

# **Generating Governance Capacity in Infant Industries: The Development of Organic Farming in Denmark and Australia**

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## **Acknowledgement**

Earlier versions of this paper were presented at the Annual Meeting of the ECSA-DK, 24-25 August 2006, in Aarhus and at the General Conference of the ECPR 2007, 6-8 September, in Pisa. We would like to thank the participants, in particular Johannes Michelsen and Peter Feindt, for valuable comments. The financial support of the Danish Research Centre for Organic Food and Farming (DARCOF III) and the Aarhus University Research Foundation is very much appreciated.

## **Abstract**

Organic farming is of increasing interest to policy makers as it has been linked to environmental, rural development and market related outcomes which have high political salience. As such, attention naturally turns to catalysing organic growth. Patterns of growth vary considerably among countries, but existing explanations of variation lack authority. This paper compares the development of organic farming sectors in Australia and Denmark, countries at polar ends of the organic sector development continuum. They provide a good comparison as both countries share key characteristics, such as a history of state-agricultural industry partnerships, an implicit post-1980's consensus around a market model for agricultural industry development, and the general absence of consumer distrust over food quality. After ruling out a number of well worn explanations for differential growth we focus on the role of governance capacity. We argue that the Danish case, in contrast with Australia, demonstrates that when well-developed associative and state capacities can combine alongside interest intermediation then governance capacity is generated and infant industry development is made possible.

## **Introduction: the Puzzle of Organic Farm Industry Growth**

Wide scale intervention in industrial sectors has declined in western industrialised countries as a result of the neo-liberal wave of reform during the 1980s and 1990s. Despite withdrawal from the industrial sector, states do still intervene, notably in order to nurture infant industries. This is particularly evident in industries that produce public goods such as environmental improvement of which the wind turbine industry is a salient example.

The organic farming sector is one of the segments in which states have intervened to promote industry development. This is particularly so in Western Europe. State engagement with the sector has proceeded in various ways and as a result of that (but not only of that), the development of the organic farming sector varies significantly across countries. This variation among European countries and countries outside of Europe is well documented and uncontested (see Willer and Yussefi 2006)<sup>1</sup>. Efforts have been made to group countries according to level of growth. In the European context Hamm and Gronefeld (2004, 123-4), using measures of organic share of total food sales and percentage of agricultural area under organic production, distinguish between (on a continuum of less to more developed) *emerging market countries*, *growth market countries* and *countries beyond a small market niche*<sup>2</sup>. Some effort has gone into probing and explaining this variation between countries, and between groups of countries; however, as will become evident, so far convincing explanations remain elusive. We examine this renewed state intervention in the organic farming sector, with particular attention paid to exploring the importance of building governance capacity in promoting the organic farming sector.

The organic farming sector provides excellent opportunities for exploring the conditions underpinning the effectiveness of state effort to promote infant industries. Indeed, the organic sector can be seen as a 'natural' experiment, with maximum variation in the state strategies applied and very different organic sector outcomes. Over the past three decades organic farming has grown into a more organised agricultural sub-sector in most western nations. The public's association of modern and industrialised agricultural production with environmental and food safety problems, and the debate on GM crops, played its part in triggering consumer demand for organic food and thus growth of the organic sector. However, the extent to which this condition catalysed the growth of the organic sector also depended upon the way in which states built capacity to support the industry in terms of assisting market development mainly by engaging in increasing supply but in some countries also by attempting to increase demand. A key factor in this process is the state's ability to bring about concerted action in which the activities of the state and stakeholders are coordinated and provide conditions for policy innovation.

In this paper we generate a comparative analysis of two countries, Australia and Denmark. From a methodological perspective, we are fortunate that there is almost maximum variance at the dependent

variable in that Denmark and Australia are very different in terms of development of the organic farming sector. Within Europe, Denmark is considered to be the stand out case of successful organic development. Hamm and Gronefeld (2004) put *Denmark in the most developed organic market category* (countries beyond a small market niche). It has a relatively high organic market share (6 percent in the first part of 2006), and has a high level of converted farmers and agricultural area under certification (see also Moschitz *et al.* 2004). By contrast Australia has much more in common with the emerging countries in Southern and Eastern Europe. Australian organic agriculture is at an early stage of development, with 2.7 percent of Utilisable Agricultural Area (UAA) under organic development. While it has the largest agricultural land area under organic certification in the world (Willer and Yusseffi, 2006), the production statistics that are available clearly demonstrate that comparatively Australia has a small percentage of its total farming population involved in organic production and only a small proportion of the commodities produced are actually grown under organic systems (see Halpin 2004 and Lockie *et al.* 2006). While statistics are hard to come by, assessments place market share at less than 1.0 percent (Williams 2004). Thus, *Australia would be classified as an emerging market country*. As such, Denmark and Australia could reasonably be considered as sitting at two extreme ends of organic sector development.

We ask why have Denmark and Australia developed so differently? To answer this question we undertake a comparative analysis of *governance capacity* in these two countries. We argue that while Denmark has a high level of governance capacity in the organic farming sector, it has, so far, been low in Australia.

