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THE ORGANIC FOOD & FARMING REPORT AUSTRALIA 2003

For the Australian & International Organic Community

EDITOR, PREPRESS & DESIGN

Suzi Moore 07 4639 3299 media@bfa.com.au

PRINT PRODUCTION

Printpac, Slacks Creek

PUBLISHER

BIOLOGICAL FARMERS OF AUSTRALIA CO-OP LTD
ABN 75699664781

PO Box 3404, Toowoomba Village Fair
Level 1, 456 Ruthven St
TOOWOOMBA QLD 4350

Ph: 07 4639 3299 Fax: 07 4639 3755
info@bfa.com.au www.bfa.com.au

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"chairman's report" page 3

Doug Haas, introduces the ORGANIC FOOD & FARMING REPORT and gives an overview of the board, the office, and progress to be reported on in more detail later in the report.

"CEO's report" page 5

Andy Monk gives a run down on how the BFA is positioning itself for industry growth - by preserving the best of what our heritage has to offer, whilst focusing on financially sustainable, accountable and responsible industry representation.



"business report" page 15

Quentin Kennedy gives a practical outline of the Budget - concentrating on revenue streams and expenditure during the past financial year. Of particular interest, a snapshot of the proposed levy expenditure is included.

"industry overview" page 19

This segment takes a quick look at where the organic industry is at in Australia, and how it fits into the world organic scene. Recent data has been used to compile the most up-to-date growth charts and graphs for industry.



"vision 2020" page 23

In representing the Organic Industry, the BFA has established a vision for the Australian Organic Industry to the year 2020. Read about some of the goals our industry is aspiring towards and how this vision will be achieved.

strong progress set to continue

By DOUG HAAS

Recently, some growers who had been reviewing the past few years of the BFA, and those of its subsidiary ACO, reminded me of the enormous changes which have been implemented to strengthen development of the Australian organic industry in just a few short years. Growth, coupled with domestic and overseas requirements, have demanded a number of changes be made. With any great change comes great challenge - and this is certainly true of the maturation of the Australian organic industry, and indeed our organization, in assisting in bringing it to where it is today.

I am pleased with the strong progress of the co-operative and the industry, over the past year. 12-months have passed since the successful division of the roles of promotion and standards setting from that of certification - in which the Board of the BFA now no-longer plays a role. This has allowed the positioning and the building of the BFA into a truly representative industry organization with a viable financial base and a very practical focus.

The considerable time and energy devoted to bringing the BFA to the flourishing and evolving entity it is today is very rewarding - and more than compensated for when looking at how the BFA, and the Organic Industry that it represents, has matured and grown in recent years.

We have, in many ways, only just begun. That said, it is heartening to know that there is now more potential for commercial farmers to produce for the organic market, and for more consumers to gain access to organic foods. These and many other benefits, flow right through the production chain - from the largest farmers to the smallest. So too, the recognition of organics, and therefore the market for organics, is picking up speed - which in turn is creating a demand for greater supply of certified produce and products. The future holds promise of great rewards for those willing to meet these demands.

We have a team who work tirelessly, sometimes around the clock, to deliver services to the BFA and its strong membership base. It is not uncommon for my phone to ring anytime from five in the morning to late into the night, talking with either my staff or members of industry. Whilst much work in the organic industry will always be voluntary, I believe the great successes of the BFA over the past few years has been its willingness to employ people of ability and professional status, which in turn has placed the BFA in a position of taking on some 70% of total market growth via ACO.

The BFA is the only organic industry body to employ a full time promotions officer, a full time technical support officer, and a full time organic industry spokesperson and media contact. The benefits of this investment are well noted across the industry. Along side providing free access to technical information through our information officer, our publications - the AOJ, the Certification Bulletin, the Organic Advantage coupled with many other industry news letters, have certainly made a mark on the promotions scene.

The promotion of the BUD logo is arguably BFA's and ACO's major asset, and the utilization of the Australian Organic Journal, as well as media coverage and the many other information and media related activities we now conduct mean that the BUD will be a major part of the organic landscape in the years ahead.

The new Board will become official upon closure of the AGM in September. The addition of highly qualified and professional directors Ross Cowling and Clinton Starr will drive the BFA to achieve even greater goals in the coming year. The caliber of these gentlemen will be an excellent addition to the co-operative's Board, which will assist in increasing diligence and oversight over the organic industry's main representative and promotional organization. I trust that members will continue to endorse the need to have such directors who have both the interests of the organic industry at heart, whilst also having professional directorship experience and abilities.

I look forward to overseeing the successful implementation of these aims over the coming years, a critical time for the organic industry. It will be through a sensible commercial approach, a willingness to work with government and the broader food industry, whilst also having the determination and will to support the organic industry, which will see us succeed. It is about ensuring we are able to match our words with effective actions and be reality based about the aims and objectives we have as an industry.

It is without hesitation that I choose to recognise the support of key staff; CEO, Andrew Monk; Business Manager, Quentin Kennedy; and Promotions Officer, Suzi Moore. It is through the continual energies of these persons that our visions become reality. It should also be noted that advice freely given by Malcom Gwilliam and Ross Cowling, and the continual support from my wife Anne, has assisted me in my role as Chairman. I also wish to thank the many members of industry, from many states, who put their positive energies & feedback into the co-operative.

On behalf of the current Board I wish you all very well in your organic endeavors over the coming year. I would also like to personally thank all of you who have played a role this year in ensuring the BFA continues to go from strength to strength with the interests of the organic industry at heart. ■



About the author

Doug Haas is the Chairman of the Board of the Biological Farmers of Australia Co-op Ltd.

Doug, and his wife Anne, are full time growers. Having chaired the BFA Co-op for 6-years, Doug has seen the BFA through a massive growth stage, to the thriving commercially focused professional organisation it is today. Doug is involved in many industry related ventures, including Chairing the Yeppoon District Co-op (Rural Sales Supplies).

The BFA is the only organic industry body to employ a full time promotions officer, a full time technical support officer, and a full time organic industry spokesperson and media contact. The benefits of this investment are well noted across the industry.

The BFA is recognised as the first port of call for media Australia-wide looking for comment on organics and about the industry in general.

moving with the times, preserving our heritage...

By **ANDREW MONK**

Those who started the organic movement, and those who continue to carry it on today, know that organic is more than merely a fad concept of the current day. Organic represents an historic landmark shift in the public's view of agriculture, its impact on the environment and the nature of food production in the industrialized world.

Organic food production, dismissed now only by the ill informed, has become a practical, tangible and positive influence for the future. There are solutions to our global dilemmas, and organic represents a vital link in the chain to finding not only sustainable futures, but also vital and healthy human populations.

It is 15 years since the co-operative of the BFA was registered, following a lead up of a number of years of meetings aimed at setting up the formal organic industry in Australia. From this have flowed organic standards, a certification program and the integration of AQIS as well as IFOAM into the regulation system to ensure integrity.

