GOVERNMENT OF WESTERN AUSTRALIA

Department of
**Primary Industries and Regional Development**

**Protect**
**Grow**
**Innovate**

**Insights, challenges and opportunities**

# Organic food and beverage manufacturing in Western Australia

## Acknowledgment of Country

The Department of Primary Industries and Regional Development (DPIRD) acknowledges the Traditional Custodians of Country, the Aboriginal people of the many lands that we work on and their language groups throughout Western Australia, and recognises their continuing connection to the land and waters.

DPIRD respects the continuing culture of Aboriginal people and the contribution they make to the life of our regions and we pay our respects to Elders past, present and emerging.

# Introduction

**In Western Australia, only 2% of farmers are organic operators, with the estimated size of the organic production industry in the state at around 1.2% of Western Australian agriculture.**

**To increase the manufacturing of organic food and beverages in Western Australia, a sufficiently large production base of raw material is needed to generate appropriately priced product and consistency of supply.**

In 2022, the Department of Primary Industries and Regional Development (DPIRD) initiated research into the opportunities and challenges in organic value-added food and beverage manufacturing in Western Australia.

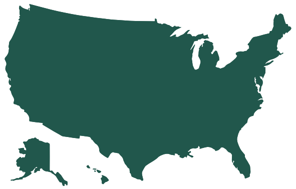
Building on previous findings by Coriolis (2016) and AEC Group Pty Ltd (2018), the intention of this research was to provide a deeper understanding of the sector to inform industry and guide future decision making. This document provides an overview of key insights and learnings from this most recent research.

# Global and national insights

"We are witnessing a profound global shift towards sustainable food products, driven by trends in consumption and production. Organic is at the centre of this shift." (PolicyPartners, 2022)

International sales of organic food and drink reached more than **$A190 billion** in 2020.

The **highest per capita consumption** by continent is in **North America**, followed by Europe.



In **North America** and **Europe**, products are held to a high quality and measurable set of standards.

**Australia** accounts for only **1.25%** of global organic sales.

The European Union has a target to achieve **25%** of all agricultural production grown organically by **2030.**

Although Australia's organic market is relatively undeveloped per capita, growth in sales has been strong between 2000 and 2020, with value increasing disproportionately compared to consumption.

Globally, the United Kingdom, Australia and Japan are the largest markets for organic packaged beverages and organic packaged food, with strong growth forecast to 2025 for the UK, as shown in Figures 1 and 2 (Source: Euromonitor International 2021).