Fortunately, our comparison of Australia and Denmark can rule out a number of potential explanations since a number of key attributes and characteristics can be kept constant across the two cases. First, the Australian and the Danish agricultural sectors are *strongly export orientated*. Approximately two thirds of Danish agricultural production is exported, while Australia exports around eighty percent of its agricultural production. Second, compared with many other countries, these two countries have a commercial approach to the agricultural sector and have, since the 1980s, *pursued liberal policies*<sup>3</sup>. As such, the state's rationale for, and attitude to, engaging with the organic industry will be shaped by a *similar desire for export orientation and market led development*. Third, historically, both countries have experiences and traditions with *close cooperation between state and organised interests in the agricultural sector*; in other words the two countries have similar policy styles in agriculture (see Daugbjerg 2005; Halpin 2005). Fourthly and significantly for the study of organic agriculture, *neither country has experienced a major food scare* that has threatened the trust of the general public in the capacity of the state to protect them, or of their trust in the conventional food production system to produce safe food. Fifth, the framing of organic farming is fairly similar in both countries. The organic sector is viewed as a 'solution' to a market development 'problem'. The Australian government has viewed the market for organic produce as a niche export market. When the Danish state first became involved in the organic farming sector in the late 1980s, domestic market concerns and exporting

prospects was the driving force behind policy. Later on, environmental concerns came to play an increasing role in providing support for organic farming, but market led development is emphasised (see below). Finally, in both countries the state has shown a willingness to engage in the promotion of the organic farming sector.

Having ruled out alternative explanations for the different development of the Australian and Danish organic farming sector, the remainder of this paper focuses on whether the different developmental stages reflect a difference in the two states' governance capacity.

### **Searching for Explanations of Organic Sector Growth**

As will become evident in the next section, we deploy 'governance capacity' as an explanatory framework to examine the (variable) growth of organic farming. This is a significant, but necessary, addition given the difficulty of existing approaches in gaining traction over the puzzle of organic growth. The existing policy orientated literature on organic farming can be categorised into two broad types of study: policy instrument focused and institution focused.

The *policy instrument-focused* literature, explores the extent to which state intervention contributes to economically sustainable development of the organic sector. For the most part it provides extensive and detailed reviews of organic policy instruments applied either in a single country or across countries, but do not offer theoretically informed considerations on what mix of policy instruments contribute the most to growth of the organic farming sector. For instance, Lampkin et al (1999a p.vii) list the forms of state 'support' to organic sectors under four broad categories, payments to producers, marketing and regional development, legal definition of organic, and information provision. Häring *et al.* (2004, 25) observe that the development stage of organic farming varies significantly across European countries and argue that 'different design of subsidies for organic farming greatly influences the actual effect on organic farming development'. Many of these factors - are echoed in the opinions of commentators on the slow pace of Australian domestic development (see for example, Dumaresq and Greene 1997; Monk 1997, 1998).

The focus on the instruments themselves serves to de-emphasise the importance of the institutional setting within which the instruments are designed and, not least, implemented. Institutional settings have independent and important impacts on the choice and effectiveness of instruments (e.g. Linders and Peters 1989). The choice of instrument, or an instrument mix, is, in itself, not necessarily a decisive factor affecting the effectiveness. It is more likely to be the capacity to make them work which explains success or failure. The concept of creative conflict has been introduced to explain the institutional conditions under which then organic sector is likely to grow (Michelsen 2002, 126, see also Michelsen *et al.* 2001). However, the conditions under which creative conflict emerges is left

unexplained; indeed the concept is no more than the definition and specification of an intermediate variable of the explanation.

Common to these accounts – instrument-focussed, or institution focussed – is that findings are by no means clear on why variation in organic growth exists. In this paper we attempt to address these weaknesses through a comparative analysis of state engagement and growth of organic farming in Australia and Denmark.

### **Governance Capacity as a Three-legged Model**

The broader political science literature offers some promising concepts that help to link state and associative activity and structures with industry development. These concepts, we argue, provide additional explanatory power as compared to existing approaches to organic growth.

There is an extensive literature on the way in which state and associative structures influence the capacity of states to govern economic development. This first generation of studies pointed towards the importance of variation in state capacity, distinguishing between strong states and weak states, and in the differentiation between state and society as the key factors explaining advanced industrial states' varying success to respond to economic problems (e.g. Katzenstein, 1978; see Weiss 1998 for a review of the literature).

There is a now growing recognition that *both* a strong state and a strong society are needed to create capacity to govern industrial development. For instance Atkinson and Coleman (1989) argue that the strengths of industrial associations and states influence the formation of policy networks which, in turn, affect the policy approach chosen. Associative capacity occurs when interest groups are non-competitive, representative, able to generate systematised information on the environment in which intervention is to take place, have relative autonomy from their members and thus able to discipline their members either through persuasion or through selective incentives. Strong states are characterised by features such as administrative capacities, analytical skills, relative autonomy from political cycles and from sectoral groups, and the possession of financial resources (Atkinson and Coleman 1989, 51-52). It must be said, however, that to deploy these capacities actively, there must be political willingness to engage in industry development.

From a similar direction, Linda Weiss (1998, 2005) has developed the concept of 'transformative capacity'. The concept was fashioned to explore the ways in which states work with industry to manage the impacts of global economic change. The concept of transformative capacity '...refers to

the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change' (Weiss 1998, 4). Weiss argues that a particular relationship between state and societal groups, 'governed interdependence', must develop to produce transformative capacity. Governed interdependence is defined as '... a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. In this relationship, leadership is either exercised directly by the state or delegated to the private sector where a robust organizational infrastructure has been nurtured by state policies' (Weiss 1998, 38). A similar approach is also found in the work of Peters (2005, 82-83) who argues that governance capacity is most likely to occur where *both* the state and civil society are strong. Such a situation 'may be the best of all worlds, given that there can be some choice and mix of instruments to achieve policy goals' (Peters 2005, 83).<sup>4</sup>

While there seems to be agreement within the literature on governance/transformative capacity that coordination between state and civil society is crucial in obtaining governance/transformative capacity and that *both* state and associative capacity is needed, the way in which the relationship between state and society is to develop is less clear. For instance Weiss' (1998) concept of 'negotiated relationship' needs further development in terms of the way in which key actors interact. In accounting for the importance of state-society relationships for governance capacity Peters (2005, 80) repeats the key argument of the corporatist and policy network literature which views the exchange relationship between the state and interest groups as essential: the state trades off autonomy for legitimacy, and the interest associations trade off autonomy for influence on policy. However, the fact that state and interest associations recognise that they are mutually dependent upon each others resources may not, itself, be sufficient to produce high levels of governance capacity.

