# Blades of grass arranged in a circle.

# Organic Orders Review

Deloitte

Prepared for the Department of Agriculture and Water Resources

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## Glossary

| Term | Definition |
| --- | --- |
| ACO | Australian Certified Organic |
| AO | Australian Organic |
| AS 6000 | Australian Standard for Organic and Biodynamic Produce |
| BDRI | Bio-Dynamic Research Institute |
| The Department | Department of Agriculture and Water Resources |
| JAS | Japan Agricultural Standard |
| JAS-ANZ | Joint Accreditation System of Australia and New Zealand |
| NASAA | National Association of Sustainable Agriculture, Australia |
| National Standard | National Standard for Organic and Biodynamic Produce |
| NPV | Net Present Value |
| OBPR | Office of Best Practice Regulation |
| OFC | Organic Food Chain |
| OISCC | Organic Industry Standards and Certification Council |
| OPC | Organic Produce Certificate |
| PV | Present Value |
| SDO | Standards Development Organisation |
| USDA NOP | United States Department of Agriculture National Organic Program |
| WTP | Willingness to pay |

## Executive summary

Organic farming is a form of agriculture production. That is, organic products are differentiated from other products based on how they have been produced. The National Standard for Organic and Biodynamic Produce (‘the National Standard’) specifies that ‘organic’ means the application of practices that emphasise the: use of renewable resources; conservation of energy, soil and water; recognition of livestock welfare needs; and environmental maintenance and enhancement, while producing optimum quantities of produce without the use of artificial fertiliser or synthetic chemicals.

Global sales of organically produced food and drink totalled around $90 billion USD in 2016, up from $17 billion USD in 2001, implying average annual growth of around 11.5% (Willer and Lernoud, 2018). This is around 30% faster than the growth in total food spending worldwide.

Australian businesses are already responding to the opportunity that the organic market presents. In the last five years the area of land certified as organic or in-conversion to organic has increased from just under 18 million hectares to nearly 47 million hectares (Department of Agriculture and Water Resources (DAWR), 2018a).

We estimate the total value of organic exports in 2017 to be around $450 million ($AUD). North America accounts for 46 per cent of our exports (nearly all of that the USA) and Asia a further 41 percent. Beef, baby food and wine account for 78 percent of the commodities exported.

An objective of the Australian Government’s Agricultural Competitiveness White Paper is to improve access to premium markets. Organics is a target market under this policy.

The agricultural export legislative framework sunsets on the 1 April 2020. The Australian Government is updating the framework to ensure it will continue to serve its purpose into the future. This includes the Export Control (Organic Produce Certification) Orders (‘the Orders’).

Deloitte has been engaged to review the Orders. As part of this review a broad range of domestic stakeholders and overseas buyers of Australian organic products have been consulted with. The review effectively answers two questions: should the export of organic products continue to the regulated and, if so, to what standard?

The review does not address the topic of domestic regulation, as this is outside the scope of a review of export regulation, but does note impacts on the domestic side of the industry where appropriate.

#### Current regulations

Under the Orders, organic products can only be exported from Australia if they are accompanied by an organic produce certificate (OPC). An OPC is issued by an approved organic certifier if:

* they are satisfied that the products have been produced in accordance with the National Standard for Organic and Biodynamic Produce (‘National Standard’); or
* the produce satisfies a conformity assessment arrangement (which is “an agreement between an individual Australian certifying organisation and an overseas government entity for eligibility of that certifying organisation to certify goods for export to the importing country under the agreement (DAWR, 2014, p2)).

Several of the approved organic certifiers hold such arrangements with overseas government entities. These are as follows:

* Australian Certified Organic is able to certify Australian businesses to the organic standards of the United States of America (USA), the Republic of Korea, Japan, the People’s Republic of China (China) and the European Union (EU);
* NASAA Certified Organic is able to certify Australian businesses to the organic standards of the USA, Japan, China and the EU;
* AUS-QUAL is able to certify Australian businesses to the organic standard of the USA and the EU; and
* both Organic Food Chain and Bio-Dynamic Research Institute can certify Australian businesses to the organic standard of the EU.

No legislation explicitly addresses the use of the term ‘organic’ in the domestic market. The Australian organic standard (AS 6000 Organic and biodynamic products) was put in place in 2009 and is nearly identical to the National Standard. In conjunction with the prohibition on misleading and deceptive conduct under the Australian Consumer Law, AS 6000 forms the basis of the enforcement of an organic standard in the domestic market. However, no accredited certifying organisations currently provide certification to AS 6000 because of a lack of clients. The National Standard has become the de facto domestic standard for all practical purposes.

#### What is the problem with the current regulation?

Current regulations create a regulatory burden in the form of the cost that organic businesses face in becoming certified to the National Standard and the related cost of approved organic certifiers in maintaining accreditation to certify to that standard. In addition, Australian organic businesses often need to hold certification to other countries’ organic standards to support market access, and this comes at a cost. Approved organic certifiers also experience the cost of holding accreditation to these other countries’ standards.

The current focus of the Australian organic industry is on the domestic market, but the export market may experience greater growth in the future due to both population and income growth. Having overseas alternatives to domestic markets is a source of diversification of risk and premiums for organic producers.

To allow for future export growth and to capture premium markets, regulatory settings around export of organic products need to be fit for purpose. Any changes to the way that organic exports are currently regulated need to be made with an understanding of the costs and benefits of those changes relative to the status quo. This includes:

* market access;
* reputation; and
* regulatory burden.

There are inherent trade-offs between these elements when it comes to regulation of organic exports. For instance, an approach that reduces the certification requirements of exported organic products may reduce organic businesses’ costs, but may harm Australian organic products’ reputation in export markets.

#### The four options considered in this review

#### Option 1 – Maintain the status quo

The Orders would continue in substance under the export regulation framework to be in place from 2020.

#### Option 2 – Status quo plus country level conformity assessment arrangements

The status quo continues and Australia continues to pursue equivalency arrangements with overseas governments in priority markets. Equivalency means that importing governments accept organic goods on the basis that they have been certified to the National Standard.

Where equivalency is not possible, this option would involve the Department pursuing country level conformity arrangements. This would remove some costs from the system as Australian certifying organisations would not need to maintain their individual conformity assessment arrangements when a country level arrangement was in place. It is assumed that country level conformity assessment arrangements can be negotiated with priority markets.

#### Option 3 – Commercial arrangements to facilitate export

This option would remove the need to obtain an OPC when exporting organic products. Other export regulatory requirements applying to those goods would remain (for example, export requirements for meat and dairy products related to health and safety). In addition, the export regulation framework to be in place from 2020 is likely to enable certification of goods where an importing country requires government certification. The Department would cease auditing organic approved certifying organisations, which would have implications for the domestic market.

#### Option 4 – Replace the National Standard with AS 6000

Under this option, the National Standard and the Organic Industry Standards and Certification Council processes by which the Standard is maintained would be replaced by AS 6000 and typical Standards Australia management processes.

OPCs would still be required for the export of organic products, but approved certifiers would issue them on the basis that products adhere to AS 6000, rather than the National Standard. OPCs could also be issued if products satisfy a conformity assessment arrangement.

The role and tasks of different stakeholders – government, exporters, and third parties (mostly certifiers) – under each option are indicated in Table 1 below.

The analysis used in this report assumes that:

* 2,691 businesses (1,569 producers and 1,122 processors) were certified to the National Standard in 2017;
* 1,368 businesses are involved in the organic export supply chain as of 2017;
* The value of Australia’s organic exports in 2017 is estimated to have been around $450 million; and
* the industry grows at the same rate across all options (in reality this is not likely but insufficient credible information is available to factor this into the analysis).

A full set of key assumptions is set out in section 5.1 of this report.

Table 1 Summary of roles and tasks under each option

|  | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| --- | --- | --- | --- | --- |
| **Government** |  |  |  |  |
| Requires OPC for product to leave Australia | **🗸** | **🗸** |  | **🗸** |
| Owns National Standard as the minimum requirements to protect Australia’s reputation | **🗸** | **🗸** |  |  |
| Recognises AS 6000 as the minimum requirements to protect Australia’s reputation |  |  |  | **🗸** |
| Negotiates equivalency agreements with importing governments | **🗸** | **🗸** |  | **🗸** |
| Obtains country level conformity assessment with importing government requirements |  | **🗸** |  |  |
| Approves certifying bodies to issue OPCs | **🗸** | **🗸** |  |  |
| Allows third party accreditation body to accredit certifying bodies to issue OPCs |  |  |  | **🗸** |
| **Exporters** |  |  |  |  |
| Must obtain OPC to export | **🗸** | **🗸** |  | **🗸** |
| May be certified to produce goods to Australian Government recognised standard to export | **🗸** | **🗸** |  | **🗸** |
| May be certified to produce goods to importing government requirements | **🗸** | **🗸** |  | **🗸** |
| May obtain commercial certificate to meet importing government requirements |  |  | **🗸** |  |
| **Third parties** |  |  |  |  |
| Accreditation body vets and manages certifying bodies |  |  |  | **🗸** |
| Certifying bodies issue OPCs to Australian Government recognised standard | **🗸** | **🗸** |  | **🗸** |
| Certifying bodies issue OPCs to Government held conformity assessment with importing government requirements |  | **🗸** |  |  |
| Certifying bodies issue OPCs to conformity assessment they hold with importing government requirements | **🗸** | **🗸** |  | **🗸** |
| Certifying bodies issue commercial certificates |  |  | **🗸** |  |

#### Results

The status quo has contributed to the objective of supporting Australian organic products’ reputation in export markets, and a number of equivalency arrangements have been negotiated under the current regulations. This review assesses whether other options would result in a relative improvement (net benefit) compared with the status quo.

The net present value (NPV) of the costs and benefits of each option relative to the status quo are presented in Table 2 below. Present values are calculated based on a 15 year flow of benefits or costs and using the Office of Best Practice Regulation’s (OBPR’s) recommended real discount rate of 7% (OBPR, 2014).

Table 2 Present value benefits and costs of each option, $m

| $m | Option 2 | Option 3 | Option 4 |
| --- | --- | --- | --- |
| **Present value of benefits** | 2.60 | 9.96 | 1.27 |
| **Present value of costs** | -1.67 | -24.38 | -1.64 |
| **NPV** | 0.93 | -14.42 | -0.37 |

Source: Deloitte. Note: Values represent the present values of a 15 year stream of benefits and a 7% discount rate.

Different groups are impacted differently under each option. The NPV experienced by each group – organic producers, certifiers and government – over the period modelled is shown in Table 3. There are, of course, links between the costs and benefits experienced by different groups (increased costs experienced by certifiers, for example, would be passed on to organic producers). The figures in Table 3 represent the impact on different groups.

Table 3 Net benefit experienced by each group under each option, $m

| $m | Option 2 | Option 3 | Option 4 |
| --- | --- | --- | --- |
| **Organic producers** | -0.04 | -15.17 | -0.13 |
| **Certifiers** | 2.58 | - | -0.12 |
| **Government** | -1.60 | 0.75 | 0.02 |
| **Othera** | - | - | -0.13 |
| **Total** | 0.93 | -14.42 | -0.37 |

Source: Deloitte. Note: Benefits, costs and net benefits are calculated as the values are the present value of a 15 year stream of benefits. a. These are costs of consumer and other groups from participating in FT-032 or a similar stakeholder group to support the Australian Standard.

Option 2 would provide a net present benefit of around $0.93 million relative to the status quo. This result is primarily driven by a reduction in the costs faced by certifiers in maintaining their conformity assessment arrangements (valued at $2.58 million). There is also an unquantified risk in this option of countries for which country level conformity assessments are negotiated questioning or ceasing to recognise those arrangements. In the current system, the fact that multiple certifiers negotiate their own conformity assessment arrangements provides some redundancy (such that if one certifier’s arrangement ceases to operate, another certifier still provides a channel to export markets). If government were the sole negotiator of country level conformity assessments, there is a risk that organic exports to particular markets could cease entirely if an arrangement fails.

Option 3 has an NPV of -$14.42 million relative to the status quo. This result is mainly driven by a decrease in export revenue due to foreign buyers’ reduced willingness to pay for Australian organic products. Weaker regulation damages the reputation of Australian produce in overseas markets which causes loss of revenue for exporters. The transition costs that would be incurred in the organic industry due to the lack of legislative support for the National Standard are not included in these figures. They would add further to the costs of this option, and further cement this option as not preferred relative to the status quo.

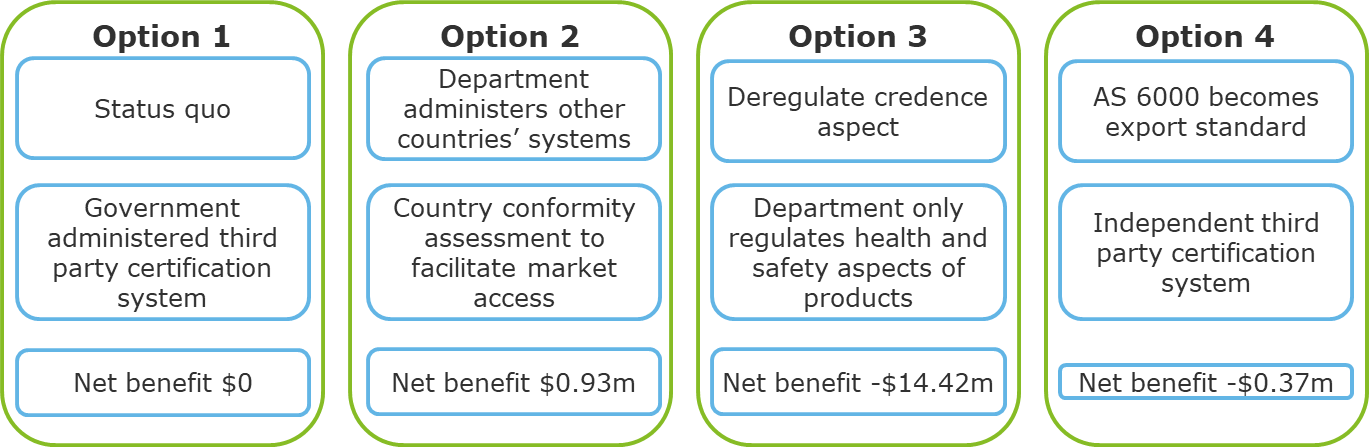
Option 4 has a NPV of -$0.37 million. Under the base calculations for Option 4 it is assumed that an organic industry Standards Development Organisation (SDO) is formed, likely attached to the existing organic industry body. Consultation with existing SDOs, a consultant who has worked with them, and Standards Australia, indicates that the costs of becoming accredited as an SDO are not prohibitive. Forming an SDO would give the organic industry greater control over the timing of amending the standard. Whether an SDO is formed or not, moving to AS 6000 would involve the formation of a group similar to the currently inactive FT-032.

Under the base calculations for Option 4, however, it is not assumed that industry experiences any benefits associated with country level conformity assessment or equivalence being negotiated. Many stakeholders do believe that AS 6000 would be more likely to be accepted by importing governments as the basis of equivalency. This is because standards produced as part of the Standards Australia process must be produced in line with international best practice.

A sensitivity analysis of Option 4 was conducted in which it is assumed equivalence is negotiated with the same priority markets for which it is assumed that country level conformity assessment is negotiated under Option 2. In this scenario the NPV of Option 4 increases to $4.09 million. This positive NPV is driven by reduced certification costs for organic businesses and reduced costs of maintaining conformity assessment arrangements for certifiers. This scenario is the only one considered in this review in which organic producers benefit.

Regulatory burden measurements indicate that each option results in a decrease in regulatory burden relative to the status quo. Options 2, 3, 4 and 4 result in the average annual regulatory burden decreasing by $0.36 million, $2.10 million and $0.08 million, respectively. These numbers are calculated differently to the results of the cost-benefit analysis, so should not be directly compared.

Figure 1 The options considered in this review



#### Recommendation

The results of this review indicate that regulation of organic exports is beneficial. Removing regulation could substantially damage the reputation of the Australian organic export industry and reduce the importer buyer willingness to pay, resulting in a net cost of $14.42 million over the next 15 years.

In relation to which standard should be used to regulate organic exports, AS 6000 (Option 4) is preferred. While the NPV of Option 4 is slightly negative, at -$0.37 million, it appears to provide greater potential for the negotiation of equivalence. In the sensitivity analysis in which it is assumed equivalence is negotiated for some priority markets, the NPV of Option 4 is $4.09 million.

Stakeholder feedback and research suggest that standards formed in line with international best practice procedures are more likely to have traction in equivalence negotiations. The SDO or Standards Australia process is required to conform to international best practice. At the same time, some stakeholders have noted that that AS 6000 is essentially the same as the National Standard and would therefore grant no further benefit. The Australian Government notes that choice of standards is one of a number of factors influencing the decision of an importing government to grant equivalency.

One of the organic certifiers has noted that *“The Standards Australia system has a resilience that the current National Standard, let alone the various private standards, will never have. Investments in the development of further equivalence type negotiations around standards that may not be here in the future is a waste of resources and leaves the Australian industry open to collapse should those standards cease to exist.”*

A number of stakeholders have suggested that Canada’s experience in negotiating equivalency with the USA and other jurisdictions (as at 2018 – Switzerland, Japan, the EU, and Costa Rica) has been aided by the adoption of an organic standard system that aligns with international standard setting norms. Canada’s Organic Production Systems standards (CAN/CGSB-32.310-2015) were developed by the Canadian General Standards Board, which is an accredited Standard Development Organization, and was approved by the Standards Council of Canada.[[1]](#footnote-2) One stakeholder indicated that while Canada did introduce explicit domestic regulation as it introduced its organic standard, some people close to that process believe this was not necessary for the success it later had in negotiating market access.

It has also been suggested by a number of stakeholders that making AS 6000 the export standard would aid equivalence negotiations for another reason – it would bring alignment between Australia’s domestic and export standards. Of course, this does not guarantee success in negotiating equivalence. New Zealand has operated a similar system to Australia (with certification for domestic purposes not mandatory), and is now considering making certification for domestic purposes mandatory, partly to support market access.

Even if pursuing Option 4 does not result in equivalence being negotiated there is no reason, prima facie, that the benefits generated under Option 2 could not be also realised under Option 4. As the Department has indicated in relation to Option 2, it will pursue country level conformity arrangements if equivalence agreements are not negotiated with priority markets. Because the net benefits of the base version of Option 4 are close to zero, if country level conformity assessments are negotiated, the net benefits under the scenario would approach those of Option 2.