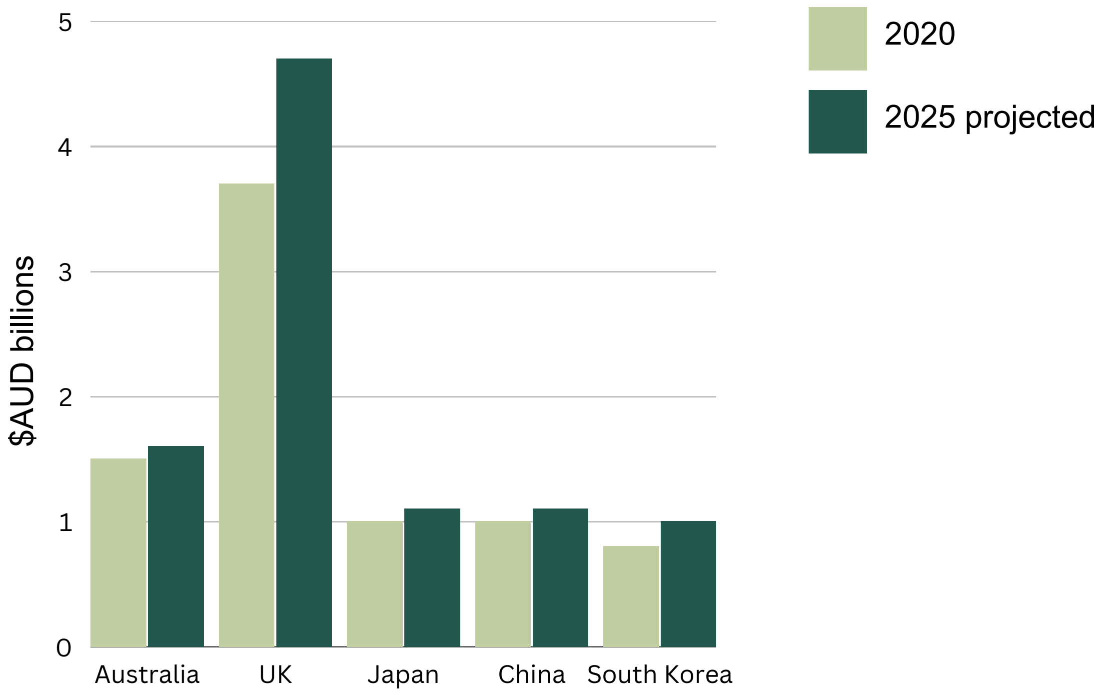



Figure 1: Organic beverages

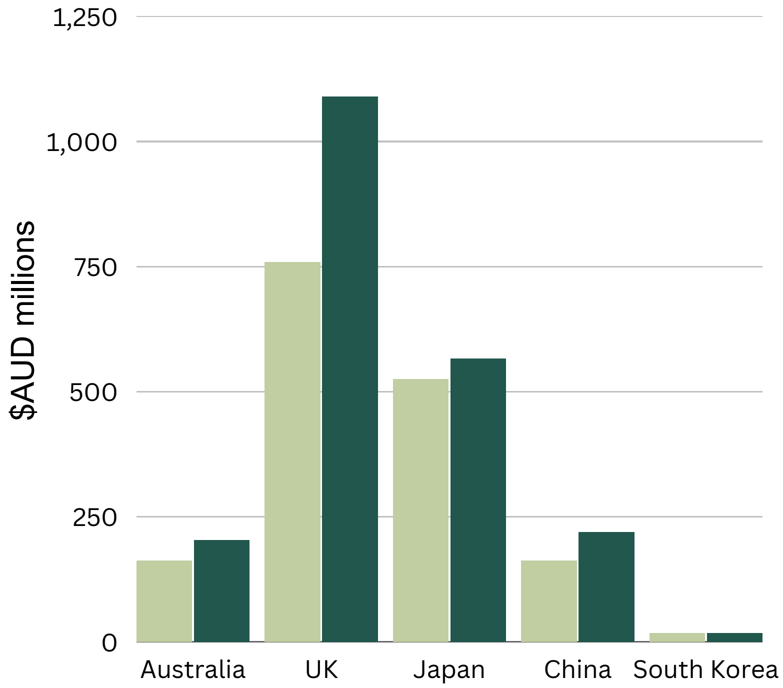



Figure 2: Organic packaged food

# Organic production in Western Australia

## Previous research findings

| Premium food market opportunities (2016, Coriolis Report) | Western Australian premium beef project (2018, DPIRD/MLA - unpublished) |
|---|---|
| Several product categories were identified as offering opportunities to add value to WA ingredients. Organic consumers are driving demand growth, particularly for 'certified organic'. | The production value of the organic/biodynamic beef sector in WA is estimated at $25 million – only 2% of the total value of WA's all cattle sales in 2016. |
| Western Australia currently has innovative and successful businesses in the organic space. However, increased marketing and awareness activities and improvement in sales capabilities are required. To increase efficiencies and volumes, scale is required. | Opportunities exist for:<br>• Higher farm gate and post farm gate value.<br>• Increased local WA jobs.<br>• A more capable, adaptive, and scaled export and consumer-oriented premium beef sector in WA. |

# Australia's sustainable food systems

There are three sustainable agricultural production systems in Australia which are defined in Figure 3. However, these can have a level of overlap and the differentiation is sometimes unclear.

> **"Over the last few decades, there have been increasing market pressures for environmentally sustainable food production." (PolicyPartners, 2022)**

Although labelling of food products often lacks an assured definition, those that convey organic, spray free, free range, and sustainable generate a consumer response due to concerns around the chemical content of food.

