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THE DEVELOPMENT OF REGIONAL HERBAL MARKET

Abstract. The process of EU integration faces a lot of possibilities for pre-border companies to develop new business relations. There is an opportunity to develop a cluster of herbal product companies which operate across Bielowieza Savage forest. The development of regional herbal market could positively influence the sale strategy in Belarus and Poland by marketing activities coordination.

Key words: herbal market, EU, Belarus, rural development

Introduction

The enlargement of European Union to the Eastern borders of Poland brings along many positive factors to Polish business. On the one hand the process of integration provides companies with new possibilities and market perspectives. On the other hand there are a few spheres of business where the advantages of EU enlargement could not be so obvious. Anyway the advantages of EU enlargement are used by pre-border companies from Poland and Belarus, which is a country with illusive perspectives to join the EU in the near future. The objects of our investigation were Polish and Belarussian companies which are involved in the herbal market and raw herbals external trade.

"Runo" Sp. z o.o. is one of biggest Polish forage companies located in Hajnowka, less than 20 km to the Belarus border. The annual turnover of the company is more than 1300 tons of dried botanicals, with a half presented to export [Biegluk 1999]. The general forager area for botanicals is a territory of Bialowieza Savage Forest.

The company has developed a network of 20 forage centers which could purchase even a few grams of botanicals from people in the countryside. The main part of the firm in Hajnowka processes the collected herbs, stores and sells raw herbs to the customers over the country and abroad. One of the external trade partners is "Biotest" NPK from Belarus.

Pharmaceutical company "Biotest" NPK located in Grodno, 15 km from Polish border. This company is the largest herb medicines producer in Belarus with an annual turnover of more than $ 3,1 million [Lonner, 2006].

"Biotest" NPK is "Runo's" closest external partner (150 km). The business connections between two companies have started in 2003 before EU enlargement, but the annual turnover between two companies had grown few years after (see table 1).

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The Polish accession to EU faced new possibilities for common relations between foreign partners. Basically the herbal market in EU is much better developed than in former Soviet countries. Nevertheless there is a huge difference between countries in the Union. The biggest consumers of raw botanicals are Germany and France. Doing business with Germany for more than 10 years "Runo" has developed strong relations with companies in Germany supplying herbs to this country. The Polish herbal company received the German Organic Certificate on wild plants (herbs, leaves, blossoms, roots) even before the country's access to the EU. So, the trade relations between "Runo" and German companies did not change much after common market foundation. , zolin@unive.it

Table 1. The medicinal plants export between two companies, kg

Exported by:	Year		
	2004	2005	2006*
"Runo"	31.215	37.533	95.000
"Biotest"	-	850	8.500

- planned, half reached at 01.05.06

Source: "Biotest", "Runo" statistics.

Situation in Belarus

As a pharmaceutical company specializing on natural herbal remedies "Biotest" is always looking for a raw material supply. After the restauration of independence the Belarussian companies had lost their markets for a huge range of goods. The situation in the republic showed that there were no herbal pharmaceutical companies. They appeared on the territory of other independent states: Russia, the Ukraine and Lithuania. Having one of the best forage systems for wild botanicals (herbs, fruits, berries and mushrooms) Belarus now forage less than 5 per cent of the annual wild yield. More than this, the new tariff system between Belarus and Russia from January 1st 2005 canceled the ability of individual farmers sell herbs to Russia. Today Belarussian herbs for export are 10 per cent more expensive. Together with bad quality the high price makes the Belarussian herbs less competitive than any other country source.

Contrary to Poland Belarussian state forage system was build as a system of half-stateowned collection stations. Each forage company served one administrative territory, doing multi-source forage and trade. That is why each of 118 administrative forage operators used to have equipment for any botanical processing. An independent survey has showed that most of the collection stations were over-equipped with dryers, cutters, washing machines, freezers dating from the SU times. Huge sums of depreciation costs made their products too expensive. Nowadays all these machines become outdated. Almost all stations have left the herb forage business and focused on berries or mushrooms. This business is four times more profitable and takes less labour expenses than the herb collection.

National pharmaceutical companies experience difficulties with raw material for medicine manufacturing. The chemical pharmacy started to import raw material from India and China. The herbal products pharmacy has found the sources of import in Russia, Ukraine and Poland. Currently Belarus values healthcare and safety over business interests yet government regulation effectively limits alternative herbal remedies and local companies.

New trends

A few years experience in business between the Polish and Belarussian herbal companies shows some of their strengths in the international trade:

- short distance (less than 150 km),
- same assortment,
- Belarussian companies can get European quality and standards,
- Belarussian company can purchase herbals and sell it further to Russia,
- Polish company can reach a new market,
- Polish company can purchase cheap herbals and sell it further to Germany.

Poland and Belarus generally operate the same species of medicinal herbs. Each country has two sources of raw herbs: wild-harvested and cultivated. There is no doubt that Polish herbal industry operates better than Belarussian both in the agricultural sphere and in forage industry. However, the enlargement of EU stimulated the connections in the herbal industry between two countries.

The new common marketing strategy is basing on the general factors:

- there are huge amounts of medicinal herbs in Belarus each year, that are not collected; there are enough cheap labour for collection,
- approximately $200.000 are the costs of herb processing manufacture establishment; today the bulk medicinal herbs turnover in “Biotest” is not enough to pay for such investment in the near future,
- there are opportunities for Polish companies to enlarge medicinal herbs supply to Germany; “Runo” has additional capacity for processing more herbs,
- the medicinal herbs customers prefer national herbal products if it shows European quality.

