Australian Organic Market Report 2008





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Researched by Organic Research Centre,
University of New England (UNE),
Armidale, NSW, Australia

Commissioned by Biological Farmers of Australia Co-op Ltd

July 2008

BFA Publication No. 08/01

With assistance from Organic Knowledge Consultancy

Publication details

ISSN: 1836-0149
Australian Organic Market Report 2008
Publication No. 08/01

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Email: marketing@bfa.com.au
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Published in Brisbane July 2008

Design by Trio Graphic
Email: pwil3274@bigpond.net.au
Campsie NSW.

Printed by Cornerstone Press
Northgate Qld.
Phone: (07) 3256 7655
Email: sales@cornerstonepress.com.au

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About the authors

Dr. Paul Kristiansen

Dr Paul Kristiansen works as a researcher and lecturer at the University of New England in Armidale. He has been developing courses in organic agriculture for domestic and overseas students and participating in several projects looking at a wide range of organic issues. Paul's research activities include weed management and soil fertility in organic vegetable production, economic and agronomic issues for vineyards converting to organics, composts and soil health in broad-acre farming, and farmer-consumer dialogues to improve 'clean, green and humane' sheep meat production.

Paul is an Editorial Board member of the Journal of Organic Systems, a new journal devoted to highlighting organic research and education in the Asia Pacific region. A recent achievement was the publication of Organic Agriculture - a Global Perspective, an international book on organic agriculture www.publish.csiro.au/nid/21/pid/5325.htm. As lead editor, Paul 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.

Dr. Paul Kristiansen.

Alasdair Smithson.

Alasdair Smithson

With an honours degree in Organic Agriculture, from Aberystwyth, University of Wales, Alasdair Smithson has had extensive practical experience in organic farming. After working for the UK Soil Association for a number of years Alasdair immigrated to Australia in 2005 working within the organic industry at a regulatory level. He went on to manage Australia's largest organic sweetcorn and sweet potato farm in far North Queensland. Alasdair runs his own independent organic advisory service, Organic Knowledge.

The roadmap to a promising future in organics

By Doug Haas

It is with the utmost pleasure that I present to you the Australian Organic Market Report. A market report is the most basic document required by any growing industry wishing to take control of its future. This report will allow governments, businesses, banks, media, representative organisations and others to make assessment of the current market status, identify potential growth areas for investment, report on areas of significance and map future development going forward.

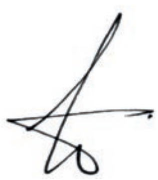
Long anticipated, it has been some four years now since industry has enjoyed a document of this kind when in 2004, the Federal Government Department of Agriculture Fisheries and Forestry (DAFF) published *The Australian Organic Industry – A Profile*. Whilst some differences remain in the research methodologies used in compiling the two reports, a comparison will provide an indication as to the growth of industry over the period of the past 4 years. Moving forward these documents will continue to be used as yardsticks for measuring industry's growth. It is to be expected that the BFA will continue to commission similar independent surveys and research documents with the support of industry well into the future.

While this report provides a roadmap for future investors in organics, we must remember to thank a number of pioneering growers and many others whose undiverting vision, immense energy and continued persistence have moved industry to the point of creation of an easier road for new members to join in the organic journey.

Over more than two decades the organic certifying bodies have developed and established standards which has greatly assisted in providing market opportunities for export, simultaneously assisting in a self-regulated and well developed domestic market.

In the underwriting, coordination and substantial contribution to funds towards this report, the BFA has contributed considerably to it being brought to fruition. What only can be described as crucial financial support of sponsors was generously given by Westpac, and the State Governments of Victoria, Tasmania, South Australia, Western Australia, New South Wales and Queensland. Additional contributions which have also made this report possible have been received from a number of organic businesses whose details are provided within this report. I would like to commend these businesses for their generosity and foresight for investing not only in their own business' success, however in the development and success of our industry as a whole.

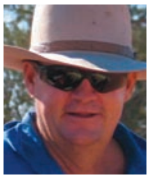
If it wasn't for the persistence and professionalism of the University of New England (UNE) research team, the success of compiling a comprehensive report with the utmost integrity would have been virtually impossible. We at BFA believe that the value of this report will span across industry from production systems to the highest political level, at all times assisting our industry in collectively charting its future.



Doug Haas
Chairman
Biological Farmers of
Australia Co-op Ltd

Doug Haas has served on the BFA Board for over 12 years of which 11 has been spent as chairman.

Industry members have their say on the Australian organic market



Justin McClure, organic lamb grazier and wool grower, Kallara Station, Tilpa NSW

"This country lends itself to organic production, which is currently going in a very positive direction. The organic supply chain has grown to allow commercial operations to become a reality, the certification process is increasingly professional and the product itself is highly desirable. Quality control has also kept pace– you can walk into major retailers and know the quality and safety of organic product has been verified. As a highly geared, commercial operation, the fact that we can operate in an organic system says a lot about the sector's development over recent years".