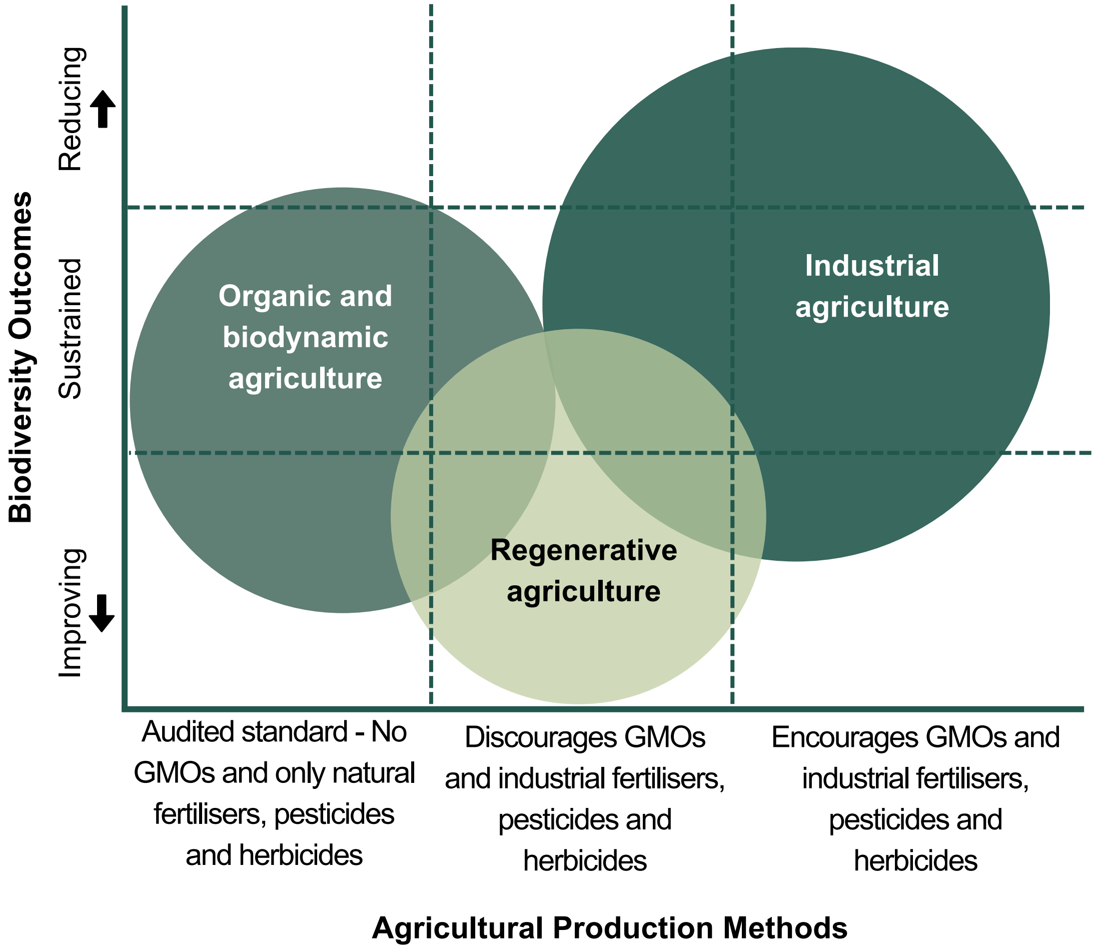



Figure 3: Defining different agricultural production systems in Australia
(Note: this graph is not to scale and only for visual purposes)
(Source: PolicyPartners, 2022)

# The organic food and beverage sector in Western Australia

# Key insights

Of the 172 organic and biodynamic operators in Western Australia, 75 are processors or retailers, with a high concentration in the South West corner of the state.

They mostly produce the full range of agricultural products but using organic or biodynamic systems of production - dairy is a notable exception.

As of 2019, Western Australia's share of organic operators was relatively low compared to other states, as shown in Figure 4. It is evident that WA's organic biodynamic agriculture is under-developed, with significant flow-on effects to organic value-adding.

