ORGANIC 2012
SEOUL
SYMPOSIUM BOOKLET

REGIONAL SYMPOSIUM ON MARKETING AND FINANCE OF THE ORGANIC SUPPLY CHAIN

23-26 September 2012
NACF Head Office
Seoul, Republic of Korea

NH NATIONAL AGRICULTURAL COOPERATIVE FEDERATION

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IFOAM INTERNATIONAL FEDERATION OF ORGANIC AGRICULTURE MOVEMENTS

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CONTENTS

1. Advisory Committee

Committee on Marketing

Dr.Andrew Monk
Director and Convenor Standard Advisory Group, Biological Farmers of Australia (BFA)

Dr. Jo Cadilhon
International Livestock Research Institute (ILRI), Nairobi, Kenya

Dr. Opal Suwunnamek
Associated professor, Department of Agricultural Economics, KMITL, Thailand

Committee on Financing

Mr. Won-Sik Noh
Secretary General, APRACA

Mr. Sahaschai Yaowapankul
Director, International Cooperation Management Department, Bank for Agriculture and Agricultural Cooperatives, Thailand

Dr. Jung-Sup, Choi
Professor, Department of Food Resource Economics, Yeongnam University, Korea

2. Programme

Sun 23rd Sept.	Code	FIELD TRIP	Remarks
08:30		Leave from Hotel	
09:30-11:00		Hanaro Market of NACF in Yangjae-dong, Seoul	
13:30-15:00		Organic farm product, marketing and processing complex of Hansalim Cooperative Federation situated, Asan City, Chungnam Province	*Lunch hosted by NACF*
18:00-20:00		*Welcome dinner hosted by AFMA*	
Mon 24th Sept.		**MARKETING**	**Remarks**
08.30-09.00		Registration	
09.00 -09.40		Opening Ceremony	
09.40-9.50		Group photo	
09.50-10.15		*Coffee break*	
10.15-10.25		Video presentation on Agricultural Cooperatives in Korea by NACF	
10.25.-10.50	Keynote Speaker	Dr. Sung-Hoon Kim, Professor, Chung-Ang University, Korea (Former Minister of Agriculture and Forestry, Korea)	Environmentally–Friendly Organic Farming in Korea: models and strategies
10.50-12.00 (15 mins each)		**Session 1: Marketing Strategies** *Chairperson: Mr. Ralph Houtman, Regional Marketing/Rural Finance Officer, FAO RAP*	
10.55-11.10	P1 Invited speaker	Dr. Andrew Monk, Biological Farmers of Australia Ltd. (Owner of Australian Certified Organic), Australia	Australia's organic market report 2012 - update and regulatory trends: investment opportunities and challenges
11.10-11.25	P2	Ms. Mary Jean G. Bulatao, Agricultural Systems Cluster, U.P. Los Banos, College Laguna, Philippines	Production and marketing strategies for organic native pigs: the case of the rural improvement Club, Mulanay, Quezon, Philippines

15.50-16.05	P9	Ms. Kiyada Haisoke, Asian Institute of Technology, Thailand	Factors affecting buying behavior of organic vegetable consumers of Thailand
16.05-16.30		Q&A	
18.00		*Leave for welcome dinner at Korea House hosted by NACF (Close to Myung dong walking/shopping street)*	
Tue 25th Sept.		**MARKETING and FINANCE**	
08.45-10.15 **(15 mins each)**		**Session 4: Country Experiences** *Chairperson: Ms.Juejan Tangtermthong, Executive Director,AFMA, Thailand*	
08.50-09.05	P10	Mr. Thongsavath Chanthasombath Clean Agriculture Development Centre, Lao PDR	Organic production and marketing in Lao PDR: the profile project
09.05-09.20	P11	Mr. Amandeep Sangha, Asian Institute of Technology, Bangkok, Thailand	Study on domestic and export supply chain of organic producers in Thailand
09.20-09.35	P12	Mr. Tran Tri Dung, DHVP Research & Consultancy, Vietnam	Organic vegetable supply chain in Vietnam: marketing and finance perspectives
09.35-09.50	P13	Mr. Chandrasen Kumar, Faculty and Assistant General Manager, Institute of Food Security, India	viability and growth potential of organic wheat supply chain: A case study of recent initiatives by state government of Haryana in India
09.50-10.05	P14	Dr. Wan-Hyung Cho, Executive Director, Hansalim Cooperative Federation, Seoul, Korea	The development process and characteristics of Hansalim's direct trade movement between rural and urban areas with eco-friendly agricultural products in Korea
10.05--10.15		Q&A	
10.15-10.45		*Coffee break*	
10.45-12.00 **(15 mins each)**		**Session 5: Financing Organic Supply Chain** *Chairperson: Ms. Jovita M.Corpuz, Executive Director, Agricultural Credit Policy Council, Philippines*	

