The Power of Organics

The Export Opportunities for Organic Lamb

A report for NUFFIELD AUSTRALIA FARMING SCHOLARS

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Executive Summary

In the semi arid rangelands of Australia and in particular the Western Division of NSW, there has been predominately a monoculture of Merino wool production for the past 100 years.

The majority of grazing enterprises run Merino sheep for wool, cull for age (CFA) ewes and wethers are sold off for mutton for whatever the market rate is at the time. Some producers on the flood out country and better grazing land will run beef cattle.

The demise of the floor price scheme for wool and the general collapse of wool prices and the rise of cost of production over the past 15 years have led to wool production for many producers as a break even industry.

With the development of Organic Certification in the rangelands predominately over the last 7 years a whole new industry has developed. The introduction of alternate breeds of sheep from South Africa (Dorper, Damara, SAMM, Dohne) in 1997 has coincided with the development of the organic industry in the rangelands.

With the Australian and world organic industry growing at 30% a year the rangelands region of Australia is in a great position to supply domestic and world organic meat markets with a quality lamb produced in the rangelands from drought tolerant African breeds.

In my study I set out to look at the potential of world markets for the Australian organic product and to see where world markets were acquiring their product currently, the growth of these markets, new potential markets and the organic certification requirements of the potential markets. I visited New Zealand, China, USA, Canada, England, Wales, Ireland, Singapore and Japan. Organic lamb was available in most countries, predominately the USA and the UK. Most countries were sourcing their organic lamb domestically or from New Zealand. Major seasonal shortfalls were evident in the UK market and major growth potential was apparent in the US market. The Japanese market was an untapped market, as interest was growing and supermarkets were just starting to see the world organic boom and the potential of marketing lamb.

Regional branding of a product produced in a unique location can have a positive effect on marketing your product to the world market. Organic lamb can slot into markets where conventional lamb is already on the shelf. Australia is a young unspoilt nation and the Rangelands of Australia are generally 100% native vegetation being ideal for organic production.

There are considerable threats to the organic lamb industry including drought, uncoordinated seasonal supply variation, isolation of producers, a poorly coordinated supply chain, lack of all weather roads, international price competition from subsidised suppliers, the fluctuating value of the A$, and a Watering down of the world organic standards may allow competition of an inferior product.

There are many strengths associated with the production of Organic lamb in Australia, we have the ability to grow an exceptional quality product within a unique location. Broad based supply across the Rangelands of Australia including several states, giving security of year round supply of a quality product. Australia's strong organic certification process has the potential to market a world class product produced in harmony with the environment giving Australia a high standing across the international and domestic market.

Australia's rangelands are one of the few if not the only region in the world where organic lamb production can occur naturally without taking a production loss to be organic.

Introduction

I am a third generation farmer on Churinga Station, which is a 120,000 acre pastoral property 130km east of Broken Hill which is fully certified organic with Biological Farmers of Australia. The original block was on 80,000 acre bare soldier settler, block each generation has put on an additional 20,000 acres.

I have an extensive grazing operation consisting of 1000 merino sheep, 4000 meat sheep (Dorper X Damara – Merino), 50 head of cattle and 1000 farmed bush goats which are all certified organic produce. By diversifying into the arid friendly Damara – Dorper breeds it has enable me to conservatively stock my land which is better for the environment and in the mean time get a better return and survive droughts.

The major enterprise on Churinga is meat sheep producing organic lamb direct from the paddock for the Sydney/Melbourne domestic organic market. The purpose of running Merino sheep is for organic wool and organic crossbred lamb production.

Currently I am involved in a 5 year pilot Enterprise Based Conservation Programme that involves fencing off 5,000 hectares, destocking, monitoring and enabling the regeneration the fragile natural landscape. Habitat for rare fauna has increased with several species of birds and mammals already preferring to breed in this conservation area with several endangered species being surveyed in the area.

