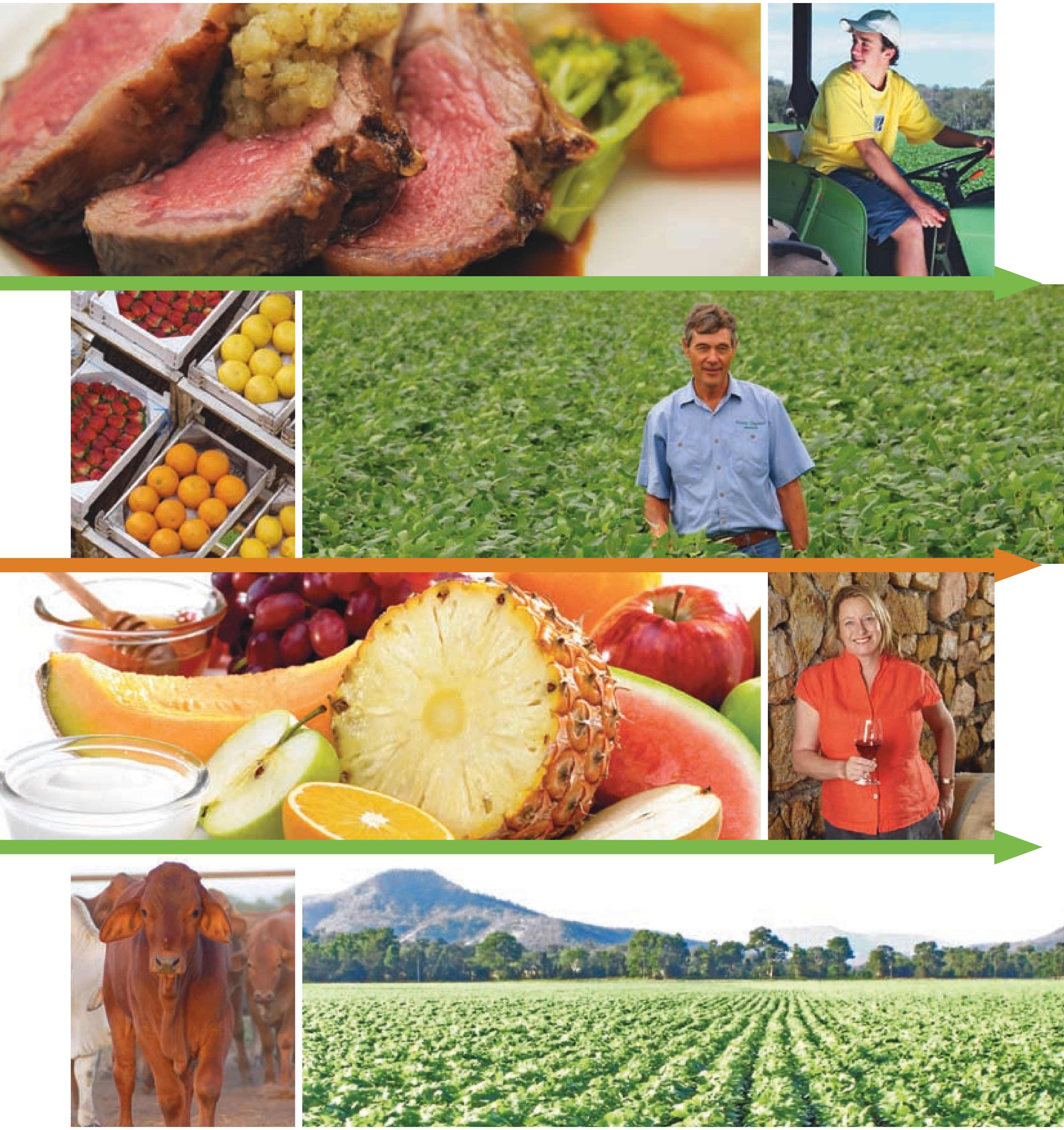
Australian Organic Market Report 2010







Australian Organic Market Report 2010

Researched by the Organic Research Group,
School of Environmental and Rural Science
University of New England (UNE), Armidale, NSW, Australia
and Mobium Group, Melbourne, Australia

une University of New England

MOBIUM GROUP Research Strategy Innovation

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Dr Paul Kristiansen is a researcher and lecturer at the University of New England in Armidale. He has been involved with organic agriculture for about 15 years. Paul's research activities include studies of organic and low-input farming systems in Australia, Burma, Slovakia and Thailand. This work has spanned a wide range of issues including production constraints such as weed and soil fertility management, economics, marketing and supply chain development.