10.45-11.00	P15	Dr. Kazi Abdulmuktadir Executive Director, State Bank of Pakistan	Financing organic supply chain in Pakistan
11.00-11.15	P16	Mr. M. Abdul Asiz, Sr. Deputy President, ASA (former Agriculture Secretary and Cabinet Secretary to Bangladesh Government)	Financing and marketing of organic supply chain in Bangladesh
11.15-11.30	P17	Dr. Chang-Gil Kim, Research Director, Korea Rural Economic Institute	Marketing and finance of organic supply chain in Korea
11.30-12.00		Q&A	
12.00-13.30		*Lunch hosted by APRACA at Vabien II Suite Hotel*	
13.30-14.45 **(15 mins each)**		**Session 6: Financing Organic Farming** *Chairperson: Mr. Ralph Houtman, Regional Marketing/Rural Finance Officer, FAO RAP*	
13.30-13.45	P18	Mr. Daisuke Watanuki & Mr. Yoshitaka Shimizu, Strategic Research Division, Agriculture and Food Business Unit, JFC, Japan	Financial supports for environmentally friendly farming and scientific farming in Japan
13.45-14.00	P19	Mr. Krishna Kuma, Financial Services Officer, Bangunan Agrobank, Malaysia	Marketing and finance of the organic supply chain in Malaysia
14.00-14.15	P20	Mr. Chamnong Siriwongyotha, Bank for Agriculture and Agricultural Cooperatives, Thailand	Financing organic farming: The case of BAAC, Thailand
14.15-14.45		Q&A	
14.45-15.15		Coffee break	
15.15-16.15 **(15 mins each)**		**Session 7: Issues on Financing organic farming industry** *Chairperson: Dr. Jung-Sup Choi, Prof. Yeong-Nam University, Republic of Korea*	
15.15-15.30	P21	Dr. Enrique L. Navarro, Senior Adviser, CARD Bank, Philippines	Marketing and financing aspects of the organic supply chain in the Philippines
15.30-15.45	P22	Mr. C.S.R. Murthy, National Bank for Agriculture and Rural Development, India	Credit issues in organic farming in India

15.45-16.15		Q&A	
18.00		*Dinner hosted by APRACA at Eun-Sung Restaurant*	
Wed 26th Sept.		**FINANCE**	
08.30-09.00		Registration	
09.00-10.15 **(15 mins each)**		**Session 8: Institutional Support for Financing Organic Production and Marketing** *Chairperson: Dr. Chong-Hyuk Suh, Director, Korea Organic Agriculture Institute, Republic of Korea.*	
09.00-09.15	P23	Dr. Ramon C. Yedra, Deputy Executive Director, Agricultural Credit Policy Council, Philippines	Financing of organic supply chain in the Philippines: current state and role of government
09.15-09.30	P24	Mr. Surasak Sompadung, Bank for Agriculture and Agricultural Cooperatives, Thailand	The Bank for Agriculture and Agricultural Cooperatives (BAAC) value chain finance: focus on organic Hom Mali rice in Thailand
09.30-09.45	P25	Dr. K Palanisamy National Bank for Agriculture and Rural Development, India	Financing producers' organization for organic production and marketing of paddy in Tamil Nadu, India
9.45-10.15		Q&A	
10.15-10.45		Coffee break	
10.45-11.45		Wrap up and closing	
11.45		*Lunch by individual (Free time)*	

ANALYSIS OF ORGANIC FOOD REGULATION AND ITS IMPACT ON ORGANIC SUPPLY CHAINS IN INDONESIA

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The organic food business has been growing rapidly in Indonesia after the launch of Indonesia Go Organic 2010 in 2005. In line with the increased consumer awareness of food safety and the impact of pesticides and other chemical residues on human health, the consumer demand for various organic foods have increased. To protect the organic food consumer, the Government of Indonesia has introduced regulations pertaining to the production, labeling and marketing of organic food. How these regulations affect the organic supply chain in Indonesia are discussed in this paper. Five marketing models are applied to selling organic food in Indonesia. In order to convince the consumer of the organic status of the product, different producers take different approaches including; (a) certifying their product through third party certification; (b) certifying through a participatory guarantee system; (c) testing their product and put a pesticide free claim on the label; and (d) a self-claim of its organic status without any proof, but relying on consumer trust.