## Introduction

By 2060, over one billion people will shift into the middle classes in the Asian region alone. Leveraging off Australia’s clean and green reputation, and targeting the production of differentiated products will allow Australia to take greatest advantage of forecast growth in population and income around the world.

Producing differentiated products built around a reputation for safety, integrity and quality is widely regarded as an important means by which Australian businesses can compete globally.

For this reason the Australian Government included a pillar in the Agricultural Competitiveness White Paper to improve access to premium markets. Organics is a target market under this policy.

The Australian government is making changes to the export legislative framework. This involves consolidating existing export-related provisions into a new agricultural export legislative framework made up of an Export Control Bill 2017 and the Export Control Rules (‘the rules’). This new legislative framework will replace the existing *Export Control Act 1982* (Cth) (‘the Act’) and legislative instruments, including the Export Control (Organic Produce Certification) Orders (‘the Orders’). The new legislative framework will commence shortly before 1 April 2020 when the existing regulatory framework sunsets.

Australia’s exports of organic products have been regulated since 1992, with the regulation principally taking the form of a requirement for products exported to have been prepared in accordance with the National Standard for Organic and Bio-Dynamic Produce (‘the National Standard’). Since then, Australia’s organic sector has grown significantly – exports were worth around $450 million in 2017.

This review evaluates four options for regulation of the export of organic products (including the status quo) having regard to their impact on reputation, market access and regulatory burden. The review does not address the topic of domestic regulation as this is outside the scope of a review of export regulation, but does note impacts on the domestic side of the industry where appropriate.

The report is organised as follows:

* chapter 1 provides background information on Australia’s organic industry;
* chapter 2 states the problem that regulation in this space seeks to address;
* chapter 3 describes the options being considered in this review;
* chapter 4 details the process and outcomes of consultation;
* chapter 5 describes the cost benefit analysis of each option and identifies the preferred options; and
* chapter 6 discusses implementation and review.

## Background

This chapter provides information on:

* the characteristics of organic product claims that sets them apart from other product claims (section 1.1);
* current organic export regulations (section 1.2);
* importing government requirements for organic products (section 1.3); and
* the value of Australia’s organic exports (section 1.4).

### Characteristics of organic product claims

The organic aspect of a product is a ‘credence’ attribute. This means that buyers and final consumers cannot generally observe from inspection of products whether they have been produced in an organic production system or not.[[2]](#footnote-3) This results in an information asymmetry between producers, who do have information about the production system used, and buyers (including final consumers), who do not have that information.

The information asymmetry between producers and buyers in relation to organic claims can cause market failure. This could occur in the situation where businesses using conventional production systems falsely claim to be using organic production systems, increasing the supply of ‘organic’ products, reducing the price premium organic products can attract, and also eroding trust in the organic claims of businesses. In the extreme, trust and willingness to pay for organic products would disappear, and the supply of genuine organic products may cease.

When products are exported and identified as Australian and organic the value that buyers place on them is partly determined by both of those characteristics. And because part of the value that buyers place on Australian products relates to the integrity of our production and regulatory systems, erroneous organic product claims could impact the reputation of Australian products more broadly.

To address these type of market failures, a range of means have been used to assure buyers of the veracity of organic claims (and so establish the trust necessary to induce production of organic products). These include contractual arrangements up and down the value chain, vertical integration, and, most importantly in the current context, certification systems according to established standards.

### Current regulations

The *Export Control Act 1982* (Cth) currently provides the basis for the Australian government to set conditions that must be met in order to export commercial quantities of certain goods from Australia. Legislative instruments support the Act and specify these conditions for particular commodities. Government officials are also authorised under the Act to inspect and certify that participants in the export supply chain are meeting conditions set out under the Act. This legislation is aimed at establishing greater credibility for Australian products, and providing greater reassurance of quality to importing countries.

The Act also exists with some other Commonwealth legislation that further regulates exporters of particular commodities. For example, the *Australian Meat and Live-stock Industry Act 1997* (Cth) requires exporters of meat or livestock to be licensed.

Exported goods may be prescribed on a number of levels and all requirements must be met before export. For example, meat may have health and safety requirements, halal requirements, tariff rate quota requirements and organic requirements to exit Australia.

In the case of a product’s organic status the Orders prohibit the export of products labelled as organic in the absence of an Organic Produce Certificate (OPC) issued by an approved certifying organisation, and also stipulate adherence to importing country requirements.

OPCs must be provided by approved certifying organisations as long as they are satisfied the products in question have been “prepared in accordance with the National standard for Organic and Bio-Dynamic Produce, or satisfies a conformity assessment arrangement” (Department of Agriculture and Water Resources (DAWR), 2018b).

The National Standard “provides a framework for the organic industry covering production, processing, transportation, labelling and importation” (DAWR, 2016). Key aspects of this framework are outlined in Table 4 below.

The Government Administrative Arrangements for Approved Certifying Organisations Managing and Inspection and Certification Programs for the Export of Certified Organic and Biodynamic Produce (‘the Administrative Arrangements’) outline the requirements for interpretation and application of the National Standard. The Administrative Arrangements also set out requirements for the internal processes of approved certifying bodies – for instance, that they avoid conflicts of interest. All certifying organisations must have a documented Quality Management manual which details the responsibilities and duties, procedures and policies of their organisation.

Table 4 Production requirements in the National Standard

| **Aspect** | **Production requirement** |
| --- | --- |
| Farm | Operators aim to achieve optimum quantities of quality produce while enhancing the sustainability of natural agricultural resources. |
| Genetic modification | The use of products comprised of, or derived from, genetic engineering is prohibited. |
| Landscape management and biodiversity | Organic producers must develop 5% of their property as treed areas, grasslands or other reserves which are non-cultivated. |
| Soil and water management | Crop rotations, organic composting and agricultural techniques reduce the use of nitrates and other artificial fertilisers. Operators must minimise water contamination and minimise water loss. |
| Plant protection | Operators rely on management practices, rather than substances, for the control of pests and diseases. |
| Livestock | Stocking rates must be appropriate for the region, and livestock must range freely on pasture. Any negative consequences from overgrazing must be avoided. |
| Disease prevention and treatment | Organic livestock health is to be maintained through management practices before the use of certain approved products. Antibiotics can only be used to treat illness under veterinary direction. Any produce from livestock treated with antibiotics is no longer organic and must be quarantined from other livestock. |
| Livestock welfare | Living conditions must provide for animals’ natural needs including free ranging, food, water and shelter. Only certain surgical treatments are permitted. Slaughter of livestock must minimise the effects of stress and suffering. |
| Bio-dynamic production | Bio-dynamic production is a process originally outlined by Rudolf Steiner in 1924, aimed at comprehensive land management to encourage soil, nature and crop vitality. |
| Transport and storage, preparation, packaging | Products must be separated from non-organic produce during transport and storage. Prohibited substances cannot be used after harvest. |
| Labelling | Non-organic ingredients must be identified. Labels must accurately reflect the proportion of organic ingredients in the product. If a product is less than 70% organic, reference to organic production methods can only be included in the ingredient list. |

Ultimately, the National Standard and the Orders are applied by approved certifying bodies. The Department has power under the Orders to assess certifying bodies and recognise them as approved certifying organisations for the purpose of issuing OPCs and certifying businesses as meeting the National Standard or not. These bodies are audited at least annually to ensure their compliance with the National Standard. The regulatory regime that governs the export of organic products is illustrated in Figure 2 below.

Figure 2 Regulatory regime for organics exports

A funnel diagram outlining the regulatory regime for organics exports.

Legislation (namely the Export Control Act 1982 (Commonwealth)) provides the legal basis for the Department to implement export controls. 

The Export Control (Organic Produce Certification) Orders set out the types of produce subject to export control orders, and provides for the authorisation of certifying bodies. 

The National Standard for Organic and Bio-Dynamic Produce, importing country requirements, and the Administrative Arrangements set out the requirements for organic production that certifying bodies must incorporate into their assessments. 

Approved certifying bodies apply these Standards to effectively enforce the Export Control Orders.

Businesses certified to the National Standard can satisfy approved certifying bodies that their products have been prepared in accordance to the National Standard, and so can be exported. 

As was noted above, approved certifying organisations can issue OPCs as long as they are satisfied that products have been produced in accordance with the National Standard or if the products in question satisfy a conformity assessment arrangement. A conformity assessment arrangement is:

…an agreement between an individual Australian certifying organisation and an overseas government entity for eligibility of that certifying organisation to certify goods for export to the importing country under the agreement (DAWR, 2014).

A number of Australia’s approved certifying organisations hold such arrangements, as follows:

* Australian Certified Organic (ACO) is able to certify Australian businesses to the organic standards of the United States of America (USA), the Republic of Korea, Japan, the People’s Republic of China (China) and the European Union (EU);
* NASAA Certified Organic (NCO) is able to certify Australian businesses to the organic standards of the USA, Japan, China and the EU; and
* AUS-QUAL is able to certify Australian businesses to the organic standard of the USA and the EU; and
* Organic Food Chain (OFC) and Bio-Dynamic Research Institute (BDRI) can both certify Australian businesses to the organic standard of the EU.

In effect, this means that OPCs can be issued for products as long as the products have been produced by businesses holding National Standard certification or by businesses certified to the relevant destination market’s organic standard by an Australian certifying organisation.

In addition to the constraints placed on what can be exported from Australia, products must meet any relevant importing country requirements to be accepted in overseas markets. For example, food products labelled as organic or similar that are exported to Singapore must be certified as organic under an inspection and certification system that complies with the *Codex Alimentarius Guidelines for the Production, Processing, Marketing and Labelling of Organically Produced Foods* (Codex Alimentarius Commission, 2009).

#### Other matters

Access to a number of overseas markets is supported by equivalence arrangements that have been negotiated. Under these arrangements, the relevant products will be accepted in overseas markets as long as they are certified to the National Standard. The following equivalence arrangements were in place in June 2018:

* the EU – plant based products;
* Switzerland – plant based products;
* Japan – plant based products; and
* Taiwan – all plant based products, all animal based products except offal and bones.

Certification of a product, beyond giving the producer the right to export it, also permits the use of certain certification marks. Each organic certifier has its own trade mark. Beyond this, the Australian National Organic Mark represents an industry effort to help to maintain the standard and reputation of Australian organics in export markets. It is a registered certification trademark under the *Trade Marks Act 1995* (Cth), indicating that the product conforms to the requirements of the National Standard. If a producer uses the Mark on a product that does not meet the requirements of the National Standard, industry may enforce their claim to the trademark through courts.

The National Standard is not the only standard in Australia. The Australian Standard for Organic and biodynamic products (AS 6000) also exists. AS 6000 was modelled off the National Standard, but there is some divergence between the two standards now. At present there are no bodies accredited to AS 6000, and the National Standard has become the *de facto* standard in the domestic market.

Standards Australia has submitted that:

Standards Australia is recognised by the Commonwealth as Australia’s peak non-government standards body… At the international level, Standards Australia is committed to representing the views of stakeholders, government and consumers in standards development and related activities. Domestically, standards are developed for the net benefit of Australia and enhance economic efficiency, increase community safety and sustainability, and improve industry and international competitiveness.

In relation to the development of AS 6000, Standards Australia also submitted that:

Consistent with Australia’s obligations under the WTO Agreement on the Elimination of Technical Barriers to Trade, Australian Standards are developed according to principles of openness, transparency (including extensive public consultation windows) and in Australia’s net benefit, with Committees comprising diverse stakeholder groups.

### Importing government requirements

In order to understand the impact of regulatory change on buying decisions in import markets, a desktop review of the regulations in those countries was conducted. Primary resources for this review included:

* direct advice from the Department;
* United States Department of Agriculture (USDA) Agricultural Marketing Services fact sheets (USDA, 2018a) and Global Agricultural Information Network reports (USDA, 2018b); and
* the US Organic Trade Association’s Global Organic Trade Guide (Global Organic Trade, 2018a).

The desktop review focused on the nature of importing requirements in each country. The types of importing requirements observed are detailed in Table 5 below. Countries were included in the review if at least one OPC referred to them.

Table 5 Importing government requirements in Australian export markets, 2017-18

| **Type of importing requirement** | **Description** | **Countries** |
| --- | --- | --- |
| Importing requirements, reliance on Australian certification | Country has a domestic organic standard that imports must meet. However, Australian certification is used as a signal of quality by consumers. | China |
| Importing requirements, no reliance on Australian certification | Country has a domestic organic standard that imports must meet. Consumers are not reliant on other certifications as a signal of quality. | Argentina, Canada, Peru, Republic of Korea, Russia, Ukraine, United States of America |
| Equivalency | Partial, or full, equivalency for organic produce. If equivalency is partial, Australian products that are not covered by equivalency must meet domestic organic standards. | European Union, Japan, New Zealand, Taiwan |
| Recognition of Australian certification | Country requires certification to at least one international organic standard; National Standard certification is sufficient to enter the market. | Indonesia, Malaysia, Saudi Arabia, Singapore, United Arab Emirates |
| No specific requirements | No specific import requirements in legislation. | Bahrain, Brunei, Burma, Cambodia, Fiji, Haiti, Hong Kong, India, Jordan, Kenya, Kuwait, Lebanon, Maldives, Mauritius, Nepal, Oman, Papua New Guinea, Philippines, Qatar, South Africa, Sri Lanka, Thailand, Tonga, Uzbekistan, Vanuatu, Vietnam |

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### Value of the organic export market

It is estimated that the total value of Australia’s organic exports was $450 million in 2017.[[3]](#footnote-4) This includes all products exported with OPCs.

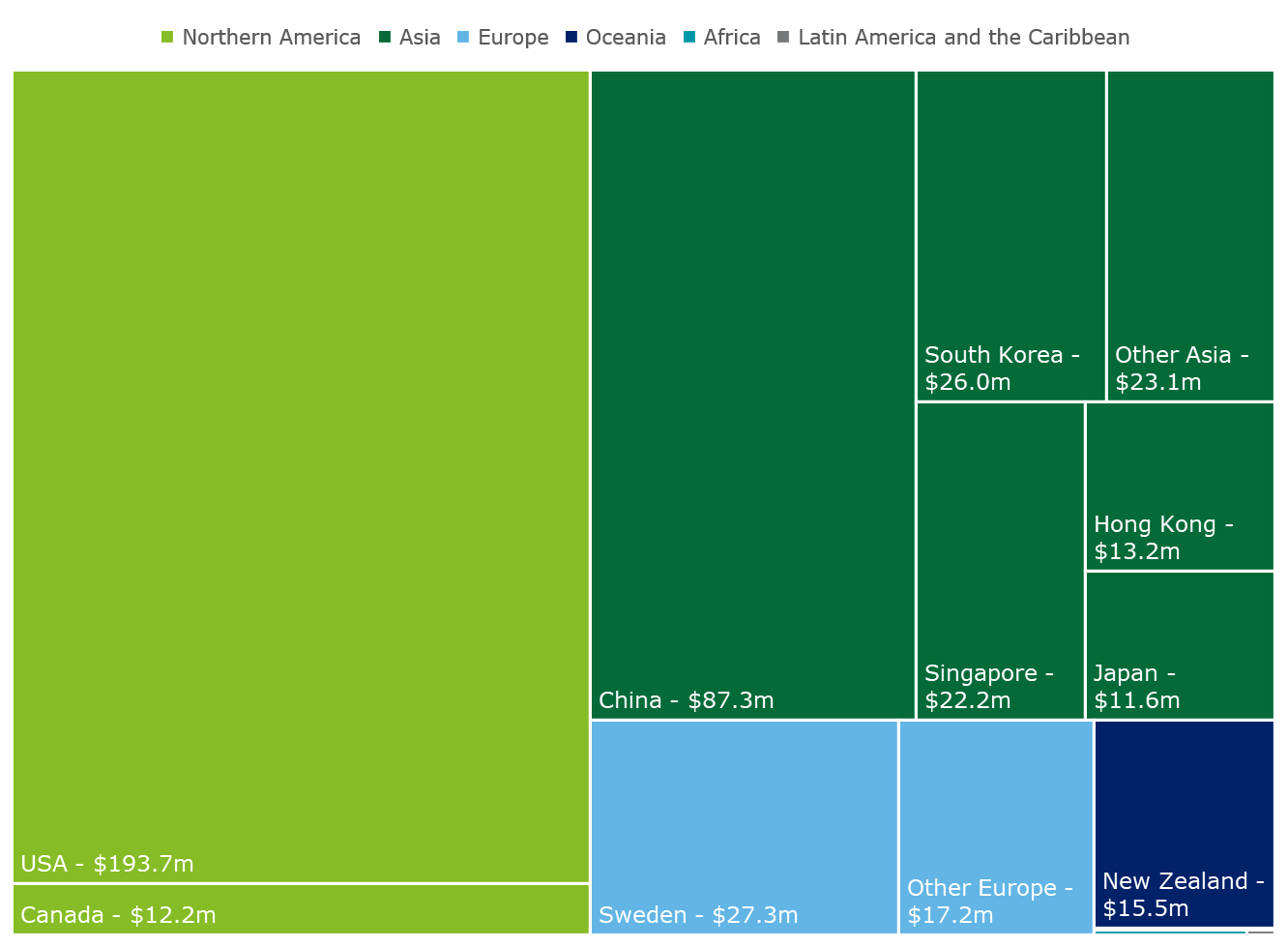
This estimate is based on data on the destination and volume of organic products contained within the OPCs created by the approved organic certifiers. No price or value data is collected as part of the OPC generation process. OPC data has been transformed into value data based on categorisation of the vast number of different products exported and attaching a price to each category of product. There is uncertainty as to the appropriate price that should be attached to each category of product (and, often, what category different products should be allocated to). As a result, there is uncertainty as to the accuracy of this estimate. Greater time and an improved data collection process will be necessary before estimates of the value of organic exports of comparable quality to other Australian agriculture and food data can be produced.

The estimated value of organic exports in 2017 of around $450 million is around 30% greater than the estimated value of exports in 2014 as per the Australian Organic Market Report 2014 of $340 million, and from 2014 to 2017 there was a 30% increase in the number of producers and processors certified as organic, suggesting that the estimates produced as part of this review are broadly correct. The 2014 and 2017 estimates imply an average annual growth rate of 7.5% over the period, which is greater than the average annual growth rate of Australia’s total rural exports of around 5%. This type of difference is in the realm of possibility. Over the same period, however, there was a 150% increase in the area of land certified as organic, suggesting that there may have been even greater growth in the value of exports over the period.