To increase the manufacturing of organic food and beverages, WA will need a sufficiently large production base to generate appropriately priced and consistency of supply in raw materials for manufacturing.

Notably, value-adding in the organic food supply chain can occur in mixed use facilities as long as these facilities comply with strict certification requirements before organic manufacturing occurs.

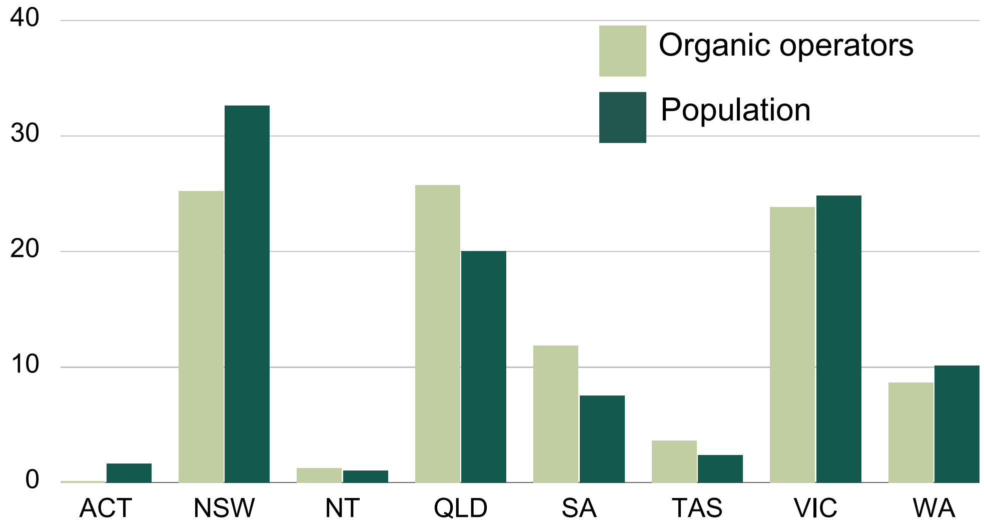



Figure 4: WA's share of organic operators
(Source: IBIS World, 2019)

## Size and value

Current modelling estimates the size of the organic industry at around 1.2% of WA agriculture and $130m in total agricultural and value added production (PolicyPartners, 2022). Overall, the value of organic production may be increasing in line with overall agricultural production, but it's likely that the number of organic farmers is stagnant or declining.

## Products

Organic operators are primarily focused on five types of production in WA - horticulture, processing, red meat, grains and wine, presented in Figure 5.

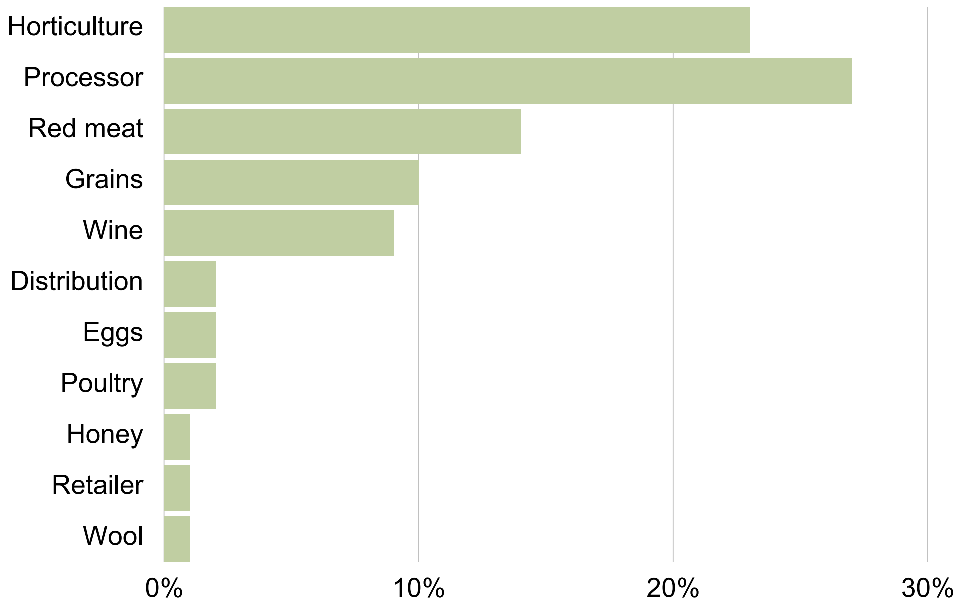



Figure 5: Percentage of certified organic products in WA (Source: Policy Partners, 2022).