The co-operative and its subsidiary has irrevocably changed the landscape of the organic industry over the past few years - ACO now certifying over half of the industry, whilst the co-operative's members are part of an organization which is the premier representative organization in the country for organics, building relationships with both government and media.

The BUD logo, as it is now known, was established back in the 1980's. Today it is not only the most used and recognized organic logo in Australia but also the oldest mark for organic products currently used in the country - and with a great future ahead of it. With its recognition program, covering the majority of organic products in Australia, the BUD is becoming synonymous with what is organic and biodynamic in Australia.

The BFA, in tandem with the organic industry, has come of age. Now with a professional Board, the BFA together with its subsidiary company, Australian Certified Organic, have two offices, 11 staff and some 30 organic auditor contractors active across the country and the region.

The year has been another year of intense growth - with our team and systems almost catching up on the gargantuan task of managing this growth, whilst ensuring existing clients needs are being met, and the certification programs we operate remain compli-

ant. Also importantly, in this critical phase in the industry's development has been the need to ensure there is effective industry representation, media coverage and promotion of organics.

Sustaining such activities (financially and otherwise) will be the ongoing challenge for the organic industry. The organic industry will need to be very clear about how it will sustainably resource itself into the future, and what functions and activities various groups can perform for industry. The past year has reinforced this critical issue and has shown that the BFA has been able to lead industry by a mixture of its size, democratic representative structure, and willingness to make a stand on issues such as GE, trade in non-complying products, whilst taking a lead in standards setting and the certification programs.

This, of course, has been made possible by the fantastic network of people across the country that work for and with the BFA - both voluntarily at times, as well as paid, in order to progress the ideals and interests of the organic industry. Their ongoing support is critical, and the BFA has made decisions to ensure that this happens - and will continue to happen.

Whilst other organizations decided to remain quiet about the potential GE threat to the organic industry, the BFA made a stand for this and related issues, putting resources into ensuring the industry voice was heard, through well known members, Scott Kinnear and Sam Statham of the BFA GE Subcommittee. We are also promoting the positive side to organics - nutrition and health, through the work of people such as Nutritionist, Shane Heaton. With our support industry, and more importantly, consumers will hear much more from Shane and others in the coming years. This is industry levies at work. ▶



About the author

Dr Andrew Monk is CEO of the Biological Farmers of Australia - Australia's largest organic industry representative group.

Before becoming CEO, Andrew carried out organic audits across Australasia for 8 years, whilst being involved in horticultural production. He currently chairs the BFA's Standards Committee which manages the Organic Standard. He and his wife own a small organic processing operation and farm in Queensland.

"Strong focus on financial sustainability - that what we do is accountable to industry interests whilst also being able to be sustained by industry support levels."

moving with the times, preserving our heritage...

"The BFA takes its heritage & industry responsibilities seriously. This heritage has been based on strong pillars of commercial pragmatism, a passion for building the organic food and fibre industries, whilst being resolutely focused on being driven by industry, rather than telling industry what should be done."

Through publications such as the Australian Organic Journal, as well as other technical publications such as the Certification Bulletin (an increasingly popular industry focused publication), the Organic Advantage (e-news) and a focus on assisting media with well informed stories on the organic industry, the BFA is aiming to broaden the audience for the industry. This helps both producers as well as consumers.

"Strong focus on financial sustainability, that what we do is accountable to industry interests whilst also being able to be sustained by industry support levels."

Doing this in a financially sensible and sustaining way of course is the key issue. The BFA has carefully managed this by ensuring that there are direct member benefits which are profitable for both co-op and members. Balancing commercial focus with collective interests will ensure that we not only have an increasing resource with which to represent the organic industry's interests, but also bring increasing value and benefit to members.

The BFA has a unique position in the organic industry. It is by far the largest member based grouping of organic interests, not dissimilar to the Soil Association in the UK. This enables the co-op to seek funding support, whilst its financial capacity and critical mass of numbers of both certified clients and members means that it can speak on behalf of the industry, whilst working on practical, commercially viable projects which progress the interests of both the industry and the movement.

"The BFA takes its heritage and its industry responsibilities seriously. This heritage has been based on strong pillars of commercial pragmatism, a passion for building the organic food and fibre industries, whilst being resolutely focused on being driven by industry, rather than telling industry what should be done."

With this in mind we present for you the latest Annual Report of your co-operative. We look forward to your ongoing involvement in the direction setting of your industry and co-operative. We also look forward to your input, whilst serving your interests as we

move forward into an exciting and promising new period for the industry - a period long hoped for where organic becomes a common household name and plays a serious part in changing the nature of the agriculture and food industries whilst providing quality food and fibre in demand by consumers.

THE WAY FORWARD

We are conscious that this year has not been without its challenges. Drought continues to impact on many of us, whilst others, including our Chairman's own farm, have recently been savaged and completely decimated by frosts. Such is the nature of farming, often taken for granted.

If there is one main focus we have had over the past year, and we will continue to work on, it is establishing links between farmers and consumers. Some years ago, the BFA was viewed as a farmer organization only. How things have changed, as the BFA now is a most diverse group of interests.

With this diversity also brings the challenge and the opportunity to ensure that we remain practical and set on growing the organic industry such that there are farmers producing more produce and therefore consumers consuming more organic foods and using more organic fibres.

With this in mind, regional meetings and workshops will become an increasing mark of distinction of the BFA, noting that we were not able to satisfy all members wishes for regional workshops in the past year. We always enjoy hearing directly from our members and other interested parties, whether by phone or at such meetings.

Our Chairman, Doug Haas, whose role has been one requiring patience, balancing different points of view, and ultimately making decisions that are of benefit to industry as a whole and in particular to the BFA. He will be involved in workshops over the coming year to ensure the BFA continues to deliver what its members desire.

The Board will continue to be grass-roots based and driven, to ensure the fine heritage and haul mark of the BFA is upheld, whilst leading the way into the exciting future for organics. ■

the new board

DOUG HAAS owns and operates a horticultural operation, Red Country Produce, with wife Anne at Yeppoon, near Rockhampton. His property is SQF 2000 certified with SGS, and Anne and Doug are both Skilled Practitioners in HACCP. Doug became involved in the BFA in 1992 and went on to become a member of the BFA Board 1996. In 1997, he took up the position of Chair of the BFA Board, a position he has held since.



Doug has had extensive experience working with government, both at a state and federal level, and has had involvement on a number of organic committee's over the years - including as an OPEC representative since 1997. On the home front, he is the Chairman of the Yeppoon District Farmers Co-op (420 members) and committee member of the Yeppoon District Fruit growers executive.

JOHN FARRAR is a food chemist with senior management experience in the domestic and export agribusiness, agrifood, food and allied industries.



He has had hands-on exposure in building, commissioning and managing domestic and export manufacturing, processing and distribution facilities across a range of sectors.

John is a Director of his own Agribusiness Consultancy and Agrifood Exporting Company and is in partnership with Joe Siegel in The Natural Primary Products Company (NPPC). John has been pro-active in the organic industry since 1992 in both product and market development, training & quality assurance together with domestic and export sales.

