



Faculty of Economics, University of Niš, 17 October 2014

International Scientific Conference

**THE FINANCIAL AND REAL ECONOMY:
TOWARD SUSTAINABLE GROWTH**

ORGANIC FARMING: A NEW FORM OF BUSINESS

Dimitar Dimitrov*

***Abstract:** In the last few years the bio products draw more and more attention. The reason for this is not the innovative big project and technologies but the exact opposite. The association we make when we hear bio product is the product to be more authentic and pure. Despite the advanced technologies, the bio producers are offering: separated places for growing the bio products, various ranges of products, cheaper prices and mostly confidence. The point of the author is to show the economic potential for biological production. This is a slow process which is going to take some time but that does not mean it is impossible. Let's not ignore the fact that it is a market leader not just in Bulgaria but beyond. Our environment is a precondition for creating and development plantations and biological units. Why should we ignore the most important factors for the bio products?*

***Keywords:** brands, regional brands, organic, organic product, organic production, economy potential.*

Introduction

Over the last decades, the economy has undergone a number of transformations. There are a number of reasons for this: high and unrestricted competition; saturation of the products market and production of substitute products or such ones with lower quality; economic cycles; customer preferences; political, demographic and climate changes; etc. One of the transformations, which have occurred, is the transition to organic farming. This is related to a complete change of the production cycle as well as the quality of the offered finished products. The problem every one of the organic farmers faces is how to stay ahead of the competition. Organic farming gives farmers multiple advantages over the other players in the business because they offer products with guaranteed quality and origin. Organic products are much more valuable for consumers compared to standard products because consumers want to buy healthy and ecologically – clean products, which is very important. Organic farming is a very perspective business because it is relatively new and has possibilities to expand. Although there are certain difficulties, it is becoming more and more popular. It is also trying to replace conventional agriculture and increase its market share. The number of organic farmers has increased dramatically due to the numerous

* D. A. Tsenov Academy of Economics, Svishtov, Bulgaria; ✉ azrobo91@abv.bg
UDC 631.147

advantages of this type of production. These positive aspects of organic farming will be discussed later in the paper.

After it has become an important element of the world economy during the last decades, organic farming has established itself in Bulgaria too. Bulgarian farmers view it as an instrument to achieve success. The favourable climatic and geographical characteristics of the country are suitable for the production of organic products and many businesses seize this opportunity and shift towards it. The products we see in the supermarkets every day prove this fact. In addition, they are gradually replacing other low – quality or imported products. The number of Bulgarians who choose to buy organic products is also increasing. This also allows us to conclude that organic farming has big potential and is a competitive and highly profitable business.

Outline of the Problem

There are many definitions of organic farming. The simplest one states that it involves the cultivation of land with the help of natural methods, which in turn comply with natural laws. According to the US Department of Agriculture, organic farming is „a production system with reduced or excluded use of mineral fertilizers, pesticides, growth regulators and stimulants in livestock breeding”. Every author offers a different perspective to organic farming, assumes certain aspects as the most important ones, and chooses leading research principles. In the present study, we use the definition provided by the Food and Agriculture Organization (FAO) of the United Nations (UN) and the Codex Alimentarius Commission, established by the World Health Organization (WHO), because according to us it is the most thorough and accurate definition. According to it, “organic agriculture is a holistic production management system, which promotes and enhances agro-ecosystem health, including biodiversity, biological cycles and soil biological activity. It emphasizes the use of management practices in preference to the use of off-farm inputs, taking into account that regional conditions require locally adapted systems. This is accomplished by using, where possible, agronomic, biological, and mechanical methods, as opposed to using synthetic materials, to fulfil any specific function within the system”. There is another definition which states that Organic agriculture is Agronomy + Applied Ecology + Environment Protection”.

From a historic point of view, organic farming existed even before the industrial revolution. Then people did not use additional materials to treat the soil or stimulate the growth of crops. They relied solely on the favourable climatic conditions and their own work and efforts. Machinery, chemicals, pesticides and many other artificially created materials were introduced in the process later. Thus, striving for faster growth and profits, farmers neglected ecologically – friendly production methods. However, over the last decades, having understood the mistakes they have made, farmers have focused their attention on organic agriculture. There are several reasons for this that are valid for modern agriculture in general: destroying the bio diversity and the useful species; disrupting the biological balance; fragmentation of farmland; worsening of ecological problems; pests have developed resistance against chemical agents; old machinery that does not meet requirements; lack of enough knowledge about organic agriculture methods and techniques; lack or excessive use of chemicals.