We argue that this exchange relationship must be characterised by interest intermediation; a scenario in which the state and interest groups engage in negotiation and deliberation with one another over issues of public policy. For interest intermediation to develop, two conditions are essential. Firstly, it requires venues for repeated interaction in which the parties regularly meet to discuss and decide on policy issues are set up. These may be formal committees, or more or less explicitly stated procedures for informal continuous interaction. Secondly, a shared policy principle must develop which will underpin subsequent policy choices. In most policy sectors, the definition of the state's role is the very core of public policy making: 'what sort of activities ... [the state should] be involved in, and what form that involvement should take' (Cerny 1990, 51). At one extreme, the state has a minimalist role which means that it is mainly engaged in establishing and maintaining competitive markets (*ibid.*, 80). Its task is then to provide a framework helping market forces to operate effectively; that is, ensuring competition is not distorted. At the other extreme, the state has a maximalist role, meaning that it intervenes relatively deeply into an economic sector. It regulates the market forces in order to achieve certain politically established objectives which may relate to prices, allocation of resources and production, entry into the

business, or similar. The objectives pursued may, for instance, be to ensure that the market participants earn a certain income or that production reaches a certain level.

If these conditions are present, state and interest group representatives may be able to form a relationship in which an open-ended dialogue can evolve. Such an interactive – some say deliberative – process must involve ‘discovering ends, recognizing other parties, marshalling evidence and giving reasons, exploring the implications of various value positions and developing joint responsibility in concrete situations’ (Hajer and Wagenaar, 2003, 7). To facilitate such a process, the participants must recognise that there are different perceptions on a policy issue, be willing to reflect over their own perception (Termeer and Koppenjan, 1997, 84), avoid ignoring or overriding the interests of the participants and aim at accommodating the interests of the all key participants (Innes and Booher, 2003, 54). In open-ended dialogues aimed at solutions achieved jointly ‘actors are prepared to modify their perceptions of problems and interests that it becomes possible to find new solutions’ (Kickert and Koppenjan, 1997, 40). Even though engagement may commence in a manner characterised by a representative or bargaining process, this may ‘drift’ – as a consequence of sustained interaction and trust building – into a more deliberative form of engagement (see McLaverty and Halpin 2008).

To summarise, we put forward a three-legged approach to studying ‘governance capacity:’

- **State capacity** in relation to formulating and implementing organic farming policy, and willingness within the state to apply its capacities
- **Associative capacity** in the organic farming sector in terms of being able to claim representativeness and to present a unified view on organic farming to the state. Further, associative capacity involves a certain level of leadership autonomy and administrative capacity.
- Ability of state and farm associations to engage in **interest intermediation**, enabled by (i) the establishment of venues for repeated interaction and (ii) a shared policy principle.

We suggest that where these three requirements are fulfilled, government assistance to organic industry growth is successful in relative terms and where they are not government assistance is either less successful or very limited. In the balance of the paper we deploy this framework, according to the design explained above, to examine organic farm growth in Australia and Denmark.

### **Governing Capacity in Denmark**

In the early 1970s, organic farming was introduced and slowly expanded, but it was not until 1981 that organic farmers organised themselves into an interest association which, as one of its functions,



introduced and operated a certification scheme. The state did not become involved in organic farming until the mid-1980s.

### *Organic Farming Policy*

The Danish state became engaged in organic farming in 1984 when the National Association for Organic Farming made an agreement with the Smallholders' Union to have the latter provide advisory services to organic farmers. The two established farm groups, the Smallholders' Union and the Farmers' Union, operated local advisory centres and jointly owned the national advisory service. By making the agreement with the Smallholders' Union, organic farmers' needs were recognised by one of the established farm groups. The Smallholders' Union utilised its close contacts with the Social Liberal Party in parliament to obtain financial support for employing organic farm advisors (Ingemann 2006, 19). This first stage of state involvement in the organic farming sector had two main components. Firstly, subsidies (10 million DKK) were provided to ease farmers' conversion from conventional to organic farming and to support development initiatives related to processing, marketing and distribution of organic food. Secondly, a state certification system for organic farming was introduced (the 'Ø' label). Until 1989, when the state certification became fully operational, certification was carried out by National Association for Organic Farming.

Policy development up until the early 2000s was characterised by attempts to design organic farm subsidies to motivate particular groups of farmers to convert by applying a trial-and-error approach. From 1989 to 1994 the organic farm subsidy scheme was aimed at motivating livestock producers to convert. The *Action Plan for the Promotion of Organic Food Production in Denmark* of 1995 (the first action plan) envisaged further potential for expanding the market (Strukturdirektoratet 1995). A new subsidy scheme designed to motivate arable farmers and pig producers to convert to organic farming was introduced in 1997. In 1999, when *Action Plan II: the Dynamics of Organic Farming* (the second action plan) was published, the market situation for organic food was still characterised by demand exceeding supply and this fostered a strong belief within the Organic Farming Council that there was further potential for market expansion, not least abroad. The ambition was to make Denmark a forerunner country in organic farming (Strukturdirektoratet 1999).