Paul is an editor of the Journal of Organic Systems, a journal devoted to highlighting organic research and education in the Asia Pacific region. He was lead editor of Organic Agriculture - a Global Perspective, an international book on organic agriculture (www.publish.csiro.au/nid/21/pid/5325.htm) that brought together a world-wide group of experienced researchers, farmers, writers and thinkers across a broad range of disciplines to produce a 24 chapter review of organic agriculture around the world.

Alexandra Mitchell

Alexandra Mitchell is a PhD candidate at the University of New England investigating policy development and data collections in emerging industries focusing on organics as a case study. Since 2007 Alex has worked with the Tasmania Department of Primary Industries, Parks, Water and Environment as the Organic Industry Development Officer addressing both state and national issues.

Alex also has extensive experience in new industry development through her work in the Commonwealth Department of Agriculture, Fisheries and Forestry. Alex holds a Bachelor of Science degree with Honours from the Australian National University and before joining the public service industry worked in research and development in various science disciplines, mainly focusing on population genetics in Australian forest species.

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Nicholas Bez is Research Director with Mobium Group (www.mobium.com.au), a market research and strategy consultancy with a specific focus and expertise in understanding what motivates Australians to make healthier, more sustainable lifestyle choices.

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Nick is a market research expert, with more than fifteen years experience studying consumers in the USA and Australia.

Nick has a specific interest in 'trend spotting' with a strong focus on 'health and wellness' issues and its links to consumer behaviour and has won national awards for his work on brand strategy.

Nick has academic qualifications in Marketing (Boston) (Hons), and a Master of Business Administration (Melbourne) and is professionally accredited (QPMR status) with the Australian Market and Social Research Society.

Dr Andrew Monk

Dr Andrew Monk has two decades of experience in organic industry auditing, certification and standards, and commercial interests across the organic supply chain including in horticulture and value-adding as well as currently in the organic waste sector. Andrew has a PhD with a focus on organic production systems and sustainability in Australia.

Andrew consults to both public and private entities across the supply chain on environmental (including organic) issues and management systems, whilst being managing director of an environmental sector services company, Mulching Technologies Pty Ltd. Andrew is a prior CEO and current director of Biological Farmers of Australia Ltd (BFA) and an adjunct associate professor at the University of New England, Armidale, NSW, School of Business, Economics and Public Policy.

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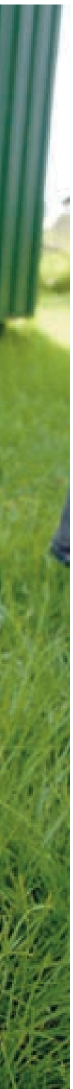

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Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACO	Australian Certified Organic
ACT	Australian Capital Territory
AQIS	Australian Quarantine and Inspection Service
BDRI	Bio-Dynamic Research Institute
BFA	Biological Farmers of Australia
DA	Dairy Australia
DAFF	Department of Agriculture Fisheries and Forestry, Australian Government
FiBL	Research Institute of Organic Agriculture
FY08-9	Financial year, 1 July 2008 – 30th June 2009
GRDC	Grains Research and Development Corporation
HAL	Horticulture Australia Limited
IFOAM	International Federation of Organic Agriculture Movements
JAS	Japanese Agriculture Standard
LOHAS	Lifestyles of Health and Sustainability
MLA	Meat and Livestock Australia
NCO	NASAA Certified Organic
NOP	National Organic Program (USA)
NSW	New South Wales
NT	Northern Territory
OBE	Organic Beef Export
OFC	Organic Food Chain
OGA	Organic Growers of Australia
OMRI	Organic Materials Research Institute
QLD	Queensland
RIRDC	Rural Industries Research and Development Corporation
SA	South Australia
SFQ	Safe Food Queensland
TAS	Tasmania
TOP	Tasmanian Organic-Dynamic Producers
VIC	Victoria
WA	Western Australia

Executive Summary

Value of this research

This is the second report the Biological Farmers of Australia has commissioned to help industry bench mark the growth and health of its sectors. This report - another significant milestone in the two decade plus history of the rapidly developing Australian certified organic sector - builds the information base for industry to benchmark production and market value against past and current claims and estimates and will enable monitoring of future growth of the certified organic market in Australia and its farming and production base. In an industry characterised by operational diversity, this report allows for performance assessment by sector. The next publication in this series is planned in 2012 (biennial since the inaugural report in 2008) as a means of providing the wider industry with invaluable and realistic market information.