Organic Farming - a new Form of Business

Organic farming is a specific production method, which is based on the ecological balance and cycles: plants – animals – soil. Organic farming encourages the development of rural regions and does not harm the environment. Put in a different way organic must meet the following requirements: when growing plants it is forbidden to use mineral fertilizers. Instead, these fertilizers are replaced by manure whose use is consistent with the regulated amounts. It is also necessary to use composted organic waste, rotate crops by planting legumes and perennial, grass-legume mixtures, green manuring, etc. To protect crops organic farming must not use chemicals but rely on the nature cycles. They should also use resistant varieties. The type of soil and climatic conditions are of key importance when determining the crops that are to be cultivated. Successful harvests depend on these factors and not taking them into consideration may lead to failures.

Organic farming is characterized by the fact that it complies with very strict requirements also known as standards. These standards specify what is allowed and what not to organic farmers. Organic farming is based on certain principles. They fall within several categories, namely universal principles of organic farming, main principles of organic farming and main principles of organic production.

The first group includes the principles of health, ecology, honesty, and care. The second group involves the principles according to which the farm is viewed as a “body” or a system; the maximal utilization of natural resources; preserving the natural balance both in the farm and in the surrounding macro-environment; striving for a biodiversity in the system; maintaining the cycles in the development of ecosystem; preserving the soil; crop rotation; using only natural or organic substances for pest control and soil fertilization.

Some of the organic farming principles coincide with these of organic production. This is due to the fact that the two notions are very close and often interrelated. Some of the organic production principles include: balanced use of nutrients and soil resources; effective use of all natural resources; diversity of genetic resources; minimal use of external inputs; use of natural fertilizers and pesticides only; recycling and reducing harmful effects on the surrounding ecosystems to the maximum.

An “organic” product is a product that is produced without using pesticides, fertilizers, medicines and antibiotics (used for the animals), genetically modified organisms or other chemical substances. Organic vegetables and fruit do not contain nitrates, while the organic foods – additives causing health problems. In order to call a product an organic product it must contain from 75% to 100% ingredients that are certified as organic according to the law regulations. The range of organic products today is very wide and it is difficult to enumerate them since they are categorized in a certain manner. Therefore, we will mention only the most popular ones, namely fruit and vegetables, dairy products, baby organic food, organic cosmetics, etc.

Very often the word organic is replaced by the words ecological and bio which in this case are used as synonyms. Nevertheless, organic products differ from ecological products. Organic products are produced with the help of purposeful methods, without using fertilizers, pesticides and chemicals. The whole production process – from soil treatment to harvesting, is controlled. To offer an organic product on the market, it must have a valid certificate. This certificate is obtained after a period of 3-4 years during which farmers have applied organic farming methods. This period is also called convention period. Unlike organic products, ecological products must not be certified, thus the

difference between the two notions. The ecological products are grown in ecologically-clean regions and very often are wild growing species that are not produced with a purpose. In order to prove that a product is organic it must have a particular logo. Since 2010 the European Union has started using a single logo for all member countries. it is known as the “Euro Leaf” (figure 1).

Figure №1: The „European Leaf“Logo






Source: European Union regulations on organic farming

On the other hand, there are many organizations, which grant certificates. Each one of them has its own criteria and requirements but they are based on the European Union regulations on organic farming. Each organization chooses the products that will be included in its product range. In addition, in each member country there can be more than one certifying organizations since their number is not restricted by country. Some of the most popular and renowned organizations are shown in Table 1:

Table 1. Certifying organizations

Organization	Characteristics	Logo
Soil Association	One of the most popular and respected organizations. It certifies organic raw materials and products and does it for all categories of organic products: food and beverages, healthy and cosmetic products, animal products, etc. It uses the “Ethical Trade” standard. In order to certify a product as organic it should contain minimum 95% organic ingredients. Products that contain between 70-95% organic ingredients are labeled as “made of organic ingredients”.	
USDA	The United States Department of Agriculture is a government non-profit organization. It certifies raw materials, fresh and processed products containing organic farm ingredients. In order to be labeled organic by USDA products must contain 100% organic ingredients. If these products contain 70% organic ingredients, they are labeled “made of organic ingredients”. If these ingredients are under 70%, the products cannot be certified as organic.	