In the early 2000s it was realised that the organic subsidy scheme had to be simplified and, after several years with considerable overproduction of organic milk and cereals, it was decided that support schemes directed at selective commodity groups had to be abolished. The market, rather than selective support schemes, was perceived as a better means to determine the level and type of organic production (interview, Directorate for Food, Fisheries and Agri Business, 13 December 2007). Therefore, in 2004, flat-rate conversion and permanent organic payments replaced the complicated and commodity differentiated subsidy system (though dairy farmers were not eligible for conversion subsidies until 2007 when market forecasts envisaged future under-supply of organic milk).

In addition to the supply side measures adopted, Danish organic farming policy provides considerable funding for organic research and development, marketing, information and food innovation. State funding for product innovation and marketing increased by more than 350 percent from 27 million DKK in 1994 to 97 million DKK in 1996 when it peaked. Spending was dramatically reduced when the Social Democratic led government resigned in late 2001 and was replaced by a Liberal-Conservative government which cut down funding for organic product innovation and marketing down from 52 million DKK in 2002 to 10 million in 2005. Increased demand for organic food domestically and internationally persuaded the government to increase funding to 40 million DKK in 2007. As organic farming increasingly was seen as an environmentally friendly production method (Strukturdirektoratet 1995, 1, 13 and 1999, 14), funding for the promotion of organic farming came from other agri-environmental policies, mainly the second and the third aquatic action plan and the second action plan for reduction of pesticide use.

It was not only the state organic farming policy which promoted the organic sector. The retail sector played a prominent and early role in the development of the organic sector. In 1982, the Coop made a contract with the National Association of Organic Farming with respect to the marketing of organic produce certified by National Association of Organic Farming (Landsforeningen Økologisk Jordbrug 1986, 7). Ever since, the Coop has been the leading retailer in the marketing of organic produce. Its marketing campaigns increased organic consumption significantly for more than two decades (Michelsen *et al.* 2001, Ingemann 2006). The Coop was a natural partner for organic farmers 'because of its membership-based structure. In this context the FDB [the Coop] sees itself not only as commercial company but also a kind of representation of consumer interests pursuing not only financial profit but also social goals' (Hofer 1998, 31). Further, rather than changes in state subsidies, the increase in the number of dairy farmers converting to organic farming in 1995 can be explained by the dairy companies' private price policy which introduced an additional conversion payment to farmers (Michelsen *et al.* 2001, 62).

### *State Capacity*

The Danish Ministry of Agriculture showed an early interest in organic farming. In September 1986, a working group was set up to analyse the prospects of organic farming and three months later published a report (Landbrugsministeriet 1986) which marked the start of administrative capacity building within the Ministry in spite of government reluctance to engage in the organic sector. Capacity building also took place within the Plant Directorate which administered the state organic label. A committee under the auspices of Organic Farming Council was set up to advise the agency on standard setting. Since the National Organic Farming Association had developed considerable expertise on organic certification and labelling when operating its own scheme, the Plant Directorate was dependent on this expertise, but when the EU introduced organic production standards in 1993, the Plant Directorate

gained some autonomy. The EU Commission became an important partner and thus national partners were no longer the only source of expertise (Michelsen 2001, 72).

In the 1980s, the situation in the Danish parliament was unique. The centre-right minority governments of Poul Schlüter were based on a majority in favour of its economic policy but there was a majority against them in a number of policy areas, including environmental policy, and they accepted 105 defeats in these fields without resigning. Early state engagement in organic farming was initiated by the opposition parties in parliament. The government decided to give in to the opposition in order to avoid further political conflict over pollution control in the agricultural sector which already a highly contested issue (Larsen 2000, 42-43). Since 1994, agricultural/food ministers<sup>5</sup>, in particular Social Democratic ministers, have been committed to promoting organic farming. During his five year term as Food Minister, Henrik Dam Kristensen put emphasis on promoting organic farming; perhaps best illustrated by his initiation of two organic action plans. The former EU Environment Commissioner, Ritt Bjerregaard, who was appointed Food Minister in 2000 and was a part-time organic apple grower, was particularly committed to promoting organic farming. The liberal-conservative government, gaining power in 2001, was less willing to provide state support for the promotion of organic farming, but believed in a more market led approach. Nevertheless, organic farming has remained high on the Food Minister's agenda (see e.g. *Maskinbladet*, 4 August 2006, 4).

#### *Associative Capacity*

In addition to capacity building within the state, the involvement of interest groups and, in particular, the lack of competition between these enabled policy makers to develop effective policy measures and achieve relatively successful development of the organic farming sector.

Biodynamic farmers had organised as early as 1936. However, they were few in number and had limited influence on the development of Danish organic farming policy. Organic farmers formed the National Association of Organic Farming in 1981 and succeeded in developing this association into the major organisation for alternative farming in Denmark. In 1992, the National Association for Organic Farming formed the National Organic Service Centre to promote marketing and sales of organic produce. In 2002, the two organisations merged into one (Michelsen *et al*, 2001, 63-70, Ingemann, 2006).

The relationship between biodynamic and organic farming associations was collaborative and generally characterised by very limited competition. This is clearly indicated by the formation of the Cooperative Committee for Organic and Biodynamic Agriculture in 1982. After some initial conflicts, the relationship between the general farm associations, the Smallholders Union (later the Family Farmers' Association) and the Farmers' Union, and the National Association of Organic Farming became less contested and even collaborative. As mentioned above, the National Association for Organic Farming and the Smallholders' Union established a common organic advisory service in

1984. And in January 1987, the Farmers' Union negotiated access to this service for their members farming organically. The Smallholders' Union had an interest in promoting organic farming because it was viewed as a tool 'to revitalise small and medium size farms' (Ingemann 2006, 14) in a situation in which the Union faced a declining number of member as a consequence of structural adjustment within the agricultural sector. The election of an organic farmer vice-president in 1993 indicated that organic farming was given a more prominent position within the Union. Initially, the Farmers' Union was sceptical towards organic farming, in particular in relation to the provision of state conversion subsidies. As its President said in 1986: 'You start up a new production if there is a commercial market – you do not run to government to ask for support to this and that' (quoted in Ingemann 2006, 19). A decade later, the Farmers' Union made a u-turn on the issue, now recognising that organic farming might increase to 15-20 percent of the farming sector. The President even said that he might become an organic farmer himself (Ingemann 2006, 38).