Tenay Barker, Strategy and Business Development manager with organic wholesaler and processor, Ecofarms

"The organic wholesale and retail sector is experiencing stable growth with increasing demand for organic foods in Australia and international markets. Our business has expanded consistently by 30% each year. Australian retailers have worked hard to create an efficient system for packaging and stocking of fresh organic produce and organic growers are producing highest quality products that a more health conscious and aware consumer increasingly seeks information on. There is now substantial opportunity for the integration of organic alternatives in an expanded range of other supermarket items".

Gary Leeson, General Manager for allowed farm inputs manufacturer, Organic Crop Protectants

"Farmers increasingly concerned with a sustainable environmental future and soil health are driving the rising uptake of natural agricultural inputs in both organic and conventional systems. The cost of traditional petro-chemicals has increased making natural inputs and soil management a more attractive and financially viable option in the longer term. Farmers are beginning to recognise the benefits of biological methods in restoring land health and are more educated on the production of high yield, high quality and nutritious crops using products and methods which have a minimal impact on people and the environment."

Pierce Cody, CEO for organic retailer Macro Wholefoods

"Consumer interest in organic and the organic customer base is growing. Organic product has potential for broad appeal and we firmly believe that mainstream consumers are a key market. There is strong interest from food-conscious customers including mothers and 'conditional eaters'; coeliacs, lactose intolerant consumers and so on. There is also a large number of customers who want to shop in an environmentally sympathetic way. Economies of scale and the increasing ability of the organic industry to make a large range of diverse organic and natural products accessible will continue to advantage the organic consumer in years to come."

Introduction

With growing global interest from consumers, farmers, entrepreneurs and policy makers across the world, the organic movement has over the last decade become an organic industry. From its beginnings as a farmer-led grass-roots movement, organic agriculture in Australia has been focused on producing high quality product with minimal impact on the environment. This movement has tapped into a growing consumer interest in purchasing premium products with attributes that might include health, food safety, the environment and animal welfare.

As interest in organic production and marketing has grown, so too has the need to describe and understand the industry. Potential farmers want to know what commodities are in demand and in what volumes. Business people and investors are interested in understanding the organic supply chain, from input suppliers to processors and manufacturers. Retailers, including the supermarket chains that retail the vast majority of food and fibre products in Australia, are attempting to match evident consumer demand with a sustained growth in supply and availability of product.

Current industry members and other farmers considering making the switch to organic production and marketing will benefit from the specific sector information contained in this report as a facilitative aid in identifying potential areas of growth and opportunity, as well as areas of challenge and oversupply, in the broader Australian organic sector.

Other stakeholders with a growing interest in information about the organic industry are government agencies and policy makers. These people are faced with managing sometimes conflicting policies related to food quality, security and diversity, and addressing ongoing environmental and other land-use issues, while promoting vigorous, open commerce throughout the supply chain for food, fibre, and related agricultural produce. This report will assist policy makers in understanding the opportunity inherent in an effective integration of organic systems thinking and practice into Australia's future agricultural and environmental landscape.

This report is presented as another step in the continuing task of defining the size and extent of the organic industry in Australia. Previous work by Hudson (1996), MAQIR (1999), Halpin (2004) and Wynen (2006) have provided baseline organic industry data over several years, in addition to the regular, if partial, data collection carried out by Australian Quarantine and Inspection Service (AQIS). The survey data presented here is not intended to be a precise description of the current level of organic production, as this is not possible given the limitations of data availability and quality within the industry. For example, the extrapolated data presented in this report are estimates and are not intended to be exact figures. Nevertheless by comparing the new data with previous information, particularly Halpin (2004) and the AQIS data, it is possible to draw a reliable and informative picture of the organic industry in Australia, its trends and nature. The data, if anything, has erred on the side of caution with conservative estimates of sectors, and continues to improve the methodology applied in making such estimates.

For the purpose of this report the term "organic" is used to indicate farms at all stages of conversion, from pre-certification, through in-conversion status, to full certified organic status, as relates to internationally recognised production and marketing requirements for farming and value adding. The terms "certified organic" and "organically certified" are reserved for enterprises in the latter category.

"While producers still constitute the bulk of certified operators, other sectors, especially processors and manufacturers, are increasingly entering the industry."

Executive summary

Value of research

This report is a significant milestone in the twenty-year history of the rapidly developing Australian certified organic sector. Access to comprehensive and local data reflects continued maturation of the certified industry, which had limited availability of whole-industry information during early growth periods. This report provides information 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. Further publications are expected on a bi-annual basis from 2010 (the last one being in 2004) as a means of providing the wider industry with invaluable and realistic market information.

