

**Study of the Market
For Rwandan Physalis
In Europe**

By

Dr Peter Jaeger

On behalf of

ADAR Agribusiness Centre

November 2001

TABLE OF CONTENTS

SUMMARY

I	INTRODUCTION	1
II	MARKET OVERVIEW	3
	Outline	3
	Supply and Demand	3
	Prices	4
	Opportunities	5
III	MARKET REQUIREMENTS.....	6
IV	EXPORT PROCESS.....	7
	Harvesting	7
	Export Grading & Packing	7
	Packaging Requirements	7
	Storage & Transportation	8
V	ACCESS TO MARKET	9
	Import Documentation	9
	Relevant Legislation	9
	<i>Import Duty</i>	<i>9</i>
	<i>Quality standards</i>	<i>9</i>
	<i>Pesticides</i>	<i>9</i>
	<i>Environmental and Social Issues</i>	<i>10</i>
	<i>Phytosanitary Issues</i>	<i>10</i>
	The euro	10
	Selected Import Companies	11
	<i>Belgium (+32)</i>	<i>11</i>
	<i>France (+33)</i>	<i>11</i>
	<i>Germany (+49)</i>	<i>11</i>
	<i>Netherlands (+31)</i>	<i>11</i>
	<i>UK (+44)</i>	<i>12</i>
ANNEX.....		13
	Useful Websites	13

SUMMARY

1. The European market for physalis is small. It is estimated at 2,000 to 2,500 tonnes.
2. The major importers are the Netherlands, Germany and the UK
3. Switzerland does not import significant quantities of physalis
4. The dominant supplier is Colombia with minor quantities from Zimbabwe.
5. New suppliers include Spain and Portugal.
6. Recent increases in supply have put pressure on prices from former levels. However, wholesale market prices were quoted in November 2001 at over \$6.80/kg.
7. The opportunities for exports from Rwanda are limited. At present the market is not in need of further supplies and without promotional efforts the market will not expand.

I INTRODUCTION

This study has been prepared at the request of the ADAR Agribusiness Centre in Rwanda. It is one of a set of studies prepared to provide an understanding of the potential market in Europe for possible export crops. Each study is written as a separate document designed to provide an overview of the market, the opportunities and the potential trading partners. There should be enough information for a potential exporter to assess the viability of entering the market with guidance on the sustainability of the demand.

The studies are not comprehensive and exporters will need to initiate discussion with importers for more detailed information, but the relevant issues are raised here. It is essential that any exporter should make full enquiries regarding potential partners before entering into a commitment to trade. No recommendation to trade is intended with this study.

The markets covered by this study are the 15 members of the European Union and Switzerland. As a regional unit, the EU is the largest market in the world for imported fresh produce, with an import trade in excess of 6.5bn ECU. The notion of a single EU market may apply to the regulatory structure but the national and regional markets remain diverse and in demand and consumer behaviour.

Despite the attractions of size and diversity the EU market is becoming increasingly difficult for the fresh produce exporter:

- The food market is largely saturated and all products compete for a share. Exporters must look for competitive advantage wherever possible
- The distribution and retail arrangements have changed dramatically over the last 15 years with much greater linkage between the supplier and the consumer. Suppliers are expected to react rapidly to consumer tastes and demands.
- The entry barriers are higher with greater performance expectations from fewer more powerful buyers and trimmed margins that require high volume turnover for profit
- The regulatory environment has changed with a reduction in customs tariffs but an expansion in other regulatory issues of standards, labelling, pesticides, additives, packaging, hygiene and so on.

The scale and speed of change in the fresh produce distribution of northern Europe has been exceptional, and the supermarkets and hypermarkets now control 70% of the grocery retail trade. In the UK, supermarkets handle over 80% of fresh produce sales. It has been suggested that as the consolidation of the trade continues, by 2005 five large chains will control 40% of the EU market. The exporter must be able to supply into this system and be able to manage their demands. The exporter can no longer rely on placing product into wholesale markets on a consignment basis.

Retailers respond to key drivers in the food market and the range of products and the marketing reflect their perception of their customers concerns. Drivers such as:

- convenience - the rise of snacking with less emphasis on meal preparation
- safety – for example absence of pesticide residue
- health – perhaps in fresh produce or fruit juices
- novelty/ethnic – such as exotic fruits

- environmental issues – the rise of the organic sector
- ethical issues – the concept of fair trade
- all year round availability – customers buying product out of season.