The positive attitudes to organic farming which developed within the established farm unions also found organisational expressions. Both the Farmers' Union and the Smallholders' Union formed committees for organic farming in the mid-1990s (Michelsen *et al.* 2001, 64). Further, in 1997 the National Organic Service Centre became a member of the Agricultural Council (umbrella organisation for the farm associations, farmers' cooperatives and a number of commodity groups and specialised branch associations) (Michelsen *et al.* 2001, 63-70, Ingemann 2006)<sup>6</sup>. The close relationship between the organic and established farm unions is also reflected in the fact that the current president of the National Association of Organic Farming is the former chair of the Farmers' Union's organic committee and that the present chair in 2007 attended the annual meeting of the National Association of Organic Farming (Økologisk Landsforening 2007a).

### *Interest Intermediation*

The 1987 Act on Organic Farming set up the Organic Farming Council (later renamed the Organic Food Council) which, initially, was composed of representatives from the organic and biodynamic interest associations, the established farm unions, the Consumer Council, the Ministry of Agriculture and its agencies and the Ministry of the Environment (Lov no. 363, 1987, article 2) Subsequently, representatives from the Agricultural Council, the Labour Movement, the Ministry of Family and Consumer Affairs, the food processing industry and the retail sector joined the Council (Lov no. 474, 1993, article 20, Plantedirektoratet 2007, 40). Recently the Minister of Food has recommended that the Confederation of Rural Districts becomes a member (Plantedirektoratet 2007, 40). The Council advises the Minister of Agriculture/Food and develops proposals on the promotion of organic farming, monitors research and development activities and the organic advisory service. Furthermore, it advises on certification and inspection activities (Lov no. 363, 1987, article 2, Direktoratet for FødevareErhverv 2007).

During the first period of its existence (ca. 1994), the Council played a limited role, executing low profile duties. However, in this period the Council may have laid the ground for the effectiveness with which it performed in relation to the preparation of the two action plans for organic farming published in 1995 and 1999 respectively (Lynggaard 2001, 98). It was particularly in the 1990s that the Council developed into the major forum for organic farm policy making. Therefore, our analysis concentrates on the period between 1987 and the late 1990s.

The members of the Council represented associations with differing views on organic industry development. Since its formation, the National Association of Organic Farming has had the objective of transforming the whole Danish farm sector into an organic industry, wanting long term ecological concerns to be prioritised over economic concerns in organic industry development (Økologiens Hus 1999, 11, Økologisk Landsforening, 2007b). Since the vast majority of their members farm conventionally, this objective is not acceptable to the mainstream farm unions. Though the Farmers' Union favoured an increase in the size of the organic sector as a result of increased consumer demand in the early 1990s (De danske Landboforeninger 1991, 120, Økologiens Hus 1999, 12), it opposed a purely state driven form of development based upon permanent subsidies for organic production because it would be unfair competition in relation to traditional farming. Conversion subsidies were fully acceptable to the Union (*Politiken* 29 March 1995). Despite the different views, the members of the Organic Farming Council have succeeded in agreeing on a shared policy principle to guide policy making. As was stated in *Action Plan II: the Dynamics of Organic Farming*: 'the underlying logic is that the organic farming sector can best be developed in accordance with the market which is created by the demand for organic produce. Thus conversion is based on voluntary action and positive motivation' (Strukturdirektoratet 1999, 16). This statement replicated a similar statement in the *Action Plan for the Promotion of Organic Food Production in Denmark* (Strukturdirektoratet 1995, 8). However, in practice the market orientation was somewhat relaxed as the Council supported the use of both conversion and permanent subsidies, but did not issue any statement saying that permanent subsidies should remain forever. Instead phrases like 'for the present' (Strukturdirektoratet 1995, 22) and 'for the coming years' (Strukturdirektoratet 1999, 40) were used to indicate they might be reconsidered at a future date. This shared policy principle defines the room for manoeuvre when making organic farming policy.

There are several indications that the Organic Farming Council is capable of engaging in open-ended dialogue. Based on interviews conducted with Council participants in 1999, Lynggaard (2001, 98) reports that there was broad agreement that discussions in the Council were characterised by pragmatism and openness 'in the sense that members of the OFC agree that discussions were governed by the "best available argument" and not so much by predetermined interests and organizational powers'.<sup>7</sup> An important reason the working relations of the Council developed this way might have been that the conventional farm unions initially gave relatively low priority to the work in the Council (ibid., 97) and appointed representatives who themselves were organic farmers or very positive

towards organic farming (Østergaard, 2003, 25)<sup>8</sup>. This meant that the Council became pro-organic (Lynggaard 2001, 97). This positive attitude towards organic farming within the Council may have fed back into the conventional farm unions and made organic farming more acceptable within the farming community (Michelsen 2004, 231).