Objectives

The objective of this scholarship was to see first hand the magnitude of the world organic market with particular emphasis on the world organic lamb production and consumption. A major goal was to see where Australian organic lamb had potential in the world market and to access current consumption of organic lamb and the potential growth regions.

New Zealand

Although there was no real potential to market Australian Organic lamb to New Zealand there was a lot to be learnt from the success and direction of the New Zealand lamb industry. Sheep numbers in New Zealand are on the decline yet sheep productivity has been increasing particularly with lambing percentage and lamb carcase weight, as a consequence of genetics and management improvements.

Lamb is processed predominantly into frozen bone and in cuts for export to 95 countries. Companies have expanded to secure year round livestock supply. Exporters also managed their year round supply through inventory management and price premiums.

The main markets for lamb are in the EU which accounts for 51% of export volume and 62% of export value. As incomes in less developed countries rise the industry will find opportunities for value adding to exports of New Zealand lamb cuts. China has emerged in the last few years as a significant buyer of low price lamb products. New Zealand has a country specific tariff – free quota of 227,600 tonnes on a calendar year basis to the EU. The trend in the export of higher value chilled products is expected to continue as they compete very effectively with fresh domestic lamb products in the UK. Exports to the higher value German and French markets are expected to continue.

Organic lamb production in New Zealand is likely to increase in the years ahead. New Zealand organics has the potential to remain a niche market in the wealthier developed countries in particular in Europe.

While there is increasing consumer preference for locally grown organic products in the UK, imported organic products will remain in the long term. New Zealand's current large quota for export into the EU offers New Zealand the possibility of significantly expanding its organic exports.

Case Study 1

Canterbury Meat Packers (CMP)

I visited the "state of the art" Canterbury Meat Packers (CMP) plant at Rangitikei. This plant is situated in some of the most productive lamb finishing country on the North Island. Rangitikei incorporates the very latest in processing technology ensuring the highest quality product and process. CMP operates 12 months of the year processing both sheep and lamb with a total staff of 240 people.

CMP Rangitikei has the capabilities to process 800,000 head of lambs, 50,000 head of sheep and has full export licensing.

CMP offers a Certified Farm Assured Product.

Case Study 2

Certified Farm Assured

Canterbury Meat Packers On-Farm Quality Assurance
Programme for Lamb, Sheep, Cattle and Transportation

The CMP Certified Farm Assured standard is an exacting animal management programme designed to ensure superior product is consistently delivered to the customers of CMP.

A key feature of the programme is the three-way partnership existing between customers, a group of leading farmers and CMP.

Only animals from certified farms, raised according to the programme's best practice standards and trucked to their processing plants by fully accredited transport operators, meet the CMP Certified Farm Assured standard.

CMP Certified Farm Assured was initiated in 1995 for lamb and in 1999 for cattle and livestock transportation.

China

Opportunity for marketing lamb "organic or conventional" is growing in China as the population becomes more affluent. They are moving away from a carbohydrate based diet to a protein inclusive diet. Although, the traditional protein sources are pork, chicken and seafood, meat consumption is increasing. China has 26% of world sheep meat production, so domestic lamb and mutton are already available.

Organic will be best suited to the growing food service industries, the growth in tourism and the associated high profitable hotel restaurants and casinos in China and the near by associated regions like Macau.