ROSS COWLING's background is in accounting, studying Bachelor of Management Studies-Accounting/Economics at Waikato University-NZ. Some three years were spent as a Chartered Accountant, specializing in farm accounts and small business. After some 14 yrs in various companies, Ross finally left the profession to try his experience in other areas. He is the part-owner of Brisbane based United Organics, a major organic wholesaler of primarily organic horticultural products. With 10 years experience in the industry, for the past 5-years, Ross has been organising a stand for the annual 10-day



Brisbane RNA Show to promote the Organic Industry. He is also a founding member of the Gold Coast cluster group, Australian Organics Institute Inc, set up to promote both export and domestic sales of organic produce, and sits on the Queensland Organic Forum - a group chaired by the QLD DPI to advise the Minister of Agriculture on organic matters. Ross is regularly called upon to give presentations at all forms of seminars. He has been an acting director for Don Macfarlane for the past six-months.

DENNIS O'LEARY is a fourth generation farmer and long time BFA Member. Denis operates two operations in partnership with his son. Situated near Elong Elong, 50 km east of Dubbo, the operations are producer and wholesaler certified. The property is used to breed and finish cattle and lambs, most of which are purchased from other certified growers.



Dennis likes to look at the big picture in terms of the entire supply chain. He believes this big picture view guarantees consistent quality supply to the organic consumer. This benefits the organic producer by opening up new markets and ensuring consistent demand. Dennis, who has been active in the establishment of the BFA Organic Livestock Committee, is now looking into similar marketing groups for sheep meat, wool and grain production.

CLINTON STARR has managed a family partnership with his wife, Sally, as well as holding Directorships in a number of public and private companies, since leaving corporate employment in 1998. The partnership encompasses organic farming, through their Red Hill based organic orchard, Pommies Plus Organic Farms; as well as strategic consulting to small and medium businesses.



Clinton holds a Bachelor of Economics Degree from Sydney University, Master of Business Administration from Macquarie University, and is currently completing a Doctorate of Business Administration at RMIT. His research thesis is: "The key growth promoters, and key growth impediments, for small Australian entrepreneurial businesses." His experience base, before 1998, was centered on asset management for nearly twenty years. Clinton has been a Director of asset management companies worldwide, and serves on several committees - including being a second term director of the Australian Wheat Board.

"The Board will continue to be grass-roots based and driven, to ensure the fine heritage and haul mark of the BFA is upheld, whilst leading the way into the exciting future for organics."

reviewing the year that was...

A FOCUS ON THE HOME FRONT

ACO is the region's leader in requirements for certified organic trade - both domestically and internationally. What is less known is that the cost of accreditation programs, which ultimately endorse the program that ACO runs, is less than one full time equivalent office worker, whilst international travel and promotion is cost recovered by those businesses who have an interest in overseas development.

"This means that all resources available are put to, and will continue to be put to, the development and assistance of the domestic producer and consumer, where a growing market opportunity exists for the majority of producers."

This in turn will assist in capacity building for other larger overseas markets.

PRACTICAL ASSISTANCE & INFORMATION FOR MEMBERS

There is an ongoing recognized need for practical help and assistance on a technical and standards level. Whilst BFA has led the way in industry in the supply of this, it is keenly recognized that our resources are not sufficient to service the growing industry need for this service. External assistance is currently being sought while at the same time keeping a keen eye on ensuring that we are rewarding the loyalty and support of members of the co-operative through discounts and services only available via the co-operative.

In the meantime, we have progressed the website to include regular updates on all types of information, enabling members faster access to more information than ever before. Whilst this is a cheap and easy way for the co-operative to meet these needs, such information is increasingly valuable. With this in mind, through time there will be **exclusive member only services** and information made available on the web, similar to publications such as the Certification Bulletin provided currently to members, along with an increase of discounts and related services available to members only.

STANDARDS DEVELOPMENT

The BFA has launched Version 6 of the Organic Standard (OS), the key document which binds the majority of organic producers in Australia, whilst assisting in informing the organic consumer what exactly organic is about - something the industry continues to take for granted. ►

KEY OUTCOMES OF 2002/3

- New posters, banners and consumer point of sale materials
- Enhanced website capacity including search engine for finding organic products in Australia and leads for overseas sourcing
- Firm stance in the marketplace resulting in product recalls of non complying product and product not certified to the Organic Standard
- Representing industry and campaigning for change: GE, nutrition and health, benefits of organic agriculture for the environment
- Fully privately funded representation overseas at trade shows - which will become a regular feature for industry into the future
- Communications and Promotions
 - Australian Organic Journal
 - Organic Advantage E News
 - Certification Bulletin
- Regular media contact and stories, with media contacting BFA daily for comment and views
- Becoming recognized as the place for technical information for the organic industry, from Minister's offices to large supermarkets to producers of TV programs
- New certification systems - the ACO certification subsidiary
- Establishment of subcommittees representing industry sectors

"This means that all resources available are put to, and will continue to be put to, the development and assistance of the domestic producer and consumer, where a growing market opportunity exists for the majority of producers."

reviewing the year that was...

"The split in function between BFA setting standards for industry, and ACO as an independent organization administering this standard, ensures a critical division between making rules and enforcing them. The BFA and ACO are leading the organic industry in regard to this."

Version 6 continues the tradition of being compliant to the main standards across the world that build consumer confidence in organics, whilst keeping a keen eye on both pragmatism and relevance to the Australian and regional production landscape.

BFA and ACO work hard behind the scenes at all levels of industry to ensure that this approach remains the focus of organic standard setting.

The latest edition of the OS has been through the new approach of seeking industry comment via the website well in advance of the new edition being published. This will be an ongoing process of standards setting in industry, ensuring that industry needs and interests are heard and met where practicable, and most importantly ensuring that those affected by and with an interest in the Organic Standard, are the ones who dictate the terms.

"The split in function between BFA setting standards for industry, and ACO as an independent organization administering this standard, ensures a critical division between making rules and enforcing them. The BFA and ACO are leading the organic industry in regard to this."

INTEGRITY MANAGEMENT

ACO conducted well over 1,000 audits in the past 12 months, including unscheduled audits on operators and random and directed market sampling of produce.

ACO once again absorbed some 2/3rds of industry new growth for certification applications. Ensuring the integrity of the certification program, whilst also managing effectively this growth is an ongoing focus of the certifier.

AMANDA BALDWIN

Amanda manages all the organic auditors across the country - it is our auditors who ensure that the Organic Standard is maintained and that organic integrity is assured - every step of the way



"Producers, processors and marketers are clearly voting in support of the country's leading certification program which combines pragmatism with rigour and integrity."



ACO has on a number of occasions this past year made a stand on unscrupulous trading in products claiming organic status. This has led to product recalls, labeling modification and the overall protection of the organic brand. Similarly, ACO has been focused inwards on certified operators, expecting that full compliance with the Organic Standard is assured. The overall outcome of this approach is the protection and increased value of the BUD logo, whilst also protecting the businesses of all certified by ACO, and most importantly ensuring consumer confidence in organic products bearing the BUD logo. ►

reviewing the year that was...