Figure 3 shows the destination of Australian organic exports by value in 2017. Key insights include:

* Northern America was the main market for Australia’s organic exports, with 43% of all exports going to the USA. Canada accounted for a further 3%.
* Asia was another major destination, accounting for 41% of the value of all Australian organic exports, and China made up 48% of this figure (or 19% of all exports). The Republic of Korea, Singapore, Japan and Hong Kong each accounted for 6%, 5% and 3%of all Australian exports, respectively.
* Exports to Europe made up 10% of value of organic exports, with most of this (6% of the 10%) made up of exports to Sweden.
* New Zealand accounted for 3% of all exports by value.
* Africa, Latin America and the Caribbean together made up only 0.1% of all organic exports.

Figure 3 Destination of Australian exports of organic products, 2017

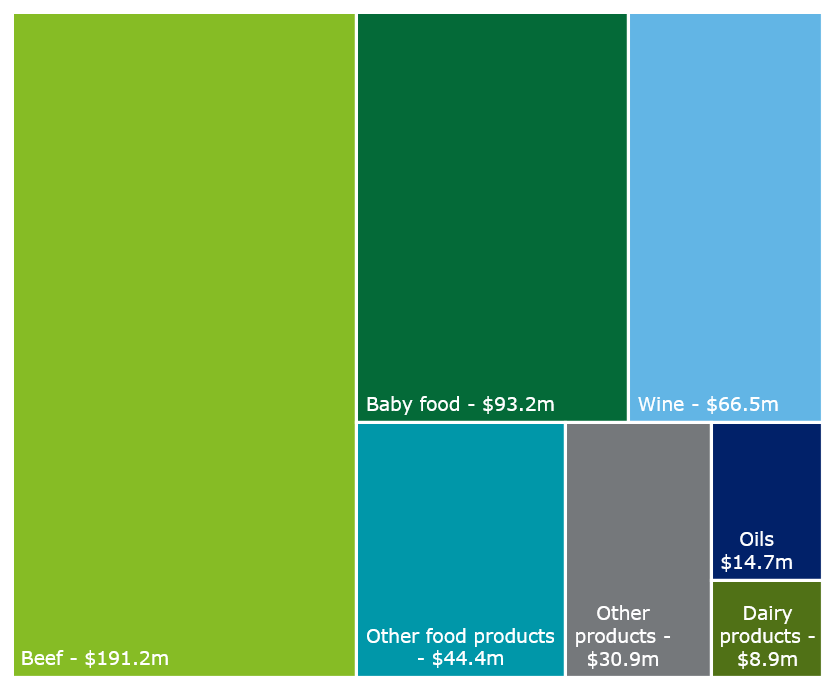


Source: OPC data and Deloitte.

Figure 4 shows the makeup of Australian organic exports by value in 2017. Key insights include:

* Unsurprisingly, beef makes up the majority of Australia’s organic exports. Organic beef exports were worth an estimated $191.2 million in 2017, 43% of the value of all exports. Most of this product went to the USA.
* Baby food was another major export, estimated to have been worth $93.2 million in 2017, which was 21% of the value of all organic exports.
* Wine accounted for 15% of the value of all organic exports, worth an estimated $66.4 million in 2017.
* A large number of products were identified as food but with descriptions that were too varied to be analysed in detail. These ‘Other food products’ accounted for an estimated 10% of the value of all organic exports. The price attributed to these is simply the weighted average price of all other organic food products being exported.
* Oils (for example, tea tree oil or sandalwood oil) and dairy products made up 3% and 2%, respectively, of the value of all organic exports in 2017.
* Other products made up around 7% of organic exports in total.

Figure 4 Makeup of Australian exports of organic products, 2017



Source: OPC data and Deloitte.

## Statement of the problem

The current focus of the Australian organic industry is on the domestic market, but the export market is likely to experience greater growth in the future due to both population and income growth. Having overseas alternatives to domestic markets is a source of diversification for organic producers.

The underlying objective of the regulatory regime for organic exports is to give buyers in export markets confidence that Australian organic products are actually organic, and so support Australian organic products’ reputation in those markets. Using a certification system to provide this confidence is a means of overcoming the problem created by the fact that buyers in exports markets cannot in general assess the veracity of organic claims.

Maintaining control over the certification status of products leaving Australia reduces the risk of non-organic products being marketed as organic in export markets and damaging Australia products’ reputation. But the way that control is currently realised may be imposing unnecessary costs on the industry, principally through the need for organic businesses to maintain certification to multiple organic standards, and the related cost to certifiers needing to maintain accreditation to multiple organic standards.

The National Standard is managed and kept up to date outside of Standards Australia’s frameworks, and approved to certify to the National Standard is undertaken by the Australian Government (rather than a recognised accreditation organisation). These arrangements may be acting as a constraint to the negotiation of equivalency with other countries’ organic standards. Where it can be negotiated, equivalency can reduce the costs that Australian businesses face in maintaining certification to multiple organic standards.

The Australian Government is in the process of updating the export legislative framework, and the updated framework will come into force shortly before 1 April 2020. One of the objectives of the new framework is to meet relevant importing country requirements to enable and maintain overseas market access for goods exported from Australia. If current regulations are not needed to enable or maintain market access, or are otherwise deficient in some way, then consideration should be given to removing or amending them.

Any reform to the Orders needs to assess and weigh the costs and benefits of changes from the status quo. These costs and benefits will flow to government and private entities primarily in the form of impacts on:

• market access;

• reputation; and

• regulatory burden.

There are trade-offs between these elements when it comes to regulation of organic exports. An approach that reduces the certification requirements of exported organic products may reduce organic businesses’ costs, but may harm Australian organic products’ reputation in export markets. And the choice of which organic standard to use in Australia and the means by which it is applied may impact market access, which will also impact business costs.

The options chosen for consideration in this review reflect a range possible approaches that will realise these various impacts to varying degrees.

## Options

Four options are being considered in this review:

* Option 1 – Maintain the status quo.
* Option 2 – Status quo plus country level conformity assessment arrangements.
* Option 3 – Commercial arrangements to facilitate export.
* Option 4 – Replace the National Standard with AS 6000.

Option 2 was developed in response to the public consultation process. The previous Option 2 set out in the public consultation process relied on “selected recognition of other countries’ standards”. Through consultation it was determined that this is effectively encapsulated within the potential, under the status quo, for organic products to be exported under conformity assessment arrangements negotiated between individual certifiers and overseas government entities. It is legal, for example, for Australian certifiers holding USDA National Organic Program (NOP) accreditation to provide OPCs for products produced in USDA NOP-certified supply chains even if none of the organic businesses involved hold National Standard certification.

### Option 1 – Maintain the status quo

As discussed in Chapter 2, products can only be exported from Australia and marketed as organic if they have been issued an OPC by an approved certifying organisation. OPCs can be issued if the approved certifying organisation is satisfied that the products have been produced in accordance with the National Standard or that they satisfy a conformity assessment arrangement.

### Option 2 – Status quo plus country level conformity assessment arrangements

This option focuses on increasing market access through regulatory reform.

At present, individual Australian certifying organisations negotiate conformity assessment arrangements with overseas government entities so that they can certify products to the standards that overseas government require of imported organic products.

Option 2 would involve Australia’s organic certification system as a whole being evaluated by relevant overseas government entities as conforming to their own organic certification systems. Following this evaluation, the Department would be given the authority to accredit Australian certifying organisations as being able to certify goods as meeting those other countries’ organic standards.

The principle benefit of this option would be that Australian certifying organisations would not need to separately negotiate and maintain their conformity assessment arrangements with overseas government entities. This is a costly and time consuming process.

Establishing country conformity assessment arrangements would take time and this option assumes that up to three would be attempted in the first 10 years of the new regulation.

During the transition period existing conformity assessment arrangements could continue and this option would not preclude the possibility of individual Australian certifying organisations entering into conformity assessment arrangements they negotiate with overseas government entities. This would particularly apply in markets which were not identified as a priority for establishing country conformity assessment arrangements.

Additional costs would be introduced for the Australian Government – negotiating country level conformity assessment arrangements and additional auditing of Australian certifying organisations – and some of these could be cost recovered.

### Option 3 – Commercial arrangements to facilitate export

This option focuses on the impact of removing regulation on organic exports.

Under this option, organic products would become non-prescribed for the purposes of the *Export Control Act 1982* (Cth). There would be no requirement for OPCs, and so no need for businesses to hold certification to the National Standard.

Other export regulatory requirements applying to those goods would remain (for example, export requirements for meat and dairy products related to health and safety).

Under this option, the only constraint to the export and marketing of products as organic would be importing country requirements. Where an importing country requires certification, it could be provided by commercial parties. Existing equivalency would be reviewed and, if possible, transferred to industry. Future equivalency arrangements could be negotiated and managed by organic industry bodies without government involvement, subject to importing country requirements.

Under this option, all auditing and accreditation of Australian certifying organisations with respect to the National Standard would likely cease. This could have significant impacts on the domestic organic industry and is largely dependent on industry bodies stepping in to fill the role of regulator.

### Option 4 – Replace the National Standard with AS 6000

This option focuses on the changes to regulatory burden from replacing the underlying standards of the existing regulation.

Under this option, the laws and regulations relating to the export of organic products would be amended so that AS 6000 would fulfil the role that the National Standard currently plays. OPCs would still be required for export, but they could be provided as long as the approved certifying organisation was satisfied that the products were prepared in accordance with AS 6000 (or satisfies a conformity assessment arrangement).

It is assumed that the following sequence of events would occur under Option 4:

* First, relevant stakeholders would band together and gain accreditation as a Standards Development Organisation (SDO). This is assumed because a number of stakeholders have expressed a strong preference for industry members continuing to have a significant ongoing role in the definition of organic in Australia. As will be clear in Chapter 6, forming and operating an SDO comes with financial costs. Whether it is ultimately necessary under a scenario where AS 6000 replaces the National Standard would be a choice for industry.
* The SDO would then modify AS 6000 so that it mirrors the current National Standard. This is assumed because current equivalence arrangements have all been negotiated with respect to the National Standard. It is assumed that these equivalency arrangements would be maintained if AS 6000 replaces the National Standard.
* The currently approved certifying organisations would become accredited by the Joint Accreditation System of Australia and New Zealand (JAS-ANZ) as being able to certify to AS 6000.
* The accredited certifiers would provide those businesses that currently hold National Standard certification with certification to AS 6000.

Because it is assumed that AS 6000 would be updated to reflect the current National Standard it is assumed that this option has no impact on buyers’ willingness to pay for Australian organic products.

### Summary

Table 6 on the next page indicates the role or tasks associated with different stakeholders under each option.

Table 6 Summary of roles and tasks under each option

|  | **Option 1** | **Option 2** | **Option 3** | **Option 4** |
| --- | --- | --- | --- | --- |
| **Government** |  |  |  |  |
| Requires OPC for product to leave Australia | **🗸** | **🗸** |  | **🗸** |
| Owns National Standard as the minimum requirements to protect Australia’s reputation | **🗸** | **🗸** |  |  |
| Recognises AS 6000 as the minimum requirements to protect Australia’s reputation |  |  |  | **🗸** |
| Negotiates equivalency agreements with importing governments | **🗸** | **🗸** |  | **🗸** |
| Obtains country level conformity assessment with importing government requirements |  | **🗸** |  |  |
| Approves certifying bodies to issue OPCs | **🗸** | **🗸** |  |  |
| Allows third party accreditation body to accredit certifying bodies to issue OPCs |  |  |  | **🗸** |
| **Exporters** |  |  |  |  |
| Must obtain OPC to export | **🗸** | **🗸** |  | **🗸** |
| May be certified to produce goods to Australian Government recognised standard to export | **🗸** | **🗸** |  | **🗸** |
| May be certified to produce goods to importing government requirements | **🗸** | **🗸** |  | **🗸** |
| May obtain commercial certificate to meet importing government requirements |  |  | **🗸** |  |
| **Third parties** |  |  |  |  |
| Accreditation body vets and manages certifying bodies |  |  |  | **🗸** |
| Certifying bodies issue OPCs to Australian Government recognised standard | **🗸** | **🗸** |  | **🗸** |
| Certifying bodies issue OPCs to Government held conformity assessment with importing government requirements |  | **🗸** |  |  |
| Certifying bodies issue OPCs to conformity assessment they hold with importing government requirements | **🗸** | **🗸** |  | **🗸** |
| Certifying bodies issue commercial certificates |  |  | **🗸** |  |

## Consultation

The consultation that has occurred for this engagement is ‘targeted consultation’ as the term is used by the OBPR. This is appropriate when “an affected group of stakeholders is in a small or well-defined geographic area or business sector” (OBPR, 2014).

Deloitte has consulted with a range of stakeholders on a number of occasions as part of the review. This has included consultation with private individuals and representatives of businesses or organisations both within Australia and in export markets, and members of the Department. This has been done in line with the principle that consultation should be done “in a genuine and timely way with affected businesses, community organisation and individuals” (OBPR, 2014).

Consultation has been used to support several objectives of the review, namely:

* accurate identification of the problem that regulation of organic exports seeks to address and the reasons why current regulations may not be optimal;
* development of the regulatory options for consideration; and
* identification and quantification of the costs and benefits of each option.

This Review has involved both domestic and international consultation.

Domestic consultation has focused on accurate identification of the problem and options to be included in the review, and identification and quantification of the costs and benefits of each option (which mainly relates to the costs of holding accreditation or certification for various organic standards).

International consultation has focused on Australian organic products’ reputation overseas and how foreign buyers’ willingness to pay for Australian organic products would be impacted with different regulatory settings in place.

This chapter details:

* the process and key themes emerging from domestic consultation (section 4.1); and
* the process and key themes emerging from international consultation (section 4.2).

### Process and key themes from domestic consultation

The domestic consultation process was focused through online consultation through the Department’s Have Your Say platform and a face to face session at Old Parliament House on 15 February.

The engagement process targeted the estimated 2,691 organic certified operators in Australia, non-organic operators and peak bodies. Attention to the review engagement mechanisms was publicised through: press releases on 22 December 2017 and 9 February 2018 resulting in five media articles; nine Twitter posts from the Department and one from Deloitte; and direct email engagement with entities know to the Department.

The Organic Orders Review Have Your Say page was visited 1150 times over the period 22 December 2017 and 26 February 2018. There were 245 document downloads, 90 registrations, 27 responses to the questionnaire and 30 written submissions.

A further 6 submissions were made directly to Deloitte.

The 75 entities responding identified themselves as follows:

* farmers - 26 (35% of respondents);
* industry body - 16 (21% of respondents);
* import/exports - 16 (21% of respondents);
* other - 7 (9% of respondents);
* private citizen - 5 (7% of respondents);
* non-government organisation - 2 (3% of respondents);
* environmental group - 1 (1% of respondents);
* animal welfare group - 1 (1% of respondents); and
* veterinary medicine: 1 (1% of respondents).

Other aspects of the domestic consultation included:

* Face-to-face consultation at the Love Organic Symposium at Old Parliament House in Canberra on 15 February 2018, which was attended by around 40 participants. The public consultation findings as at 15 February were tested and additional data gathered.
* Follow-up telephone interviews have been held with 12 stakeholders including Standards Australia and JAS-ANZ.
* A tailored information request was sent to the five export certifiers.

The five themes of feedback received in the domestic consultation process were:

* The National Standard is the *de facto* domestic standard.
  + The National Standard has become the basis of standards for domestic organic certification, even though it only exists as part of the export legislation.
  + Although the Australian Standard, AS 6000, is used to enforce organic claims in Australia, the National Standard forms the basis of domestic supply chains.
* There are important differences between international standards and the National Standard.
  + Many Australian organic producers have international certification to access export markets.
  + But many producers said they didn’t want to have to wholly defer to international standards over the National Standard, both because of relevant differences in the standards and because of a belief that there is brand value in Australia’s organic reputation.
* There are a range of costs in getting and staying certified, and exporting.
  + There is a possibly significant up-front cost to achieving organic certification, financially and in terms of modifications to production systems.
  + The cost of holding additional certifications beyond the National Standard are largely financial, with important exceptions (for example, the cost of keeping products certified to different standards from being mixed together).
  + The cost of obtaining OPCs was raised as onerous by a number of exporting businesses. At the same time, providing OPCs does not appear to be a major source of profit for certifiers.
* The option of using AS 6000 as the export standard is well worth considering, but would involve certain transition costs.
  + Calling up AS 6000 as the export standard is viewed as desirable by a number of stakeholders, both because of the transparency and rigour of Standards Australia processes and a perception that it would improve the potential for negotiating equivalency.
  + Calling up AS 6000 as the export standard would align the domestic and export regulatory environment.
  + Transitioning to AS 6000, and Standards Australia processes, would involve a number of costs, and these are not understood by all stakeholders.
* There was a need to revise the version of Option 2 presented earlier in the review process.
  + As it was described in much of the public consultation phase of the review, Option 2 would involve modifying current regulations to allow for “selected recognition of other countries’ standards.” This is, in effect, encapsulated within the potential, under the status quo, for organic products to be exported under conformity assessment arrangements negotiated between individual certifiers and overseas government entities.

### Process and key themes from international consultation

Through 10EQS, Deloitte surveyed 51 retailers with at least 10 years of experience in markets covering 70% of Australia’s organic exports as follows:

* EU (7 respondents from France, 1 respondent from Latvia, 2 respondents from Germany, and 1 respondent from Portugal);
* Singapore (10 respondents);
* China (10 respondents);
* Hong Kong (10 respondents); and
* USA (10 respondents).

After evaluating the responses to the survey, 10 of the respondents (two respondents from each of the five markets) were selected as candidates for in-depth interviews.

Discussions were also held with the New Zealand Ministry for Primary Industries in relation to how it manages New Zealand’s conformity assessment arrangements.