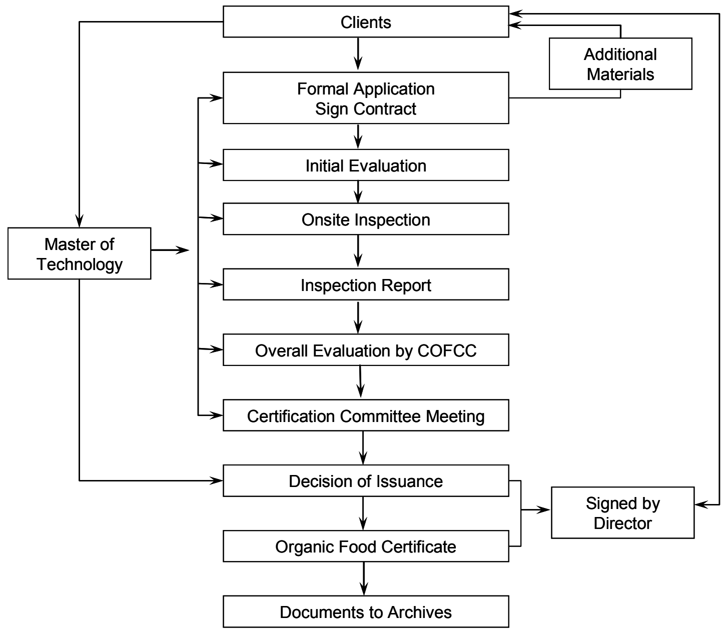
Consistent quality, continuity of supply and a guarantee of food safety will create a niche opportunity in the China region. The Chinese organic industry is gaining momentum and it is supported by the Ministry of Agriculture.

While in the south of China I visited the China Organic Food Certification Centre (COFCC). The COFCC is a professional organisation responsible for organic food certification and managed under the Ministry of Agriculture. In line with organic food certification standards, relevant laws and regulations COFCC provides organic food certifying and training services to its clients based on the principal of public justice and fairness. COFCC tries to ensure a quick, accurate and transparent certifying process which means an effective and high quality service to all clients.

Major functions of COFCC

- Organic food certification and training service
- Support enterprises to cultivate organic food market
- International cooperation to promote organic trade in the international market
- Provide organic food information service
- Theoretical research on organic agriculture development
- Provide evidence for Chinese government to make organic food standard and organic agriculture

Flow chart of the China Organic Food Certifying Process



United States

US sheep numbers have exceeded 55 million head twice, 1884 and 1942, but have since declined steadily to the 6.14 million head currently. The top ten sheep/lamb producing states are Texas 17% production, California 12% production, Wyoming, South Dakota, Colorado, Utah, Montana, Oregon, Idaho and Iowa. There are large finishing feedlots in Texas, California, Colorado and Iowa and large sheep/lamb packing plants in California, Colorado, Iowa and Michigan.

There are large fluctuations in the lamb prices in supermarkets when US lamb prices increase; retailers don't lower price, they move from domestic to imported lamb. The primary needs for improvement of US lamb is said to be leanness, palatability and retail shelf life.

The organic industry in the US in 2006 grew dramatically with organic sales growing by 22% reaching 16.9 billion US dollars. The meat section is the fastest growing component of the US organic market growing at 37% in 2006.

With Europe and North America generating more than 90% of the world's organic sales, this shows the incredibly rapid growth of the global organic market. In both US and Europe demand has exceeded supply which has resulted in organic products being imported from around the world.

There were 2 major organic supermarket chains in the US. They have recently merged Wild Oats Marketplace and Whole Foods Market. Whole Foods have 196 locations in North America and the UK and Wild Oats have approximately 150 stores.

Whole Foods is the world's largest organic and natural food chain. Whole Foods has recently opened its first store outside the US in London.

In the US supermarkets are developing private labels for their expanding organic food ranges and some have even opened dedicated stores for their organic brand products.

In June 2006 in the US there were 56 domestic accredited organic certify agents and 40 foreign accredited organic certifying agents. As USDA implemented uniform organic standards for livestock some farmers switched to the natural meat market. Although natural meat products may be produced under private standards that go beyond the USDA guidelines natural meat producers are not prohibited form using antibiotics in production and are not required to use certified organic feed grains or pasture or provide livestock with access to pasture. The natural label is the biggest competitor of certified organic products in the US. The natural label has approximately 87% and organic 13% of the shared market. Organic and natural lamb in the US came from predominantly 2 locations, domestic organic lamb imported from New Zealand. The Australian lamb consistently appears to be in the conventional market.