Drivers such as these open up the opportunities to the responsive supplier.

While import volumes have been quite stable overall, individual items have made substantial progress, as has the value of the trade. In particular, items such as exotic fruits including mango and papaya have shown excellent growth rates, and in part this has increased the value of the trade. Other gains are seen in the value-added products such as the prepared vegetable and fruits, responding to the consumer search for convenience.

The rise of the organic sector is probably the best known development in the market, and in a time of price cutting the most surprising. Consumers have shown a willingness to pay a premium for food prepared under certified organic conditions. Growth rates in this sector have been impressive, but from an insignificant start. The current status of the organic sector varies between countries and between food sectors too and without detailed statistics it is difficult to assess the true scale. In general, however, organic sales account for less than 5% in most products and exporters aiming for niche markets such as passion fruit or physalis should keep this in perspective. A niche of a niche can easily be oversupplied.

II MARKET OVERVIEW

Outline

Physalis peruviana is cultivated for its small, orange edible berries that are enclosed by large, decorative papery bracts. The berries contain a juicy pulp that is sweet but has a characteristic acid tang. The berries can be canned or made into jams, juices or purees or alternatively eaten fresh. The European demand for the fresh product will be described here.

P. peruviana has spread widely around the world from its South American origin, probably in Brazil. In temperate climates it is an annual, usually dying back with the frost whereas under tropical conditions the plant is perennial. The species is easy to cultivate, fast growing and fruits heavily. It grows wild where it has escaped from cultivation.

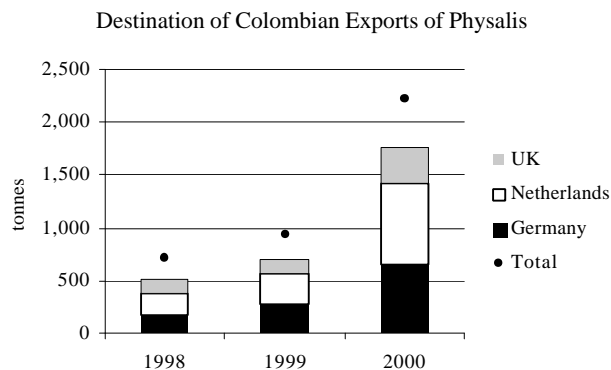
The market for the fresh *Physalis* in Europe is relatively recent. Although the plant has been known as an ornamental in European cultivation for at least 200 years the consumption of the fresh fruit is quite recent and the product is poorly known among consumers. For the most part, the fruit is valued for its decorative contribution and it is therefore more popular with catering outlets, such as restaurants, than with retail consumers.

Supply and Demand

Although *Physalis* is grown widely around the World, growers and exporters in Colombia have developed a particular expertise in supplying the international trade. Fruits from Colombia now dominate the *physalis* supply to Europe, almost exclusively. Recently Zimbabwean produce has also become available, with mixed reception, and growers in southern Europe, notably Spain and Portugal, are reportedly experimenting with production.

There are no import statistics for the EU since the customs authorities record *physalis* in a general category of fruits not specified elsewhere. As such it is impossible to separate out imports of *physalis* from a number of other minor fruit crops. However, the exports from Colombia account for most of the EU market and these are shown in Figure 1 below.

Figure 1 Destination of Physalis Exports from Colombia to the EU



Source: Colombian Banco de Datos

The major importer has become the Netherlands, and from here the fruit are distributed to other north European markets. Although the data show strong growth in exports to Europe, over the last three years importers in the Netherlands and Germany report a relatively stable market.

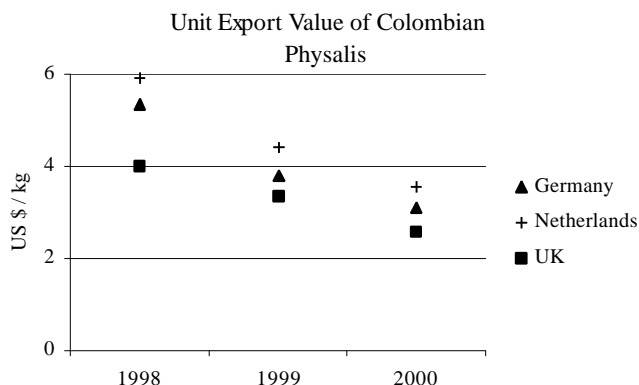
Swiss imports from Colombia are growing steadily and reached 56 tonnes in 2000. The direct imports are probably supplemented by other deliveries from importers in the EU but the total annual import requirement is still small.