FOCUS ON INVOLVEMENT AND FEEDBACK

BFA held workshops around the country, with more planned this year, open to industry and aimed at channeling member feedback and interests into outcomes.

"Focusing on a ground up, grassroots approach to industry direction, industry is voting with its feet and wallets in support for BFA's pragmatic but also inclusive approach."

The workshops are always well attended and gain very useful industry views and directions which the co-operative can then take action on.

THE AUSTRALIAN ORGANIC FOOD MARKET

The BFA this year publicized research suggesting the farm gate value of organic was less than had been guesstimated from past years. Farm gate is estimated to be some A\$90M in 2002, exports (possibly down due to drought) at some A\$40 M and domestic market value at retail level A\$250M.

The main point for the industry is that growth continued at between 10 - 30% PA depending on the sector. Beef, milk and horticulture were of particular note for growth, whilst some sectors (eg sugar) saw behind the scenes capacity building which will stand that sector well in terms of supply for the coming years.

There remain significant challenges nonetheless for some sectors in terms of consistent supply and quality to the customer specification. Until this gap is closed, some sectors will continue to be challenged and be limited in longer term growth capacity.

The BFA will be playing an ongoing active role in assisting industry in this regard, in terms of better information systems, workshops focusing on trade issues, promotion of organic products and media which expands the audience for organics.

The more serious entry of both large supermarket chains, combined with the growth in local and independent markets, suggests a strong year ahead for growth for organics, and a greater exposure of organics to a widening audience. ▶

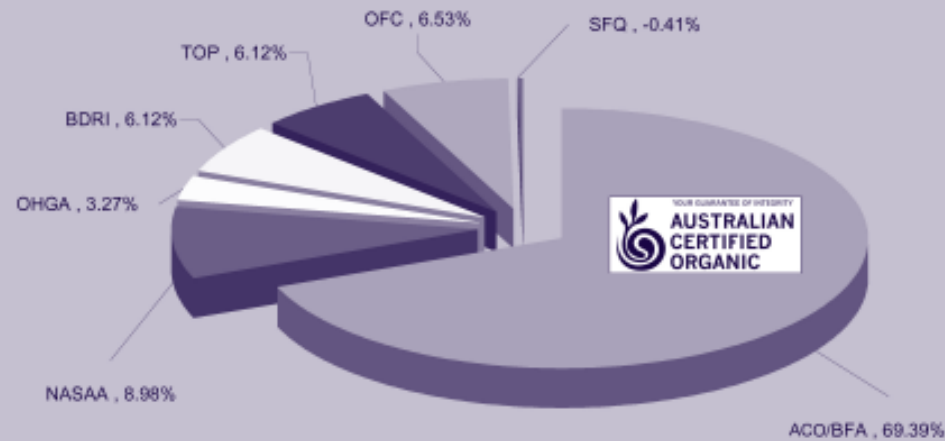
"Producers, processors and marketers are clearly voting in support of the country's leading certification program which combines pragmatism with rigour and integrity."

Growth in 2002-2003

This chart shows ongoing solid growth of ACO certifications and industry generally.

ACO, which now certifies over half of all organic operations in Australia, absorbed two thirds of the net growth in primary producers in Australia converting into organic production for 2002, for the second year in a row. Some 250 farmers entered the organic industry, suggesting growth of a little over 10 % of farmer numbers for the organic industry each year for the past two years. This is whilst the growth in the market has been estimated between 15 – 30 % growth, suggesting farmers are producing and selling more organic produce, despite the drought. The drought nonetheless has impacted upon the grains sector and will continue to through the 2003 year.

Growth in Certified Clients 2001-2002
(by Certifier based on total industry growth)



Source: AQIS EU Reports 2002

"BFA/ACO continues to be the certifier of choice for processors - with the majority of certified organic processors choosing ACO for access to international as well as local domestic markets"

reviewing the year that was...

"Exports have risen - with beef being an industry leader whilst horticulture leads the domestic market growth. Exports relative to our close trading partner New Zealand are still low, but with beef and grain leading out of the drought, exports are likely to catch up and take over NZ exports in the coming three years."

ORGANIC IS COMING OF AGE - AND THE PROOF IS IN THE MARKETPLACE

One of the ways we are now able to assess the positioning of organic, is through its acceptance by consumers - and the BFA is becoming the central point of collecting and reporting on data to come out of the Australian marketplace.

"Demand is forecast to grow by 20% to 25% a year, while supply growth is forecast at little more than 10% to 15% a year."

The BFA has seen clear examples of this in a variety of areas. Take for example, the growth in organic beef exports.

"Exports have risen - with beef being an industry leader whilst horticulture leads the domestic market growth. Exports relative to our close trading partner New Zealand are still low, but with beef and grain leading out of the drought, exports are likely to catch up and take over NZ exports in the coming three years."

As seen from the graphic opposite, ACO/BFA is leading the charge in opening the export market to Australian clients.

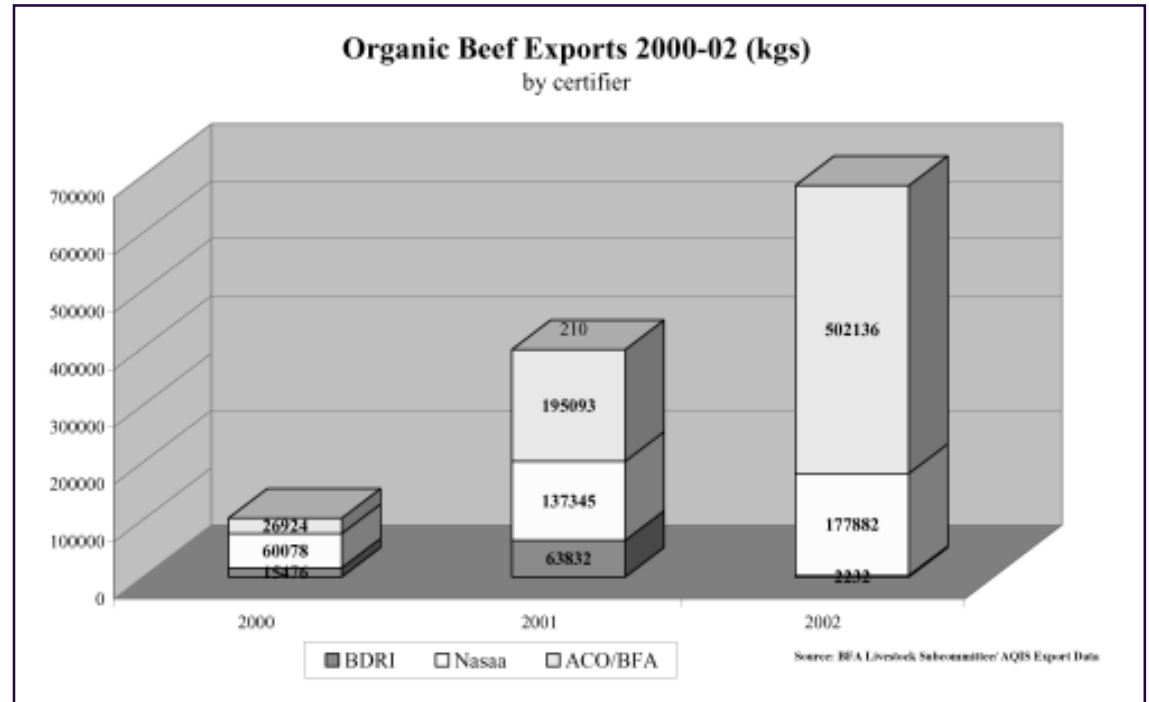
SUPERMARKET PRESENCE

Supermarkets are a clear and major landmark on the organic industry now - with increasing volumes and growth in that area - meeting the growing needs of certain producers as well as consumers.