Our survey reflects the increasing willingness of people who are ready to collect medicinal herbs in the frontier area of Belarussian part of Bialowieza Forest. The collection is still practised across this territory among rural population for own its consumption. The low prices for bulk herbs in Belarus make the individual collectors cross the border to sell herbs in Poland. The distance of ten kilometers between collection stations in Poland and Belarus makes at least 1/3 of the price increase (see table 2). More than this there are species of herbs which are ten times cheaper in Belarus, but show high demand in Germany. There is a small but growing movement of out-of-customs control herbal trade.

As a forage company "Runo" is trying to stimulate such primitive cross-border trade, but the loss of profit is increasing each year because of the complicated trade with individual collectors from Belarus.

Table 2. Average price per 1 kg of bulk herbals 50 km across state border Poland/Belarus, US dollars

Herb common name	Poland		Belarus	
	purchase	sale	purchase	sale
St. John's Wort herb	1,2	1,5	0,7	1,2
Dandelian root	1,9	2,4	2,0	2,3
Equisetum (Horstail) herb	1,2	1,6	0,9	1,4
Nettle herb	1,1	1,5	0,6	1,2
Cascara bark	1,0	1,3	0,4	0,8

Source: prices of forage companies.

At the same time "Biotest" suffers insufficient supply of raw material. Having no equipment for herb primary processing and storage this company prefers commercial import of raw material from Poland more than gathering small quantities from the national suppliers.

Such situation opens new possibilities for cross-border trade. Market requirement have made Belarussian company "Biotest" follow specialization on herbal medicines and import about 50 per cent of raw herbs from the Polish company "Runo". At the same time "Biotest" is representing the Polish interests in Belarus, providing such services as transportation, storage, buying and selling activities and some credit.

"Biotest" is supervising five collecting stations of medicinal herbs and individual collectors in the Belarussian Bialowieza Forest area. The Polish company presents the annual needs of herbs in terms of volume and form. Besides this it determines which plants found in region offer the best opportunities for making profit, makes marketing research and management advice. Cheap Belarussian raw herbs are exported to Poland where they are processed and than sold to Germany. Some of them came back to Belarus as a processed raw material for pharmaceutical manufacture.

The benefits of the tandem increased the Polish exports 2,5 times and the Belarussian exports 10 times.

Obviously the Polish botanicals are more expensive, but they meet the requirements of the EU and present the same quality. These requirements present a pesticide-free technology of growing and storage. Belarussian farmers could not ensure such quality. The acceptable level of pesticides in cultivated herbs currently limits the number of Belarussian suppliers. That is why the amount of cultivated herbs from Poland for the last two years increased from 5,2 up to 28,9 per cent among total botanicals.

Besides this the import of bulk herbal material to Belarus and processing it into medicinal drugs has a positive influence on customers' opinions. More than 75 per cent of pharmacy customers prefer national herbs as a remedy. Only 10 per cent believe that imported herbal drugs are better. This confidence is basing on a belief that the best herbal remedy should be grown under the same climatic conditions under which the patient treated is living. On the contrary more than 70 per cent of patients believe that the imported chemical drugs are better than domestic. That is why the presence of the original Polish herbal drugs on the Belarussian market has changed in the last few years from 3,5 to 1,2 percent. On the other hand the share of imported Polish raw herbs has changed from 4,8 to 27,9 percent.

As a territory of medicinal herbs source more than a half of pharmacy customers mention Bialowieza Savage Forest and make no difference between the Belarussian and Polish parts. That means that generally Belarussian customers will choose Belarussian herbal remedy rather than Polish. But as a source of raw herb they basically will choose the Bialowieza origin even if it stays within the Polish territory.

A very positive reputation of Bialowieza is playing the general role in the regional herbal market operations. Nowadays it is the market where the Polish company provide the raw herbs and the Belarussian companies manufacture herbal drugs.

Conclusions

The future of regional market is basing on the cluster opportunity. The co-operation between the Belarussian and Polish companies could base on:

- the ability to collect, form and realize a huge parties of herbs; the coordination of the collection and marketing policy,
- the use of the low Belarussian labour costs; the ability to compete because of small prices for raw herbs,
- the experience of the Polish forage companies to drive business; the use of stable channels of sale to the EU,

- the exploitation of Bialowieza herb origin as an organic product; the applying of the EU quality standards.

The multinational cluster offers a few more pluses. As a seasonal sphere of business the wild herbs collection demands huge seasonal funds. The maximum of funds provision is necessary at the end of summer. The common cluster operation could divide money needs between the partners. The presence of forage and manufacturing companies eliminates the seasoning of business by cross-company payment. Usually the pharmaceutical company could invest money in collection at the from the beginning of the year till the mid of summer.

For the first time the process of wild herbs collection on the Belarussian territory should be organized and controlled by the Polish partners. The day-to-day management could be done by a Belarussian representative.

Such pre-border co-operation could enlarge business in three ways. First of all the European standards for raw herbs and the increase of wild plant collection could enlarge the herbal remedy production in Belarus. The lack of native herbs could be covered by import from the Polish territory.

Second, there is an opportunity to export herbs to Russia via the Belarus-Russia Commonwealth (from 1998). This country is suffering the absence of European quality herbs. In spite of the Chernobyl catastrophy there is still a positive opinion about Bialowieza as a source of herbs.

Third, there is an opportunity to increase export to other EU countries. The Polish company as a member of the common market expresses its guaranty on herbs of Belarussian origin.

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