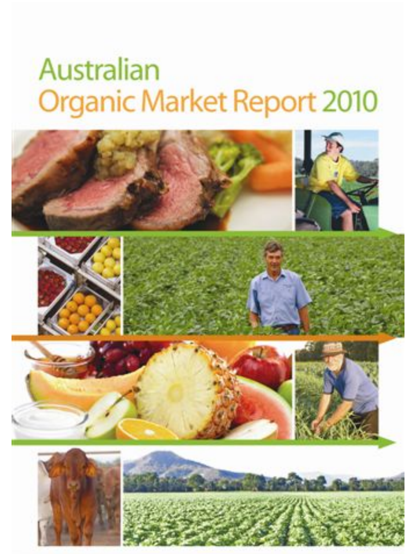
AUSTRALIAN ORGANIC MARKET REPORT 2010



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About the report

The Australian Organic Market Report is the second edition of the now established biennial publication commissioned by the Biological Farmers of Australia to assist the organic industry benchmark the growth and health of its sectors.

Critical for this fast growth industry, the report provides information and data which will be referenced for the next two years by government policy setters, researchers, investors, organic companies, media and others for understanding the size of industry sectors, identifying growth trends and opportunities as well as overcoming barriers to future growth.

The report has the funding support of Horticulture Australia Limited supplemented by a significant contribution from certified organic companies who see value in a report which will assist with mapping their own as well as industry's collective future.

About the authors

<u>Dr Paul Kristiansen</u>
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.

Nick Bez

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. The firm assists organisations to make informed decisions about market opportunities related to sustainability, health and wellbeing. 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.

Summary of key findings

- More than 6 out of every 10 Australians households now buy organic on occasion, up from 40% in 2008.
- Organic domestic retail sales have grown over 50% in 2 years (from $623M to $947M)
- In 2010 retail sales are expected to pass the $1B mark
- Some stand out performers include:
    - essential oils production (up 155%) feeding the growing cosmetics sector;

    - Poultry (eggs) (75%);
    - Milk & dairy (36%);
    - Fruit & wine (16.5%),
    - while the main processors for the meat sector reported a growth of 25% in the past year.
- 91% of Australians say "chemical-free" is important to them, being a stand out feature of organic production requirements in the Australian Organic Standard (see www.bfa.com.au for a copy)
- The organic industry employs an estimated 25,000 people domestically, while organic farmers tend to be younger on average than non-organic farmers
- Marketers continue to report under supply in some sectors through some periods of the year, suggesting opportunities for supply
- On the whole organic producers and value adders are planning for and expecting a growth through 2010 – 2012 when the next research report is due
- Operator growth numbers continues to rise, in a sustainable manner (4-5% PA), delivering higher farm gate values for the average operator (as the market expands)

Report summary

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 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.

Report on findings for 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 a 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 value adding 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. 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. Poultry egg operators have experienced very solid growth (75% since last reported in 2008) and almost all products are sold as certified organic due to market demand, however production has seen highly sensitive to rising feed costs with the organic monogastric sector ever reliant on certified organic feeds.

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 cooperative marketing and promotion and experiencing a growth of 36% since last reported in 2008. A number of dairy brands are now present in the organic marketplace in Australia across a number of states.

The fastest growth sector of the industry reported is the essential oils market spurred by the new emerging booming 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. There remains the opportunity for Australian companies to supply quality Australian processed and value-added products as imported products still appear to dominate retail shelves for manufactured grocery lines. 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.

The nature of regulation of organic products in Australia

In terms of regulation of the organic industry, standards setting and self-regulation of industry (via third party certification and auditing) have been in place since its inception approximately 25 years ago. The completion of development of a new base national standard for organic products under Standards Australia in 2009, while not being owned or used in any direct sense by organic operators, may in future assist in providing a deterrent to companies making misleading organic product claims. This new base standard provides an Australian “definition” of organic for reference in the court of law, promising to be a new tool alongside other standards such as the BFA’s Australian Organic Standard to aid in the prosecution of misleadingly labeled organic products in the Australian marketplace.

In Australia there is one stand out logo which has been adopted by supermarkets and the majority of the food processing industry: the Australian Certified Organic Bud logo. This logo and program won the Choice Award for Best Food Endorsement Program in 2010. This recognition by consumer watchdog Choice is testament to the strength of certified organic programs in Australia, with the Australian Certified Organic program being placed above the Heart Foundation Tick, Dolphin Safe, Fair Trade, Low GI, Rainforest Alliance and others in terms of its integrity, transparency and value offered to consumers. Choice research found that the presence of this logo influenced 40% of consumers in their purchase decisions. The Organic Bud logo program brings together other recognized organic certification services within Australia, as well as for imported products, under a simplified branding program for organic products.

The organic industry in Australia is a paragon of industry self regulation, remaining independent of government intervention, with ownership in industry member hands. The active presence of not-for-profit industry owned groups such as the BFA delivers protection of organic integrity for consumers, both via standards setting, as well as via independent, non-profit driven auditing and certification programs.

About the BFA:

The BFA is perhaps known more popularly in the marketplace by the recognisable organic "Bud" logo which shoppers use to identify organic products certified by subsidiary company Australian Certified Organic.

The BFA is Australia's largest member based organic organisation, representing and servicing sectors as varied as cosmetics and fertilisers, to almost every farming sector, value adders and retailers. (The structure of the BFA Advisory Groups can be found at the link http://www.bfa.com.au/AbouttheBFA/AboutBFA/Structure.aspx.)

The BFA was constituted formerly in 1987 following initial meetings with farmers across Australia to outline a production standard which encapsulated the organic, biodynamic and biological farming methods utilised by its early members. Membership broadened over the years to include value adders, marketers and retailers and more recently input manufacturers (fertilisers and natural pesticides, etc).

The BFA has two subsidiary certification agencies which regulate the organic marketplace both for export as well as domestic sale. They are Australian Certified Organic (ACO) and Organic Growers of Australia (OGA Certified). ACO is recipient of the CHOICE Award for Best Food Endorsement Program 2010 while OGA Certified was a runner up for the same award.

The BFA publishes the Australian Certified Organic Magazine, the Australian Organic Producer (via Rural Press) several newsletters, and the Australian Organic Standard, by which the majority of the organic industry in Australia is regulated.

See www.bfa.com.au

Further information

For further information or to receive your copy of the Australian Organic Market Report (complimentary for media), contact the BFA on ph 07 3350 5716, email info@bfa.com.au or visit www.bfa.com.au.