One of the most severe conflicts in the history of the Organic Farming Council was over certification and labelling. The ability to resolve this conflict is a clear contrast to the situation in Australia (see next section) and exemplifies a high level of governance capacity. The 1987 Act on Organic Farming had introduced a state certification system. The National Association of Organic Farming had supported the introduction of the state labelling scheme in 1987, believing that its own label, alongside the state label, would continue to serve as an officially recognised guarantee of the organic origin of a product. Indeed, that was what the Minister had stated when the Act was prepared in 1987 (Nielsen 2005, 76-78). However, when the specific design of the labelling scheme was discussed in 1988, ‘disputes arose over the issues of labelling and control. The organic farmers were outraged when it became clear that only state-controlled [i.e state-certified] farms would be allowed to sell organically labelled products’ (ibid., 76). Since the National Organic Farming Association was isolated on the issue, it had little choice than to comply with the decision. However, as a member of the committee advising the Plant Directorate on certification it obtained a favourable position to influence the labelling scheme (Hofer 1998, 30). As the state label became a success, the Association’s dissatisfaction vanished. When discussing the future of the state label in 2001, 2005 and 2007, it did not take the opportunity to suggest the introduction of a non-state certification system although the purpose of the discussions was to evaluate the pros and cons of state and other types of certification systems. Only the Consumer Council found that there would be net benefits from privatising the certification system (Ministeriet for Familie- og Forbrugeranliggender og Ministeriet for Fødevarer, Landbrug og Fiskeri 2005, 21-24, Plantedirektoratet 2007, 34-37).

### **Governing Capacity in Australia**

Organic agriculture has been practised for over 40 years in Australia (see Clay 1999). Over the last decade the sector has grown rapidly, albeit from a comparatively small base. Overall converted area and the number of certified organic farms are rising steadily (see Halpin 2004). From available data, a similar pattern is discernable in relation to consumer demand and organic consumption. Yet, there is a consensus among industry commentators that growth is significantly slower than it should be.

#### *Organic Farming Policy*

Export access has been the driver for what little governmental engagement has occurred in the organic sector. Governmental recognition of the industry first came with a discussion paper within The Australian Quarantine Inspection Service (AQIS) calling for a national approach to certification in 1989. The aim was for Australia to gain access to export markets which existing private certification

alone would not easily permit. The Federal Government became more fully involved when in 1990 it helped establish the Organic Produce Advisory Committee (see May and Monk 2001, 4), a body formed to develop a national export standard. Currently, the Federal Government regulates organic exports via a government to government certificate (The Export Control [Organic Produce Certification] Orders). A 'National Standard for Organic and Bio-dynamic Produce' compiled by an industry committee (Organic Industry Export Consultative Committee - OIECC)<sup>9</sup> under the auspices of AQIS, provides guidance for private certifiers<sup>10</sup> who enforce private standards that must exceed the National Standard in order that they are recognised certifiers by AQIS. In essence, the state regulates certifiers, who in turn certify producers. But Australia lacks a clear and enforceable *domestic* organic standard and has no state system of organic food labelling.

The Australian organic industry does not receive any direct targeted assistance from the state. It does receive funding via the tax payer funded Organic Subprogram of the Rural Industries Research and Development Corporation (RIRDC). Research and Development funding for the organic sector has been very modest – some say less than the levy income organic farmers pay into industry funded schemes (see Wynen 2003). Organic enterprises are able to receive funding as part of general agricultural or rural industries assistance programs, such as the Farm Innovation Program and New Industries Development Program (NIDP)<sup>11</sup>. But this is not by virtue of the organic nature of the enterprises; they are treated as generic – albeit ‘innovative’ – farm businesses.

### *State Capacity*

The Federal Department of Agriculture Fisheries and Forestry (AFFA) is the lead department with responsibilities for organic farming. However, only a small number (2-3) of civil servants work on issues related to organic agriculture, but they have little expertise in organic agriculture. Their responsibilities mainly relate to management of projects involving public funds to organic enterprises. The Australian Bureau of Agricultural and Resource Economics (ABARE) and the Australian Bureau of Statistics (ABS), do not distinguish between organic/conventional products in their farm data collection and census activities. A single individual within AQIS is charged with convening the annual meeting of the Organic Industry Export Consultative Committee (OIECC) and implementing the export control regime for organic food exports. Australia is a federal nation, and state level governments are more involved. Several state Departments of Agriculture have been active in developing organic agriculture, including industry development activities, creating supply-chain relationships and fostering coordination among groups of producers. But there is no dedicated state-funded organic advisory service.

The key claim of Australian Agriculture as producing ‘clean and green’ food does not admit the European policy frame of organic produce as environmentally friendly and safe. As such, organic is often presented as a niche product with qualities that have market value. This image constrains the development of any clientelistic institutions from within the state. Organic farming is not visible on

the broader agricultural policy agenda. Responsibility for organic agriculture does not rest with the relevant Cabinet Minister, but with the much more junior Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry. The recent high level review of the strategic future of Australian agricultural policy has only one mention of organic farming (AFFA 2006)<sup>12</sup>. Organic industry development is a 'by-product' policy (Dery, 1998) of 'new industry' or 'food industry innovation' policy in Australia; and funding and capacity flow accordingly. Nevertheless, there are indications that there is political willingness within the federal (and some state) governments to engage in the organic sector though the intension is to apply an arm's length strategy by attempting to ascertain the strength of the Organic Federation of Australia (OFA) OFA and in developing associative structures. A recent media release from the Parliamentary Secretary responsible for organic farming stated that in addressing its many challenges, the industry '...must work together under the leadership of the Organic Federation of Australia to ensure continued success'. The Hassall and Associates report, funded by the Australian government, includes an Annex which sets out a detailed five-year plan for putting the OFA on a steady footing (Hassall and Associates 2005a, Attachment A, 55). This is not an unusual intervention, with the Federal government – and AFFA in particular – being active in fostering stable and authoritative sectoral associations in new industries. In the 1990s, the government complained that '... horticulture was hampered by fragmentation, geographical dispersion and a lack of strong industry organisations' (*The Land* 1997a, 4). This was repeated with the wine industry, when the then Minister urged the Australian Winegrape Growers' Council to merge with the Winemakers' Federation of Australia (*The Land* 1997b, 25).