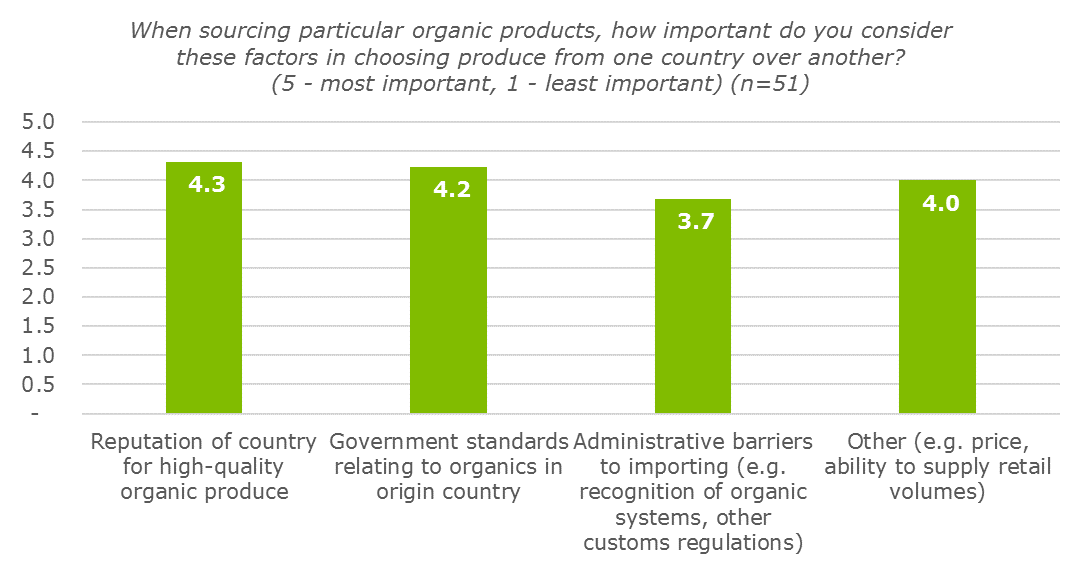
Information in this section is organised around two key themes that have emerged from the international consultation:

* Australia’s organic produce has a good reputation in export markets; and
* Australia’s certification requirements have supported the development of organic products’ reputation in export markets.

#### Australia’s organic produce has a good reputation in export markets

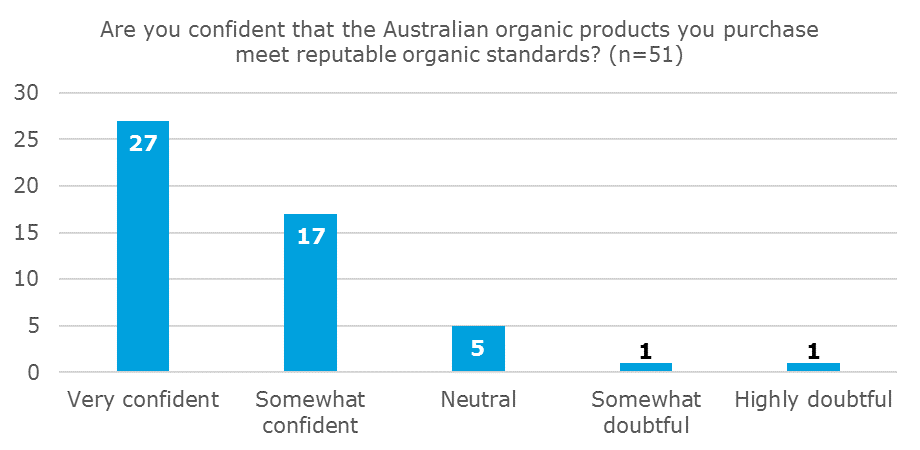
Respondents generally found reputation to be the most important factor in sourcing organic products, followed by government standards in the origin country (Figure 5). All but 7 respondents were either very confident, or somewhat confident, that Australian organic products meet reputable organic standards (Figure 6).

Figure 5 Importance of factors in choosing source country for organic produce



Source: International consultation.

Figure 6 Confidence in Australian organic production

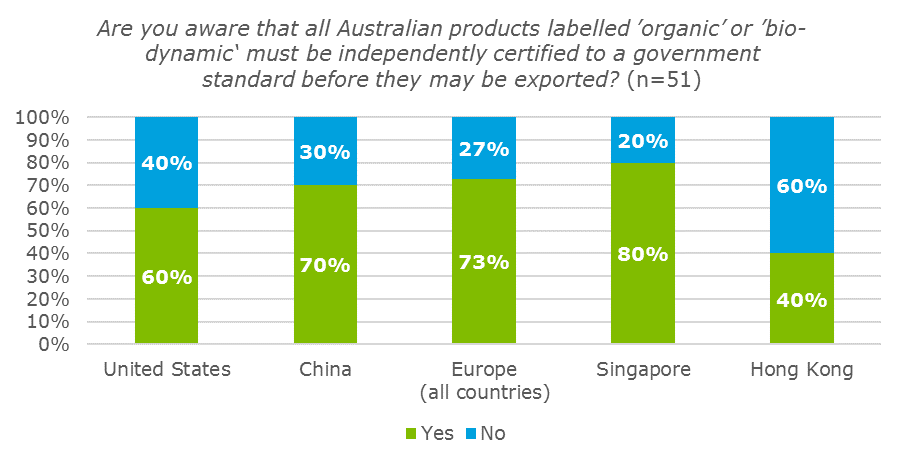


Source: International consultation.

#### Australia’s certification requirements have supported the development of organic products’ reputation in export markets

A majority of respondents were aware of Australia’s independent certification requirement (this was true across countries except for Hong Kong) (Figure 7).

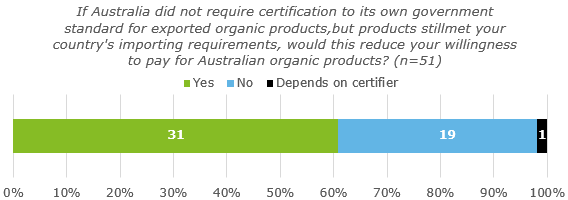
Figure 7 Awareness of Australian requirement for certification for exports



Source: International consultation.

A majority of respondents (31 of 51) said that their willingness to pay (WTP) would fall if Australian organic products were to only meet importing requirements (Figure 8). This did not hold true for Europe and the United States, perhaps reflecting on a greater level of confidence in local importing requirements. 12 respondents gave quantitative estimates of the decline in their WTP, varying from 8% to 50%.

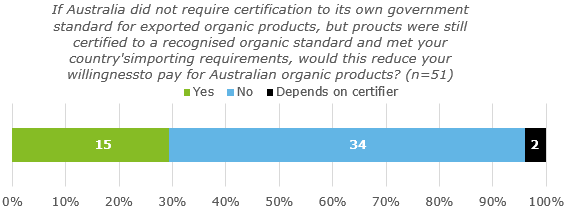
Figure 8 Decline in willingness to pay if only import requirements met



Source: International consultation.

In contrast, the majority response reversed when considering willingness to pay if Australian organic products were to meet a recognised organic standard, as well as importing requirements (Figure 9). All European importers agreed that they would still be willing to pay current prices in this circumstance; Chinese and Singaporean importers were more divided (again, perhaps reflecting on local ideas of what is a recognised organic standard). 6 respondents gave quantitative estimates of a decline in their WTP, ranging from 10% to 50%.

Figure 9 Decline in willingness to pay if import requirements and recognised standard met



Source: International consultation.

## Cost benefit analysis

This chapter presents the results of the evaluation of the costs and benefits of each option. This includes consideration of the quantified costs and benefits, as well as the non-quantified costs and benefits, distributional effects, and sensitivity analysis. All costs and benefits are presented in 2017-18 Australian dollars. The cost benefit analysis is done from the perspective of Australia as a whole (that is, it includes impacts on government and private entities).

Section 5.1 describes some of the key assumptions used in the analysis. Options 2, 3 and 4 are discussed in sections 5.2, 5.3, and 5.4 respectively. Each option is evaluated as a deviation from the status quo (Option 1).

### Key assumptions

In this section, key assumptions are discussed:

* the current number of organic exporting businesses;
* future growth in the number of organic exporting businesses;
* the current value of organic exports;
* future growth in the value of organic exports;
* wages rates;
* declines in willingness to pay;
* the discount rate; and
* the time horizon used.

#### The current number of organic exporting businesses

According to data supplied by the Department, 2,691 businesses (1,569 producers and 1,122 processors) were certified to the National Standard in 2017. Because of the important role of National Standard certification in domestic supply chains, it cannot be assumed that all certified businesses are involved in the export supply chain.

Consultation with certifiers has indicated that it is not possible calculate with any certainty the number of businesses that are involved in the export supply chain. However this needs to be estimated to calculate the costs and benefits of the options. The following method has been used:

* **The number of businesses holding certification to one of the prominent export standards is estimated**. Based on public and confidential data from certifying organisations, 863 businesses (515 producers and 348 processors) are certified to the most prominent export standards (USDA NOP, EU (non-plant products) and Republic of Korea) in addition to the National Standard. These businesses together account for 32% of businesses certified to the National Standard.
* **The share of Australia’s organic exports going to these countries is estimated.** This is done using estimates of the value of organic exports produced as part of this project, described below. Together, exports to the relevant markets (USA, EU, the Republic of Korea) amounted to 63% of organic exports in 2017.
* **It is assumed that the share of exports to these markets is proportional to the number of businesses holding the certifications necessary to gain access to them, and that the proportionality applies to all exports**. Using the same ratio of businesses-to-export volumes (namely, that each additional percentage point of volumes is produced by around 14 businesses), we assume that approximately 506 businesses account for the remaining 37% of export volumes (to countries where the National Standard enables market access, or no specific certification is required).

Accordingly, we estimate that 1,368 businesses are involved in the organic export supply chain as of 2017-18 for this analysis. This figure informs our analysis in Option 3, where the Government ceases to accredit businesses to the National Standard. All export supply chain participants would cease to obtain National Standard certification, while still obtaining certification to import market requirements if necessary.[[4]](#footnote-5) Under Options 2 and 4, costs and benefits do not vary based on the number of producers.

#### Future growth in the number of organic exporting businesses

We use forecasts of the growth in the number of establishments from IBISWorld’s *Organic Farming in Australia Industry Report*. This report estimates the growth rate to 2022-23, at which point we assume that growth has reached a medium-term equilibrium rate of 2.2% per annum.

The rate of growth in the number of organic exporting business is assumed to remain constant across the options. However, it is likely that variation in the costs of operating in the industry across the options would induce some change in the number of organic businesses. The level of uncertainty over the parameterisation of these effects is too great to allow them to be quantified. Including these effects would also only be of interest if suitably robust and comparable estimates were available about the value added created by organic and conventional businesses. Consequently, the estimated annual rate of growth in organic export businesses within Australia, for all three options considered, are based on the forecasts provided in Table 7.

Table 7 Forecast growth rates of the number of organic exporting businesses in Australia

| **FY ended** | **2019** | **2020** | **2021** | **2022** | **2023 and onwards** |
| --- | --- | --- | --- | --- | --- |
| **Annual growth rate (%)** | 0.2 | 2.0 | 3.4 | 2.8 | 2.2 |

Source: Vuong (2017).

#### The current value of organic exports

There is no publicly available and comprehensive data on the value of Australia’s organic exports.

The most complete dataset on Australia’s organic exports from Australia is each certifier’s records of the OPCs they provide for exporting businesses. Deloitte was provided with this data for 2014, 2015, 2016 and 2017. However, there are a number of important limitations to this data, as follows:

* The data only relates to volume, not prices or value.
* It is not collected in a uniform structure between certifiers. Each certifier collects a differing level of detail on the exports for which they provide OPCs. As a result, data transformation is necessary to make like-for-like comparisons between OPCs issued by different certifiers.
* The volume information collected is incomplete. For example, units are not provided in a number of instances.
* At the time of data collection the product description is not aligned to any system of classification, making it difficult to aggregate the data.
* Some products are labelled as mixes of multiple commodities (for instance, an OPC may simply have the product description of “dairy and juice” or “beef and lamb”).
* The exact type of product may be difficult to determine (for instance, a product may be simply labelled as “beef”, meaning it is difficult to estimate value given the variation in prices for different types of beef product).

We derive an estimate of the total value of organic exports in 2017 using the following method:

* Based on the contents of each OPC, exports were sorted by volume, product category and destination of export. Products of ambiguous categories were assigned to combined product categories.
* An average price was determined through desktop research for a range of products.
* The value was calculated by multiplying volumes by price within each category.

Using this method, the value of Australia’s organic exports in 2017 is estimated to have been around $450 million. This is above the estimated $340 million value of organic exports in 2014 as part of the *Australian Organic Market Report 2014.* Based on growth in the area of certified organic alone, this suggests that the estimated value of exports in 2017 may be an under-estimate.

#### Future growth in the value of organic exports

We use forecasts of the growth in exports from IBISWorld’s *Organic Farming in Australia Industry Report*. This report estimates the growth rate to 2022-23, at which point we assume that growth has reached a medium-term equilibrium rate of 4.4% per annum. The growth rate of the value of exports is higher than the growth in the number of organic exporting businesses because of a forecast growth in the export focus of organic businesses.

Table 8 Forecast growth rates of the real value of organic exports

| **Year** | **2019** | **2020** | **2021** | **2022** | **2023 and onwards** |
| --- | --- | --- | --- | --- | --- |
| **Annual growth rate (%)** | 4.0 | 2.1 | 7.3 | 5.1 | 4.1 |

Source: Vuong (2017).

#### Declines in willingness to pay

Of the options considered, only Option 3 could reasonably be expected to have a potential impact on buyers’ willingness to pay for Australian organic products. There are two components to this decline in willingness to pay:

* the impact of a loss of reputation that might arise from the loss of the Australian National Standard; and
* the impact of a ‘scare’ due to comingling of conventional and organic produce, in which case it is assumed the produce would be sold as conventional and the organic premium would be foregone.

The details of each of these assumptions are outlined in the cost-benefit analysis of Option 3.

#### Wage rates

In line with the OBPR Regulatory Burden Measurement framework, all additional regulatory work for government or businesses in this analysis is charged at the economy-wide rate of $68.79 per hour. This is comprised of a $39.31 wage rate, scaled up using a multiplier of 1.75 to account for on-costs (for example, payroll tax and superannuation) and overhead costs (for example, rent, telephone, electricity and information technology equipment expenses) (OBPR, 2016b).

#### Discount rate

The costs and benefits of the proposal are discounted at a rate of 7% per annum, in line with OBPR guidance (OBPR, 2016b). Sensitivity analysis for each option uses a 3% discount rate (where future costs and benefits are valued more highly in the present day) and a 10% discount rate (where future costs and benefits are valued less highly in the present day). Because our forecasts are not adjusted for inflation, these represent real rather than nominal discount rates.

#### Time horizon

A ten year time horizon is the default duration of assessment in the OBPR Regulatory Burden Measurement framework. But for this project, costs and benefits have been estimated for the 15 year period from financial year 2020-21 to 2034-35. This is because while changes to export legislation are expected to take effect from April 2020 (making the beginning of the 2020-21 financial year a useful starting point for the analysis), negotiating country conformity arrangements, or transitioning from the National Standard to AS 6000, would take some time. As a result, a 10 year horizon has been applied from 5 years in, at which point country conformity arrangements would be expected to be developed with key trading partners. As there are no quantified costs which are likely to take more than 10 years to first arise after the regulation changes, there is no justification for an even longer time horizon. The costs and benefits of each option would be ongoing so long as the regulatory environment stays the same.

### Option 2 – Status quo plus country level conformity assessment arrangements

This option would involve a situation where Australia’s organic certification system as a whole would be evaluated by relevant overseas government entities as conforming to those overseas governments’ organic certification systems. The Department would be given the authority to accredit Australian certifying organisations as being able to certify goods as meeting those other countries’ organic standards.

For the purposes of the cost benefit analysis it is assumed that country conformity assessment arrangements are negotiated with all overseas markets for which certifier-level conformity assessment arrangements have already been negotiated, and where equivalency negotiations have been underway for some time.

The following costs and benefits have been quantified to support evaluation of this Option:

* the cost of the Department maintaining country level conformity assessment arrangements;
* the cost of the Department undertaking additional auditing of approved organic certifiers;
* the cost of the Department of educating stakeholders about the change to regulations; and
* the benefit of approved organic certifiers not needing to maintain conformity assessment arrangements.

#### Costs

##### Department cost of maintaining country level conformity assessment arrangements

Under this option, the Department would need to directly engage with overseas government entities to negotiate and maintain country level conformity. The Department has estimated that it would allocate around one full-time equivalent (FTE) of additional work to this task, the costs of which would be recovered by the Department. The Department expects that country conformity for key markets could be negotiated within five years of a regulatory change.

Valuing a single public service FTE at the rate of $134,000 annually (which includes overheads), and assuming that this cost is experienced in every year over the 15 year modelling period, this cost would amount to an estimated $1.16 million in present value (PV) terms.[[5]](#footnote-6)

##### Department cost of undertaking additional auditing of approved organic certifiers[[6]](#footnote-7)

As the Department would become responsible for accrediting certification bodies, it would need to audit those bodies.

The Department has suggested that this could involve around five days of additional work per certifier, with three of those spent on-site. Assuming that only those approved certifiers who have already negotiated conformity assessment arrangements with overseas government entities, this would entail an additional 15 days of work annually. Valuing a public service FTE at the daily rate of $515.94 (which includes overheads), and assuming that this cost is experienced in every year once country conformity arrangements have been made (from year 6 onwards over the 10 year modelling period), this cost would amount to around $36,000 in PV terms.

It is assumed that the additional auditing by the Department would also create costs for approved certifying organisations. It is also assumed that three days of work would be involved (the assumed amount of time that the Department auditor would spend on-site). The cost of certifying bodies’ staff is valued using a daily rate of $515.94 (which includes overheads). If this cost is experienced in every year after country conformity is negotiated (from year 6 onwards in the 15 year modelling period), this estimated cost would amount to $23,000 in PV terms.

##### Cost of educating stakeholders about the change to regulations

The Department has currently not budgeted for any increase in costs to cover stakeholder education about changes to the regulation of organic exports, but based on prior Government spending on transition and education costs for other regulatory changes, we assume the total cost of publicising the changes to organic exporters and certifiers is $500,000, paid in the first year of the regulatory change. This represents $408,000 in PV terms.

It is also assumed that organic businesses need to spend half an hour familiarising themselves with the new regulations. It is estimated there would be 1,446 exporting organic businesses at the time the regulations would come into place. The PV of this cost is around $42,000.

A summary of the quantified costs of Option 2 are shown in Table 9.

#### Benefits

##### The benefit of approved organic certifiers not needing to maintain conformity assessment arrangements

It is assumed under this option that approved certifying organisations would no longer experience some of the costs they experience in maintaining their existing conformity assessment arrangements. Specifically, it is assumed that certifiers would not experience the current staffing costs involved, but they would continue to experience the majority of their out of pocket costs.

Certifiers have provided a range of estimates for the staffing costs associated with current conformity assessment arrangements. In the interests of maintaining confidentiality these are not discussed in detail. It is assumed that under Option 2 total staffing costs experienced by approved certifying organisations would decrease by $402,000 once country conformity is successfully negotiated, representing the wage and overhead costs associated with 3 FTEs (and using the wage rate discussed in section 5.1 above) – approximately a two-thirds reduction in work load. Assuming that this cost saving is experienced from 2026 onwards, this would amount to a saving to the economy of $1.97 million in PV terms.