Analysis of organic food regulation and its impact on organic supply chains in Indonesia

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Abstract

The organic food business has been growing rapidly in Indonesia after the launch of Indonesia Go Organic 2010 in 2005. In line with the increased consumer awareness of food safety and the impact of pesticides and other chemical residues on human health, the consumer demand for various organic foods have increased. To protect the organic food consumer, the Government of Indonesia has introduced regulations pertaining to the production, labelling and marketing of organic food. How these regulations affect the organic supply chain in Indonesia are discussed in this paper. Five marketing models are applied to selling organic food in Indonesia. In order to convince the consumer of the organic status of the product, different producers take different approaches including; (a) certifying their product through third party certification; (b) certifying through a participatory guarantee system; (c) testing their product and putting a pesticide free claim on the label; and (d) a self-claim of its organic status without any proof, but relying on consumer trust.

Introduction

Since 2005,the Government of Indonesia has launched "Go Organic 2010" as a way to encourage and to push the developmentof organic agriculture in Indonesia. Although many established targets have not been achieved,many significant achievementshave been made regarding organic development in Indonesia,especially increased consumer awareness and the increasing demand for organic food. The public interest in organic food is continuing to grow, the number of organic producers and traders is increasing and the area of organically certified land is expanding (Table 1). In addition, the size of the government budget for the development of organic agriculture has increased.

With the increased consumer awareness on food safety and the impact of pesticide and other chemical residues on human health, the consumer demand for various organic food has increased. Organic foodis getting more attention from more consumers, especially among the middle class in large metropolitan cities. Over the last two years,an organic life style has been headlinedby the mass media including TV, magazines, newspapers and radio. According to the Indonesian Organic Alliance (IOA 2011), organicsis emerging as a trend. Young people want to know more about organics and to consume more organic food. Several new stores are emerging including many of supermarkets that sell organic product and there are numerous cafes and food outlets that serve organic food and drinks. Even although the price is more expensive, consumers are still looking for organic product.

Table 1:Organic agriculture in Indonesia

Types of organic agriculture area	Width (Ha)
Certified Area	90 135.30
On going certification process area	3.80
Area with PAMOR certification	5.89
Area without certification	134 917.66
TOTAL	225 062.65

Source: IOA (2011)

With the increased demand for organic product, many food products are available in the market which make organic claims. Some of them are locally grown and many are imported. Sometimes consumers are confused with the claimsmade on the label. In an attempt to rectify this situation, the Government of Indonesia has established several policies and regulations regarding organic food. The main purpose of these policies and regulations is to provide an element of protection to those organic consumers who pay more topurchase organic product and to protect those organic producers and traders who provide organic foods. Moreover, these regulations endeavour to prevent any international disputes in the organic food trade.This paper discusses the marketing system of organic food in Indonesia, the regulations pertaining to organic food and the impact of those regulations on the organic food supply chain in Indonesia.

Organic food marketing and consumer perceptions of organic food

In the beginning, organic foods were sold only within a limited area and usually through word of mouth or social networks. In Sragen District, for example, organic rice was sold through district offices where government officials were asked to buy organic rice as instructed by the District Major. After experiencing the taste of organic rice and with a growing awareness ofthe benefits of organic farming, these officials then bought the rice voluntarily. This was followed by the general community who were curious about the benefits of organic rice. Knowing that Sragen District produced organic rice, the demand for organic rice from Sragenexpanded to other districts including West Java and Jakarta.

A similar strategy was adopted by organic producers and traders in Jogjakarta and Bogor, West Java, where academic and non-academic staffat the University of GadjahMada (UGM) and InstitutPertanian Bogor (IPB) were asked to buy organic rice through farmer advisors. Organic foods, especially fresh vegetables, were traded through religious organizations like churches. As the consumer demand for organic food has increased, organic food is also sold in most supermarket/hypermarket like Carrefour, Superindo, Giant andHypermart (Matahari Group). In addition, many organic foods including processed products are sold in niche markets like Healthy Choice, MellyManuhutu Outlet, All Fresh and Organik Land. Restaurants providing organic food are also expanding in many cities in Indonesia. There has also been a growing demand for the export ofIndonesian organic foods like rice, vanilla bean, cashew nut, palm sugar, coffee and tea. Currently, there are at least 7 organic food exporters in Indonesia.

