increasing the number of farmer's markets which provide an opportunity to deal with seasonal surpluses, raise the profile of local food availability and provide a low cost platform for "road testing" new products.
b. The next step may be a box scheme and smaller retail outlets or farm shops, which can accommodate a seasonal variation in products, provided overall supply volume is maintained. Subject to product specific handling requirements, this could include dairy and meat, as well as horticultural products.
c. The next stage could then be to supply the larger retailers, whose need for consistency and low levels of seasonal variation would require a very sophisticated production management regime. As noted above, this might subsequently allow exports to other parts of the same retailer groups.

Annex 1. Scope and Objectives of the Organic Working Party

The production of an Organic Action Plan (OAP) by spring 2008, which will propose action intended to:

- Develop a thriving and profitable organic food chain on the Island by encouraging all parts of that chain to work in partnership
- Contribute to the development of the organic production base in line with the developing market for organic food both locally and off Island (market led).
- Provide organic farmers, growers and processors in the Isle of Man with the:
    - market information to develop their businesses successfully
    - technical support specific to the Isle of Man
- Ensure that consumer demand for organic produce results in tangible benefits for the Island countryside and wildlife by increasing the Manx farmers share of the organic food market
- Identify, quantify and prioritise any funding to initiate and sustain the implementation of the OAP (through an organic implementation programme) and the associated value at stake for each funding need (cost/ benefit analysis).
- Identify the differing needs of both larger and smaller scale producers.
- Explore and propose organic production's complementary role within the overall "local food" initiatives and the wider agricultural strategy for the Island.
- Fish production and marketing should not be considered within this work, as there is currently no farmed production on the Island.
- Base all proposals on the assumption that the Red meat derogation will cease at the end of 2010, as proposed by the EU Council in November 2005.

Annex 2. Membership of Organic Working Party

The Organic Working Party consists of:

Janet Bridle, Chairman of Manx Organic Network
Roger Chadwick, member of Farmer executive of Isle of Man Meats
Paul Costain, Chairman, Beef Producers Association
Ian Davies, Committee Member of Manx Organic Network
Viv Davies, Chairman of the OWP and Secretary of Manx Organic Net
Sandra Donnelly, Mill Manager, Laxey Glen Mills
Paul Fargher, Farmer Executive Member, Isle of Man Creameries
Vance King, Marketing and Sales Manager of Isle of Man Meats
Chris Kneale, Agricultural Advisor, DAFF
Richard Lole, Director of Agricultural Services, DAFFFindlay Macleod, Chief Executive, Isle of Man Creameries
Howard Quayle, President of Manx National Farmers Union
Phil Teare, Managing Director of Isle of Man Meats

Attendance in part:

ffinlo Costain, Secretary of Manx National Farmers Union
Pheric Curphy, Organic farmer
Sharon Jamieson, Committee Member, Manx Organic Network
Alison Jones, Committee Member, Manx Organic Network.
Andrew Moore, Organic farmer

The OWP would like to thank the following additional contributors:

Nic Lampkin, Director of Organic Centre for Wales
Marks & Spencer store, Douglas
Radcliffes Butchers
Robinsons, Douglas
Alan Schofield, Director of Growing with Nature
Shoprite store, Douglas
Tesco store, Douglas
The Manx Co-operative Society, Castletown

plus many others