It is assumed that most of the financial costs that certifiers currently experience to maintain their conformity assessment arrangements would still be experienced. Some costs would be removed (for example, the cost of conferences and training in the relevant overseas country), but it is assumed that many would remain. It is assumed that certifying organisations’ out of pocket costs would decrease by 50%, estimated to be $144,000 annually. This figure is based on information on the cost of accreditation to USDA NOP and other organic standards supplied by certifying organisations, as well as consultation directly addressing the costs that would potentially be avoided under a country level conformity assessment regime. Assuming that this cost saving is experienced in each of the 10 years once country conformity arrangements have been negotiated and implemented (from years 6 to 15 of the modelled period), this would amount to a saving to the economy of $630,000 in PV terms. A summary of the quantified benefit and net benefit of Option 2 are shown in Table 9.

#### Summary of quantified costs and benefits

Table 9 Option 2 quantified costs and benefit summary

| **Type of cost or benefit** | **Value ($m)** |
| --- | --- |
| Cost: negotiating and maintaining country level conformity assessment arrangements | -$1.16 |
| Cost: undertaking additional auditing of approved organic certifiers | -$0.06 |
| Cost: educating stakeholders about the change to regulations | -$0.45 |
| Benefit: approved organic certifiers not needing to maintain conformity assessment arrangements | $2.60 |
| Net benefit | $0.93 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate.

Certifiers benefit most under this scenario, with the $2.60 million benefit associated with them not needing to maintain conformity assessment arrangements accruing to them. There are $1.60 million of costs to government, and producers experience the $42,000 cost of becoming familiar with new regulations.

#### Sensitivity analysis

Sensitivity analysis is conducted for Option 2 with respect to the staffing costs saved by certifiers under this scenario and the discount rate used.

The finding that this option results in a net benefit compared with the status quo is stable in each sensitivity analysis, the results of which are summarised in Table 10 below. Each sensitivity analysis is also briefly discussed.

##### Lower saved costs by certifiers

The estimate of the time spent by certifiers maintaining their present conformity assessment arrangements with priority markets (3 FTE positions) has been based on discussions with certifiers, but there is uncertainty surrounding this figure and it is the source of the benefits generated under Option 2. If the actual cost of maintaining current conformity assessment arrangements are lower than is estimated, this will reduce the overall net benefit of the option.

Using an estimate of 1.5 FTE positions (halving the estimated current staffing costs of maintaining conformity assessment arrangements), the benefits of reduced staffing accumulate to $984,000 in PV terms (around half the benefit under the Option 2 base calculation). This reduces the overall NPV of this option to around -$50,000, a slight net cost overall.

##### Discount rates

With a lower discount rate of 3% the net benefit of Option 2 increases to around $1.88 million. With a discount rate of 10%, this benefit falls to around $500,000.

Table 10 Option 2 sensitivity analysis

| **Scenario** | **Net benefit relative to the status quo ($m)** |
| --- | --- |
| Option 2 base calculation (7% discount rate) | $0.93 |
| Lower saved costs by certifiers | -$0.05 |
| Option 2 base-case with discount rate of 3% | $1.88 |
| Option 2 base-case with discount rate of 10% | $0.50 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate (unless noted otherwise).

#### Non-quantified costs and benefits

##### Cost: Risk created by government to government conformity assessment arrangements

Under this scenario, Australian businesses’ ability to maintain access to the relevant overseas markets is entirely contingent on the relationship between the Australian Government (or the Department) and the relevant overseas government entity. Under the status quo, if one certifier’s conformity assessment arrangement were to break down, products could still be exported by applying for an OPC with another certifier holding the relevant conformity assessment arrangement. Under Option 2, all certifiers’ ability to certify businesses to other countries’ organic standards would be ultimately contingent upon the single relationship between the Australian Government and the relevant overseas government entity. This does represent some risk, and so is a cost.

### Option 3 – Commercial arrangements to facilitate export

Under this option, there would be no requirement for OPCs, and so no need for businesses to hold certification to the National Standard. As such, the Department would cease approving certification businesses with respect to the National Standard. A key assumption is that a commercial arrangement for organic certification is developed to replace the National Standard, which would be effectively seen in export markets as equivalent to the current National Standard.

The following costs and benefits have been quantified to support evaluation of this option:

* the cost of lost export revenue due to reductions in foreign buyers’ willingness to pay for Australian organic products;
* the cost of lost export sales due to ‘scares’ involving incorrectly labelled non-organic products;
* the cost of educating stakeholders about the change to regulations;
* the benefit of reduced time and financial cost of businesses choosing not to be certified to the National Standard; and
* the benefit of reduced time and financial cost in preparing and obtaining OPCs, for all exporting businesses.

#### Costs

##### Lost export revenue due to reductions in foreign buyers’ willingness to pay for Australian organic products

This is calculated by multiplying the value of Australian organic exports to different groups of markets (grouped based on their importing requirements and reliance on Australia’s certification system) by their decline in willingness to pay for Australian organic products if Australia’s export regulations were removed. This represents the proportion of current price (and revenue) that would be lost due to the loss of the reputation attached to the National Standard. Note that the maximum decline in willingness to pay peaks at 30% in countries classified as recognising certification to the National Standard, and is likely to be around the maximum price premium available for organic products in many product categories (there are, of course, exceptions, and this price can vary over time).

These results do not consider the potential for produce to be sold to a market where it continues to demand a higher premium (be it another export market or the domestic market). If such activity takes place, the expected impact of this cost would be lower.

A key assumption is that a commercial arrangement for organic certification is developed to replace the National Standard, which would be effectively seen in export markets as equivalent to the current National Standard.

Noting that almost all organic producers placed significant trust in the present government certification process, it is estimated that only 5% of organic producers would choose not to participate in the commercial arrangements that are assumed to arise if the National Standard and the legislation supporting it is removed.

Impacts on willingness to pay and the value of exports have been disaggregated by export markets’ importing requirements and reliance on Australia’s certification system because these factors play an important role in determining willingness to pay impacts. This was revealed in the international consultation, and is shown in Table 11.Calculated over a ten year period, taking into account the assumed growth in the value of organic exports that would occur under the status quo, the PV of this decrease in willingness to pay is around $18.68 million. The largest part of this decline comes from a loss of export revenue in China, where importing requirements and Australian certification are relied upon by consumers.

Table 11 Impact on willingness to pay and the value of exports under Option 3

| **Market type** | **Share of value of organic exports (%)** | **Decline in willingness to Pay (%)a** | **Implied decrease in value of exports ($m) (2020-21)b** |
| --- | --- | --- | --- |
| **Importing requirements, reliance on Australian certification.** Data source market: China. Other key markets: None identified | 19.5 | 22.1 | $1.10 |
| **Importing requirements, no reliance on Australian certification.** Data source market: USA. Other key markets: the Republic of Korea. | 51.5 | 0.0 | - |
| **Equivalency.** Data source: France, Portugal, Germany, Belgium. Other key markets: rest of EU, New Zealand, Japan. | 16.6 | 0.0 | - |
| **Recognition of Australian certification.** Data source: Singapore. Other key markets: UAE. | 8.0 | 29.7 | $0.61 |
| **No specific requirements.** Data source: Hong Kong. Other key markets: Kuwait, Thailand, Brunei. | 4.4 | 9.6 | $0.11 |

Source: Deloitte, international consultation. Notes: a. This is calculated as the average of values reported in the international questionnaire. b. This is the implied decrease in the value of exports in the first year of the analysis. This value would increase as the value of exports is assumed to grow under the status quo.

##### Lost export sales due to ‘scares’ involving comingling of organic and non-organic produce

Historical evidence, and evidence from consultations, suggests that retail buyers and consumers respond sharply to revelations that products with an ‘organic’ label are conventionally farmed; in particular, if they have been farmed with pesticides or contain elements of genetically-modified products. [[7]](#footnote-8)

Comprehensive information on the price premium that organic products receive relative to conventional products is limited, but we assume that a 10% premium exists, and that this is lost on all Australian organic products if a ‘scare’ occurs.

International consultations demonstrated that, even under the status quo, some products that are marketed as ‘organic’ are later revealed to have been produced using conventional means. We assume, for these purposes, that the increased risk of this event happening in an environment with no Australian organic export controls is 1% in any given year.

Over fifteen years, the PV of this cost is around $5.24 million.

##### Educating stakeholders about the change to regulations

The Department has currently not budgeted for any increase in costs to cover stakeholder education about changes to the regulation of organic exports, but based on prior Government spending on transition and education costs for other regulatory changes, we assume the total cost of publicising the changes to organic exporters and certifiers is $500,000, paid in the first year of the regulatory change. This represents around $408,000 in PV terms.

It is also assumed that organic businesses need to spend half an hour familiarising themselves with the new regulations. It is estimated there would be 1,446 exporting organic businesses at the time the regulations come into place. The PV of this cost is around $42,000.

#### Benefits

##### Reduced regulatory burden for businesses choosing not to be certified

As was described in section 6.1, it is estimated that 1,368 businesses in 2018 are certified to the National Standard and involved in export supply chains. Note that no approved certifiers were able to provide what they would regard as sound estimates of the number of businesses they provide certification services for who are involved in export supply chains. This is due to the nature of the export regulations and the associated reporting requirements. This estimate is based on the number of businesses that are certified to other countries’ export standards (informed by consultation with certifiers), and the estimated share of exports going to markets that businesses would not need to hold another country’s export standard to export to. The estimate is adjusted for expected growth in the number of organic establishments over time.

Noting the prevalence of the National Standard in domestic organic sales, it is assumed 5% of these producers choose not to obtain any certification under the commercial arrangements assumed to replace the National Standard in this option.

The total value of the benefit of time savings for producers is around $64,000 in PV terms over the modelling period, and financial savings are around $329,000 ($393,000 in total). These benefits are valued at less than 1 per cent of our estimate of the value of organic exports in 2017.

##### Benefit: Avoided time and financial cost in preparing and obtaining OPCs, for all exporting businesses

Under this option, exporting businesses would no longer need to obtain OPCs. Businesses could remain certified to the National Standard, but an OPC would not need to be completed for export. [[8]](#footnote-9)

The time savings under this option are estimated at 1 hour per OPC, on the part of exporters, the average reported in consultations, at the ABS average hourly wage rate (including on-costs) of $68.79. The financial cost savings (reflecting the saved time and effort by certifiers in providing OPCs) is similar at $50 – a figure derived as reflective of the varying cost per OPC between certifiers. Data supplied by the Department indicates that there were 6,805 OPCs issued in 2017. For the purpose of these estimates, the number of OPCs is expected to grow at the same rate as exports.

The time saving under this option over ten years is worth around $4.91 million in PV terms, and the financial saving under this option is worth around $3.49 million in PV terms ($8.41 million in total).

##### Benefit: Avoided cost of Government administering the National Standard

The Department reported an approximate cost of 1 FTE (or $134,000 per year) in administering the National Standard. In PV terms over the modelling period, this represents a saving of around $1.16 million.

#### Summary of quantified costs and benefits

Table 12 Option 3 quantified costs and benefits summary

| **Type of cost or benefit** | **Value ($m)** |
| --- | --- |
| Cost: Lost export revenue due to foreign buyers’ willingness to pay for Australian organic products | -$18.68 |
| Cost: Lost export sales due to ‘scares’ involving comingling of organic and non-organic produce | -$5.24 |
| Cost: Transition and education costs | -$0.45 |
| Benefit: Reduced regulatory burden for businesses choosing not to be certified | $0.39 |
| Benefit: Avoided time and financial cost in preparing and obtaining OPCs, for all exporting businesses | $8.41 |
| Benefit: Avoided cost of Government administering the National Standard | $1.16 |
| **Net benefit** | -14.42 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate.

Organic producers bear most of the costs under this option, mostly in the form of lost export revenue due to foreign buyers’ lower willingness to pay for Australian organic products. They also benefit from not needing to secure OPCs for exporting organic products. Overall, organic producers are $15.17 million worse off under Option 3.

Because it is assumed that commercial arrangements emerge in which certifiers continue to play a role, they are neither worse nor better off under this option. Governments experience benefits from not needing to administer the National Standard, but experience costs of educating stakeholders. Overall, government is around $750,000 better off under this option.

#### Sensitivity analysis

Sensitivity analysis is conducted for Option 3 with respect to the impact of the option on prices received for Australia’s organic exports, the current level of organic exports, the frequency and severity of ‘scares’ involving comingling of organic and non-organic products, and discount rates.

The finding that Option 3 results in a net cost compared with the status quo is constant across the sensitivity analysis scenarios modelled.

The results of the sensitivity analysis are shown in Table 14 below. Each sensitivity analysis is also briefly discussed.

##### Smaller reputation and price impacts due to fewer businesses ceasing to hold organic certification

The impact of a decline in reputation based on a loss of Australian organic certification for products above assumes that 5% of export producers opt not to obtain an Australian certification (whatever voluntary certification arrangements do prevail once the National Standard and its supporting legislation are removed). In consultations, no producers explicitly stated that they would opt not to obtain Australian certification, as that certification was important for domestic sales. Further, they generally believed it beneficially affected the reputation of their product in export markets.

There also remains a question about how sharply consumers in export destinations react to Australian certification when it is additional to a country’s importing requirements or labelling. Respondents to the international consultation in some key destination markets (such as China) observed that the absence of Australian certification would significantly reduce their willingness to pay. Recent research by Wu et al. (2014) tends to confirm this, with European and American organic labels attracting a further premium over Chinese organic labels. Nonetheless, the size of the impact may be exaggerated in consultations.

To capture the case where any of these variables differ, sensitivity analysis is conducted for a scenario where only 2.5% of producers choose not to obtain any organic certification. This is equivalent to the willingness to pay impact being reduced by 50%. This could result either from producers choosing not to obtain Australian organic certification, or from a weaker response by buyers.

The implied decreases in value of exports in 2020-21 resulting in this scenario are outlined in Table 13 below.

The PV of reduced export revenues in this scenario (that is, over the whole period modelled) is around $9.34 million (compared with a reduction of around $18.68 million in the Option 3 base calculation).

Table 13 Implied decrease in value of exports (sensitivity analysis)

| **Market type** | **Implied decrease in value of exports ($m) (2020-21)** |
| --- | --- |
| **Importing requirements, reliance on**  **Australian certification** | $0.55 |
| **Importing requirements, no reliance on Australian certification** | - |
| **Equivalency** | - |
| **Recognition of Australian certification** | $0.30 |
| **No specific requirements** | $0.05 |

Source: Deloitte.

##### Current organic exports are worth more than estimated

There is uncertainty around the estimate of the current value of organic exports. As part of this review it has been estimated that Australia’s organic exports were worth around $450 million in 2017. However, based on growth in the number of certified producers and processors, and in land certified to the National Standard, exports may actually be worth more than $450 million in 2017, given that it was estimated the value of organic exports was $340 million in 2014 in the Australian Organic Market Report 2014.

If organic exports are worth more than they are now, any impact on willingness to pay would have a larger cost. In this sensitivity analysis, the net cost of Option 3 is calculated in a scenario in which organic exports were actually worth 25% more than they have been. That is, the net cost of this option is calculated where organic exports were worth $563 million in 2017, with the industry projected to grow at the same rate as has been assumed in the central case.

Under this sensitivity analysis scenario the net cost of Option 3 relative to the status quo would increase to around $20.40 million (Table 14).

##### More frequent scares

The ‘scare’ scenario outlined above could vary as a result of a number of variables which might increase the size of this impact:

* Consumers may not be as sensitive to the mislabelling of one type of Australian organic product, so effects on the reputation or price of other products may be relatively subdued.
* Producers may not be able to sell their product as conventional produce in foreign markets.
* Such scares may be more likely to happen than the earlier analysis assumes.
* The price decline resulting from mislabelled organic products may be higher than the earlier analysis assumes.

To capture the case where any of these variables differ, sensitivity analysis is conducted where a scare scenario is more likely to happen (10% probability in any year, compared to a 1% probability in the base calculation). Under this sensitivity analysis scenario, the total cost of lost revenue due to ‘scares’ amounts to around $52.44 million in PV terms, and the net present cost of Option 3 overall is $61.62 million.

##### Discount rates

With a discount rate of 3% the net cost of Option 3 increases to $20.86 million. With a higher discount rate of 10%, the net present cost of this option falls to $11.22 million.

Table 14 Option 3 sensitivity analysis

| **Scenario** | **NPV relative to the status quo ($m)** |
| --- | --- |
| Option 3 base case scenario (7% discount rate) | -$14.42 |
| Small price impacts due to fewer businesses ceasing to hold National Standard certification | -$5.09 |
| Organic exports worth more than currently estimated | -$20.40 |
| More frequent ‘scares’ | -$61.62 |
| Option 3 base case with discount rate of 3% | -$20.86 |
| Option 3 base case with discount rate of 10% | -$11.22 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate (unless noted otherwise).

#### Non-quantified costs and benefits

##### Cost: Transition of domestic organic domestic market

As highlighted throughout consultations, the National Standard forms the basis of Australian domestic organic supply chains. In the absence of any government regulation of approved certifiers, the organic industry would be required to develop commercial arrangements to maintain integrity of the supply chain. The industry would have a number of options in this circumstance:

* A foreign organic standard (such as the USDA NOP standard) may become the Australian de facto standard.
* Industry may resort to a private agreement on the minimum standard for Australian organic produce. Such an approach might rely on the existing AS 6000.

This cost cannot be quantified without data on the Australian domestic organic industry, or on how this would play out in practice. In recognition of the fact that it is assumed the organic industry does devote some level of time and resources to managing any change and such new arrangements, it not assumed that the cost of operating the Organic Industry Standards and Certification Council (OISCC) goes away under this scenario (this is assumed in relation to Option 4, discussed below).

##### Cost: Dilution of overall Australian brand reputation in export markets

A common theme in domestic consultations was that Australian certification helped to build ‘brand Australia’ in export markets. Australia’s reputation for “clean and green” agriculture was reported in international consultations, for both conventional and organic produce. This reputation is reinforced by having an Australian organic certification logo on export products, in addition to a label indicating that the product originated in Australia. A dilution of brand reputation, by virtue of produce certified to an Australian standard, foreign standards, and potentially uncertified produce, could further reduce the consumers’ willingness to pay for Australian produce, reducing Australia’s export revenue. However, the reputation of Australian produce generally may be difficult to separate from the reputation of Australia’s organic certification process.

##### Benefit: Increased exports as a result of easier access to export markets

Alongside current exporters who choose not to obtain National Standard or another certification, under this option, the reduction in costs of obtaining National Standard certification and purchasing OPCs may lead some domestic only organic producers to start exporting organic produce (with or without a certification, depending on the requirements of the importing country). Without a detailed understanding of the response of domestic producers to regulatory changes, it is difficult to quantify any benefit to the export market that would result.