The type of organic foods sold in both supermarkets and niche marketsis quite various. The products may come from either local producers or imports. The products from local producers areprimarily vegetables, rice and fruit, while processed products like apple vinegar, baby biscuits, food supplements and other organic products are imported. However, there are some locally processed organic food including honey, noodles, coffee, tea, spices and chicken. Products sold in the niche market are dominated by import products and processed products produced and marketed by Healthy Choice.

Most of the organic food sold in supermarketsis"self-claimed" organic.Based on a recent survey and the IOA (2011), only one or two products sold in supermarkets are organically certified and using the "OrganikIndonesia" label.Producersoften use the claim"organically grown", "organic vegetable" or "pesticide free", without any pesticide testresults or approval from the Ministry of Agriculture or Ministry of Health.In general, local consumers trust these organic claims,but at times,they are also confused. This should come as no surprise for consumers understanding of organic food is often low. Gantina and Sulaeman(2006) foundthat only eightpercentof consumersperceived organic food to be natural, preservative free, free from chemical fertilizers, pesticide free, antibiotic free, free of additives, no GMO, safe, naturally grown and environmentally friendly. These variables can potentially be used by producers and traders to differentiate their products in a saturated market.

The main reason for consumers to buy organic foods is health (87%)(Gantina and Sulaeman 2006). Organic consumers in Indonesia perceive organic foods to be healthier, safer for the body, free of chemical pesticides and low in chemical fertilizers.The main benefit consumers look for in consuming organic food is to maintain their health. Thus, in order to protect the consumer from fraud, it is important to provide a guarantee that food sold and claimed as organic should be trulyorganic.

Regulation related to organic food and its impact on organic supply chains

In Indonesia, organic foods are regulated by the Indonesian Food Law No 7/1996, Government Regulation Number 28/2004 concerning Food Safety, Quality and Nutrition, and Government Regulation Number 69/1999 concerning Food Labelling and Advertisement. In addition, to claim and to sell a food product as being organic, the product should fulfil the requirements as demanded by the Indonesian National Standards (SNI) for Organic Food (SNI No 6729/2010).If it is a processed food, it should also meet additional requirements in the National Agency for Drug and Food Control (NADFC) Regulation No HK.00.06.52.0100- 2008 concerning Control for Processed Organic Food, as well as the regulation for general processed product Regulation No HK.00/05.1.2569 - 2004 concerning the Criteria and Management of Food Product Assessment. If the organic food is the product of a foodserviceoperation,the Minister of Health Regulation Number 715/2003 regarding Hygienic and Sanitation Requirements of Food Service Operation, or Minister of Health Regulation Number 1098/2003 concerning Hygienic and Sanitation Requirements of Restaurant and Food Establishmentmust be met.

Following the revision of SNI No 6729/2010, the Ministry of Agriculture is now drafting a regulation for the implementationof an organic food standard in the field.

According to this draft, organic food marketed in Indonesia should be produced according to this standard and its production system should be verified or certified. If the production system has met the standard requirements and it is approved by an accredited certification body, then the product can be sold with an organic label and the logo of "Organik Indonesia"attached (Figure 1).In addition, during post-harvest handling, cleaning, sorting, packaging and transportation, the organic integrity should be maintained. Organic product should not be mixed with conventional food products.

(MoA2007a)

Figure 1: Logo for certified organic food in Indonesia

Gantina and Sulaeman(2006) find that different producersuse different methods to convince consumers about the organic status of their product. Some producers have chosen to apply third party certification such as "Organik Indonesia". Others use a participatory guarantee system under the supervision of IOA through PAMOR certification. Others claim their product is organic through a Certificate of Analysis, which indicates that the product is free of pesticides and other chemical residues. However, most producers use a 'self-claim" organic labelwithout any proof at all.

Many consumers assume that organic foods are safer than conventional ones. While this may be true if safety is only viewed from the pesticide or chemical residue content, if we consider the microbiological aspect, we must be careful as organic farming uses a lot of manure which may contain pathogenic microorganisms. The use of manure in organic production systems may elevate the risk of contamination.Apart from fulfilling the standard requirement, the production system must also meet the sanitation requirement as mentioned in Government Regulation Number 28/2004 concerning Food Safety Quality and Nutrition and other relevant regulations. The product should come from a production system which applies good agricultural practices, good handling practices, good distribution practices, good catering practices and good retail practices.

