Australian Organic Limited

Supplementary Submission to the Productivity Commission Inquiry: Creating a more dynamic and resilient economy – Australian Organics Sector Regulatory Underperformance.

Australian Organic Limited (AOL), on behalf of the Australian certified organic sector thanks the Productivity Commission (the Commission) for the opportunity to make this submission in response to the Commission's Information Requests 2.1 and 2.3 from the interim report, *Creating a more dynamic and resilient economy*.

As a sector employing over 22,000 FTE and an annual value of $2.6bn, Australian organics is a compelling case study for review by the Commission; it presents a high-growth industry whose productivity and international competitiveness lag OECD peers and is actively constrained by long-standing and easily rectified regulatory divergence and overlap – as evidenced by common-market partner New Zealand who is in the process of legislating an OECD-alignment through implementing their own regulatory uplift.

Australia possesses unparalleled natural resource endowment for organic production, with over 53 million hectares of certified organic farmland. This represents over 60% of the world's total certified organic agricultural land. Despite this overwhelming natural resource advantage, Australia captures less than 1% of the global organic food and beverages market, which was valued at approximately A$300bn in 2022 and is expected to grow at a CAGR of 13.9% to A$795bn[1] by 2030.

This figure stands in stark contrast to the performance of Australia's broader agricultural and food sector, which consistently performs far ahead of OECD nations as a world-leading agricultural exporter, commanding approximately 3% (~$80BN) of the A$2.62tn global export market[2].

As clearly demonstrated by government data and broader sector commentary, a significant growth opportunity for Australia is being unrealised due to the current state of regulatory underperformance within the organics sector. Australia stands alone as the last country within the OECD to not have a regulatory framework defining organics.

Analysis of the impact of this regulatory underperformance within the global organic market reveals a stark performance gap:

- Australia's A$750m in organic exports[3] in 2022 represents just **0.25%** of the total global organic market.
- Our share of the global organic export market is only in the range of **1.5%**[4]

[1] Using the 5-year average AUD/USD exchange rate of 0.71 against USD 564.22 Billion forecast
[2] ABS and as of 2022, however is consistently representative of previous and forward years.
[3] Data sourced from the Australian Organic Market Report (AOMR) 2023.
[4] There is no agreed single international dataset for the value of the entire organic export market. However, industry analysis estimates exports comprise 15-20% of the total sector value, therefore around U$33-44bn. Australia's A$750m (USD$540m) share is therefore conservatively around 1.5%

- However, the global export market for agricultural products in 2022 was valued at A$2.62tn, with Australia's share (~A$80bn) of the export market seen at over **3%**.
- If this increased to the 3% agricultural exports benchmark it would lift the value of organic exports to $1.5bn.

The gap therefore between Australia's agricultural advantage and the currently realised value of organic production is clear. However, this gap is not merely a missed opportunity but a clear indicator of a significant, sector-specific productivity and competitiveness failure. Such a disparity between resource share and market share points to systemic, non-market barriers that prevent the efficient conversion of a major national asset into economic value which our international trading partners are capitalising on.

The primary barrier is a dysfunctional regulatory environment, unique among OECD nations, which creates inconsistency, imposes a significant cumulative burden on businesses (particularly Small and Medium-sized Enterprises (SMEs)), and undermines market integrity. This submission and case study to the Commission demonstrates how simple and targeted regulatory reform - the implementation of a mandatory domestic standard for the use of the term "organic" - directly addresses these failures, aligning with the Commission's goal of creating a more dynamic, productive, and resilient economy.

The Commission's Information Request 2.1 "Duplicate and Inconsistent Regulation"

The current regulatory framework for organic products in Australia is fundamentally inconsistent. A mandatory government standard, the *National Standard for Organic and Bio-Dynamic Produce*, has existed since 1992 but applies exclusively to products intended for export. The domestic market, in contrast, remains unregulated, a situation which all international peers have identified and rectified in their own markets.