Prices

Wholesale market prices are recorded and published, for example by the International Trade Center (www.intracen.org), and these are useful for monitoring current activity. However, the wholesale market prices only provide a snapshot of activity on one day without recording the volume traded: a temporary shortage or surplus can have a significant impact on prices. Further, with the rise of the supermarkets the relevance of the wholesale markets has diminished, and less product is traded on consignment basis through the markets of northern Europe than between importers, distributors and retailers.

Figure 2 shows the unit export value for physalis over the past three years. These values are calculated from customs declarations of consignment weight and value. Clearly there are many potential errors but the data accord relatively well with trade data.

Figure 2 Unit Export Value of Physalis from Colombia



Source: Colombian Banco de Datos

The declining price of physalis as imports rise supports the view that the European market for physalis is not growing at the rate suggested by the Colombian export volumes. The increasing volumes are depressing the prices in view of the stable demand. Nevertheless, the fruit is a high priced item at over \$2 /kg FOB in 2000. Current wholesale selling prices from \$6.8/kg upwards indicate the cost of freighting the product and the limitations of the product amongst retail consumers.

Opportunities

The European demand for fresh physalis is small. Currently, the Colombian exporters have a virtual monopoly on supply to Europe and only Zimbabwean sendings are competing. Colombian exporters have become more assertive in promoting the product through their own agents in Europe, leaving the importers with less room for activity and putting in the Zimbabwean competition under more strain.

The quality standards set by the Colombian exporters are exceptional and any new exporter must match these in order to succeed. A number of importers commented that the Zimbabwean exporters are not reaching these standards yet, particularly on fruit size, while others in the trade believed that Zimbabwe had some potential. The arrival of Spanish and Portuguese product will put further pressure on the prices, and export will likely become impossible during the European production season. Further, the shelf life of physalis allows surface transport as an option to reduce costs as well.

In its current form it is difficult to see any opportunity for physalis exports from Rwanda. The product is poorly known and rarely bought by retail consumers, it is used more for decorative effect than for eating and it is very high priced. If volumes are ever to grow a significant promotional effort will be required and prices must come down. In the UK, the leading European market for retailing exotic fruits, some supermarkets have abandoned physalis or only stock it infrequently, since consumer interest is low.

To expand the market significantly a greater emphasis must be placed on the eating qualities of the berry than on the decorative effects of the whole fruit. The husk, or calyx, in particular is redundant: although it provides protection for the berry, it adds to the volume and therefore the cost of freighting. At present, physalis is charged by volume by the airlines, as if it were a cut flower, rather than by weight.

Promotional efforts that focus on the eating qualities on the fruit could emphasise the cooking uses since physalis is highly regarded for jams, sauces, purees and so on. The fruit is improved by cooking since the taste, in particular the after taste, of the fresh berry is often quite tart and astringent depending on cultivar and ripeness. While not a huge market, the concept of fresh fruit for cooking is not unusual with a number of other examples such as gooseberries, cranberries and currants already in the market.

In summary, the small scale of the market and the dominance of the Colombian product limit the opportunities for physalis exports. Even if the market were to expand under promotional activity, supply from within Europe would leave long distance exports uneconomic for much of the year, and other origins with low cost air freight would have too great a comparative advantage.

III MARKET REQUIREMENTS

There is no significant variation in the requirements of different markets for this minor crop. Fruits of a good size are universally specified. A number of different varieties are now available and growers/exporters should confirm with the importers that the varieties and the characteristics of the fruits are acceptable.

Varieties:	Cultivars of <i>Physalis peruviana</i>
Appearance:	Calyx fully inflated, and pale tan. Inside the fruit should be fully bright orange.
Size:	Fruit 12 – 20mm diameter, though a narrower range may be specified
Shape & Aspect:	Berry globose, smooth and glossy enclosed by inflated calyx, deltoid in outline.
Condition:	Calyx intact, dry, papery. Free from pests and disease. Free from blemishes or handling damage. Berry firm.
Taste & Texture:	Pulp of the berry sweet and juicy with characteristic acid tang. No taints, off-flavours or fermentation.
Storage:	Chilled if possible. Fruit can be held for over 60 days at 2°C. Or at ambient temperatures up to 18°C.
Presentation:	Physalis berries of uniform size are packed into punnets of 100g. 12 punnets are packed to a carton.