For organic food to be traded in Indonesian territory, it must meet the requirements of food safety, quality and nutrition, and fulfil the regulationsrelating to labelling and advertisement. As regulated in the National Agency for Drug and Food Control Regulation No HK.00.06.52.0100– 2008, organic processed food should contain a minimum of 95 percent organic materials, not including salt and water. Material should not come from both organic and non organic sources. For locallyprocessed organic food, a distribution permit will be issued by NADFC.

For imported processed food, the product should have been certified by an accredited certification body in the country of origin and approved by a competent authority in Indonesia. Based on this regulation, organic certification by an accredited certification body for fresh organic product becomes compulsory if this product is to be used as a raw material for producing processed organic food.

Although the Indonesian National Standard (SNI) for organic food was revised in 2010, the certification of organic producers has only just commenced. One factor causing this situation was the absence of a national accredited organic certification body in Indonesia. Three years after the Indonesia Organic Competent Authority (OKPO) was established and Indonesia Go Organic 2010 was launched in 2005, seven national certification institutions have been accredited by the National Accreditation Committee (KAN)(Table 2).

Table 2: Accredited organic certification institution in Indonesia

Name of Institution	Location
Biocert	Bogor – West Java
INOFICE	Bogor – Wet Java
MutuAgung Lestari	Depok – Wet Java
Sucofindo	Jakarta
PT Persada	Jogyakarta
LeSos	Seloliman – East Java
LSO West Sumatera	Padang – West Sumatera

Six of these institutions are located in Java and only one institution is located in West Sumatera. In addition, there are eight international certification institutions operating in Indonesia including IMO (Institute for Marketecology), Control Union, NASAA, Naturland, Ecocert, GOCA, ACO and CERES. According to the Ministry of Agriculture (2007b), any international certification institution who operates in Indonesia must be approved by Indonesian authorities.

Because the SNI for organic food is still voluntary at the present time, only 69 percent of organic producers have been certified and only 40% of the organic land has been certified. The certified products are cultivated mainly for export or for niche markets. In the local market, most organic producers still rely on the "customer trust" that their product is organic. Moreover, the IOA(2011) demonstrated that most consumers are not yet convinced whether the certified organic product is definitely organic. IOA (2011) reported that the reason for producers in West Java and Jabodetabek not to certify their products was the high cost. Another reason was the lack of information regarding a certification institution for organic agriculture. Producers seem not to worry about the lack of certification, since their products remain in high demand in the market.

TheNADFC also regulates the labelling of organic processed food. Organic processed food which fulfils this regulation can label its product as "organic" after the product name and affix the "Organik Indonesia" logo.

However, with reference to Government Regulation Number 69/1999, the name of the certificating body cannot be put on the label. Furthermore, the size of the word organic cannot be larger than the size of the product name and no claims on the superiority of organic products is comparison to conventional products can be made.

If these regulations are applied by an organic food producer, the consumercan be assured that they are buying organic food. However, there are a number of other constraints;

- thelimited amount of locally produced organic food available in the market. Quite to the contrary, imported certified organic food often intrudes in the domestic market
- much of the organic food produced by smallholder farmers cannot be sold as organic food in spite of having fulfilled the Indonesia organic standard
- organically grown food is currently sold based on the consumers trust in the producer or brand. However, the market for this kind of product will be very limited
- much of the food claimed to be organic carries a fake organic certificate.

To anticipate this situation, government and the organic industry should take actions as follows:

- train more organic farmers, operators and facilitators in organic farming systems
- organizesmallholder organic farmers into large groups
- train and apply an Internal Control System (ICS) on organic production and certify this group based on ICS
- provide a financial subsidy to cover the costs of organic certification
- accept a participatory guarantee system with a strict requirement and an organization who will inspect and assure the products and systems at minimum cost accredited by government
- public campaign and consumer education about the importance of organic certification to protect the consumer and the organic food producer
- conduct organic surveillance and inspection to ensure that only certified organic products are traded

According to the IOA (2011), even although there is a draft regulation from the Minister of Agriculture that prescribes the rules for guaranteeing the authenticity of organic productsin the market, it does not affect the selling of organic products in the mainstream market, as very few producers have been certified.

Conclusion

The organic food business is growing rapidly in Indonesia as organics emerge as a lifestyle product. In line with that,the consumer demand for organic food products is increasing. A greater awareness of food safety, health and environmental protection is a trigger for this development.

Organic consumers are protected by the Consumer Protection Law No 8/1999. However, to protect and to develop organic farming, government has established several regulations which will affect the organic food supply chain. Anticipatingthe impact of these regulations on organic supply chains, government and organic food business players should prepare themselves.

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