### *Associative Capacity*

Fragmentation, or more accurately group specialisation, is the rule in associational structures in Australian business generally (Matthews 1991). By contrast, Australian farmers have been well organised through the National Farmers' Federation in a peak national structure (see Connors 1996, Halpin 2005). The organic industry is, however, extremely fragmented.

Historically, certification companies have functioned as *de facto* industry groups. But their development as commercial actors has curtailed their political activism. The Organic Federation of Australia (OFA) was established in 1997. The creation of the OFA was initially envisaged by key industry players as assuming the role of industry leadership from the Organic Produce Advisory Committee (OPAC). While the Organic Federation of Australia promises (and claims) a national umbrella role, this is contested by, among others, the Biological Farmers of Australia (BFA)<sup>13</sup>. Indeed the BFA claims to be the largest national representative organic body in Australia. The Organic Federation of Australia (OFA) lacks organisational capacity. It has no full time staff, and runs entirely on volunteers (a mix of farmers, consultants and academics). By contrast, some of the certifiers, and the BFA in particular, are well resourced. They have professional staff, a head office and access to



updated contact lists of farmers. More importantly, as a certifier-derived organisation, the BFA has a history of dealing with the state via their role in developing and maintaining the organic export standards.

The state's attempts to catalyse associative capacity building have till now been frustrated. Mainstream farm organisations are not heavily engaged in organic agriculture. They do not have an organic section, nor have they stated organic farm policies<sup>14</sup>. Thus, the state has to find some way of working amicably with both the OFA and BFA, while also attending to the broader agricultural policy landscape with its conventional focus.

### *Interest intermediation*

The Federal and some state governments have become involved in efforts to catalyse an organic sector that is sustainable in the long term, market responsive and that makes the most of export opportunities. However, attempts to forge a working relationship have been difficult. The only formal venue where the industry and government engage with one another is the Organic Industry Export Consultative Committee (OIECC)<sup>15</sup>, which meets one day per year. This is managed by AQIS, and has a narrow remit to manage export standards and regulations. Industry events, such as the now annual Organic Conference present venues for an exchange of views on scientific and market themes, but not for policy formulation.

The issue of a domestic organic standard and labelling exemplifies the cost of the absence of capacity. For some time the Australian government has resisted calls to get actively involved in regulating the trade of organic goods. It has suggested industry seek redress for false claims about organic status through the courts under the Trade Practices Act. It seems, however, that there has been grudging acceptance that the industry domestically will not grow without clearer signals about what is and is not certified organic. The government has implicitly accepted it must 'govern' the industry. The Parliamentary Secretary recently stated that 'The future success of the organic industry in Australia depends in large measure on its ability to promote the attributes and benefits of organic products' (Ley 2006). Promotion, she argued, was reliant on clarity in labelling, and she applauded moves for an Australian Standard for Organic and Biodynamic Products through the Standards Australia organisation<sup>16</sup>. This emerging acceptance has opened up an opportunity for industry to engage with the state. But progress has not been easy.

The OFA accepts it is unlikely the government will introduce positive legislation to protect the label 'organic' on the domestic market and have backed the Standards Australia plan also favoured by AQIS and government<sup>17</sup>. This would mean a self-regulatory system with an industry technical committee setting and adjusting standards over time. The BFA, the only other industry body in Australia, prefers

a legislative approach under Food Standards Australia and New Zealand (FSANZ)<sup>18</sup>. The details are less relevant than the overall point that without industry acceptance at the formulation stage, any standard will be difficult to implement (see Halpin and Daugbjerg 2008 for more details). The OFA met with AQIS and DAFF in March 2005 to discuss proposals and agreed to put forward the Standards Australia Plan. But the weak mandate of the OFA threatens to halt attempts there. The debate over the issue of a domestic standard has been carried out with a vitriolic and public exchange of views which has made interest mediation impossible<sup>19</sup>. A series of two Industry Round Tables were conducted in mid-2005, involving a range of industry players (see Hassall & Associates 2005b), but seem not to have brought any more unity (see BFA 2006, 6). It is particularly salient that even with an accepted policy principle that the state should adopt a minimalist role in organic industry development – creating an environment in which the industry can grow on a market basis – industry growth has been frustrated. Australia is characterised by a lack of interest intermediation despite an agreed policy principle.

The evident lack of state capacity, especially at the federal level, in turn exposes and exaggerates the lack of associative capacity. In the vacuum left by the absence of an authoritative OFA, and disunity as a result of clashes with the BFA, the state has not had the resources to step in with any informed solutions. Interest intermediation is lacking despite an agreed policy principle. While all parties accept that active engagement on industry development issues is necessary, there are not the conditions to generate governing capacity.

## **Conclusions**

This paper has puzzled at the lack of progress in making sense of divergent patterns of organic industry growth among European countries. It has argued that the way forward is twofold; (i) to construct comparative analyses that conform to accepted rules of research design, and (ii) to engage with orthodox political science concepts and theories that can inform analysis. The analysis herein has involved comparison of two countries that diverge radically over organic growth, but that share key background characteristics (hence ruling out some obvious explanations for divergence). This design allows us to focus in on the core variables that lead to variations in growth. We wanted to avoid descriptive lists of characteristics associated with relative growth levels.