Using the research

This report may assist the commercial sector by contributing to business decisions and business planning in farming, value adding or marketing operations. Researchers, governments, industry associations and those with an interest will be able to understand more effectively the nature of the organic industry and its multi-sector foot print within Australia, while also comprehending the broader trends of the industry. Please note the caveats and disclaimers in relation to this research.

Summary of findings

Industry growth

The organic sector is showing strong patterns of sustained growth through what has been an extremely challenging Global Financial Crisis (GFC) period. Total retail value in Australia has reached approximately $947 million, an unprecedented mark, while with growth projections it is tipped to breach the A$1B mark before the end of 2010. This is in the context of a global slowing of some international organic markets. Despite the fact that the Australian organic industry at this point commands a relatively small percentage of total market value, (average circa 1%) it represents

Key figures

Chapter 2: Overview of organic farmers and farmland

As at the end of 2008-9 the total number of certified organic operators was 2986, of which three quarters were in farming operations, being 1.6% of all farming operations in Australia

4% is the average annual increase in certified organic operators over the last 2 years, in line with a long term trend of the past 7 years.

With 12,001,724 hectares, Australia exhibits the largest amount of certified organic farmland in the world, the vast majority of which is used for extensive grazing. 35 million hectares of agricultural land are managed organically by almost 1.4 million producers worldwide.
Non rangeland and pastoral certified organic lands have continued to increase by 5% over the past two years.

The average age of an organic farmer in Australia is lower than a non-organic Australian farmer and 25,000 are employed by this industry.

Chapter 3: Australian organic production (farm gate value) figures 2009

2009 farm gate values were estimated to be in excess of $223,224,000 using very conservative new estimation methods. However, using previous multiplication factors, they could well now be higher than $300M.

Despite widespread drought, recorded farm gate sales have risen by over 48% since last reported in 2008.

Market (farm gate) value figures

The organic vegetable, herb and nursery production market was valued at $77,500,000
The organic fruit & wine market was valued at $39,700,000 with wine contributing $2,341,720 of this
The organic beef market was valued at $34,456,100
The organic milk & dairy product market was valued at $17,914,000
The organic poultry (meat) market was valued at $15,349,000
The organic lamb market was valued at $11,307,000
The organic honey market was valued at $9,789,000
The organic grains, pulses, fibres & oil crops market was valued at $9,456,000
The organic poultry and eggs market was valued at $3,200,000
The organic nut market was valued at $2,234,824
The organic essential oils production market was valued at $1,243,056
The organic wool market was valued at $826,993
The organic pig market was valued at $255,030

significant opportunity as an expanding market for operators committed to consistent delivery of high quality product.

Strong growth is increasingly evidenced by the growing presence of organic products in mainstream food marketing. In 2009 92% of organic sales were through store based retailing. Supermarkets now make over 60% of all organic sales. With the now permanent positioning and offering by major supermarkets including Coles, Woolworths, Aldi and IGA, into the organic market, demand for organic products has reached a new level of acceleration. There are over 500 organic lines ranged in some larger retail stores. As was noted in the 2008 report, the ability of developing domestic production to meet this demand continues to be a key challenge for the future of the Australian organic industry.

In addition to GFC concerns, drought has been a driving factor, suppressing growth and development for some sectors. This remains particularly marked for grains, while livestock products (red meats in particular and specifically lamb and high quality beef) remain undersupplied in a sector that has grown some 25% in 2009 alone.

Independent retailing has been through a tumultuous time with the buy-out of the Macro Wholefoods chain of independent organic stores. Others are taking their place, however, this sector has challenges, needing a boost in professional independent retailing to deliver longer term growth in this long established sector.