"ACO certifies the majority of Coles and Woolworths packhouses - ensuring that certified product only is sold for fresh fruit and vegetables and meat products"

RETAIL, WHOLESALE & FARMERS MARKETS INCREASE

There has been noted growth in further organic retail outlet openings, and in overall growth of sales and volumes. Organic wholesalers are seeing the increase in demand for organic translate directly onto their bottom lines.



"We are remaining loyal to our existing farmers, some who have supplied us for many years, as this is the nature of the organic industry. No matter what supply volume is available, there is an industry expectation, as long as quality is there, to support the smaller farmers of the industry." Phil Rougon from Ecofarms on the organic wholesale market

The last year has seen the flourishing of the Lismore organic farmers markets as well as the Brisbane Market on Northey Street. Both these markets are dedicated organic farmers markets - offering a fresh alternative and a truly organic feel.

The true nature of our industry is beginning to shine - with dedicated farmers markets to organic produce - giving consumers the direct link to the farm... ■

accounting for the year that was...

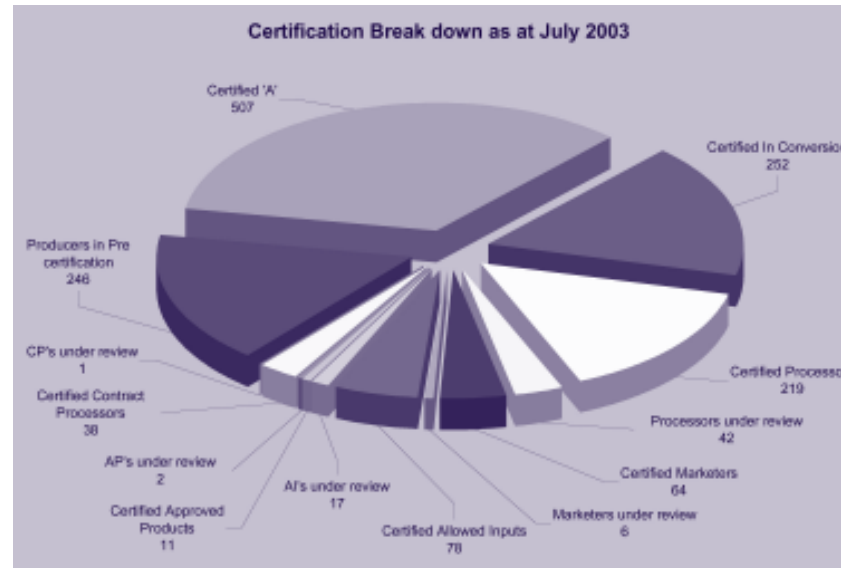
By **QUENTIN KENNEDY**

It gives me pleasure to announce that your Co-op made a profit this year, albeit a small one. Since my report to you last year the most significant issue has been the establishment of Australian Certified Organic Pty Ltd, the wholly owned subsidiary of the BFA. I see this last year as one of consolidation, doing the ground work on the establishment of ACO, bringing in a new database system and new auditing systems, and upgrading further our accredited certified program. This year we have focused on consolidating our position in the certification industry, building and developing efficiencies internally and I believe we will reap the benefits of this in the coming years.

This new structure for BFA and its subsidiary ACO has not been without its challenges, particularly in the area of accounting - given separate bank accounts for the two different companies, which required splitting cheques this year as the transition was made to full separation. ACO currently sublets some administration services from BFA, whilst otherwise functioning as a fully separate entity, with separate staff, QA and related systems and management. This division will become more distinct and manageable from this year onwards as we all get used to the division (including our members and clients!).

Key issues to note in the financials are:

- ¢ In line with Australian Accounting Standards, we have consolidated BFA & ACO, resulting in a net profit of \$10,883. ACO is noted as the "Associated Entity" in the audited financials.
- ¢ Levies were up on our initial budget estimates - a reflection of the large growth in certification in the last three years as these certified operators come into production.
- ¢ BFA expenses were below budget with the main areas exceeding budget being printing, advertising and bad debts. The production of the new info kit, revamped Certification Bulletin and retail posters have all contributed to this, however these are money well spent in any case.
- ¢ Bad debt provision in both companies have been increased as we are now cleaning up some debts which have been outstanding for a considerable time.
- ¢ ACO revenue was down in the area of certification as audits were running behind schedule for the majority of the year. We are now confident that this area is now operating efficiently and has been, for the last six months, achieving or exceeding the required number of audits.



To put the budget overview to follow into context, it is useful to look at the breakdown of clients within the certification system, before we look at specific revenue and expense reports.

Whilst the growth in certified clients has been ongoing and sustained, the strong message from this break down is that we have a sizeable base of clients in the conversion process - and these new clients are usually the most labour intensive for our office, as the BFA and ACO teams lead them through the conversion process. ►

"ACO clients range from largest to smallest - proudly bringing together and harmonising the diversity of interests in our industry, whilst ensuring that all common needs and interests are met."

ACO's LIST OF SMALL PRODUCER SCHEME GROUPS:

Newstead Organic Growers Group (Victoria)

Sunshine Coast Organic Group (Queensland)

Sapphire Coast Organic Producers (New South Wales)



About the author

Quentin Kennedy is the Business Manager of the Biological Farmers of Australia.

Quentin brings considerable experience in finance and management to the team. With many years of experience in pastoral management, he has been the ideal candidate to drive what has become the highly successful BFA Livestock Committee. Quentin also brings considerable experience in export development.

accounting for the year that was...

"BFA's focus on a combination of delivering membership value as well as whole of industry approach to promotion of organic, combined with workshops and feedback to industry, is critical in ensuring the organic industry aims and ideals are both protected and promoted."

FIGURE 1: BUDGET OVERVIEW - REVENUE

Figure 1 gives an overview of the budgeted sources of revenue. Certification, the core business accounts for 52% of all revenue and includes all charges associated with the audit process, - applications, audits, travel and certification fees.

Membership fees are self explanatory and the R&D and Promotions is primarily the advertising revenue from the Australian Organic Journal. This is nearly in a position to be fully self funding not accounting for that component of membership value placed on it.