This creates a perverse and inefficient dual system. Australian producers are held to a high, verifiable standard when selling to international consumers, yet domestically this does not exist. Such conditions have been demonstrated repeatedly to constrain both domestic and export opportunities as lucrative trading partners are hesitant to grant our sector equivalency arrangement to access their markets when, in return, there is little to protect their verified products from competing with unverified organic claims in our domestic market.

This regulatory inconsistency has no clear policy rationale and appears to be a historical regulatory oversight rather than a deliberate design, despite consistent united industry and consumer demands for regulatory realignment. For businesses operating in both domestic and export markets, this necessitates navigating two different compliance environments, which is inherently inefficient and undermines the principle of a coherent national market. As discussed further in this submission, the cumulative bourdon of navigating multiple overlapping certification requirements remains a key blocker to new entrants to the market.

Cumulative Burden and Disproportionate Impact on SMEs

The direct consequence of this inconsistent regulation is a significant and quantifiable cumulative burden; both direct financial costs and administrative, on Australian businesses, particularly the SMEs that constitute the majority of the sector's approximately 3,000 certified operators.

The primary mechanism of this burden that is impacting sector productivity and growth is the inability of the Australian government to negotiate "equivalency agreements" with key trading partners. These agreements, which streamline trade by recognising another country's standards as equivalent, are predicated on the existence of a robust domestic regulatory framework. Without a domestic standard, Australia cannot secure these agreements with major organic markets like the United States, South Korea, China, and Canada – such streamlined arrangements which these countries enjoy between each other to our unique disadvantage.

Consequently, to export to these markets which is where key growth opportunity resides, Australian businesses are forced to seek separate, costly, and duplicative certifications for each market they wish to enter – amounting to millions of dollars each year. This represents a direct, recurring compliance cost that would be eliminated through regulatory harmonisation.

Information Request 2.1 Case Studies:

The Organic Milk Co., is an SME that incurred over A$200,000 in additional certification costs over two years just to enter the South Korean market, and which delayed their entry by 6-months. this representative case illustrates the direct financial and administrative bourdon that industry shares.

Similarly, another recent SME case study is, Soulfresh, which was forced to abandon contracts valued at up to A$1m annually due to the prohibitive cost and complexity of South Korean certification in the absence of an equivalency agreement.

Hewitt Foods presents another representative case study, as the world’s leading fully integrated, paddock-to-plate organic meat supply chain. The company exemplifies the significant, unnecessary financial, and administrative burdens faced by the certified sector in the absence of equivalency agreements.

As a result, to access key export markets like the United States and South Korea, Hewitt and its network of suppliers must comply with both the mandatory National Standard and voluntarily further comply with multiple international organic standards. This duplicates costs and administration, acting as a direct handbrake on the sector's productivity.

The costs associated with maintaining these multiple certifications are substantial and serve as a "hidden tax" and a self-imposed non-tariff barrier on Australian organic producers.

- Direct Certification Costs: Annual recertification for suppliers in the Hewitt network costs between $3,435 and $4,430 per producer. For the company's U.S. market access alone (USDA NOP certification), these supply chain costs exceed $326,325 annually.

- Administrative & Labour Costs: Beyond direct fees, a typical livestock operation spends over 150 hours of labour annually on compliance activities for a single additional standard (USDA NOP), translating to an estimated $8,490 in associated administrative costs per producer.

Hewitt's experience is not isolated. It is a system-wide problem affecting over 1,000 certified organic livestock producers in Australia, more than 500 of whom are forced to adopt the USDA NOP standard to access the U.S. market.

This duplication of costs and administration directly undermines the resilience of the organic sector. It diverts capital and labour away from innovation, expansion, and productivity improvements, and puts Australian producers at a competitive disadvantage.