IV EXPORT PROCESS

Harvesting

Physalis are harvested when the calyx turns to a pale tan colour and the berry is bright orange or gold. Green fruits should not be harvested as these often fail to ripen properly with good sweetness, and may be toxic.

At full ripeness the fruit falls from the plant. Fruit for processing can be shaken from the plant or picked from the ground, but fruit for fresh sale should be harvested from the plant. The fruits are either twisted gently off or cut with secateurs. Whatever method is used it is critical that the calyx is left intact and undamaged.

The fruits should be harvested in dry weather when the plants are quite dry and any morning dew has evaporated.

Export Grading & Packing

Strict control of quality for export is essential in Physalis. The Colombian exporters have set a standard of quality that must be equalled or exceeded in order to compete in this market. Note that much of the demand for Physalis from the European consumer is for decorative purposes and the visual aspects of fruit quality are therefore key. Export of any substandard fruit will not repay the cost of the airfreight.

Fruits with open or burst calyx should be discarded together with under-ripe fruits and those damaged through handling or disease.

Ensure that the calyx is completely dry before packing or mould is likely. The fruits should be allowed to dry gently under cover on sheets of card or slatted wood. Fans can be used.

Once dry the fruits may be given a final grading and sorting for size before packing into lidded punnets.

Packaging Requirements

The usual weight is 100g with 12 punnets to a carton but the exact specification for packing should be agreed with the importer in advance. There may be requirements for labelling of the punnets.

All cartons should be legibly and indelibly marked with:-

- The packer/dispatcher by name and address or mark.
- Nature of the produce.
- Origin of the produce.
- Specifications of class, size, quantity.

Other useful information might include:-

- This side up symbol.
- Fragile symbol.
- Temperature symbol with an indication of the temperature range.
- Net weight.

- Date of packing.
- Tare.
- Name and address of grower.

Storage & Transportation

Physalis fruits store remarkably well. If the calyx is intact the fruit can be held for four to five months at 2°C. Long storage times are also reported for temperatures up to 18°C, provided a low humidity is maintained.

V ACCESS TO MARKET

Import Documentation

Consignments of physalis should be accompanied by the following:

- Commercial invoice
- Form EUR1 as proof of origin

The information to be included on the commercial invoice and the need for any other documentation should be agreed with the importer in advance. Note that any hold – up to the process of releasing the physalis on import will reduce the shelf life.

Relevant Legislation

Import Duty

Physalis enter the EU under the tariff code 0810.90-85 (80).

The full duty payable on import is levied at 8.8% of the value of the consignment. However, ACP countries enter free, as does produce from Colombia (under the special GSP coverage for agricultural products) while physalis from South Africa attracts duty at 5.2%.

Quality standards

There are no EC standards set for the import of physalis. There is only a minimum requirement that they should be:

- Intact
- Fresh
- Clean
- Sound
- Free from injury, disease or pests

Pesticides

One of the key drivers in the European food market has been an increasing concern amongst consumers for health and healthy products. Fresh produce benefits from this interest in health, but there is increasing anxiety about the use of pesticides both in environmental impact and in food safety, as seen in the growth of the organic sector. The European commission addresses the issues of food safety with lists of banned chemicals and also through regulations on maximum residue levels (MRLs).

It is critical that the producer and exporter fully understand the regulations. These should be discussed with the importer and followed. Accurate record keeping of all pesticide applications is essential and producers should follow an accepted Code of Practice.

The regulations on MRLs are changing as the EC attempts to harmonise the levels set in different member states. The consequences of these changes for exporters of

tropical fruits are serious: unless MRLs have been established for a crop/pesticide combination, the MRL is set at zero. This effectively prevents the use of that pesticide in case any traces are detected on arrival in Europe. The liaison group for EU and ACP horticulture is addressing the question and details can be found on www.coleacp.org.

Environmental and Social Issues

There are a number of schemes that aim to reduce the impact of agriculture and horticulture on the environment. As noted in Section III here, the EUREP GAP (for Good Agricultural Practice) protocol, instigated by a collection of European retailers, is set to become important and suppliers should seek advice on how to comply. Details of the members, their meetings and the protocol can be found on www.eurep.org.