Member services include ancillary services such as export certificates, presentation fees and products. The other large area of revenue - levies - we are forecasting to grow marginally by just over ten percent - we believe the continuing impact of the drought will be offset by the increased number of certified producers coupled with a more intensive approach to monitoring and collecting levy receipts under the new, simplified levy structure.

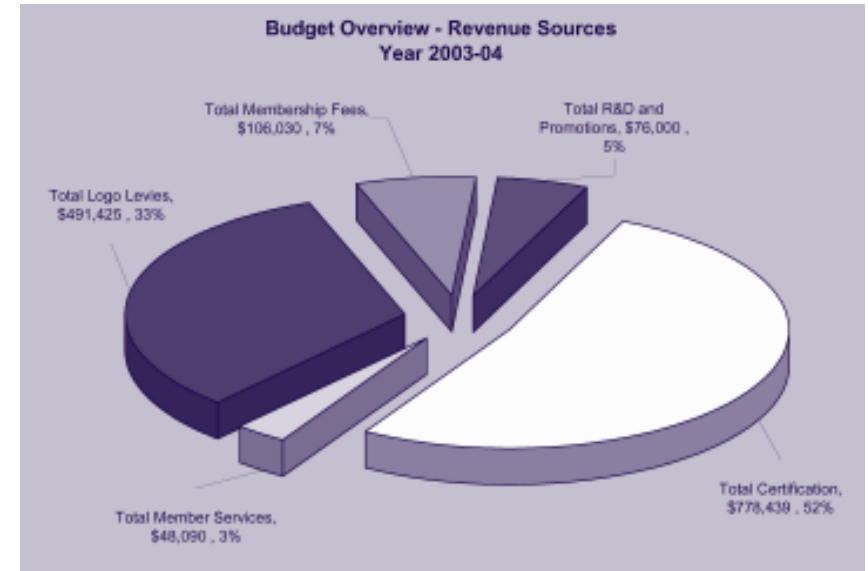
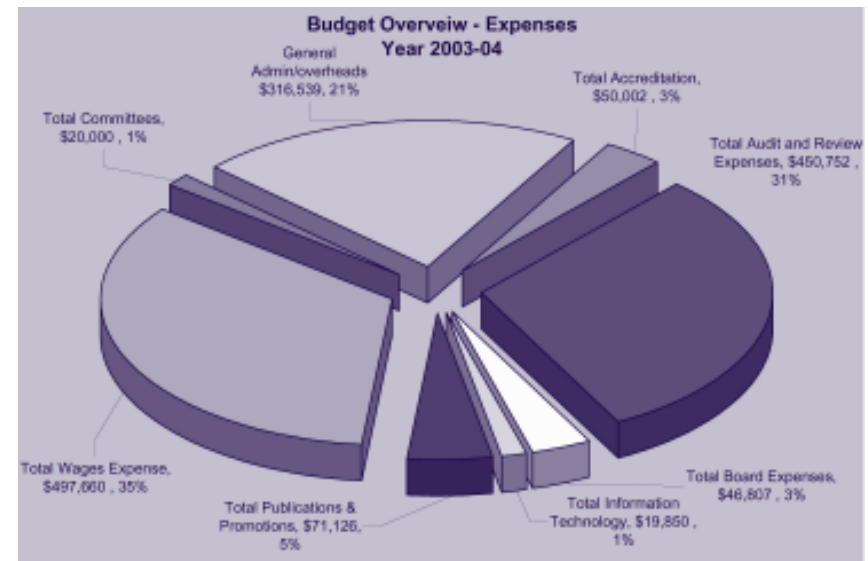


FIGURE 2: BUDGET OVERVIEW - EXPENSES

Projected budget expenses are detailed in Figure 2. Given we are predominantly service orientated the majority of the expense is associated with Administration, Audit review and Wages. It is worth noting that the actual direct cost of our publications and promotional development material are covered by the corresponding revenue derived from the area of R&D and Promotions - excluding associated wages and administration costs. An amount has been allocated to several key committees - namely the product sub committees, strategy development and the transfer of the Co-op to Queensland.

Interestingly our direct accreditation costs, not counting labour, amount to 3% of the total expense budget - this is the cost of our ongoing compliance with AQIS, IFOAM and the USDA. ▶

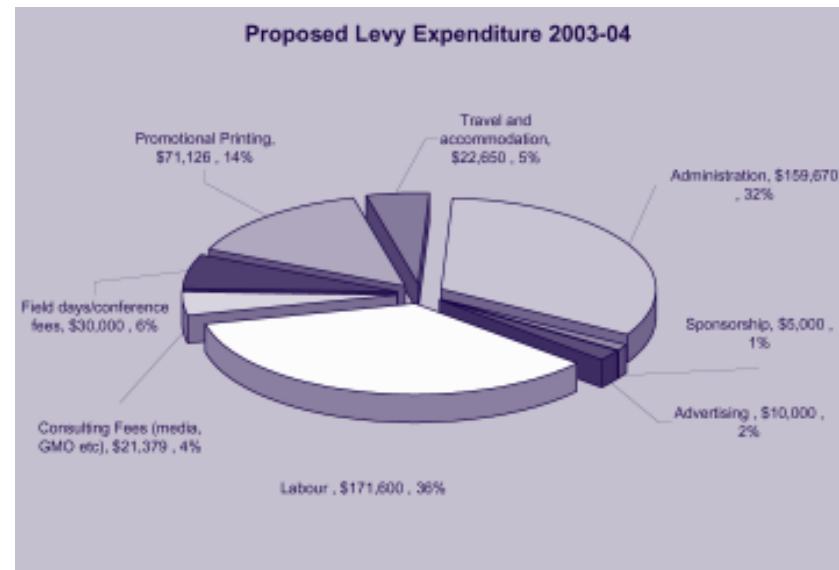


accounting for the year that was...

FIGURE 3: PROPOSED LEVY EXPENDITURE

Figure 3 gives an overview of where the projected levy revenue will be spent in this financial year. Just over 67% of levies will be spent directly on promotional activities with the balance being spent on administration. The labour proportion (36%) covers those employees employed fulltime or who spend part of their time in the area of promotions and development.

Field days and conference fees include attendance at these events and promoting the services of certification and developing awareness of the bud logo. Consulting fees are primarily used to employ writers for some articles used in both internal and external publications, as well as compensation for certain outsourced spokespeople, including Scott Kinnear, Shane Heaton and others. Travel and accommodation covers attendance at a number of different events both domestically and internationally, however all international travel to trade fairs and related costs are recouped via the organising fees charged to exhibitors. ■



"This means that all resources available are put to, and will continue to be put to, the development and assistance of the domestic producer and consumer, where a growing market opportunity exists for the majority of producers."

"BFA collected over half a million dollars in voluntary industry levies and contributions - giving it significant resources and reasons to represent the organic industry"

organic industry snapshot

By SUZI MOORE

Farmers who are interested in the payoffs associated with the challenges of a new and evolving form of agriculture are turning to organics, not only to look after their traditional local markets, but increasingly to service burgeoning global markets.