### Option 4 – Replace the National Standard with AS 6000

Under this option, the laws and regulations relating to the export of organic products would be amended so that AS 6000 would fulfil the role that the National Standard currently plays. OPCs would still be required for export, but they could be provided as long as the approved certifying organisation was satisfied that the products were prepared in accordance with AS 6000 (or satisfies a conformity assessment arrangement).

The following costs and benefits have been quantified to support evaluation of this option:

* the cost of creating and running an organics Standard Development Organisation (SDO);
* the cost of revising the current AS 6000 to mirror the National Standard;
* the cost of current certifiers becoming accredited to certify to AS 6000;
* the cost of reconvening FT-032 or a similar group of stakeholders;
* the cost of educating stakeholders about the change to regulations;
* the benefit of avoided costs from decommissioning OISCC; and
* the benefit of reduced costs of the Department accrediting certifying organisations.

It is assumed that, in anticipation of a change to the organic export regulations from 2020-21:

* the cost of creating and running an organics SDO commence in 2018-19;
* the cost of revising the current AS 6000 to mirror the National Standard are experienced in 2019-20;
* the cost of current certifiers becoming accredited to certify to AS 6000 commence in 2019-20;
* the cost of purchasing copies of AS 6000 is experienced in 2019-20;
* the cost of educating stakeholders about the change to regulations is experienced in 2019-20;
* the benefit of costs saved from decommissioning OISCC are experienced from 2020-21 (and the cost of reconvening FT-032 or similar commence at the same time); and
* the benefit of reduced costs of the Department accrediting certifying organisations is realised from 2020-21.

#### Costs

##### Creating and running an organics SDO

Standards Development Organisations (‘SDOs’) are organisations accredited by Standards Australia as being able to develop Australian Standard brand standards. They are organisations that require governance, auditing, a constitution, adequate controls and enablers, as well as a robust standards development infrastructure. It is assumed that an existing organic industry body could be used as the basis for the SDO.

Only five SDOs are currently recognised by Standards Australia: Australian Forestry Standard Limited (now known as Responsible Wood) Communications Alliance, Fisheries Research and Development Corporation, Pharmacy Guild of Australia, and Rail Industry Safety Standards Board.

As part of the consultation for this project several SDOs were contacted, including Australian Forestry Standard Limited (now known as Responsible Wood), Fisheries Research and Development Corporation, and Rail Industry Safety Standards Board. A consultant who assisted both Responsible Wood and the Fisheries Research and Development Corporation in matters relating to standards was also consulted.

Based on these consultations, and information on the fees charged by Standards Australia in relation to the development and ongoing operation of an SDO, the costs are estimated to be as follows:

* an initial cost of $30,000 to hire a consultant to assist with setting up the procedures required in an SDO, plus an application fee of $1,500 (this is assumed to occur in 2019);
* in the next year, $2,000 of audit fees paid to Standards Australia and 0.25 FTEs of work at the SDO (this 0.25 FTEs of work occurs every 5 years as part of the standards maintenance process); and
* in all other years, $2,000 of audit fees paid to Standards Australia and 1 day of work per month at the SDO.

The PV of these costs is $0.20 million (calculated using a 7% discount rate).

##### Revising the current AS 6000 to mirror the National Standard

To revise a standard, a project proposal that details the changes, a net benefit case for the changes, and demonstrates wide ranging stakeholder support needs to be prepared. The relevant committee will then consider the proposed changes.

Updating AS 6000 would likely need to first involve a forum of relevant stakeholders. It is assumed that this event would involve 15 people and take up one day of their time, costed at the wage used elsewhere in the analysis. With some allowance for travel cost, the total cost of this revision is assumed to be $10,000 (incurred in 2020).

##### Current certifiers becoming accredited to certify to AS 6000

While certifiers need to be approved by the Department to enable them to certify business as meeting the National Standard at present, if Option 4 is pursued certifiers will need to be accredited to provide certification to AS 6000.

JAS-ANZ has advised that organisations wanting to be accredited so they can certify businesses against AS 6000 would need to pay an application fee of $8,000, and an annual body fee of $12,000 per year. The initial application would likely involve around 8 days of work for JAS-ANZ, which would cost $11,200.

Initial application fees and the initial application work are assumed to be incurred in 2019-20, with the annual fee charged from this 2020-21 onwards.

Based on this information the cost to the five active certifiers of becoming accredited to certify to AS 6000 would total around $614,000 in PV terms.

##### Reconvening FT-032 or a similar group of stakeholders

Creating an SDO would allow industry to be fully responsible for their standard, with no facilitation by Standards Australia. A standards reference board still needs to take part in the development of the standard though. It is assumed that this would take the form of reconvening FT-032 or a similar group of stakeholders.

The estimated cost of this is $40,000 a year, based on work by Wynen (2008).

##### Educating stakeholders about the change to regulations

As with the other options being evaluated, it is assumed that the Government experiences costs of $500,000 due to the need to educate stakeholders about the regulatory changes. Because it is assumed this cost is realised in 2020-21, the PV of this cost is $408,000.

It is also assumed that organic businesses need to spend half an hour familiarising themselves with the new regulations. It is estimated there would be 1,446 exporting organic businesses at the time the regulations would come into place. The PV of this cost is around $42,000.

#### Benefits

##### Decommissioning of OISCC

The current costs of OISCC to administer the National Standard would be removed. Previous analysis indicated that the annual cost of running OISCC in 2002-03 was $74,100 (Wynen, 2008). This would represent a cost saving of around $100,000 in 2018 dollars under this option. This cost is assumed to be saved from 2020-21, resulting in a saving of around $796,000 in PV terms over the modelling period.

##### Government no longer needing to accredit certifiers

If Option 4 is adopted the Australian Government will no longer need to approve certifiers to administer the National Standard (certifiers would, of course, need to become accredited to AS 6000, and the cost of this is noted above). The Department has advised that it would experience costs of 0.7 FTEs less if Option 4 is pursued relative to the status quo. Assuming that this cost is saved from 2020-21 onwards, this would amount to a benefit of around $479,000 in PV terms.

#### Summary of quantified benefits and costs

Table 15 Option 4 quantified costs and benefits summary

| **Type of cost or benefit** | **Value ($m)** |
| --- | --- |
| Cost: Creating and running an organics SDO | -$0.20 |
| Cost: Revising the current AS 6000 to mirror the National Standard | -$0.01 |
| Cost: Current certifiers becoming accredited to certify to AS 6000 | -$0.61 |
| Cost: Educating stakeholders about the change to regulations | -$0.45 |
| Cost: Reconvening FT-032 or a similar group of stakeholders | -$0.36 |
| Benefit: OISCC no longer needed | $0.80 |
| Benefit: Government no longer needing to accredit certifiers | $0.48 |
| **Net benefit** | -$0.37 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate.

It is estimated that the net benefit to government, certifiers and producers would be $0.02 million, -$0.12 million and -$0.13 million, respectively. There would also be net costs of around -$0.13 million to others (including consumer groups) from participation in FT-032. These estimates are based on attributing the costs of participation in FT-032 or a similar group of stakeholders using the list of organisations invited on FT-32 as indicated by Wynem (2008).

#### Sensitivity analysis

Sensitivity analysis is conducted for Option 4 with respect to the establishment of an organic industry SDO, the negotiation of equivalence, and the discount rate used.

The finding that this option results in a net cost compared with the status quo is reversed in the scenario in which some equivalence is negotiated. Under this sensitivity analysis the NPV of Option 4 becomes $4.09 million.

Each sensitivity analysis is discussed below, with the results summarised in Table 16.

##### No SDO

Creating an SDO would allow industry to be fully responsible for their standard, with no facilitation by Standards Australia. However, an SDO is not necessary to develop and amend AS 6000 to export standards.

In the absence of the creation of an SDO, some costs would be saved, but it is also assumed that industry would bear the cost of purchasing copes of AS 6000. Consultation with existing SDOs, consultants and Standards Australia has indicated that it may be possible for SDOs to retain sufficient control over the IP of a standard to distribute the standard to its stakeholders, or to develop guidelines that aid those stakeholders in meeting the standard. This would likely not be feasible without the use of an SDO, however. Using the current cost of purchasing a copy of AS 6000 ($207.35), and assuming that all producers and processors currently certified to the National Standard pay this cost, the cost of this would amount to around $487,000 (the cost is assumed to be incurred in 2019-20, the first year before AS 6000 would formally be the basis for the export standard).

The NPV of Option 4 under this sensitivity is -$0.65 million.

##### Some equivalence achieved

The principle potential benefit of this option is the improved capacity to negotiate equivalence with other countries’ organic standards, thereby removing the need to hold multiple certifications to support market access. Standards produced as part of the Standards Australia process must be produced in line with international best practice. This includes the involvement of a broad group of stakeholders (for example, including consumers and retailers).

A number of stakeholders have suggested that Canada’s experience in negotiating equivalency with the USA and other jurisdictions (as at 2018 – Switzerland, Japan, the EU, and Costa Rica) has been aided by the adoption of an organic standard system that aligns with international standard setting norms. Canada’s Organic Production Systems standards (CAN/CGSB-32.310-2015) were developed by the Canadian General Standards Board, which is an accredited Standards Development Organization, and was approved by the Standards Council of Canada. The Standards Council of Canada is Canada’s equivalent of Standards Australia, and represents Canada on key regional and international standardisation forums, including the International Organization for Standardisation.

It has also been suggested that calling up AS 6000 as the export standard would aid equivalence negotiations because it would assuage foreign governments’ concerns about the lack of domestic regulation specifically addressing organic certification leading to non-organic products being exported and marketed as organic. One stakeholder claimed that, while Canada did introduce explicit domestic regulation as it introduced its organic standard (produced in line with international norms for standard setting), some people close to that process believe this was not necessary for the success it later had negotiation market access, because of Canada’s broader truth in labelling laws (which are, broadly speaking, similar to Australia’s).

It is not possible to quantify this benefit with any degree of certainty, but it should not be ignored.

While the Department has indicated its belief that some country conformity assessment arrangements could be achieved, and these are incorporated in the Option 2 base calculation, the possibility of negotiating equivalence under Option 4 is considered less certain, so is not included in the Option 4 base calculation. However, the increased capacity to successfully negotiate equivalence is the main potential benefit of Option 4. With this in mind, a sensitivity analysis is considered where equivalence is successfully negotiated with priority markets (the markets for which it is assumed that country conformity arrangements are negotiated under the Option 2 base calculation). Under this scenario:

* the cost of the Department maintaining country level conformity assessment arrangements included in Option 2 is included, and this effort is assumed to translate into equivalence arrangements with the priority markets;
* the benefit of approved organic certifiers not needing to maintain conformity assessment arrangements with the priority markets included in Option 2 is included; and
* it is assumed that organic businesses no longer need to hold certification to the organic standards of the priority markets from 2025-26 (when it is assumed that the country conformity arrangements could come into force in Option 2).

The third of these is the only one that needs to be described here. Estimates of the PV of the first two can be drawn directly from Table 9.

The benefit of organic businesses no longer needing to hold certification to the other countries’ standards is based on an estimated cost of $500 per certification, and an estimate that 696 Australian businesses currently hold certification to the organic standards of the priority markets. The number of businesses holding these certifications is assumed to increase as per the growth in the total number of organic businesses discussed in 5.1.

The PV of the benefit of organic businesses no longer needing to hold certification to the other countries’ organic standards is calculated to be $1.84 million over the modelling period (with the benefit assumed to begin being realised in 2025-26, when it is assumed that the country conformity arrangements could come into force in Option 2).

Under this sensitivity analysis scenario, Option 4 is a net benefit overall. The NPV is $4.09 million.

##### Discount rates

Because the benefits and costs largely balance, the NPV does not change significantly using alternative discount rates (-$0.36 million using 3%, and -$0.37 million using 10%).

Table 16 Option 4 sensitivity analysis

| **Scenario** | **Net benefit relative to the status quo ($m)** |
| --- | --- |
| Option 4 base calculation (7% discount rate) | -$0.37 |
| No SDO | -$0.65 |
| Some equivalence achieved | $4.09 |
| Option 4 base case using discount rate of 3% | -$0.36 |
| Option 4 base case using discount rate of 10% | -$0.37 |

Source: Deloitte. Note: All figures are present values based on a 15 year time horizon and a 7% discount rate (unless noted otherwise).

#### Non-quantified costs and benefits

##### Reduced confusion in the domestic market

While this review is focused solely on the regulation of organic exports, Option 4 may have impacts on domestic consumers. At present, the National Standard is the de facto domestic standard. In effect, this means that the individual standards and their particular marketing and branding developed by the approved organic certifying organisations act as the de facto standards.

The Consumer Federation of Australia has submitted that

Currently in Australia there is confusion about the information and the ‘organic’ status of organic products available to consumers. Consumers often look to logos on product packaging for a quick indication of their contents concerning origin, health benefit, quality etc., but when it comes to organic in Australia there are at least six different logos and six different certificating organisations, which is confusing consumers.

If AS 6000 is called up in export legislation it would likely supplant the National Standard (and its incarnations in each approved organic certifiers’ standard), with potential benefits for Australian consumers.

### Summary

The status quo has contributed to the objective of supporting Australian organic products’ reputation in export markets, and a number of equivalency arrangements have been negotiated under the current regulations.

This review assesses whether other options would result in a net benefit compared with the status quo.

The PV of the costs and benefits of each option relative to the status quo are presented in Table 17 below. The PV is calculated based on a 15 year flow of benefits or costs and using the OBPR’s recommended real discount rate of 7%.

The NPVs of the options are all relatively small compared to the total value of Australia’s organic exports – estimated to be worth around $450 million 2017 - but the organic industry is one that is projected to grow, so the costs of getting regulation wrong will grow over time.

Table 17 Benefits and costs of each option, $m

|  | **Option 2** | **Option 3** | **Option 4** |
| --- | --- | --- | --- |
| PV of benefits | 2.60 | 9.96 | 1.27 |
| PV of costs | 1.67 | 24.38 | 1.64 |
| NPV | 0.93 | -14.42 | -0.37 |

Source: Deloitte. Note: Values represent the present values of a 15 year stream of benefits.

Option 2 has an NPV of around $0.93 million relative to the status quo. This result is primarily driven by a reduction in the costs faced by certifiers in maintaining their conformity assessment arrangements (valued at $2.60 million).

Option 3 would not provide a net benefit relative to the status quo. This result is primarily driven by a decrease in export revenue due to foreign buyers’ reduced willingness to pay for Australian organic products. The NPV of this option is -$14.42 million. Note that the transition costs that would be incurred in the organic industry due to the lack of legislative support for the National Standard are not included in these figures. They would further add further to the costs of this option, and further cement is as not being preferred relative to the status quo.

The NPV of Option 4 is slightly negative, at -$0.37 million.

The costs that are included in the calculation of the NPV of Option 4 are: establishing an organics Standard Development Organisation (SDO); revising the current AS 6000 to mirror the current National Standard; certifiers becoming accredited to certify to AS 6000; reconvening FT-032 or a similar group of stakeholders; and educating stakeholders about the change to regulations.

The only benefits quantified under Option 4 are the cost savings associated with decommissioning OISCC and slightly reduced costs experienced by the Department. The potential benefits of improved market access, in the form of either country conformity assessment arrangements or equivalency, are not included in this option’s base calculations. This is the major potential benefit raised by stakeholders in relation to Option 4, so not including it means the base calculations may be under-state of the net benefits of the option.

The most significant finding of the sensitivity analysis was that if Option 4 is pursued, and the organic industry elects to not form an organic industry SDO, and equivalence is negotiated with the same countries it is assumed country conformity arrangements can be negotiated for under Option 2, Option 4 has a positive NPV of around $4.09 million. This is much greater than the Option 2 NPV of around $0.93 million.

Different groups are impacted differently under each option. The NPV experienced by each group – organic producers, certifiers and government – over the period modelled is shown in Table 18 below. There are, of course, links between the costs and benefits experienced by different groups (increased costs experienced by certifiers, for example, would be passed on to organic producers). The figures in Table 18 below represent where the net benefits would initially land.

Table 18 Net benefit experienced by each group under each option, $m

|  | Option 2 | Option 3 | Option 4 |
| --- | --- | --- | --- |
| **Organic producers** | -0.04 | -15.17 | -0.13 |
| **Certifiers** | 2.58 | - | -0.12 |
| **Government** | -1.60 | 0.75 | 0.02 |
| **Othera** | - | - | -0.13 |
| **Total** | $0.93 | -14.42 | -0.37 |

Source: Deloitte. Note: Benefits, costs and net benefits are calculated as the Values are the present value of a 10 year stream of benefits. a. These are costs of consumer and other groups from participating in FT-032 or a similar stakeholder group to support the Australian Standard.

Organic producers experience costs due to loss of export revenue from decreased reputation of Australian organic products under Option 3 and costs of participating in FT-032 or a similar group under Option 4. They experience costs of becoming familiar with new regulations under each option. Note that no change in the size of the organic industry is assumed to occur in any of the options considered. It is assumed that the industry grows in the same way across all options, including the status quo. In reality, this is not likely, but sufficiently credible information on likely industry growth in each option is not available. Moreover, there is not sufficiently credible information on the net benefit of organic production relative to conventional land use, which would typically be displaced by any increase in organic production.

The net benefit that certifiers experience under Option 2 is driven by decreased cost of maintaining conformity assessment arrangements with other countries. There is no net benefit or cost assumed for certifiers under Option 3 because it is assumed that they continue to play a role in whatever commercial, voluntary arrangements arise when the National Standard and its supporting legislation are phased out.

There is a net cost to government under Option 2, as additional resources are devoted to the negotiation of country conformity assessment arrangements. And while the Department’s current one FTE allocation to the organic sector is removed under Option 3, there are still some costs assumed in the form of educating stakeholders on legislative changes (costs which are assumed to occur in each option).

The variant of Option 4 in which some equivalence is achieved is the only scenario in which organic producers experience significant benefits. It is estimated that they would be around $1.71 million better off overall under this scenario (which is the sum of the benefit of reduced cost due to equivalence reducing certification costs, the cost of becoming familiar with the new regulations, and the cost of participating in FT-032 or a similar group).

### Recommendation

On the basis of the NPV of each option’s base calculation alone, Option 2 would be the preferred option. It is the only option whose base case NPV is positive (at $0.93 million). The NPV of Option 4 is marginally negative, at -$0.37 million. The NPV of Option 3 is -$14.42 million.