Organic Farming - a new Form of Business

Eco Cert	This is a French organization, which is also very authoritative. It certifies food and non - food raw materials and finished products. The organization uses the “Fair Trade” standard. According to the ECOCERT standards the ingredients are marked with a small star, which is a reference to the explanation „Ingredients obtained through organic agriculture”.	
Bio - Siegel	This is the German equivalent of USDA. It was introduced in 2001. Only farmers and processing companies which comply with the European regulations on organic farming and have undergone the necessary inspections can receive the Bio- Siegel logo to put on their products.	
Balkan Biosert	This represents a Bulgarian certifying organization, which grants certificates, based on Bulgarian and EU regulations, and controls organic agriculture and processing in Bulgaria.	

Source: <http://www.kukuriak.com/>

Organic farming has become popular over the last decades because before that for a long time farmers did not realize how much they were damaging the environment. After the long and difficult transition to organic farming, now farmers work in unison with nature. For example, manure reduces erosion of soil and increases its fertility. Another example is the rotation of crops. If one season a piece of land has been seeded with a particular crop, the next year this land will be left fallow. This can be done until the soil regains its fertility and can be seeded again. „Closed loop farming” encourages the optimal use of natural resources.

It has already been mentioned that organic farming should meet certain requirements. This process undergoes several stages. First, if organic farmers represent a company (a legal entity), they must sign a contract with a consultant who is obliged to develop a plan that will ensure the transition from conventional to organic production. The next stage involves the transition itself. This is a 2 – year – period for the annual crops and a 3 – year – period for the perennial crops. During this period, farmers can obtain the certificate they need to prove the organic qualities of their production. With livestock breeding, this period can be shorter if farmers have met all the requirements. The third stage is the stage where farmers have already shifted to organic production and has to sign a contract with a certifying organization. This organization, in turn, enters the organic farmer in its registers. The farmer is obliged to present any information required by the certifying body – type of farm, amount of cultivated land, premises, etc. After that, a control check is made to find out if all requirements are met and if they are, the controlling body prepares a report for the certifying commission. Based on this information, it makes a decision and issues a certificate, which is the last stage.

Dimitar Dimitrov

Like any other activity, organic farming has its advantages and disadvantages. To get a clear and precise idea, we will summarize its positive and negative aspects. The advantages of organic farming are:

- production of healthy foods – organic foods contain much more nutrients. According to study conducted by researchers from Newcastle University, organic food can prolong human life. They also prove that organic fruits and vegetables contain 40% more vitamins and minerals while organic milk contains approximately 80% more antioxidants;
- protection of the environment – soil and waters are not polluted by organic farming. There are smaller emissions of carbon dioxide which causes global warming and many other climate changes;
- reduction by almost a half the consumption of energy;
- reduction of soil erosion;
- protection of useful species.

These the main advantages of bio-production but many others can also be mentioned. This is due to the fact that every user obtains a different value from organic products. According to principles of microeconomics, a particular organic product can have 4 points of customer satisfaction for one consumer, only 2 for another and yet 6 for a third one. Therefore, people can judge for themselves how useful organic products are for them.

Nevertheless, organic farming has some disadvantages, too. They are as follows:

- lower yields – especially during the transition period because the systems tries to reach biological balance;
- market imbalance – supply and demand are not fully aligned;
- investment of higher amounts of resources – material resources as well as such connected with the labour force;
- more difficult outside investment – until recently the majority of the financial institutions have considered organic farming as risky. Over the last years, the situation has changed. This is partly due to the increased government financing.

