

1 January, 2004



INFORMATION SHEET

NASAA response to BFA Merger Proposal & related Organic Industry issues

Q . How did the merger discussion with BFA start?

A. NASAA was initially approached by BFA in May 2004. There were a series of meetings held between representatives of the organisations, culminating in the NASAA Board resolving not to proceed on 28 November.

Q. How much of the Australian organic industry would have been involved if the merger had proceeded?

A. About 80%. NASAA believes that about 2000 of the estimated 2500 certified organic operators in Australia would subsequently have been aligned with one certifier, thereby creating a near monopoly situation in the provision of certification services. In addition to the expected market dominance, only one Australian certifier would deliver market specific programs under the US National Organic Program (USNOP), and hold accreditation with the International Federation of Organic Agricultural Movements (IFOAM), further limiting operator choice.

Q. What was the reasoning behind the merger proposal?

A. It was suggested that there could be significant economies of scale achieved by merging the administration of the two largest certification organisations in Australian organics through the creation of a larger, and supposedly more robust, organisation. It was also suggested that the subsequent use of one certification mark on most Australian organic produce would reduce consumer confusion and strengthen organic branding.

Q. Why did NASAA reject the economies of scale argument?

A. Our directors concluded that it was likely any such monopoly would, in the medium term, grow both a substantial bureaucracy and add to the costs of certification. We believed that the removal of effective checks and balances on certification costs, afforded by the removal of a large part of the competition, would be to the detriment of our operators. Similarly, we doubt that a near monopoly would enhance the quality of certification services. There is significant potential for a decline in standards without substantial competition.

Experience in other countries clearly demonstrates and supports a competitive certification marketplace as the most effective model for service provision in the sector, providing greater choice to the organic operator. Even in cases where differences occur in the administration of national programs, a competitive certification service commonly forms a part of, a wider State-based system.

Q. Wouldn't the creation of one large certifier benefit the whole industry, given concern expressed that individual certifiers may lack the financial capacity to meet the needs of a growing industry?

A. *Firstly*, even though we are one of the largest certifiers, NASAA does not agree that size is a key determinant of the viability of a certification organisation. Small certifiers can be completely financially viable and continue to meet the needs of some operators. *Second*, NASAA believes competition in certification services is essential to the long-term health of the industry. *Third*, NASAA can only answer questions on financial strength in relation to itself. As a Not For Profit (NFP) organisation, it would be inappropriate for NASAA to target large annual surpluses or large cash reserves.

Nonetheless, we are operating without debt, with a cash surplus and cash reserves equivalent to nearly 20% of our annual operating costs. Our balance sheet is strong, as verified by independent auditors. We consider this is a near-ideal level of sustainable financial management in support of our key mission of providing highly competitive, high quality certification services on a NFP basis.

Q. Does this mean that NASAA would always reject growth by merger or acquisition involving other certifiers?

A. Every case would require individual assessment. However, NASAA previously merged with ORGAA – the Victorian-based organic retail certifier – mostly to ensure operators in this area had access to ongoing, competitive certification. This illustrates the great strength of the competitive certification marketplace, in that operators have alternatives should one certifier cease operation. While we never turn *bona fide* operators away, it is unlikely that NASAA would proactively choose 'growth for growth's sake' by merger or acquisition.

Q. Does NASAA agree that the use of one certification mark on Australian organic produce would reduce consumer confusion regarding organic quality and strengthen organic branding?

A. This is a 'nonsense proposition' given that certification statements/marks are effectively formal grading statements or quality descriptions. Their only role is to convey a clear message regarding the quality of those products carrying the certification statement i.e organic. This is the key communications role delegated by AQIS to Australian organic certifiers. There are just two basic organic grades: 'In Conversion' and 'Certified Organic' - and additionally, a separate recognition for 'Biodynamic' production - so this should be a simple communications task.

We believe the confusion arises at certification as a result of inconsistent presentation of key words, and the disparate elevation of irrelevant logos at the expense of the core message. This is a real consumer communication problem that needs to be addressed by the peak industry body, the OFA, with AQIS and IFOAM as necessary. Certifiers may have sidelined the key communication objective.

The development of a common government regulatory mark for organic product by AQIS, has been supported by NASAA and other certifiers, as a means of providing a consistent message in relation to the status of certified product.

Q. Should NASAA and other certifiers assume responsibility for general promotion of organic produce in addition to providing certification services?

A. Only if operators agree to provide the increased funding that would be needed, otherwise the certifier business model will be compromised. At this stage, the fees and levies paid by operators to certifiers are linked primarily to the provision of effective certification services. However, in promoting certification activities, certifiers should strongly support the value of organic certification, and this will result in promotion of both operators and organic produce

Q. Who should be responsible for promoting organic produce beyond the individual efforts of certified operators?

A. The OFA is the peak body for the Australian organic industry, structured to represent all industry participants and recognised as such by the Federal Government. NASAA believes OFA constitutes the best forum for formalising much needed promotional and lobbying strategies for the industry.

We welcome your questions and comments at enquiries@nasaa.com.au