Phytosanitary Issues

Council Directive 2000/29/EC regulates the import of fresh fruit and vegetables from outside the European Union in order to control the spread of damaging pests and diseases. Under this legislation, a phytosanitary certificate is required for consignments of a number of species but not Physalis.

See http://www.europa.eu.int/eur-lex/en/lif/dat/2000/en_300L0029.html for up to date information.

The euro

The euro was introduced in January 1999 as a single currency for the member states of the European Union. In January 2002 euro bank notes and coins will be introduced and the currencies of the member states in the euro zone will be gradually withdrawn. At present there are 12 members of the eurozone, and only the UK, Denmark and Sweden have not joined.

For the trade in Europe the change is significant: transaction costs will be cheaper, foreign exchange costs will be fixed and most importantly there will be complete price transparency between markets.

The implications for exporters to the EU are far reaching and it is important to be prepared. While the US dollar may still be the chosen currency for international transactions, it is likely that exporters will soon be required to quote in euros as the trade avoids currency risk

Exporters should:

- Be familiar with the euro and its value
- Be able to quote in euros
- Be able to invoice customers in the chosen currency
- Ensure that software for logistics and accounting is capable of handling euros
- Be capable of labelling in euros

Selected Import Companies

Belgium (+32)

Ets Goossens & Fils SA
44-45 Quai des Usines 112 –154
1000 Brussels

Tel: (0)2 216 9255
Fax: (0)2 216 2946

Special Fruit NV
Wenenstraat 6
2321 Meer

Tel: (0)3 317 0660
Fax: (0)3 315 0843
special.fruit@g-net.be

France (+33)

S A Drevin Exotics
81 rue d'Angers
94584 Rungis Cedex

Tel: (0)1 45 60 70 80
Fax: (0)1 46 86 35 58

Germany (+49)

TROFI Tropenfrucht-Import GmbH
Lippelstrasse 1
D-20097 Hamburg

Tel: (0)40 30 70 960
Fax: (0)40
trofihh@aol.com

Internationale Fruchtimport Gesellschaft Weichert & Co
Bankstrasse 28
D-20022 Hamburg

Tel: (0)40 329 000
Fax: (0)40 329 001 99
info@interweichert.de

Netherlands (+31)

Bud Holland
PO Box 411
NL-3140
AK Maassluis

Tel: (0)174 53 53 53
Fax: (0)174 51 39 12
exotics@bud.nl

BV Exotimex
PO Box 649
2600 AP Delft

Tel: (0)15 2511 211
Fax: (0)15 2511 222
www.exotimex.nl

UK (+44)

Exotic Farm Produce

Studio 6

Bentinck Road

West Drayton

Middlesex UB7 7RQ

Tel: (0)1895 438 000

Fax: (0)1895 458 009

www.exoticfarm.com

Minor Weir & Willis

Pershore Road

Birmingham

B20 2QQ

Tel: (0)121 344 4554

Fax: (0)121 331 4590

www.mww.co.uk

Redbridge Produce Marketing

Tolworth Tower

Surbiton

Surrey KT6 7EL

Tel: (0)20 8390 1133

Fax: (0)20 8399 3499

www.redbridge.uk.com

Saturnalia UK Ltd

1 Pier Road

Feltham

Middlesex TW14 0TW

Tel: (0)20 8935 4000

Fax: (0)20 8935 4001

enquiries@saturnaliauk.com

ANNEX

Useful Websites

http://www.hort.purdue.edu/newcrop/morton/cape_gooseberry.html

Detailed information on physalis production.

<http://www.galeon.com/pilm/uvilla/uvilla.htm>

Cultivation of Physalis

<http://www.crfg.org/pubs/ff/cape-gooseberry.html>

Information on cultivars and husbandry.

<http://www.angelfire.com/ia2/ingenieriaagricola/uchuva.htm>

Cultivation of Physalis

<http://www.intracen.org>

Weekly market prices

<http://www.todaymarket.com>

Daily market prices

<http://www.coelacp.org>

EU-ACP liaison on horticultural issues

<http://www.ifoam.de>

Umbrella organisation for the organic agriculture movement

<http://www.organic-europe.net>

Information on organic agriculture by country with good links