Applying the concept of governance capacity, we have elaborated a three-legged framework – associative capacity, state capacity and the interest intermediation. This implies that the state and industry are key actors in facilitating growth. We hypothesised that countries that could operationalise these attributes would find organic growth easier to achieve. So what did we find? Firstly, the case illustrates that both Denmark and Australia share key background variables, but vary substantially

with respect to growth patterns of their organic sector. We explain this by the two countries' varying governance capacities within the organic sector. The organic sector in Denmark is well developed. The Ministry of Agriculture/Food has generated capacity from the experiences of certifying and inspecting organic farmers. Organic farmers are organised within the established farm groups and in an organic association. In spite of the existence of different groups representing organic farmers, their relationship is supplementary rather than competitive. Most importantly, the relationship between the Ministry and the interest groups is characterised by interest intermediation, enabled by the Organic Food Council as a venue for repeated high quality interaction and by a shared policy frame. By contrast, Australia has very poor levels of governance capacity. Associative structures are fragmented, with two organisations claiming the role of national representative of the organic sector. Complications include the relative capacity of certifiers versus the OFA. The state is not committed to the organic industry *per se*, but addresses its development as part of strategies for infant industry development or innovation in the food sector. The only venue for engagement between the state and industry is around export standards development and administration. This proves a limited and unsatisfactory means of engaging in strategic policy development and implementation. Indeed, there is no sign of any supplementary venues for engagement in such a dialogue having been considered or emerging in the near future.

We anticipate some criticisms that we overlook the obvious explanations found in the usual suspects of labelling, standards or consumer demand. These, we argue, may be useful *strategies* for growth. But most important, and a precursor for any of these to actually be developed and implemented satisfactorily is governance capacity. The cases we point out exemplify our point. Australia is an example of an obliging state, accepting it has a role in infant industry development, but being unable to intervene effectively despite a shared policy frame. The attempt to agree a strategy for developing a domestic standard, let alone implement it, is significantly undermined by associative incapacity. Finally, Australia lacks any suitable venue for policy deliberation: engagement is ad-hoc and lacks any trust building elements. The Australian case demonstrates that a shared policy principle is insufficient to bring about governance capacity. Even where there was general acceptance of the policy principle by all industry actors that the state should adopt a minimalist role, and that the market should sustain organic industry development, an absence of other elements thwarted the generation of governance capacity. The case of the development of a domestic label and standard exemplified the frustration by the state and industry at the inability to make progress in terms of formulation and implementation on a core development issue, despite the fact that all parties agreed on the desired policy instrument and that urgent action was needed. This suggests that in making sense of infant industry development we should not be seduced by discussions around the 'right' policy instrument without due reference to the institutional setting.

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<sup>1</sup> A great deal of caution is required in making sense of such data (Lockie *et al.* 2006). Data quality is very low with respect to organic agriculture, and country comparisons on such measures as area under conversion do not always accurately reflect the overall status of the organic sector in national agriculture. Nevertheless, there is an overall consensus that the level of organic growth is divergent.

<sup>2</sup> See also Moschitz *et al.* (2004, 1)

<sup>3</sup> This is accurate for the post-1980s period in Australia, before which time agriculture was highly supported by the state. Of course, within the context of the CAP there are limits to how liberal the Danes are in agricultural policy. Despite being a major beneficiary of EU agricultural support and preferential trade benefits (Ackrill 2005, 477), Denmark belongs to a minority group of EU member states pursuing a liberal policy.

<sup>4</sup> See also Painter and Pierre (2005) who have a more state centric approach to governing capacity, distinguishing between policy capacity, administrative capacity and state capacity.

<sup>5</sup> By January 1, 1997, the Ministry of Agriculture and Fisheries was reorganized and became the Ministry of Food, Agriculture and Fisheries (MFAF).

<sup>6</sup> In 2002, when the National Association of Organic Farming and the National Centre for Organic Production merged, the new association took over the membership of the Agricultural Council

<sup>7</sup> Confirmed in personal conversation with Preben Mikkelsen who represented the Dairy Board in the late 1990s.

<sup>8</sup> Troels V. Østergaard served in the Council as the representative of the Consumer Council from 1987-97.

<sup>9</sup> This replaced the Organic Produce Export Committee (OPEC) which had previously replaced the Organic Produce Advisory Committee (OPAC).

<sup>10</sup> With the exception of Safe Food QLD which is an agency of the QLD government.

<sup>11</sup> Funding to organic projects from NIDP amounted to only AUD\$800,000 in 2003.

<sup>12</sup> It was only one line suggesting food standards need strengthening, with organic food standards the example used as the example.

<sup>13</sup> Formerly a certifier/cooperative but in 2002 separated from this business and now the only other industry body with ambitions for national coverage.

<sup>14</sup> Indeed, in the debate over the release of GM crops in Australia, the NFF position was that producers should be able to choose between organic, conventional and GM.



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<sup>15</sup> Membership consists of all seven certifiers, Australian Quarantine and Inspection Service, Organic Federation of Australia, Organic Retailers and Growers Association of Australia, International Federation of Organic Agricultural Movements, State Departments of Agriculture.

<sup>16</sup> These standards are recognised by the Australian state, and are often used in governmental regulation.

<sup>17</sup> This governmental attitude reflects the broader de-regulatory thrust of Australian government policy which is generally aimed at handing back industry regulation to the industry itself.

<sup>18</sup> This would make the standard part of the mandatory food regulation framework in Australia. Previous applications to the Australian and New Zealand Food Authority (ANZFA) for the development of legislation for domestic organic produce have been denied.

<sup>19</sup> See exchange of letters between OFA and BFA letters at [www.bfa.com.au](http://www.bfa.com.au).