Case Study 1

Whole Foods Market – Fig Garden Village, Fresno California

While visiting Whole Foods Market store in Fresno I saw first hand the presentation and marketing of New Zealand "natural" lamb. The product was extremely well labelled and branded and very obviously of New Zealand origin. A brochure with the origin, the product story of Atkins Ranch lamb was supplied with all New Zealand Atkins Ranch Lamb sales along with a break up of the nutritional value and calories per serving. Included on the brochure were suggested serving ideas and recipes.

Case Study 2

Washington Farmers Market

The popularity of farmers markets in the US has grown concurrently with organic production and consumer interest in locally and organically produced foods. Farmers markets have become a significant part of market outlets for some organic farmers. I visited a Washington farmers market and a broad range of products were on sale from conventional meat and vegetables through to its equivalent in natural and organic labels. The organic and natural lamb on sale was from a farmer near by and the meat was from White Dorper lamb. They had sold out by 11.30 after a 10.00am start.

Ireland

The Irish sheep industry is quite small with approximately 5 million sheep with the average farm being 32Ha in size and that production is expected to drop.

It appears 40% of Irish lamb is kept for domestic consumption and 60% exported predominately to France. The lamb supply chain is inconsistent and shortfalls are generally filled with imported lamb from New Zealand.

Case Study 1

Bord Bia

I visited "Bord Bia" the Irish Food Board in Southern Ireland. There are less than 1 thousand organic producers in Ireland. The organic lamb industry is very small and fragmented it is said to be ineffective because it is run by policy and personalities. The Irish Food Industry appears to have very good traceability. Barcode traceability is important to the Irish food industry – "Farm to Fork Traceability". The importance of traceability has been implemented due to various risks in the UK i.e. Foot and Mouth and Avian Influenza.

Case Study 2

Irish Farmers Association

Irish farmers appear to be doing it hard, 78% of land is grazing land and 11% rough grazing land and 11% is arable. With Single Farm Payment (SFP) subsidies are approximately €600/Ha. Without subsidies most operations are not profitable. Farmers are seeking ways to adjust to reduced subsidies. Cross compliance is essentially making SFP an environmental target for social aims. Farmers face 18 different compliance issues despite farming being a tough industry, 65% of farmers are members of the Irish Farm Association whose fees are production based.

Case Study 3

Irish Co op Organisation Society Limited

By visiting the Irish Co op Organisation Society Limited (ICOS) I hoped to pick up ideas and systems that may be able to be applied to the Australian Organic lamb industry. The ICOS represents all Irish Co Ops many Irish Co Ops have moved to a hybrid style public listed Co op. Co ops haven't worked in the cattle and sheep industry. Continuity of supply issues and customer and farmer loyalty were the reasons given for co ops not working. Farmers chasing day by day prices over inflated their prices and lost their competitive advantage. When the best price was not with the co op farmers loyalty failed.

Case Study 4

Isaac and Elizabeth Crilly

Isaac Crilly is head of the Northern Ireland sheep breeders association. The Crillys are forward thinking farmers preparing themselves for when subsidies are gone. They are moving towards easy care management systems, hardier breeds of sheep that require less time in sheds in the colder months. These breeds are the Beltex, Lleyn and Texel. They had moved away from conforming with traditional breeds to higher EBV performing hardy sheep. Lambs were gaining 400g/day on a large scale rotational grazing system. All the latest treatments and technology was being used but not on a calendar basis, only on as required basis. Although not an organic operation Isaac and Elizabeth's ideas on hardy breeds suit their environment, the principles of lower maintenance sheep breeds, working on EBV basis are ideas similar to those who are doing organic lamb production in the rangelands of Australia.

Case Study 5

John Coholan - Butcher

I spent time with John Coholan, an Irish butcher in Kinsale Cork. Most of the lamb was locally grown and predominately Texel cross with an optimum carcase size of 20kg. The shop did not stock any organic produce, he felt there was some demand but not enough to warrant an organic range. His opinion was organic was too expensive considering the quality of the non organic conventional lamb was so good. He felt the biggest threat to the Irish lamb producers was the good quality cheaper imported lamb from New Zealand.