Beyond these direct fees, and as seen in the above Hewitt case study, the regulatory failure imposes a significant *administrative burden* in terms of staff time spent on non-productive compliance activities. The sector has heard repeatedly from emerging SMEs that navigating these duplicative processes, including preparing separate documentation, managing multiple audit schedules, and navigating the complexities of different international standards has been a direct blocker from them entering the sector.

Market Failure: Information Asymmetry and Brand Dilution – Key Statistics

The current regulatory vacuum does not exist without beneficiaries. It actively benefits operators who engage in 'greenwashing' by making organic claims without incurring the costs of certification, allowing them to free-ride on the reputation of legitimate producers and mislead consumers. This is a classic market failure where the lack of clear rules rewards deceptive practices and penalises authentic, compliant businesses, creating a market that is fundamentally anti-competitive and inefficient.

This practice directly misleads consumers, with surveys showing that 33% of surveyed consumers have been misled by false organic claims[5]. The data further shows that over 90% of consumers support the introduction of a mandatory standard to address this. Within the certified organic system it is even higher, with well over 99% of the ~3000 sector participants in favour of this approach.

The economic impact is tangible; research and market data shows consumers are willing to pay a 37% price premium for ***certified*** organic products, but only a 25% premium for non-certified "natural" claims, demonstrating the clear economic value of verifiable trust that is currently being eroded[6].

It has been well established that greenwashing is resulting in brand dilution and degrading market competition and productivity. Uncertified operators free-ride on the reputation and price premium established by producers who have invested significantly in obtaining and maintaining certification (a process that can cost an SME $1,000-$2,000 annually, plus ongoing compliance costs)[7]. This undermines the return on their investment and creates unfair competition from operators with lower cost bases who do not adhere to the same rigorous standards.

Case Study – Lack of enforcement under current regulatory system

The inability to enforce market integrity is not merely a hypothetical; it is a practical reality confirmed by the Australian Competition and Consumer Commission (ACCC) itself.

The case of a certified domestic poultry producer demonstrated the practical impossibility of enforcement under the current system where a butcher was found to be intentionally selling conventional chicken in the certified organic producer’s packaging. Despite a report to the ACCC, no action was taken, with the ACCC repeatedly noting its inability to act is due to the 'no clear definition of "organic"'.

When the nation's peak consumer watchdog confirms the current ad hoc regulatory framework prevents it from stopping clear-cut consumer deception, the case for reform and productive economic opportunities is undeniable. A market where rules are unclear

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[5] Data sourced from the Australian Organic Market Report (AOMR) 2023
[6] https://pubmed.ncbi.nlm.nih.gov/34547350/
[7] https://austorganic.com/certification-and-standards/certification-faqs/

and unenforceable is not one that encourages dynamic, long-term investment.

The Commissions Information Request 2.3 – Case Studies for Immediate Regulatory Review

The organic sector is an ideal candidate for immediate regulatory review because the problem is acute, the economic upside is significant, and the proposed solution is simple, low-cost, and fundamentally pro-competitive. It is critical to understand this reform not as new red tape, but as a net reduction in regulatory burden for the sector as a whole.

While it introduces a consistent standard and level playing field for domestic and export producers, this is essential to protect the integrity of the term 'organic' on which their price premium depends. The current framework, which allows misleading claims, erodes the value of this shared brand asset for all legitimate operators. Furthermore, by unlocking equivalency agreements, this single action removes a far more complex, costly, and duplicative web of multiple international certifications for any SME with export ambitions, directly lowering a key barrier to growth

The Scale of the Economic Opportunity

This regulatory reform is not about protecting a niche market; it is about unlocking a sector with the potential for significant contributions to national agricultural output and export value.

While Australia's total agricultural exports reached a record $80.4bn in 2022-23, the organic sector's export performance ($750m) lags significantly, held back by the very regulatory barriers this reform would dismantle. With the global organic sector expected to grow to almost A$795bn by 2030, international exports will increasingly become a key global component – and opportunity – to meet this market.