Using the research

This document 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 more effectively understand the nature of the organic industry and its multi-sector foot print within Australia, while also comprehending the broader trends of the industry.

Findings summary

Industry growth

• The organic sector is showing strong patterns of sustained growth. Total retail value in Australia has reached approximately $623 million, an unprecedented mark. Despite the fact the Australian organic industry at this point commands a relatively small percentage of total market value (less than 1%), it represents significant opportunity as an expanding niche 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. With the entry of 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 now ranged in some larger stores. The ability of the developing domestic production to meet this demand continues to be a key challenge for the future of the Australian organic industry with recent growth underwritten by a significant rise in imported organic grocery lines and processing ingredients.

• Independent retailing is maturing, evidenced by more professional offerings and continued strong growth in this long established sector.

• Locally, consumer interest in organic product has been facilitated by a surge in farmers' markets, home delivery and related direct marketing 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 sectors of production represented; market outlets and distribution; and types of 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.

Key figures

Chapter 2: Overview of organic farmers and farmland

• In 2007 the total number of certified organic operators was 2750.

• 5.2% is the average annual increase in certified organic operators over the last 5 years.

• With 11,988,044 hectares, Australia exhibits the largest amount of certified organic farmland in the world, the majority of which is used for extensive grazing.

• The average age of an organic farmer in Australia is lower than a non-organic Australian farmer.

Chapter 3: Australian organic production (farm gate value) figures 2007

• 2007 Farm gate values were estimated to be conservatively in excess of $231,569,977.

• Other reliable industry information sources suggest that this farm gate value figure could well be 25-40% higher again. These higher estimates were not confirmed by this research methodology but should be borne in mind both in relation to future industry reports and estimates of value.

• Despite widespread drought, farm gate sales have risen by over 80% since last reported in 2004.

Summary

• The organic farm gate value has grown over 80% in four years, with some sectors contracting (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. A stagnant period of low to no rainfall has halted production in many traditional organic grain production areas, 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. In contrast the farm gate value of horticulture has increased significantly during this time.

• The organic industry is consolidating and the average size of organic farms has increased, highlighting a trend towards professional farming at a larger scale (albeit still well under non-organic farm enterprise levels for most sectors).

• Challenges continue to be observed in co-ordinating organic production and supply chains. For example, production of beef cattle has been a significant success story for the organic sector representing one seventh 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 current value organic market estimates. At the same time, processors continue to claim lack of access to consistent quality product in demand, 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 and/or lower volume supply lines.

• Poultry meat and egg operators have experienced steady 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 part 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.

Market value figures

- The organic vegetable, herb and nursery production market was valued at $77,133,516
- The organic fruit & wine market was valued at $34,059,498
- The organic beef market was valued at $31,640,544
- The organic grains, pulses, fibres & oil crops market was valued at $21,783,108
- The organic poultry (meat) market was valued at $18,256,226
- The organic honey market was valued at $16,624,010
- The organic milk & dairy product market was valued at $13,190,310
- The organic lamb market was valued at $9,134,314
- The organic wool market was valued at $5,211,667
- The organic nut market was valued at $1,891,713
- The organic poultry (eggs) market was valued at $1,832,414
- The organic essential oils production was valued at $486,687
- The organic pork market was valued at $324,618

*** No significant data is available on the value of alpacas, goats or aquaculture**

• Organic dairy products show significant future promise within the Australian marketplace as well as for export, while organic honey is a growing sector, with Australia's natural competitive production advantages.

Certified land area and demographic trends

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

• 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, 2750 certified organic operators were recorded at the start of 2008. Of these operations, some two thirds were primary producers and representative of between 1.5 and 2 % of the Australian farming population.

• The organic industry continues to add to its farmer numbers at a time of ongoing departure from the land of non-organic farmers. The organic industry reports an average of just over 5% net operator growth per annum over the past five years.

• There is an ongoing trend for organic farmers to be, on average, younger than their non-organic counter-parts. Farmers 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.

• Reflecting the experience of the broader agricultural sector, organic farmers have suffered during 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 now been the case for 5+ 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 unlikely to occur in the immediate future based on current climate conditions.

Organic consumers

• Organic consumption continues to increase as acceptance grows amongst traditionally conventional produce buyers. 40% of consumers surveyed purchase organic food at least occasionally, and women are the primary purchasers.

• Organic fruits 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, concern for the environment and a belief that organic food tastes better remain the three most common reasons for consumers to buy 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.

Key figures

Chapter 4: Organic supply chain

• Some major retailers now 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.

• The total retail value of the Australian organic market is estimated to be approximately $623 million.

Chapter 5: The Organic Consumer

• 40% of consumers now buy organic food on occasions.

• Women are the primary purchasers of organic food.

• Organic fruits & vegetables are the most common entry points for new consumers.

• Farmers markets are becoming increasingly popular with consumers.