## Product destination

Most production is destined for organic consumers (43%) or for organic processing (19%). Organic exports are a relatively small destination for production (2%), as shown in Figure 6.

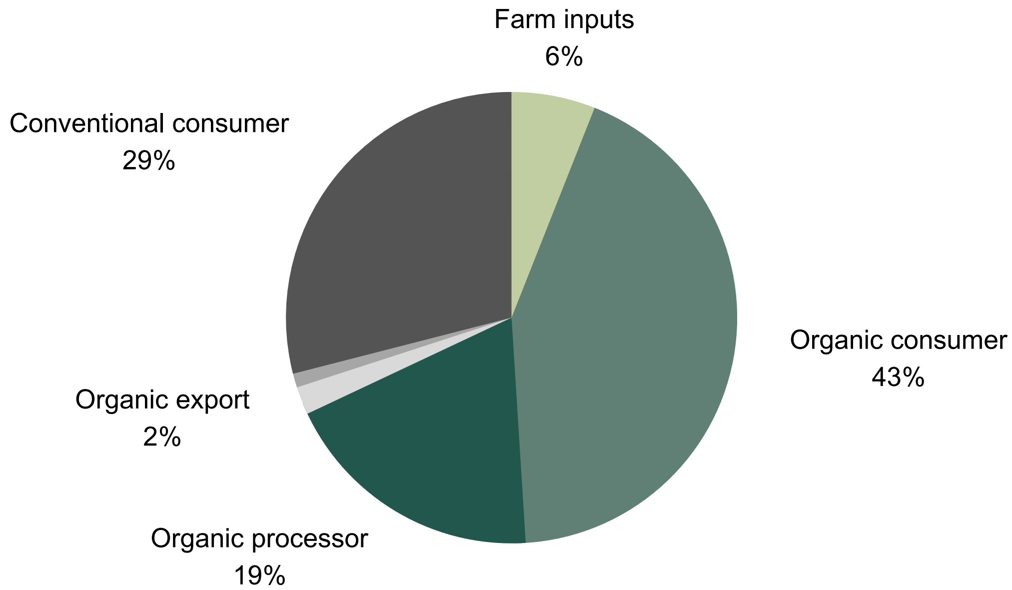



Figure 6: Destination of final product
Source: Policy Partners 2022

## Certified organic food and beverage processing activities in Western Australia

| | |
|---|---|
| | Wine<br>Kombucha<br>Teas and coffee<br>Turmeric drinks |
| | Bakery ingredients<br>Bread<br>Muesli |
| | Meat/butchering<br>Sausages<br>Meat and vegetable stocks |
| | Olives and olive oil<br>Pickles, soups, sauces and jams<br>Salt<br>Honey<br>Walnuts |

## Barriers to growth

Organic production in Western Australia is a critical input for organic food and beverage product manufacturing. However, the following underlying issues are affecting growth in this sector:

- Lack of regulation around labelling
- Unregulated production methodologies
- Current government policy settings
- Product price
- Education around the broader benefits
- Cost of transition to organics
- Reliability of supply
- Consistency in quality
- Low rate of organic adoption

## Industry growth drivers

### What the research says

**Food policies**: relating to health and environmental concerns.

**Food security concerns**: restrictions on exports of agricultural products.

**Geo-strategic concerns**: recent shift towards the ‘nation-state.’

The **Great Urban Migration**: urbanisation is supporting the growth of the consuming class, creating large new markets for Australian produce.

**Dietary shifts:** towards plant-based foods.

**Ageing population:** implications for the volume and type of food.

**The rise of food provenance:** knowing where food was grown, how it was produced and transported.

The leading **supermarkets** will continue to drive sales value growth within organic packaged food and beverages.