According to Mark Smallwood, an executive director at the Rodale Institute, there are several reasons, which are sufficient to prove that the world can survive by using only organic food:

- agriculture using chemicals cannot produce enough food to feed the population of the Earth – around the world there are more than 1 million people who suffer from malnutrition;
- biochemical products require huge investment of resources such as chemicals, pesticides, fertilizers and many others;
- in certain geographical regions where the population struggles to survive, organic farming can produce yields that are approximately 180% bigger than those from conventional agriculture;
- according to an UN report, the production of food can be increased within a period of 10 years;
- organic farming creates resources necessary for the following years while conventional agriculture destroys these resources.

Organic Farming in Bulgaria

Organic farming is an important priority in the policy for developing agriculture in Bulgaria and one of the key elements in the Common Agricultural Policy (CAP) for the period 2014 – 2020. Encouraging farmers to undertake organic farming leads to protecting the environment, production of healthy food and also has a positive social effect. A prerequisite for the increased interest in organic farming are the soil and climatic conditions in Bulgaria that are suitable for the production of agricultural products, including organic ones. According to data of the Ministry of Environment and Water, more than 80% of the agricultural lands are suitable for the development of organic farming. Bulgaria is one of the countries in Europe with the richest biodiversity. The territory of the country can be divided into 14 agro-ecological regions. In addition, 31 soil types can be found. Soil types are classified into 11 groups based on their fertility. The various types of dams in the country also have characteristics that are favorable for the development of organic aqua farming. In addition to the positive effect on the biological diversity and the protection of the environment, the transition to organic farming offers considerable possibilities for stimulating the economic and social development of rural regions.

Figure №2: The Bulgarian sign for organic products

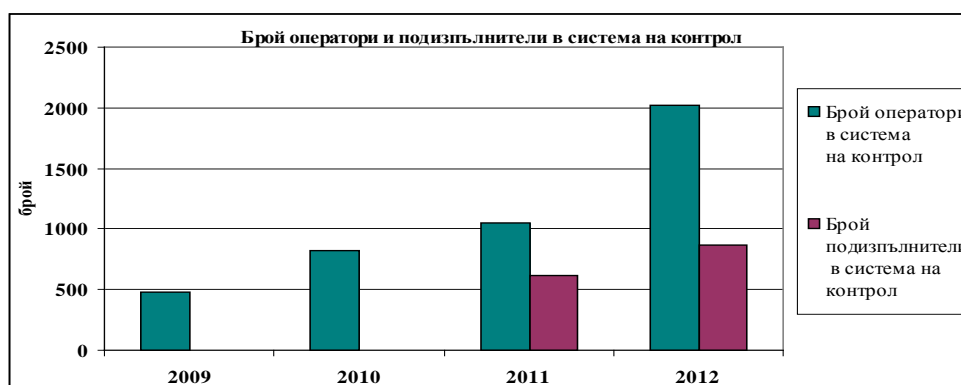


Source : Ministry of Agriculture and Foods

Worldwide the last 15 years show a constant tendency of increasing sales of organic foods. Bulgaria has a big potential for the production and export of fresh and processed, organic, agricultural products but is seriously lacking behind the other European countries. According to a report by the Ministry of Agriculture and Foods from 2013, in 2009 a total of 8,6 million ha were occupied by organically grown crops. This is approximately 4,7% of the agricultural land of the EU. In the country, the regulations governing organic production are outlined in the Law on the Implementation of the Common Organization of Agricultural Markets of the European Union and Ordinance №1 from 7th February, 2013 on applying the rules for organic production of plant and animal products, aquaculture products and foods, the labeling of these products, and the control over their production and labeling. In 2012 the number of control bodies in the country was 11: “Balkan Biosert” OOD, “Q Certification” AD; “CERES – Certification of Ecological Standards” OOD; “Lacon” OOD: “BCS Oko-Garantie” OOD; “Control Union Certifications” Holding; ; „A Cert European Organization for Certification” AD; “Institute for Control of Organic Products” OOD (Bio Hellas Institute); “EcoGruppo Italy” and its branch in Bulgaria; “BioAgriCert” EOOD; “CGS Bulgaria” EOOD. Organic farming is one of the few sectors that are characterized by growth despite the economic crises over the last years the number of organic farmers and the land they cultivate have increased. Some of

the reasons for this positive trend are the partnership between the Ministry of Agriculture and Foods, the organic farmers and the non-government organizations on one hand and the strong relationship between customers and producers on the other hand; the Rural Development Programme; recognition of the benefits of organic farming for the environment; people’s desire to have a healthy lifestyle; etc. At the end of 2012 in the ministry there were total of 2016 registered organic farmers, processors and trade organizations (the number does not include the subcontractors). Compared to the previous year this number increased almost double (see figure 3).