Option 3 would make it possible for products to be exported from Australia and marketed as organic when they may not meet any organic standard (subject to importing country requirements). This has the potential to undermine the reputation of Australian organic products, and Australian products more generally.

The positive NPV of Option 2, however, is much less than that of the scenario in which Option 4 is pursued and equivalence is successfully negotiated with those countries that it is assumed by the Department that country conformity assessment arrangements can be successfully negotiated (which forms part of the Option 2 base calculation).

The NPV in this sensitivity analysis of Option 4 is $4.09 million. This scenario is worth considering because there is reason to believe that adopting AS 6000 would improve the potential to negotiate equivalence. Standards produced as part of the Standards Australia process must be produced in line with international best practice, including the involvement of a broad group of stakeholders (including, for example, consumers and retailers).

Moreover, making AS 6000 the standard relied upon in the organic export legislation does not preclude the pursuit of improved market access through country conformity assessment arrangements. Even if pursuing Option 4 does not result in equivalence being negotiated, there is no reason, prima facie, that the benefits generated under Option 2 could not be also realised under Option 4. As the Department has indicated, it will pursue country level conformity arrangements if equivalence is not achieved. Because the net benefits of the base version of Option 4 are close to zero, if country level conformity assessments are negotiated the net benefits under this scenario would approach those of Option 2.

**Based on these considerations, Option 4 is the preferred option overall**. While the Option 2 base calculation has a positive NPV of around $0.93 million, and the Option 4 base calculation has a slightly negative NPV of around -$0.37 million, the sensitivity analysis indicates that Option 4 could have a positive NPV in the order of $4.09 million. Option 4 could also be characterised as a ‘no regrets’ improvement on Option 2 in respect of the negotiation of improved market access. Arrangements pursued by the Department under Option 2 could be pursued under Option 4, and Option 4 is regarded by a number of stakeholders as involving a better standards development process, which may improve the possibility of negotiating improved market access.

## Implementation and evaluation

Implementing Option 4 would involve the following key steps:

* The formation of an organic industry SDO.
* Updating AS 6000 to reflect the outgoing National Standard.
* Informing key trading countries of changes to the Australian organic standard
* Changing legislation to reflect AS 6000 as the mandatory export standard.
* Transitioning accreditation of certifying bodies under the National Standard to AS6000 through JAS-ANZ.
* Transitioning of existing equivalency arrangements from the National Standard to AS 6000.
* Decommissioning of OISCC.
* Certifying bodies reflecting the change in Standard in organic certification to their members.

### Legislative and regulatory changes required

Legislative changes will be required under the preferred option. Presently, the Export Control (Organic Produce Certification) Orders and Administrative Arrangements create the requirement for the Department to review certifiers to ensure compliance against legislation, the National Standard and importing country requirements.

This review was conducted in the context of the introduction of the Export Control Bill, which was still being considered by Parliament at the time of writing. The legislative instrument that will support the new Act (the Export Control Rules – which will include the Export Control (Organic Produce Certification) Orders) will come into force shortly before 1 April 2020. It is unclear whether the Administrative Arrangements will continue to exist under the new legislative framework.

Under this option, the new Export Control Rules, the Administrative Arrangements (if they continue to exist), and other laws relating to the export of organic products would be amended so that AS 6000 would fulfil the role that the National Standard currently plays. This would also involve amending legislation to reflect Government’s ended role in relation to accreditation of certifying bodies and revoking or cancelling of the schedule of certifying bodies under the National Standard.

Furthermore, all current equivalence arrangements would need to be updated to reflect AS 6000 as the new standard. Each equivalence arrangement would need to be navigated with the respective importing country and will likely require some due diligence processes from trading partners to provide them with confidence that AS 6000 adequately reflects the outgoing National Standard.

### Key process changes

In addition to the above legislative changes, OISCC would be decommissioned. This would be replaced by an organic industry SDO.

An early task for the SDO would be to update AS 6000 so that it reflects the outgoing National Standard. This is because, although AS 6000 was modelled off and mirrored the National Standard, AS 6000 has not kept pace with changes to the National Standard.

Once AS 6000 is updated, organic certifiers would become accredited by JAS-ANZ as being able to certify to AS 6000. Each certifier will need to initiate this with JAS-ANZ. The accredited certifiers would then provide those businesses that currently hold certification to the National Standard with certification to AS 6000. Considering AS 6000 would, at this point, be the same as the outgoing National Standard, this would likely only involve a re-issuing of the ‘certified organic’ certificate.

### Information and education campaign

The preferred option will require an information and education campaign to communicate the changes associated with transitioning to AS 6000 to the organics industry and Australia’s trading partners. Communication with industry will likely take the form of workshops and organics forums and also through electronic and print media. The Government should work closely with the organics industry working group and Australian organics certifiers to derive an appropriate education campaign to communicate the changes to industry.

For industry, it will be important that the education campaign helps businesses understand how the new standard will change the process of obtaining and maintaining certification and how it will apply to their circumstances.

Communication with Australia’s trading partners will help them understand how AS 6000 will operate. It will be important to communicate that the change to AS 6000 does not indicate a lesser organics standard than what is currently in place, but that the change is more administrative in nature. The fact that the new standard conforms with international norms of standard development should be highlighted to aid the continuity of existing market access arrangements, and the negotiation of future improvements.

It is considered that there is no need for any mainstream media to educate domestic consumers on the proposed changes, as they are unlikely to be significantly affected. Education materials (e.g. fact sheets, guidance material) may need to be developed in order to assist the organics industry communicate changes to buyers in international markets.

Monitoring business compliance over the course of the early years of implementation will further enable governments to understand whether any further education activity is required.

### Evaluation

The new arrangements should be independently reviewed two years after the changes have been effected. The two-year review period will allow for evaluation and consideration of necessary amendments to the new arrangements. The review will cover the scope of the reforms and their effectiveness in meeting their objectives, and consider their impacts, including any unintended consequences arising from their implementation.

Key measures and information required to evaluate the effectiveness of the new arrangement after two years could include:

* implementation costs for certifiers and organic businesses;
* implementation costs for Government;
* reduced costs of Government from a reduced role in accreditation;
* feedback from industry on effectiveness of AS 6000;
* progress of equivalence negotiations; and
* volumes of export and whether increased market access has been realised as a result of the change.

After the initial evaluation, it is recommendation that further reviews are undertaken at the five year and ten year intervals with measures developed and aimed at ongoing effectiveness rather than implementation.

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## Appendix A: Domestic consultation methodology

Domestic stakeholders (including the Department) have been engaged throughout the Review. Each of major consultation sessions or phases are described here, as well as the key themes from the consultation.

#### Process

#### Initial development of problem statement and options with Department

The tender documents disseminated by the Department for the conduct of this Review provided information on the regulation of organic products and potential options for reform. The options provided in these tender documents were developed at a workshop the Department held with organic industry representatives in January 2017 and cleared with the Australian Organic Industry Working Group Steering Committee (AOIWGSC) in June 2017.

This information provided the initial source material for the development of the problem and options by Deloitte. The Department provided feedback on a problem and options statement drafted by Deloitte, including the direction that the option of moving to an international standard for organic production as the basis for Australia’s Organic Orders was not to be considered as part of this Review, on the basis that at present no international standard has the recognition that would make it appropriate as a basis for Australia’s regulatory system.

This included consultation with Department staff on market access and existing equivalency arrangements, for the purpose of developing an understanding of the relationship between the Australia’s organic export regime and broader equivalency agreements with export markets.

#### Meeting with the AOIWGSC

Deloitte met with members of the Department and the AOIWEGSC in Canberra on 2 November 2017. The purpose of this meeting was to discuss the Review and how it would be conducted (including the planned consultation). Committee members shared their views on a range of topics, including the importance of streamlining the administration of the organic exports regime, the structure of the Australian organic industry, the importance of the current regulatory regime in building and sustaining Australian organic products’ reputation in world markets, and the desire for there to be domestic legislation specifically governing the use of the term organic (which is outside the scope of this Review).

#### Meeting with the AOIWG

Deloitte met with members of the Department and the Australian Organic Industry Working Group (AOIWG) in Melbourne on 4 December 2017. The purpose of this meeting was to discuss the Review and how it would be conducted (including the planned consultation), but also the preliminary set of options that would be considered.

A sub-working group of the AOIWG was formed to advise on the problem definition and options. The problem and options statement was submitted to this group following the 4 December meeting; the sub-working group provided further feedback; and the problem and option were refined to reflect this feedback.

#### Online consultation through the Department’s Have Your Say platform

The Department’s Have Your Say platform was used to give as large a number of stakeholders as possible to provide input to the Review. Have Your Say is an online platform that can be tailored to provide stakeholders with a range of possible avenues of interaction with the Department when it undertakes public consultation (or, in this case, the independent consultant engaged by the Department). For the Organic Orders Review two avenues of interaction were used: the ability to fill in a questionnaire, and the ability to leave a written submission. Participants could do both. They were also given the opportunity to provide contact details and have a follow up discussion with Deloitte.

The Organic Orders Review online consultation period commenced on 22 December 2017 and closed on the morning of 26 February 2018.

The opportunity to provide input to the review was advertised in a number of ways on several occasions:

* the Department sent an email to approximately 90 people in its relevant email distribution list;
* the Department issued two press releases; and
* six tweets were released from the Department and Deloitte Twitter accounts.

There were: 27 responses to the questionnaire, and 30 written submissions. A further 6 submissions have been made directly to Deloitte. Of the 36 written submissions that have been made, 17 are identical and reflect the views of Australian Certified Organic.

The table below shows which category respondents to Have Your Say self-identified as being from as part of the sign-up form (people could identify with more than one group). Respondents were also asked what their role in the organic supply chain is as part of the questionnaire itself. Six identified as processors (a category not captured in the Have Your Say sign-up form) and these variously identified themselves as farmers, import/exports, private citizen, or industry body as part of the sign-up form.

Table 19 Responses to the domestic questionnaire and online submission forum

| **Group** | **Number of responses** | **Percentage of responses** |
| --- | --- | --- |
| Farmers | 26 | 35% |
| Industry body | 16 | 21% |
| ImportExports | 16 | 21% |
| Other | 7 | 9% |
| Private citizen | 5 | 7% |
| Non-government organisation | 2 | 3% |
| Environmental group | 1 | 1% |
| Animal welfare group | 1 | 1% |
| Veterinary medicine | 1 | 1% |
| Total | 75 | 100% |

Source: Domestic consultation.

#### Face-to-face consultation at the Love Organic Symposium

The Love Organic Symposium was held in Canberra on 15 February 2018. This was an industry-organised event, with sessions focusing on unification of the industry, updates on global trends and drivers of the industry, and the Organic Orders Review. The event was attended by around 40 organic industry stakeholders, including organic businesses, buyers of organic products, exporters, certifiers, and policy makers.

Deloitte presented information on the progress of the Organic Orders Review to date and conducted a workshop to gather information on stakeholders’ views on the costs and benefits being included in the analysis and the magnitude of parameters relevant to their quantification. Findings from earlier stages of the domestic consultation were presented and refined based on feedback at the workshop. Verbal and written responses were collected from around 40 participants[[9]](#footnote-10), and all participants were advised of the opportunity to provide further submissions on the Have Your Say website.

#### One-on-one phone consultation

A further 20 one-on-one discussions have been held with concerned stakeholders (aside from people spoken to at the Love Organic Symposium). These have been used to give stakeholders a chance to communicate views that they could not or were not willing to share through Have Your Say, or to ask more detailed questions to aid the quantification of each option.

This group included representatives of domestic and overseas organic businesses (or buyers of organic products), Standards Australia, JAS-ANZ, NZ MPI, and others with a history in the organic industry people with.

#### Communication with certifiers

Deloitte has had direct contact with four of the five current certifying organisations. This has included face to face meetings at some of the events mentioned above, as well as telephone and email correspondence.

The cooperation of the certifiers has been instrumental in understanding the operation of the organic industry and in quantifying a number of the benefits and costs of the options being considered in the Review.

#### Key themes

Information in this section is organised along four key themes that emerged from the domestic consultation:

* The National Standard is the *de facto* domestic standard.
* There are important differences between international standards and the National Standard.
* There are a range of costs in obtaining certification to the National Standard and other organic standards.
* The option of using AS 6000 as the export standard is well worth considering, but would involve certain transition costs.
* There was a need to revise the version of Option 2 presented earlier in the Review process.

#### The National Standard is the de facto domestic standard

The National Standard is only a legislated standard for exported organic produce. Legislation does not specifically require produce sold as ‘organic’ within Australia to carry certification. The Australian Standard, AS 6000, is nominally the standard against which Australian organic claims may be enforced, through the ACCC’s broader consumer law enforcement powers and the prohibition on misleading and deceptive conduct: to falsely claim a product is organic, if it does not meet AS 6000, would be considered misleading or deceptive. The ACCC has relied on AS 6000 in negotiating the removal of ‘organic’ claims from bottled water products (ACCC, 2013).

However, organic producers and certifiers stressed that AS 6000 is not the basis of domestic organic supply chains. The private standards developed by Australian organic certifiers incorporate the requirements of the National Standard, rather than AS 6000. All products sold in Australia with an Australian organic certification mark are certified to the National Standard, and major supermarkets often require certification by an approved certifying body for organic produce. In this way, the National Standard has become the *de facto* domestic standard, because the Organic Orders and ancillary legislation provide a legislative grounding for the definition of what constitutes ‘organic’ production processes and the accreditation of certifying bodies.

Even for businesses that are involved in the export market, the domestic market is still important to them (and in many cases, a necessary complement to their export business). And because the National Standard has become the *de facto* domestic standard, these export-focused businesses would still be likely to hold certification to the National Standard even if it was not necessarily required for export (as under options 2 and 3). A strong message coming from domestic organic businesses throughout the consultation process was that they were unlikely to cease obtaining certification to the National Standard even if it was not required for export.

#### There are important differences between international standards and the National Standard

Many organic producers in Australia are certified to international organic standards in order to access export markets. However, many producers stated they were reluctant to wholly defer to international standards over the National Standard, primarily because of differences in the details of the standards. For example:

* Under the National Standard (cl 1.1.9) “…product known to be contaminated by genetically modified organisms, or their byproducts must be excluded from sale.” Under the USDA NOP, however, the focus of regulators is on whether the farm has implemented an organic plan to exclude genetically modified organisms; trace amounts of genetically modified material do not automatically disqualify a farm from certification (USDA, 2018).
* The National Standard specifies a conversion period of three years. An organic production system must be certified as operating in accordance with the Standard for this period before certification to the National Standard can be granted. Under the USDA NOP, no prohibited materials can be used in the three years prior to harvest, but full implementation of other organic practices, and inspection throughout the conversion period, is not required.

Many producers were concerned that if the Australian Government were to remove any need for certification to the National Standard, another country’s standard (likely the USA’s NOP) would become the *de facto* domestic standard here. If this were to happen, it would mean that the Australian organic industry would be operating without any control over the organic standards employed, and could be immediately impacted by administrative decisions made by other countries’ relevant accreditation and standards development agencies.

#### There are a range of costs in getting and staying certified, and exporting

Many producers noted a range of direct financial costs, and other costs, in obtaining certification to the National Standard:

* Estimates of the financial cost of obtaining certification to the National Standard ranged from $800 (in 1998) to $5,000.[[10]](#footnote-11) Estimates of the ongoing financial cost of maintaining certification generally ranged from $800 to $4,000 per year.
* The estimated time spent demonstrating compliance (including time spent filling in forms, interacting with their certifier etc.) ranged from 15 to 63 hours.[[11]](#footnote-12)
* Some organic certifiers collect a levy to support their activities in developing the organic industry, calculated based on the gross organic sales of the business being certified.
* Producers incurred costs for certification to other organic standards. These fees were usually smaller than that for National Standard certification, but were provided as additional charges on top of National Standard certification. Costs are in the order of $500 per farm for USDA NOP certification, and one respondent claimed that EU certification cost $400. Another business noted costs of $1,500 per farm for Republic of Korea certification.
* Because organic products required certification to different standards for export, segregating produce creates additional business costs (though few quantitative estimates of these costs were provided).

#### The option of using AS 6000 as the export standard is well worth considering, but would involve certain transition costs

The National Standard forms the basis of certification for the domestic market as well as certification for export. However, the current legal framework for domestic enforcement of organic claims relies not on the National Standard, but on AS 6000. The ACCC prosecutes misleading or deceptive organic claims based on AS 6000. [[12]](#footnote-13) The National Standard is not directly enforceable within Australia for domestic sales, though it can be enforced by organic certifiers as part of their contractual arrangements with organic producers.

In the context of Option 4, it is important to understand what transition to AS 6000 from the National Standard would entail. Domestic consultation highlighted several relevant issues in this regard:

* **Need to update AS 6000:** While the National Standard has been updated over time to maintain its relevance, AS 6000 has not been updated in parallel. AS 6000 would need to be updated if it were to be called up in the laws and regulations relating to the export of organic products.
* **Basis of equivalency agreements:** The National Standard provides the basis for Australia’s existing equivalency arrangements, even though it is not an enforceable domestic standard. On the one hand, the use of a single standard to underpin both the domestic industry and the standard that exported goods meet may aid future equivalency negotiations. On the other hand, however, it is the National Standard that underpins existing equivalency arrangements. Some type of transition by which existing equivalency arrangements are preserved would need to be negotiated.
* **Conformity to international trade requirements:** Under WTO rules, standard-setting bodies like Standards Australia are to use international standards as the basis for their technical regulations. Such bodies should not use their standards to create technical barriers to trade. This obligation may help to ensure that Australia’s organic regulations are broadly in line with those of our trade partners, potentially aiding equivalency negotiations in the future. Furthermore, the accreditation that occurs in relation to Australian Standards has to occur with respect to recognised international standards, which could also aid equivalency negotiations.
* **Ownership of standard:** The National Standard is presently administered and changed by OISCC, made up of organic certifiers and producers. The Australian Standard has in the past been modified by FT-032, Standards Australia’s Organic and Biodynamic Products subcommittee (which includes members of OISCC).

#### There was a need to revise the version of Option 2 presented earlier in the Review process

As it was described in much of the public consultation phase of the Review, Option 2 would involve modifying current regulations to allow for “selected recognition of other countries’ standards.” This is, in effect, encapsulated within the potential, under the status quo, for organic products to be exported under conformity assessment arrangements negotiated between individual certifiers and overseas government entities.

Discussion with the Department clarified this after the public consultation workshop held at the Love Organic Symposium, and a number of discussions were held with approved certifiers to ensure an understanding of how the current legislation works in practice. Though organic products can be exported under conformity assessment arrangements, without being certified to the National Standard, this occurs rarely, if at all.