More leading packaged food brands are set to **invest** in the development of organic ranges or versions.

**Organic food and beverage industry**

## Industry growth enablers

### What Western Australian operators say

| | |
|---|---|
| Organic standards and regulation | Peak industry body support |
| Marketing and consumer awareness | Support from retailers |
| Consumer demand | Industry strategic planning |
| Good organic/biodynamic agronomists | Research and development extension |
| Prices consumers are willing to pay | Better coordination between growers |
| Farm gate prices | Increased government support |
| | More processors or organic produce |

## Industry trends

The following trends have the potential to impact on Western Australia's organic food and beverage industry.


### Environmental

Growth in demand for **environmental**, **social** and **governance** outcomes.

Global shift towards **sustainable food systems**.

Producers are increasingly having to demonstrate **sustainable practices**.

### Market

The **domestic market** in Australia is growing but from a very low base.

**Export growth** in selected commodities – notably **beef** – has been quite strong and is a key driver of growth.

### Consumption

Consumers are increasingly concerned about **artificial additives** and **contaminants** in food.

**Millennials** are increasingly important organic consumers, with **over 60%** purchasing organic products.

There is a strong link between **organics and parenting**, with parents being key purchasers.

# Consumer insights

“Consumers have a positive perception of organics and generally associate organic products to food items and fresh produce that are free of chemicals or preservatives and are naturally grown.” (PolicyPartners, 2022)

### Factors influencing consumers’ buying decisions

- Price
- Health concerns
- Environmental concerns
- Taste
- Impact on planet

**80%**

of consumers of organic products were in favour of **mandatory certification**.

**23%**

of Australian consumers identified that **trust in certification** labelling may convince them to **buy more**.

### Purchasing inducements

- Lower cost
- Confidence in labelling
- Understanding of the benefits
- Trusted regulated systems

# Industry challenges

| | |
|---|---|
| 1 | Lack of domestic regulation is holding back the industry, constraining consumption and restricting market access. |
| 2 | Consumers are confused about labelling and product claims. |
| 3 | The organic industry is marginalised in agricultural policy and lacks government support and strategy at all levels. |
| 4 | Price is the key barrier to purchasing across all markets. |
| 5 | There is a lack of research and development - 94% of Western Australian operators considered the R&D available to them to be inadequate. |
| 6 | Undeveloped supply chains for organic products. |
| 7 | Lack of scale and poor continuity in supply of product undermines the viability of value adding producers. |
| 8 | The costs of conversion to organic production are significant, with no premium in the process received during the three-year conversion phase. |
| 9 | Access to organic meat contract slaughtering is problematic. |

Federal Impact Statement (2022) discussing the current regulatory framework https://haveyoursay.agriculture.gov.au/organics.

# Industry opportunities

## Key market opportunities

Australia and the **UK** present the best opportunities for WA producers, with niche market opportunities elsewhere.

Growth is expected in the **Asian** and **Middle East** markets but from low bases.

The **Saudi Arabian** organic market is growing rapidly.

In **Thailand**, organic pasta, curry pastes, orange juice, tea and coffee are gaining popularity.

## Key opportunities identified by industry operators

Carrots, potatoes, onions, sweet potato, leafy greens.

New wine-based products (incorporating botanicals, lower alcohol, lower calories).

Oat based milk products.

Australian Grown organic teas and herbs.

Convergence/integration of conventional farming and organic farming.


# Highlighted organic products and opportunities

# Organic wine

## Key report findings

| | |
|---|---|
| | Availability of variety and expansion of organic vineyards expected to propel demand. |
| | Exports not significant for organic winemakers – most product (35-70%) is distributed within WA, with some interstate exporting. |
| | The market is projected to grow by around 12% per annum due to rising consumer awareness |

| Opportunities | |
|---|---|
| Domestic Growth: Organic food culture trend is growing with increased interest in ethical consumerism, particularly in the Nordic countries. | Potential for export growth: E-commerce offers a significant growth opportunity. |