United Kingdom

Tesco and Sainsbury's occupy 47% of the UK grocery market. The UK organic market is believed to be worth £1.6 billion and growing at 30% per year. London is home to the greatest concentration of organic households of any region in the UK.

Sainsbury's and Tesco have announced plans to launch their own organic box scheme. The scheme will offer a service to deliver a box of organic groceries to your doorstep enabling Sainbury's and Tesco to capture a larger share of the organic market. Both retailers plan to include information cards about procedure, method of production and recipe suggestions.

In the UK meat is reported to be the fastest growing organic sector with dairy products also being in high demand. While the UK is stepping up its campaign for reducing food miles and imported products the rapid growth in consumers spending on organics is making the task more difficult. A 10.5% increase in horticultural land converting to organic production is still not sufficient to meet the growing demand which has led to a growing reliance on imported organic products.

Supermarkets in the UK have the greatest share of the organic market with a 31% increase in organic sales in 2005. In spite of the dominance of supermarkets, independent retail shops, farm gate sales, farmers markets and box schemes also grew by 32%. While in the UK I visited Tesco, Sainsbury's, Harrods and Marks and Spencers. All these stores had a varying range of organic products and a designated organic section. Most lamb supplied to these supermarkets came from local UK producers but the majority of organic lamb was imported from New Zealand and it was found in most stores. Regional branding was found on the majority of organic products in these supermarkets.

Case Study 1

Borough Market in London

I visited the Borough Market in London, this market was a farmers market held every Friday and Saturday with a broad mixture of food, predominately conventional, some organic produce mainly meat and vegetables. Both organic and conventional meat stalls were operating under their own regional brands and the majority were servicing repeat clients. Most stalls had internet access to their product range and delivery could be arranged or orders picked up from the market.

Case Study 2

Graig Farm Producers

I spent time with Nuffield scholar and organic farmer Nigel Elgar who operates an organic farm and producer group. There are two components of Nigel's organic business:

1. *Graig Farm Organics*
2. *Graig Farm Producers Group*

Graig Farm Organics sources its livestock from the producer group of some 250 organic farmers from across Wales and the borders who come together to market their produce. The farmers in the group are all known, they also know the origin of each piece of meat which they sell. This unique system allows identifying the origin of the meat which appears as a label on each pack. This gives details of the farm and the breed of animal as well as a page on the website where further information is available about the individual farms.

Graig Farm Organics produce is available by mailorder, internet orders on the website and via 100 independent shops. Graig Farm Organics imports products not available in the UK like coffee, tea and wine. Supply of lamb for the supermarkets is roughly in balance with a small volume of organic lamb coming in from New Zealand after Christmas.

Graig Farm Producers Group has operated in Wales and the Borders for over 10 years with over 250 members, mostly family farms. It is a dedicated organic livestock marketing group.

The main purpose of Graig Farm Producers is simply to keep organic farmers on the land by ensuring financial viability.

It is achieved by the following:

- *Increasing farm income by collaborative marketing to the supermarkets and other large buyers; having a policy of "Local First" which enables members to supply their own local markets before supplying the group: seeking new markets*
- *Decreasing farm costs by bulk buying of inputs and services*
- *Enabling improved management through financial and management benchmarking, monitoring profitability, technical information, etc*
- *Bringing stability and structure into the organic beef and sheep market to enable efficient and profitable movement of store animals through more predictable pricing*
- *Influencing the broader organic livestock and meat market in our members' interests.*

Graig Farm Producers aims to improve the efficiency of fatstock marketing to the multiple retail sector by ensuring optimum quality and continuity of supply. Their record in Wales and the Borders shows this can be done through a dedicated independent organic Producer Group. Moving of store stock to specialist finishers is one example of this.