Locally, consumer interest in organic product has been facilitated by the growth in farmers' markets, home delivery and related direct marketing and "box" schemes, bringing the consumer closer to the organic farm world than ever before.

Industry sectors

The organic industry in Australia is characterised by diversity in the sectors of production represented; market outlets and distribution; and types and sizes of business operations. The industry has benefited from growing professionalism and maturation in production (farming and processing), supply chain and marketing operations, from both small and larger organic businesses alike.

The recorded organic farm gate value has grown over 48% in two years, with some sectors contracting or remaining contracted (mostly drought driven) while others have developed considerably. A lower than expected growth rate is attributed primarily to the impact of the drought on the viability of some farming operations and regions, in particular in the organic grains and meat sectors, while the GFC has possibly also impacted in some higher value adding sectors. A stagnant period of low to no rainfall had halted production in many traditional organic grain production areas through to 2009, and the volume and value of organic grain production has lowered over the last decade, with some knock-on effects indicated from feed-mills and livestock producers. This is expected to pick up in some areas for 2010/11 as

Key figures

Chapter 4: Organic supply chain

The total retail value of the Australian organic market consolidated from both primary industry figures and industry intelligence information for fresh and processed lines is estimated at $947 million, with an expectation that in 2010 this will breach the A$1B level.

Major retailers carry in excess of 500 different organic lines in fresh and grocery categories.

Supply of consistent, quality product remains a major challenge for sustained industry sector growth.

There is also a need for further promotion at consumer level for horticultural product.

Chapter 5: The Organic Consumer

60% of consumers (up from 40% in 2008) buy organic food on occasion with "leaders", as identified in the Lifestyles of Health and Sustainability (LOHAS) report, the core of this purchasing activity by volume and regularity.

Organic fruits & vegetables remain the most common entry points for consumers.

As in overseas trends, the majority of traded organic products are now moving through the major supermarket chains. They have been the single largest driver of growth over the 2008 – 10 period and are expected to remain the largest single channel for future growth for the organic industry.

The industry otherwise remains diverse in its market outlets, with farmers markets and innovative direct marketing remaining a strong core component of the organic marketplace, though not showing the strength seen in markets such as the UK.

rains and floods have arrived in flood plain production systems.

In contrast to the last report in 2008, while the farm gate value of horticulture has increased, it appears that as at mid 2010 demand growth in the conventional market settings (both independents and chains) is somewhat suppressed. Operators are reporting either stagnant sales or slightly higher volumes but with pressure on margins, delivering the same returns over the past year. The estimate of growth for the horticulture sector, again while varying across sub-sectors, is three fold in some vegetable sectors and 10-20% in fruit sectors.

The organic industry is continuing to consolidate on 2008 report trends and the average size of organic farms has increased, highlighting a trend towards professional farming on a larger scale (albeit still well under non-organic farm enterprise levels for most sectors). This also highlights the expansion of some long term organic farming families who have purchased additional land and/or farm units in other states to cater for increased demand as the multiple retailers move more decisively into the organic market.

At the same time, the organic industry remains solidly diverse in terms of operator types and sizes, with the ongoing flourishing success of smaller farmers' markets and direct marketed products. This is reflective of ongoing reports from the certification sector of a rise in applications for both small and medium to larger farmers alike.

Challenges continue to be observed in co-ordinating organic production and supply chains. Production of beef cattle has been a significant success story for the organic sector, continuing to represent around one sixth of total industry farm gate value. Despite this, one third of organic beef was delivered into the non-organic conventional markets and has not been included in the current value of organic market estimates. At the same time, processors continue to claim lack of access to consistent quality product, including beef and lamb.

The industry has witnessed an increase in strategic market alliances and marketing groups as a means of facilitating optimum logistics in supply and distribution of product to market. Some groups have achieved substantial success in co-ordinating supply chains to access larger domestic markets and international markets. Access to these larger markets has often been obstructed by fragmented or lower volume supply lines. This report profiles a number of those success stories as an example for many organic sectors.

Poultry meat and egg operators have experienced very solid growth and almost all products are sold as certified organic, however production has been highly sensitive to rising feed costs with the organic monogastric sector ever reliant on certified organic feeds. Organic monogastric industries, including pork, have taken a varied approach to adapting to changed conditions, with some producers following a business model of vertical integration and some expanding the farm land they own to feed their growth. Distance from certified organic abattoirs remains a challenge for some and an acute challenge for pork producers.