# Organic oats

## Key report findings

| | |
|---|---|
| | WA growers produce about 50% of the nation's organic oats, with most shipped direct to Asia. |
| | Global demand for nutraceutical oat extracts is expected to grow strongly. |
| | WA has a rapidly emerging plant-based milk sector. |
| | The need for a trusted and transparent supply of quality oats is growing overseas. |
| | Overseas, demand for oats for use in plant-based milks is surging. |

| Opportunities | |
|---|---|
| There is potential for growth through new oat milk products. | Overseas, demand for oats for use |
| Taiwan is a large market for traditional oats, but tests rigorously for chemical residues. | |

# Organic beef

## Key report findings

| | |
|---|---|
| | Value of organic/biodynamic beef sector in WA is estimated at $25M – 2% of the total value of all WA's cattle sales in 2016 and less that 1% of Australian organic beef production. |
| | Organic/biodynamic beef is lower than the value of WA Wagyu beef sales estimated at $30M. |
| | High prices being received for conventional beef have largely eliminated the organic price premium. |
| | Reliability of supply is a major issue. |

### Opportunities

Value exists for supermarkets in developing a 20-year development perspective on being able to provide a reliable supply.

# Organic stock

## Key report findings

| | |
|---|---|
| | Only two Australian made organic stock brands in the supermarkets. |
| | Most growth is in the Eastern States with some exports undertaken. |
| | Biggest constraint is accessing reliable quality and consistent supply of meat, herbs and vegetables and adequate skilled labour. |

| Opportunities | |
|---|---|
| Potential for measured growth through domestic market. | Potential for export growth to the UK and Japan appear to be good prospects for an initial export strategy. |

# Organic chicken meat

## Key report findings

| | |
|---|---|
| | Currently no significant organic chicken meat producer based in WA. |
| | Locally sourced chicken meat is a priority for major supermarkets, and locally sourced product would be competitive even if unit price is higher than current suppliers. |

| Opportunities |
|---|
| There is an opportunity to develop an organic chicken meat industry in WA. |

# Organic honey

## Key report findings

| | |
|---|---|
| | WA organic honey production is small – approximately 2% of WA apiarists are certified organic. |
| | Most of the organic honey produced ends up sold as conventional honey and, for some producers, up to 85% of organic honey ends up labelled as conventional honey. |
| | The price premium in supermarkets in Australia is low. |
| | WA's darker and strongly flavoured honey is highly regarded overseas but has limited appeal to Australian consumers. |

| Opportunities | |
|---|---|
| Potential for developing a provenance for WA organically grown Jarrah honey should be investigated and could be supported by a certification mark. | Potential to pursue a program of marketing organic Jarrah honey, based on health benefits and organic production methods |
| Significant potential exists for growth growth through export markets. | There is scope for the development of provenance-based organic honey production from the heathlands of South-Eastern WA and from Indigenous managed lands. |

# Organic walnuts

## Key report findings

| | |
|---|---|
| | The line of organic walnuts currently in Australian supermarkets comes from California, USA. |
| | There is only one organic walnut supplier in WA. |
| | Product is mostly distributed throughout WA via health food retailers and IGA supermarkets. |
| | WA lacks the scale to compete in the conventional walnut market. |

| Opportunities | |
|---|---|
| Potential exists for growth through the domestic market. | Potential for export growth UK, UAE, Singapore and Japan appear to be good prospects for an initial export strategy. |