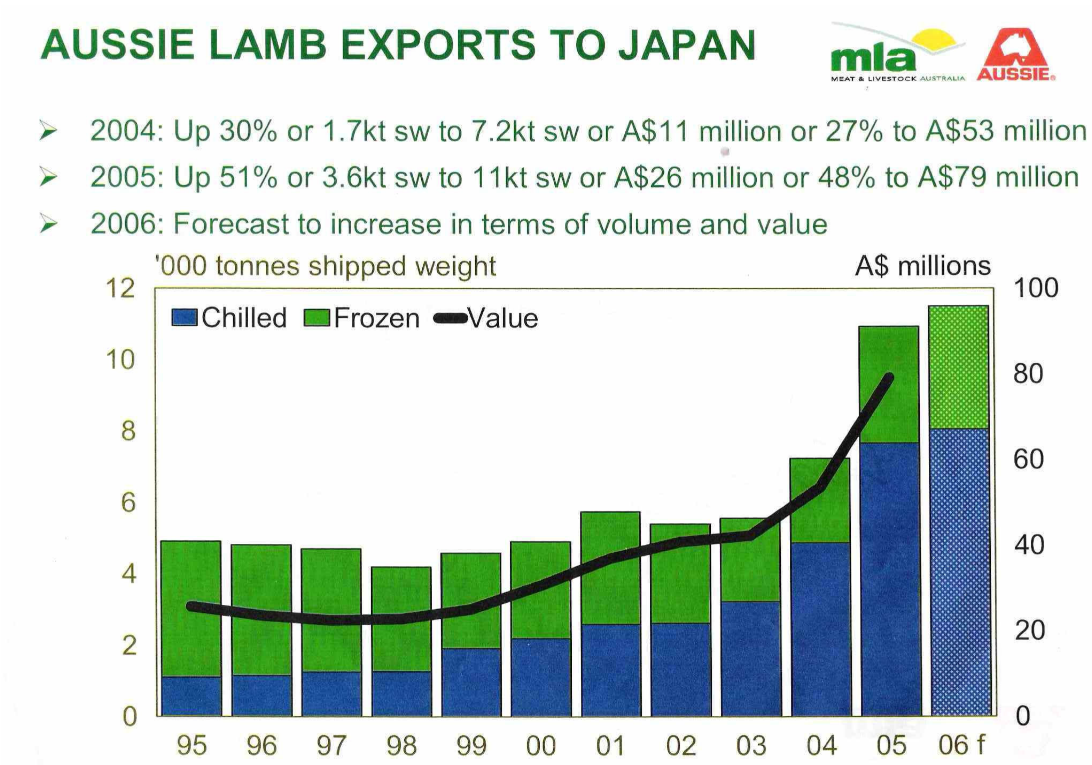
Efficient livestock production and marketing requires a "join-up" approach. This includes:

- *Geographically, they have good connections across the UK organic meat sector; they market livestock from Scotland's Caledonian Organics; they work closely with the main certifying bodies and research organisations*
- *Within the food chain they have good working relations with the processors and also meet regularly with the main supermarkets*
- *Large volumes talk! Influence in the market and efficient operating depends on marketing large volumes.*

Japan

Japan is increasingly becoming a significant market for Australian lamb, with the percentage of Australia's production for the Japanese market continuing to grow. Lamb in Japan is gradually finding its way onto retail shelves and menus in both speciality lamb and mainstream restaurants. A shortage of protein in Japan combined with consumer concerns over BSE and Avian Influenza has provided the Australian lamb industry with the opportunity to introduce lamb to both Japanese consumers and trade. Consumers and trade have been receptive to the new offerings, with lamb being increasingly part of the Japanese diet.

Lamb supplied to Japan is sourced roughly 50/50 between New Zealand and Australia.



Australian Lamb Exports to Japan

Genghis Khan "speciality lamb barbecue" restaurants are now common in Tokyo, they were previously only found in the northern island of Japan Hokkaido. A larger group of consumers are now being offered lamb as a dining option. The Genghis Khan restaurants are increasingly featuring a range of cuts in addition to the traditional shoulder. Lamb racks and boneless loin cuts are becoming more common in these restaurants and are being sold at a premium price to boneless shoulders.