Broadly defined, organic/biodynamic production is a system which contributes to healthy soils and in turn healthy people. It does not use synthetic chemicals, but rather promotes enhanced biological activity of the soil and encourages sustainability of the overall farming system.

INTERNATIONALLY

Globally, the sector has grown from an estimated US\$8 billion in 1990 to some US\$25 billion in 2002, while growth has been estimated at a massive 20-30% per year.

The International Trade Commission (ITC) recently completed a wide-ranging study of organic food markets, which found the biggest markets for organic products worldwide to be the US, Europe and Japan, with the latter tipped to be the highest per capita consumer in the coming years. The US alone accounts for over two fifths of the world market for organics.

According to ITC, consumers in these countries appear to have been particularly troubled by developments such as Mad Cow's disease, repeated food contamination scares, whilst exhibiting resistance to irradiated and genetically modified foods.

"Demand is forecast to grow by 20% to 25% a year, while supply growth is forecast at little more than 10% to 15% a year. This spells opportunity for Australian farmers."

In the United Kingdom alone, demand is growing at 40% a year while production is increasing at only 25% a year. The UK imports some 70% of the organic food consumed in the UK, which offers obvious opportunities for Australian exporters.

As a consequence of increasing consumer demand, 30 percent of the food eaten by European consumers in 2010 could be organically produced, while in Australia, consumer demand for organic food is estimated to be increasing at a rate of 20-30 percent each year.

In terms of dollar value, this varies from country to country: whilst the Australian market is relatively small, the US market alone was valued at US\$9 billion for the year 2001-2 and on past growth rates, is expected to double by 2006.

ON THE HOME FRONT

Whilst the organic industry in Australia is still serving a niche market, it is nevertheless rapidly growing and represents a significant opportunity for value added marketing. It could be described as having moved past an infancy stage, however the level of maturation now seen in the EU and US is still some way off.

The BFA this year publicized research suggesting the farm gate value of organic was less than had been guesstimated from past years. Farm gate is estimated to be some A\$90M in 2002, exports (possibly down due to drought) at some A\$40 M and domestic market value at retail level A\$250M.

The main point for the industry is that growth continued at between 10 - 30% PA depending on the sector. Beef, milk and horticulture were of particular note for growth, whilst some sectors (eg sugar) saw behind the scenes capacity building which will stand that sector well in terms of supply for the coming years.

There remain significant challenges nonetheless for some sectors in terms of consistent supply and quality to the customer specification. Until this gap is closed, some sectors will continue to be challenged and be limited in longer term growth capacity. The BFA will be playing an ongoing active role in assisting industry in this regard, in terms of better information systems, workshops focusing on trade issues, promotion of organic products and media which expands the audience for organics.

The more serious entry of both large supermarket chains, combined with the growth in local and independent markets, suggests a strong year ahead for growth for organics, and a greater exposure of organics to a widening audience.

According to CEO of the BFA, Andrew Monk "Exports have risen - with beef being an industry leader whilst horticulture leads the domestic market growth. Exports relative to our close trading partner New Zealand are still low, but with beef and grain leading out of the drought, exports are likely to catch up and take over NZ exports in the coming three years." ▶

"Demand is forecast to grow by 20%-25% a year, while supply growth is forecast at little more than 10%-15% a year. This spells opportunity for Aussie farmers."



About the author

Suzi Moore is the Public Relations Officer for the Biological Farmers of Australia.

Suzi looks after the BFA & ACO websites, the Australian Organic Journal, the Certification Bulletin, events coordination, and other corporate communication activities. For more information about BFA promotional activities, you can email Suzi at media@bfa.com.au or visit the website www.bfa.com.au or www.australianorganic.com.au

organic industry snapshot

"In Australia, retail sales of organic products have grown from a base of some A\$28 million in 1990 to an estimated A\$250 million in 2002/3. "

HARD-DATA SUPPORTS CLAIMS OF GROWTH

For many years, data showing the growth of the organic industry was simply not available. Of recent times, the Australian Quarantine and Inspection Service has collated and made available information on export growth. The table on 12 of this report shows the dramatic increase in beef exports alone in the last two years.

Together with information collected by certifiers, we are now able to not only show by how much Australian export sectors have increased, but also to which countries our produce is being exported.

WHERE THE GROWTH IS

Australian Certified Organic (ACO), which now certifies over half of all organic operations in Australia, absorbed two thirds of the net growth in primary producers in Australia converting into organic production for 2002, for the second year in a row.

Some 300 farmers entered the organic industry in 2002, with 250 of these progressing certification with ACO. This suggests growth of 15% of farmer numbers for the organic industry each year for the past two years. This is whilst the growth in the market has been estimated at between 15-30% - suggesting farmers are producing and selling more organic produce, despite the drought. The drought nonetheless has impacted upon the grains sector and will continue to do so throughout 2003.

There are estimated to be 2,100 organic farming operations within Australia, coming under the regulatory inspection system of one of the seven accredited certifiers currently operating in the country.

The lion's share of farming operations (over 1000) are with ACO, the independent certification arm of the Biological Farmers of Australia (BFA). The second largest Australian Certifier is NASAA with some 450 farmers. Whilst organic farmers only represent some 1-1.5% of existing primary producers in Australia today, all indications point to this figure undergoing a rapid phase of growth in coming years. The graph on page 11 shows the growth in certified clients in recent years.

Overall, production and ultimate consumption of organic products is estimated at some 0.2% of the current Australian domestic market for food products.

"In Australia, retail sales of organic products have grown from a base of some A\$28 million in 1990 to an estimated A\$250 million in 2002/3."

The export market has been rather slower to expand, and at an estimated AU\$40 million, remains small.

According to research conducted by Government funded body, the Rural Industries Research and Development Corporation (RIRDC) going on current trends the industry is estimated to have 2500 farmers by 2005. ▶

ORGANIC INDUSTRY DEVELOPMENT IN AUSTRALIA

	1990	1995	2000	2003 (MID)
NO. PROCESSORS & MARKETERS (ESTIMATED) **	<50	150	250	670
NO. FARMERS (INCLUDING IN-CONVERSION)	<500	862	1600	2100
FARMING AREA CERTIFIED (HECTARES) *	150 000 ha	335 000 ha	7.6 million ha	10 million ha
\$ VALUE (ESTIMATED) **	\$28 million	\$80.5 million	\$190 million	\$250 million

Source: Hassall & Associates 1995; Macarthur Agribusiness 1999; BFA 2003

Notes: *The significant increase in the farming area between 1995-2002 is due to the addition of extensive pastoral zones of Queensland, South Australia and the Northern Territory.

** Data are estimates based upon industry reports and other available information.

organic industry snapshot

DEMAND & CONSUMERS

Consumers are increasingly aware of the quality and safety of the food and fabrics they consume and use.

At the heart of this worldwide trend is a desire to consume products, especially foods, that are safe, produced from environmentally sustainable farming systems, and that are ethically and socially acceptable.