Figure №3: Number of operators and subcontractors in the control system



Source: Ministry of Agriculture and Foods based on the annual reports of officials controlling organic farming

Another conclusion made in the report by the Ministry of Agriculture and Foods is that in 2012 the amount of organically cultivated land increased to 40 378.77 ha (table №2)

Table №2: Number of operators and areas in organic farming

	2006	2007	2008	2009	2010	2011	2012
Number of operators in organic farming	14	393	311	476	820	1 054	2 016
Total amount of areas in the control system (including these in transition) in ha	952	15 224	16 662	11 789	25 647	26 622	40 378

Source: Ministry of Agriculture and Foods, based on annual reports of people controlling organic production

In horticulture, the most widely spread crops are the perennial, industrial and cereal crops. In 2012, the amount of land seeded with cereal crops increased to reach 7532 ha. The crops include mainly wheat, rye, maize, barley, and oat. According to changes made in the Common Agricultural Policy for the period 2014-2020 30% of the limit for direct payments for the country will go for “green payments” which organic producers will receive directly. This financial help comes from the Rural Development Programme 2007-

Organic Farming - a new Form of Business

2013 and is very stimulating for the sector. Having in mind the current situation on the market, the Bulgarian organic producers have the opportunity to occupy a big market share. They can take advantage of the existing market niches and establish themselves as preferred suppliers. To achieve this, the Ministry of Agriculture and Foods makes efforts to increase the number of operators in organic farming and to facilitate their work. It also complies with the approved regulations and laws and popularizes the positive effect of organic farming on the environment. The ministry report shows that over the last years organic farming has expanded, the sector has potential and the interest towards it has greatly increased.

“The Golden Apple” – the Success Story of Organic Farming in Bulgaria

Over the last years, the Bulgarian market has shown great interest in the so called “super foods”. Marketing professionals use this phrase to describe foods that have supposed health benefits. Super foods are the foods that are good for the health and can prevent or cure certain diseases. Very often, these foods have unusual ingredients or concentration of nutrients and other excipients. They also contain very big amounts of antioxidants, vitamins and other nutrients.

One of the companies that managed to establish themselves on the organic products market is “The Golden Apple”. It is the first Bulgarian companies producing organic products using microalgae. The unique products, which the company offers guarantee success in the sector and offer possibilities for expanding the business. The company uses network marketing, which makes it much more adaptable to the market. Unlike direct marketing, network marketing makes it possible for products to reach customers through sharing personal experience. Using this method, suppliers focus their efforts on building a network of trained and efficient distributors.

The company has been functioning for more than 10 years. In 2003 it expanded its activities when it started producing and distributing organic foods. Over the years, the company has invested a lot of time and resources in research work related to the offered products. As a result, now it offers only high-quality products such as AFA, Chlorella, Spirulina, probiotics and enzymes. All products meet the requirement for organic products - no pesticides, herbicides or fertilizers are used in their production. Only the most algae – friendly methods are used during the drying process to preserve the nutrient substance contained in the algae. This company has established itself as the exclusive manufacturer of AFA and Chlorella on the Bulgarian market. The offered Spirulina is one of the best on the world market. The following certificates guarantee the organic production: Naturland, Control IMO, USDA ORGANIC, ECOCERT, OCIA, and OTCO. These certificates are a proof of the good reputation of the company because they are granted by highly respected organizations. USP- Indegrient; HACCP and UKAS give the certificates for safety and quality production. The production of the company is offered not only on the Bulgarian market but is also exported to France, South Korea, the Caribbean islands and many other countries. “The Golden Apple” is the only country in the world which offers five types of micro algae – AFA, Chlorella, Spirulina, probiotics and enzymes. Most of the products are unique. The company has the “Golden Lion” award for the range of food supplements based organic micro algae, which stimulate the release of adult stem cells and interferons, harmonize the immune system and cleanse the body of toxins.