Noting Australia currently enjoys over 3% of the global agricultural and food export market, yet only 1.5% of the organics export market, these figures demonstrate powerful underlying international consumer demand for premium Australian exports and latent Australian organic capability to meet the opportunity.

Benchmarking the potential for the organic export sector to meet the same export market share as the Australian agricultural sector as a whole (3%) would increase the net-present value of the export sector upwards by $750m to a value of $1.5bn.

However, the current regulatory framework is acting as a handbrake on an already powerful economic engine. Removing this constraint through regulatory realignment would accelerate growth beyond current projections, including helping to achieve the national goal of a $100 billion agricultural industry by 2030.

Pro-Competitive - Harmonising Reform

The proposed solution the Australian certified organic sector has put forth should be understood not as an imposition of new red tape, but as a simplification that reduces the overall regulatory burden – enhancing productivity and trade, as is currently being evidenced in New Zealand in their current legislative process to resolve this issue in their market.

The proposal is to mandate the usage of a single *existing* and *government-owned* standard, the National Standard for all domestic organic claims. This does not involve creating a new standard from scratch but rather applying an established one consistently across the entire Australian market alike our international peers.

This single action would enable the government to pursue the equivalency agreements that are critical for international trade. Beyond enhancing market access opportunities, it would further, in turn, drastically reduce the $12.5m-plus in annual duplicative certification costs currently borne by exporters.

The reform replaces a complex and costly web of multiple international private standards with a single, clear Australian standard for market access. For an SME exporter, this represents a net *reduction* in their regulatory burden and a significant boost to their dynamism and ability to compete internationally.

Learning from International Best Practice

Australia's position as an OECD laggard on this issue provides one distinct advantage, that of being able to adopt proven, successful models from peer nations. The experiences of New Zealand and Denmark provide a clear, evidence-based blueprint for success.

Following the introduction of its domestic organic standard in 2023, New Zealand is already advancing equivalency negotiations, reducing trade barriers, and boosting the credibility of its organic exports on the world stage. Denmark's long-standing, holistic organic policy, which includes a strong national standard and the highly trusted "Red Ø" label, has resulted in the world's highest organic market share, domestic consumption levels by value, and record organic exports[8].

In adopting the successful models used by our international competitors, this reform

[8] https://organictargets.eu/focus-countries-old/denmark/

embodies the principles the Commission itself identifies through this report: that rules trusted by comparable overseas regulators should, by default, be good enough for Australia (Interim Report, p.34).

These international examples demonstrate that this regulatory model directly leads to enhanced market access, increased exports, and stronger consumer trust. This is not a theoretical or experimental reform; it is the adoption of established international best practice.

Conclusion: Simple Reform will Unlock a More Dynamic and Resilient Sector

The current regulatory vacuum for domestic organic products is a clear example of both market and government inertia. It has created systemic inconsistency, imposes millions of dollars in unnecessary costs on Australian businesses, stifles the growth of competitive SMEs, and misleads consumers.

Regulatory reform in this sector would be a tangible example of the 'concrete reductions in regulatory burden' the Commission advocates for in its proposed whole-of-government statement (Draft Recommendation 2.1). Further, implementing this reform would be a prime example of the 'regulatory stewardship' the Commission champions (Draft Recommendation 2.3). It involves taking an existing, underutilised government asset—the National Standard—and managing it effectively to unlock productivity, correct market failure, and enhance the resilience of an entire sector.

As has been covered throughout this submission, the Australian organic sector will continue to be constrained and fall behind our international competitors until such time as government implements this simple, targeted, and pro-competitive reform.

It is not an act of creating new regulation, but of fixing a broken and inefficient system through harmonisation. This reform will reduce compliance costs, level the competitive playing field, enhance consumer trust, and unlock the significant economic potential of a key Australian agricultural sector. It is a clear-cut opportunity to bring the organic sector's performance in line with Australia's world-leading conventional agriculture sector, creating a more dynamic and resilient economy. We urge the Commission to recommend it as a priority area for immediate regulatory review.