## Appendix B: Domestic questionnaire

**I am** (Choose all that apply) (Required)

* a primary producer who uses organic methods of production
* a primary producer who uses conventional farming methods
* a representative of an Organic Approved Certifying Organisation
* a stakeholder not listed here

Note: You can choose more than one option.

*Answer this question only if you have chosen "a primary producer who uses organic methods of production" for "I am"*

**What do you mainly produce** (Choose all that apply)

* Beef cattle
* Sheep for meat
* Sheep for wool
* Grains
* Fruit
* Vegetables
* Eggs
* Seafood
* Other

*Answer this question only if you have chosen "Other" for "What do you mainly produce"*

**If other, please specify:** (free text response)

*Answer this question only if you have chosen "a primary producer who uses organic methods of production" for "I am"*

**Is your produce sold in export markets or used in products sold in export markets** (Choose any one option)

* Yes
* No

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What is the approximate total annual value of organic products you sell for export (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What countries are your organic products exported to** (Choose all that apply)

* USA
* UK
* France
* South Korea
* China
* Hong Kong
* Singapore
* New Zealand
* Japan
* Other
* Don't know

*Answer this question only if you have chosen "USA" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to USA** (free text response)

*Answer this question only if you have chosen "UK" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to UK** (free text response)

*Answer this question only if you have chosen "France" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to France** (free text response)

*Answer this question only if you have chosen "South Korea" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to South Korea** (free text response)

*Answer this question only if you have chosen "China" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to China** (free text response)

*Answer this question only if you have chosen "Hong Kong" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to Hong Kong** (free text response)

*Answer this question only if you have chosen "Singapore" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to Singapore** (free text response)

*Answer this question only if you have chosen "New Zealand" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to New Zealand** (free text response)

*Answer this question only if you have chosen "Japan" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to Japan** (free text response)

*Answer this question only if you have chosen "Other" for "What countries are your organic products exported to"*

**Percentage of your annual exports that typically go to other countries** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**Do you receive a price premium for exports of organic products** (Choose any one option)

* Yes
* No
* Not sure

*Answer this question only if you have chosen "Yes" for "Do you receive a price premium for exports of organic products"*

**Please provide information on the product type, the price received, and the price you think you would receive if the product wasn’t organic.** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What were your initial financial costs of becoming certified to the National Standard (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What are your financial costs of maintaining certification each year (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**How many hours per year do you spend demonstrating compliance (including time spent filling in forms, interacting with your certifier etc)** (free text response)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**In addition to being certified to the National Standard, do you also hold certification to AS 6000** (Choose any one option)

* Yes
* No

*Answer this question only if you have chosen "Yes" for "In addition to being certified to the National Standard, do you also hold certification to AS 6000"*

**What were your initial financial costs of becoming certified to AS 6000, in addition to costs for being certified to the National Standard (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "In addition to being certified to the National Standard, do you also hold certification to AS 6000"*

**What are your financial costs of maintaining AS 6000 certification each year (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "In addition to being certified to the National Standard, do you also hold certification to AS 6000"*

**How many hours per year do you spend demonstrating compliance to AS 6000** (including time spent filling in forms, interacting with your certifier etc)

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What additional business costs do you have each year (e.g. the cost of segregating organic and non-organic products)** (free text response)

*Note: Provide dollar values if possible*

*Answer this question only if you have chosen "Yes" for "Is your produce sold in export markets or used in products sold in export markets"*

**What other organic certifications do you hold to export to foreign markets, if any (Choose all that apply)**

* Chinese CNC via COFCC
* European
* USDA NOP
* Japan - (JAS) certification
* Other
* None

*Answer this question only if you have not chosen "None" for "What other organic certifications do you hold to export to foreign markets, if any"*

**What are the costs of being certified to each of these** (free text response)

*Note: If possible, please provide information on the additional time spent demonstrating compliance (including filling in forms, interacting with your certifiers), additional business costs experienced (e.g. cost of segregating organic and non-organic products) and the financial costs of certification.*

*Answer this question only if you have chosen "No" for "Is your produce sold in export markets or used in products sold in export markets"*

**List any other reasons that you do not produce organic goods for export** (free text response)

*Answer this question only if you have chosen "No" for "Is your produce sold in export markets or used in products sold in export markets"*

**How important are these factors in your choice not to produce organic goods for export**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Questions | Not at all important | Not very important | Neutral | Somewhat important | Very important |
| Prefer to focus efforts domestically |  |  |  |  |  |
| Cost of certification to the National  Standard |  |  |  |  |  |
| 1. Cost of certification to other countries' standards |  |  |  |  |  |

*Answer this question only if you have chosen "a primary producer who uses conventional farming methods" for "I am"*

**How important are these factors in your choice not to produce using organic methods at this time**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Questions | Not at all important | Not very important | Neutral | Somewhat important | Very important |
| Cost of transitioning to organic production |  |  |  |  |  |
| Cost of certification to the National  Standard |  |  |  |  |  |
| Cost of certification to other countries' standards which must be met to export |  |  |  |  |  |

*Answer this question only if you have chosen "a primary producer who uses conventional farming methods" for "I am"*

**List any other reasons why you do not produce using organic methods** (free text response)

*Answer this question only if you have chosen "a primary producer who uses conventional farming methods" for "I am"*

**If you did not need to become certified to the National Standard to export organic products, would you market your produce as organic to exporters (subject to importing government requirements)** (Choose any one option)

* Yes
* No

*Answer this question only if you have chosen "a primary producer who uses organic methods of production" for "I am"*

**What is your approximate total annual value of production (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

**Please provide information on how many Australian businesses of each type (primary producers, processor etc) you provide certification for, to each standard** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

**How much additional effort do you believe certification to the National Standard creates for businesses, over what they experience to access other markets requiring certification** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

**What was your 2016 total revenue generated by providing certification to the National Standard (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

**What was your 2015 total revenue generated by providing certification to the National Standard (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

**What was your 2014 total revenue generated by providing certification to the National Standard (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "a representative of an Organic Approved Certifying Organisation" for "I am"*

*Note: Answer this question if it applies*

**Can you provide a fee schedule for the costs of providing certification to the National Standard and other organic standards you provide certification for** (file upload)

*Note: Please upload as one file*

*Answer this question only if you have chosen "a stakeholder not listed here" for "I am"*

**What is your role in the organic export supply chain** (Choose all that apply)

* Processor
* Exporter
* Transporter
* Other

*Answer this question only if you have chosen "Exporter" for "What is your role in the organic export supply chain"*

**What is the approximate total annual value of organic products that you export (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Other" for "What is your role in the organic export supply chain"*

**If other, please specify your role** (free text response)

*Answer this question only if you have chosen "a stakeholder not listed here" for "I am"*

**What products do you mainly deal with (Choose all that apply)**

* Red meat products
* Cereal products
* Fruit
* Vegetables
* Eggs
* Seafood
* Other

*Answer this question only if you have chosen "Other" for "What products do you mainly deal with"*

**If other, please list here** (free text response)

*Answer this question only if you have chosen "a stakeholder not listed here" for "I am"*

**How much do you typically spend annually on purchasing Organic Produce Certificates to allow the export of organic products (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "a stakeholder not listed here" for "I am"*

**Are you certified to the National Standard** (Choose any one option)

* Yes
* No

*Answer this question only if you have chosen "Yes" for "Are you certified to the National Standard"*

**What were your initial financial costs of becoming certified (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "Yes" for "Are you certified to the National Standard"*

**How many hours per year do you spend demonstrating compliance (including time spent filling in forms, interacting with your certified etc)** (free text response)

*Answer this question only if you have chosen "Yes" for "Are you certified to the National Standard"*

**What additional business costs do you have each year (e.g. the cost of segregating organic and non-organic products)** (free text response)

*Answer this question only if you have chosen "Yes" for "Are you certified to the National Standard"*

**What are your typical financial costs of maintaining certification each year (in Australian dollars)** (free text response)

*Answer this question only if you have chosen "upload a written submission" for "Do you want to" Note: Answer this question if it applies*

**Upload your written submission and any supporting evidence.** (file upload)

*Note: Please upload as one file.*

**Final questions**

**Do you have any other comments on the regulation of the export of organic products** (free text response)

**Would you like to be contacted by Deloitte to discuss the regulation of organic exports further** (Choose any one option)

* Yes
* No

*Answer this question only if you have chosen "Yes" for "Would you like to be contacted by Deloitte to discuss the regulation of organic exports further"*

**Please provide details for how we can contact you (phone, email etc)** (free text response)

**Confidentiality**

**Is all of your submission confidential?** (Choose any one option) (Required)

* Yes (clearly mark the submission 'In Confidence')
* No

**Is any part of your submission confidential?** (Choose any one option) (Required)

* Yes (clearly mark the relevant section(s) 'In confidence')
* No

**Publication of submissions on the department's website**

**Do you agree to your submission being made publicly available?** (Choose any one

option) (Required)

* Yes
* No

Answer this question only if you have chosen "Yes" for "Do you agree to your submission being made publicly available?"

**Do you agree to Deloitte contacting you about your submission if required?** (Choose

any one option) (Required)

* Yes
* No

Answer this question only if you have chosen "No" for "Do you agree to your submission being made publicly available?"

**Do you agree to your name and state/territory being listed?** (Choose any one option) (Required)

* Yes
* No

## Appendix C: International consultation selection

Deloitte engaged 10EQS, an international research firm, to understand how Australian organic products and Australia’s certification processes are perceived by importing country consumers and retailers. Importing countries to examine in this process were selected to ensure:

* information gaps on international markets (based on a desktop review) were filled;
* all scenarios of importing requirements were filled, namely:
  + where equivalence arrangements are in place,
  + where importing government requirements exist without equivalency arrangements;
  + where there are no specific importing government requirements, but Australian organic certifications are approved and relied upon to allow import; and
  + where there are no importing government requirements and there is no reliance on Australian certification by government.
* cover key markets (based on an analysis of the last 3 years of export and known industry priorities).

The markets selected as a result of this process included:

* the United States – the largest export destination by far, with its own internationally-recognised standard for organic certification (the National Organic Program or NOP)
* China – the fifth largest market by volume and an Australian priority for expanding premium market trade
* the EU – which cumulatively accounts for 10 per cent of organic produce certificates, and has an equivalence agreement in place for plant-based products. Consultations took place with 7 respondents from France, 1 respondent from Latvia, 2 respondents from Germany, and 1 respondent from Portugal)
* Singapore – a key Asian market, significant food importer with high demand for premium products, and reliant on certification to an internationally recognised standard (such as certification by Australia’s organic bodies)
* Hong Kong – another key Asian market and significant food importer, but with voluntary certification.

This process excluded some growing markets for Australian organic produce (for instance, the United Arab Emirates and other Middle East markets). However, these markets did not individually account for more than 2% of organic export volumes according to OPC data. Further, unlike the EU, these countries do not share uniform regulatory arrangements for imported organic produce. Desktop research has revealed that the UAE, for example, uses a similar regulatory arrangement to Singapore where a list of foreign certifiers is approved for import purposes (Global Organic Trade Guide, 2018b). The diversity of regulatory arrangements among the sampled group allows the use of results to measure the impact of regulatory changes across markets.

10 import buyers from each country were selected, with an average of 14 years’ experience and a minimum of 5 years’ experience. Further consultation took place with 2 experts from each jurisdiction, based upon their qualitative answers, in particular:

* Interest in issues relating to organic standard/reputation over other issues (such as distance).
* Their breadth and depth of experience.
* A strong understanding and detailed opinions about Australian organic produce and about regulations.
* Diversity of views on the importance of a country’s reputation for quality organic products, relative to the importance of other factors in the buying decision (such as price).

## Appendix D: International consultation questions

Table 20 International consultation questions

|  |  |
| --- | --- |
| **Section** | **Questions** |
| **Section 1. Organic produce purchasing decision** | 1. Which countries (other than your own, and Australia) do you source organic produce from for retail sale?   1. United States of America 2. Canada 3. China 4. India 5. European Union (including United Kingdom) 6. Other (please specify)   2. When sourcing particular organic products, how important do you consider these factors in choosing produce from one country over another? (rate on a scale of 1 to 5, where 1 is ‘not important at all’ and 5 is ‘very important’)   1. Reputation of country for high-quality organic produce 2. Government standards relating to organics in origin country 3. Administrative barriers to importing (e.g. recognition of organic systems, other customs regulations) 4. Other (e.g. price, ability to supply retail volumes) |
| **Section 2. Export control signal testing** | 3. Are you confident that the Australian organic products you purchase meet reputable organic standards?   1. Very confident 2. Somewhat confident 3. Neither particularly confident nor particularly doubtful 4. Somewhat doubtful 5. Highly doubtful   4. Are you aware that all Australian products labelled ’organic’ or ’bio-dynamic‘ must be independently certified to a government standard before they may be exported?   1. Yes 2. No |
| **Section 3. Willingness to pay** | 5. If Australia did not require certification to its own government standard for exported organic products, but products still met your country’s importing requirements, would this reduce your willingness to pay for Australian organic products?   1. Yes (if so, % reduction in willingness to pay) 2. No, I would still be willing to pay current prices   6. If Australia did not require certification to its own government standard for exported organic products, but products were still certified to a recognised organic standard and met your country’s importing requirements, would this reduce your willingness to pay for Australian organic products?   1. Yes (if so, % reduction in willingness to pay) 2. No, I would still be willing to pay current prices |
| **Section 4. Other Comments** | 7. Please provide any other thoughts or comments on:   1. The quality of Australian organic products, in your experience or from the perspective of consumers 2. The extent to which independent organic certification provided by a certification organisation matters to you or your customers in purchasing decisions 3. The impact of changes to existing Australian export organic certification requirements on your decisions around purchasing Australian organic products |

#### Follow-up questions

1. Are consumers in your market willing to spend more on Australian organic products than on *conventional (i.e. non-organic) Australian produce of the same type*?
   1. If so, how much more (%, $ per kilogram, etc)?
   2. Do particular Australian organic products (e.g. meat, dairy, fruit, vegetables etc.) attract a higher premium over conventional Australian produce than others? If so, which products?
2. Are consumers in your market willing to spend more on Australian organic produce than on organic produce from your country or another country?
   1. If so, how much more (%, $ per kilogram, etc)?
   2. Do particular Australian organic products (e.g. meat, dairy, grains, fruit, vegetables etc.) attract a higher premium over other organic produce than others? If so, which products?
   3. Which particular countries have the best reputation for organic produce in your country? What factors contribute to this?
   4. How do Australian organic products rank/compare with other countries? Please describe the differences between countries.
3. Are you or your consumers aware of Australian organic standards such as:
   * Australian Certified Organic
   * Aus-Qual Certified Organic Product
   * Australian Demeter Bio-Dynamic certification
   * NASAA Certified Organic
   * Organic Food Chain Certified Organic Australia
   * Safe Food Production Queensland Organic
4. Do products with the above certifications attract a premium over:
   1. Products certified to other recognised organic standards (including your own countries’ standard, if applicable)?
   2. Products labelled ‘organic’ without any certification?
5. Does the existence of multiple Australian organic certifiers create confusion in the market or at all harm the position of Australian organic products in the market? If so, how?
6. Describe the level of interest and understanding of your customers in organic standards and issues.
   1. Do consumers independently research issues and make judgements about products based on that research
   2. Are consumers responsive to your own recommendations/marketing of products, countries etc.?
   3. Would your consumers be likely to know if the Australian Government changed standards around the export of organic products?
   4. Would your consumers be likely to change their purchasing preferences if Australian organic products were exported *with certification to another recognised organic standard*, rather than to an Australian standard? If so, how? (Buy less Australian produce, willing to pay less for Australian produce)
   5. Would your consumers be likely to change their purchasing preferences if Australian organic products were exported *without any certification*, other than that required to sell the product as ‘organic’ in your country? If so, how? (Buy less Australian produce, willing to pay less for Australian produce)
7. Have you had experiences where suppliers of ‘organic’ produce have been found to not be using inputs or production methods that meet consumers’ expectations (for example, false claims on organic standards)? How did consumers respond? Were they aware of the issue? Did it have any lasting effects on the reputation of the country that the goods came from?

## Limitation of our work

### General use restriction

This report is prepared solely for the internal use of the Department of Agriculture and Water Resources. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of set out in the Order for Services dated 3 November 2017. You should not refer to or use our name or the advice for any other purpose.

1. The Standards Council of Canada is Canada’s equivalent of Standards Australia, and represents Canada on key regional and international standardisation forums, including the International Organization for Standardisation. [↑](#footnote-ref-2)
2. Some aspects can be assessed through final product testing (for example, by testing chemical residue levels), but this is not something consumers would typically do. [↑](#footnote-ref-3)
3. Section 5.1 explains how this estimate was derived. [↑](#footnote-ref-4)
4. We assume that domestic producers will continue to obtain some form of organic certification, meaning that there is no reduction in certification costs for these producers. [↑](#footnote-ref-5)
5. The valuation of $134,000 is based on average weekly earnings, and an assumption that people work 37.5 hours per week for 52 weeks of work per year. [↑](#footnote-ref-6)
6. It is also possible that additional auditing could be done by another entity, for example the IOAS. For simplicity, it is assumed here that additional auditing is all done by the Department. [↑](#footnote-ref-7)
7. In the Australian context, see, e.g., *Marsh v Baxter* [2015] WASCA 169, wherein a producer lost organic certification after contamination with genetically modified produce. The relevant produce was sold as conventional, resulting in a loss agreed by the parties of $85,000. [↑](#footnote-ref-8)
8. Note that we assume that certifiers aim only to recover the costs of providing OPCs. As a result, the loss of OPC revenue to certifiers is effectively captured in this cost saving to producers. [↑](#footnote-ref-9)
9. Not all attendees of Love Organic Symposium attended the workshop session. [↑](#footnote-ref-10)
10. One respondent to Have Your Say stated that their cost was $1,000,000 but this is not regarded as a credible estimate. Another estimated costs of $50,000 but again this is not regarded as a credible estimate (it likely includes the costs of becoming organic, as distinct from the costs of being certified as organic – this will be clarified in a follow up discussion with this respondent). [↑](#footnote-ref-11)
11. One very large buyer of organic products from farms, which plays a key role in supporting those farmers’ certification, estimated time spent at 20 hours per month for export records, and 440 hours in total per year spent working with those farmers’ compliance and traceability. A separate respondent’s estimate of 500 hours per year is not regarded as credible. [↑](#footnote-ref-12)
12. See, eg, *Marsh v Baxter* [2014] WASC 187 [261]. [↑](#footnote-ref-13)