Conclusion

We live in times of constant changes, innovations, and production development. The economic situation is changing every minute and companies have to adapt to the market very quickly. Humanity has reached the peak of its development and possibilities. This influences greatly the natural environment. In this situation, it is inevitable not to pay attention to the consequences of our present – day activities. Organic agriculture could provide solutions to many of our problems. Transition to organic farming can result in protecting the environment and waters; preserving people's health; a new market situation.

Organic agriculture is an economic sector that has possibilities for future development. Farmers can make high profits stay ahead of competition and establish themselves on the market by satisfying customer needs. Provided it keeps this pace of development, organic farming will become one of the leading sectors in Bulgaria due to its potential and the favourable conditions in the country. In conclusion, it can be said that organic farming offers humanity a new world and a new, healthier lifestyle.

References

1. Bulgarian Organic Products (03.06.14), Advantages from internet <http://bgbio.org/>
2. Codex Alimentarius, International Food Standards (28.05.2014), Advantages from internet <http://www.codexalimentarius.org/>
3. Dimitrov, Al., Bio Product - what is it and how to recognize it? (03.21.2012), Advantages from internet <http://dieta.spisanie.to/>
4. EU commission, Agriculture and rural development, Organic farming (02.06.2014), Advantages from internet <http://ec.europa.eu/agriculture/organic/>
5. Georgieva, M., *Journal Capital, Special edition "Agriculture and business"* (03.13.2014), Advantages from internet http://www.capital.bg/specialni_izdaniia/zemedelie/2014/03/13/2259978_interesut_ku_m_bioproizvodstvoto_raste/
6. "Homeland - Agri" EOOD (05.06.2014), Advantages from internet <http://www.rodina-popovo.bg/rodina-agro/index.html>
7. Training on European standards for ecological agricultural production (01.06.2014), Advantages from internet <http://www.ecojob-ap.org/>
8. Ordinance 2092/91 of EK for organic farming (05. 06.2014), Advantages from internet <http://www.zelenbio.com/page/8/kakvo-e-bio.html>
9. Shaban, D., WWF report on green practices of retail chains in Bulgaria and Romania (05.29.2010), Advantages from internet <http://tretasmena.wordpress.com/>
10. United States Department of Agriculture (26.05.2014), Advantages from internet <http://www.usda.gov/wps/portal/usda/usdahome>
11. What is bioproduct ? (2006 – 2014), Advantages from internet <http://bio.bg/index.php?p=107&l=1>
12. Xicova, K. *Journal "Bulgarian science", Topic "The advantages of organic products"* (09.16.2011), Advantages from internet <http://nauka.bg/>
13. <http://www.biosviat.com/index.php?option=content&task=view&id=21>
14. <http://biobulgariaoil.org/bg/production.html>

ORGANSKA POLJOPRIVREDA: NOVI OBLIK POSLOVANJA

Rezime: Poslednjih godina bio proizvodi privlače sve više pažnje. Razlog nije to što je to inovativno veliki projekat, već upravo suprotno. Asocijacija koju imamo kada čujemo “bio proizvod” jeste proizvod koji je autentičan i čist. Uprkos naprednim tehnologijama, proizvođači bio proizvoda nude i: posebna mesta za gajenje bio proizvoda, različite vrste proizvoda, niže cene i pouzdanost. Cilj autora ovog rada je da ukaže na ekonomski potencijal za proizvodnju bio proizvoda. Radi se o sporom procesu koji će potrajati, ali to ne znači da je nemoguće. Ne ignorišimo činjenicu da je bio proizvodnja tržišni lider ne samo u Bugarskoj, već i šire. Naše okruženje je preduslov za kreiranje i razvoj plantaža i bioloških jedinica. Zašto bismo ignorisali najvažnije faktore za bio proizvode?

Ključne reči: brendovi, regionalni brendovi, organsko, organski proizvod, organska proizvodnja, ekonomski potencijal.