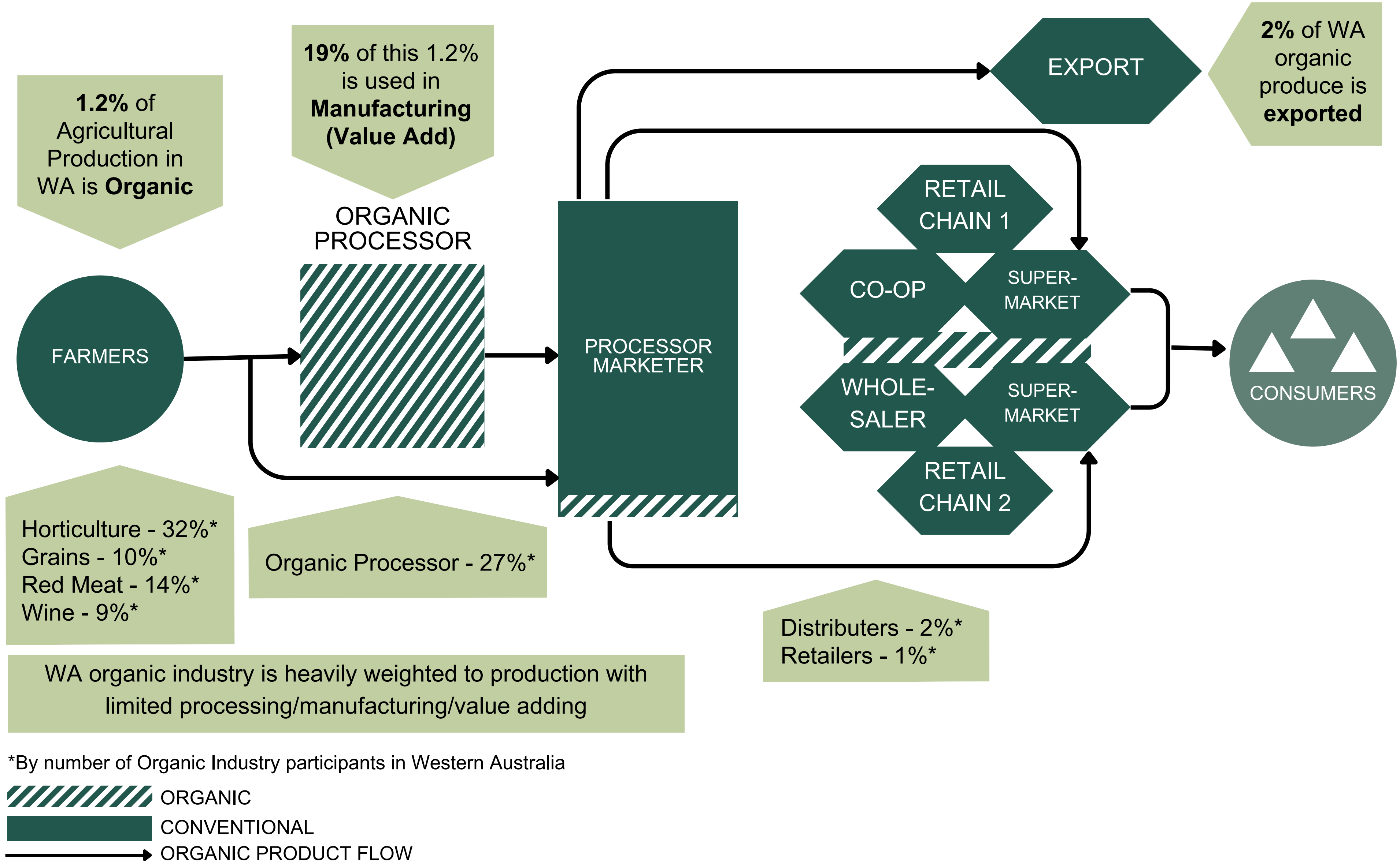
# Fresh produce

## Key report findings

| | |
|---|---|
| | Processors are dissatisfied with accessing reliable, quality, and consistent supply which is constraining business expansion. |
| | The scale of WA fresh organic industry produce is very small, making it difficult to expand manufacturing of organic food and beverage products. |
| | Supply chain inconsistencies exist between small producers and large suppliers with the latter able to develop relationships directly with major supermarkets. |
| | WA's strict biosecurity arrangements prevent the importation of some fresh produce from the Eastern States and from overseas. |

| Opportunities | |
|---|---|
| Better industry coordination is required for fresh produce in WA. | Opportunities exist for government departments to facilitate improved coordination to achieve better market outcomes. |

# WA organic supply chain



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This report prepared by:

BLUESALT
CONSULTING

## Important disclaimer



**Department of Primary Industries and Regional Development**
+61 1300 374 731 | enquiries@dpird.wa.gov.au | dpird.wa.gov.au

ABN: 18 951 343 745

PRO002-23 JULY 2023