Horticulture remains a major stay of the industry. Some two thirds of organic farmers form part of this sector which represents over one third and possibly up to half of the total organic farm gate value in Australia. Fresh produce remains the first entry point for the majority of first time organic consumers and is a major component of the organic shopping basket.

Organic dairy products have been a stand out champion between 2008 and 2010, reaping the rewards of many years of background work on co-operative marketing and promotion. A number of dairy brands are now present in the organic marketplace in Australia across a number of states.

Other new and emerging market segments include organic honey and its related medical applications, profiled in this report, along with a soon to be booming organic cosmetics segment, set to be one of the potential stand-out growth sectors of the coming years as consumers take up more of the "organic lifestyle" options now on offer.

The cosmetic sector continues to enjoy great interest from export markets, with large high-end Asian hotel chains looking for signature products. Honey producers have doubled their exports in the last two years, with US and Germany the major destinations for these products.

Imported products are appearing on shelves more often, but the biggest section of imports is ingredients for manufacturers. It is estimated that over $200million worth of products are imported, from grains to essential oils to dairy powders.

Certified land area and demographic trends

Australia continues to report the largest surface area of certified organic land in the world with some 12 million hectares certified for organic operations. This is primarily accounted for by vast areas of rangeland for organic cattle production in the Channel Country regions of Queensland and the semi arid rangelands of Queensland, NSW and SA.

Over 11million of those hectares are rangelands producing beef, lamb and wool. Of the remainder grains, fruit and dairy have the next highest percentages of land use.

Across some 90% of Australia's total certified land, Queensland has the most area of all Australian states. NSW accounts for the highest number of organic operations in terms of number of individual certified organic businesses. Nationally, 2986 certified organic operators were recorded. Of these operations, some three quarters were primary producers and representative of some 1.6% of Australian farming operations.

The organic industry continues to add to its farmer numbers at a time of ongoing departure from the land by non-organic farmers. The organic industry reports an average of just over 5% net operator growth per annum over the past seven years, closely reflected also in the past two.

There is an ongoing trend for organic farmers to be, on average, younger than their non-organic counter-parts. Employees in organic systems were most likely to be aged 36 to 55, with a significant proportion falling within the 26 to 35 bracket and only a small minority aged over 56. This is compared to the average age of 58 for non-organic Australian farmers. Organic farms are now enjoying welcoming back younger generations to the farm, bringing with them tertiary and TAFE experience.

Reflecting the experience of the broader agricultural sector, organic farmers have suffered during the recent drought, and at the time of this survey many organic growers are continuing to experience drought impact. The drought has considerably influenced results of this report, albeit in some sectors this has been the case for over seven years. This impact is noted in reported diminished exports of Australian organic oil seeds and cereals, while dampening what had been strong growth in livestock export products earlier this decade. The return of these commodities to the levels of the early 2000s is not expected until 2012 and will be dependent upon a return to a normal long "cycle" of dry and wet on the eastern seaboard of Australia.

Having noted this, the horticultural sector has not been as affected by water availability as its conventional counterparts, although water scarcity in some regions has led to farmers obtaining farms in other regions or states to maintain supply. Some farmers did experience very poor cropping but expect this to pick up with wetter conditions.

Organic consumers

Organic consumption continues to increase as acceptance grows amongst traditionally conventional produce buyers. Some 60% of consumers surveyed purchase organic food at least occasionally (up from 40% in 2008), and women remain the primary purchasers.

Organic fruit and vegetables are the most commonly purchased organic products. They are most likely to be trialled by new or experiential organic consumers and 70% of organic consumers buy from these categories at least once a week.

Health and a concern for the environment remain the most common reasons for consumers to buy organic, while animal welfare, non GMO status, and better tasting food are also commonly perceived benefits of organic.

Major barriers to purchasing organic products remain price and availability. Poor appearance of organic food is significantly less of a barrier than has been reported in the past as more professional supply chains ensure only highest quality items reach final markets and as higher supply volumes have pushed some seconds products to processing leaving higher grade products for the retail shelf.