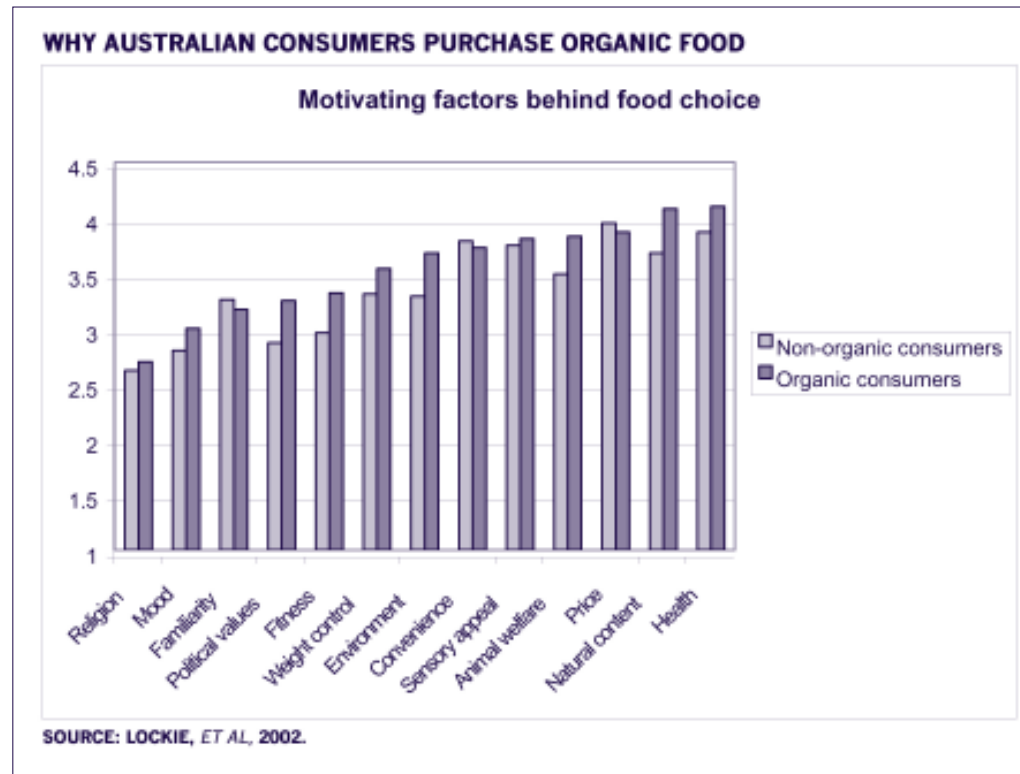
The study of UK consumers echoes the findings of Australian studies (Lyons et al, 2001; Lockie et al, 2002), which suggest that whilst there are common issues motivating organic consumers, there is no such thing as the average organic consumer. There are a variety of reasons why consumers are increasingly moving toward organic products. Consumers negotiate this range of interests and concerns when making decisions about the food they eat. Such concerns and their relative importance for both organic and non-organic consumers in Australia are shown on the table opposite.

An issue consumers are facing in Australia is the current labelling laws which allow the use of the word "Organic" on uncertified produce. Until the regulations themselves are changed, consumers need to be educated to look for and purchase only certified organic produce, which is their guarantee of a genuine product.

The Australian Quarantine and Inspection Service (AQIS) works jointly with industry organisations to manage and administer the certification regime.

In addition to the attitudes expressed in Figure 2, Lyons et al. (2001) found that Australian consumers expressed a lack of trust in government departments, and expressed reservations about the role of the government in regulating food and agriculture production. This raises the issue of the role of the government in the regulation of the industry and the role of the industry itself in any evolving regulatory regime (Lyons et al, 2001).

While the organic market is clearly still a niche market, large companies around the developed world, and to a lesser extent in developing nations, have positioned themselves to take advantage of the potential growth in this market, and it is difficult to find any large food industry player who does not have some interest in certified facilities for organic production and processing. To this extent, the industry is moving beyond its local origins and its roots in local production for local consumption, at the same time that there is a growth in local organic farmers markets & groups.



"Demand is forecast to grow by 20%-25% a year, while supply growth is forecast at little more than 10%-15% a year. This spells opportunity for Aussie farmers."

LISTENING TO THE CONSUMER: Scientists, and their clients the farmers, will be damned by history if they continue to ignore this reality and these trends. Australia needs to continue its growth in value adding in the agricultural and food sector, rather than over reliance on sales of cheap basic commodities. The Australian agriculture industry needs to focus on quality and value, and it needs to listen to the consumer to achieve the ultimate aims of sustainable agriculture.

Organics may currently be a small niche in the larger world of food commodity markets and vast agricultural enterprises. But two things seem very clear about the future. The consumer, growing in affluence and education, is increasingly demanding safe foods, sustainable production and a sense of control over their food supply. Further, the agricultural environment requires rejuvenation both economically and environmentally. **Organic production and organic produce are moves in the right direction to meeting all these demands, and delivering satisfaction to both producers and consumers.** ■

vision 2020 for the Australian organic industry

THE BIOLOGICAL FARMERS OF AUSTRALIA, IN REPRESENTING THE ORGANIC INDUSTRY, HAS ESTABLISHED A VISION FOR THE AUSTRALIAN ORGANIC INDUSTRY TO 2020.

BY 2020 BFA & THE ORGANIC INDUSTRY WILL HAVE:

- 10% of primary producer numbers certified organic in Australia.
- 10% of the gross value of food and fibre production in Australia.
- 10% of the retail food market within Australia.
- Played a leading role in seeing a 50 % reduction in 2001 levels of synthetic agrichemical use per tonne of product produced by conventional agriculture

VISION FOR CERTIFIED NUMBERS IN INDUSTRY (% OF TOTAL PRIMARY PRODUCER NUMBERS)

2003	1.3%
2005	1.8%
2010	4%
2015	7%
2020	10%

GROSS VALUE CERTIFIED ORGANIC PRODUCTS (% OF AUSTRALIAN RETAIL DOLLAR)

2003	< 0.2%
2005	1%
2010	3%
2015	7%
2020	10%

HOW THIS VISION WILL BE ACHIEVED:

- Extensive education and training of producers, processors and marketers in organic and biological and organic production systems.
- Extensive consumer education and promotion of naturally produced certified organic products.
- Building capacity for technical expertise within industry to regulate, develop and promote the industry, its practices and products.
- Extensive networking with and involvement of government, agribusiness and farming sectors which stand to gain from these trends and processes of change.

"The BFA is Australia's premier representative grouping - covering and looking after industry & movement interests to government, media and in regard to promotion."

Have your say regarding this vision for 2020

Either go to our website www.bfa.com.au or

Mail to: PO Box 3404 Toowoomba, Queensland 4350

Fax to: (07) 46 393 755

Email: media@bfa.com.au

Please mark attention: Organic Industry Vision 2020 Attention CEO of BFA.

In the coming year most states of Australia will have workshops where these issues can be discussed to ensure we continue to reflect the views and aspirations of the organic industry.