Meat and Livestock Australia is working in assisting exporters establish and develop supply chains for both retail and the food service industry with an aim to increase distribution of lamb in Japan.

Promotion of Australia lamb has come in many forms:

- Trade and consumer media
- Trade publications
- Print media
- Cutting Seminars
- Cooking schools and television programs
- In store promotion
- Celebrity chefs.

Two major television stations featured positive stories on Australian lamb. Australia should be able to establish itself as a small but reliant part of the Japanese diet. Australian exports of lamb to Japan are free of tariffs and quotas allowing demand from the market to be without distortions and making lamb an attractive product for the trade to promote. The absence of a tariff also makes lamb a price competitive product compared with beef and pork which both incur a tariff.

Statistical Summary of Australian Lamb Exports to Japan - Volume & Value

mla market INFORMATION

Volume of Australian Lamb Exports to Japan (tonnes shipped weight)	Month Vs Month					Year Vs Year			Share of Total		Cal Yr 2005	
	Aug-06	Jul-06	% Chg	Aug-05	% Chg	YTD 06	YTD 05	% Chg	YTD 06	YTD 05	2005	%
Total lamb exports	**754**	**991**	**-24**	**826**	**-9%**	**9,329**	**7,288**	**28%**			**10,930**	
Chilled lamb exports	658	770	-15%	699	-6%	6,356	4,940	29%	68%	68%	7,653	70%
Frozen lamb exports	96	220	-56%	127	-24%	2,972	2,348	27%	32%	32%	3,277	30%

Value of Australian Lamb Exports to Japan (A$'000)	Month Vs Month					Year Vs Year			Share of Total		Cal Yr 2005	
	Jul-06	Jun-06	% Chg	Jul-05	% Chg	YTD 06	YTD 05	% Chg	YTD 06	YTD 05	2005	%
Total chilled exports:	**6,502**	**7,698**	**-16%**	**7,781**	**-16%**	**44,293**	**35,184**	**26%**			**63,578**	
carcase	0	0		376	-100%	56	1,466	-96%	0%	4%	1,498	2%
bone in	2,052	2,185	-6%	2,275	-10%	12,853	11,326	13%	29%	32%	20,417	32%
bonelss	4,449	5,513	-19%	5,130	-13%	31,384	22,392	40%	71%	64%	41,663	66%
Total frozen exports:	**1,271**	**2,388**	**-47%**	**1,326**	**-4%**	**13,248**	**10,049**	**32%**			**15,521**	
carcase	10	33	-68%	24	-57%	189	51	270%	1%	1%	134	1%
bone in	797	1,038	-23%	786	1%	7,410	6,417	15%	56%	64%	10,665	69%
boneless	463	1,317	-65%	517	-10%	5,649	3,581	58%	43%	36%	4,722	30%
Total lamb exports:	**7,772**	**10,086**	**-23%**	**9,107**	**-15%**	**57,542**	**45,233**	**27%**			**79,099**	
carcase	10	33	-68%	400	-97%	245	1,517	-84%	0%	3%	1,631	2%
bone in	2,850	3,223	-12%	3,060	-7%	20,263	17,743	14%	35%	39%	31,082	39%
boneless	4,912	6,830	-28%	5,646	-13%	37,034	25,973	43%	64%	57%	46,385	59%

*Source: Agriculture, Fisheries & Forestry Australia/Australian Bureau of Statistics

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Case Study 1

IAC Inc Aeon – Jasco

Aeon is Japan's largest supermarket chain with over 1000 outlets. Jasco supermarkets are a subsidiary of Aeon. While in Tokyo I had the opportunity to have a meeting with two of Jasco's meat buyers. Although organic lamb is almost nonexistent on supermarket shelves Jasco believes there is a huge potential. Organic food, in particular meat, is only just starting to gain popularity in Japan and is only currently found in specialty shops and restaurants. Jasco believes organics in Japan are about 3 years behind the rest of the world trends.

Currently Aeon – Jasco has its own personal brand "Topvalu" products sold under this brand are split into three categories Green-I, Select and Eco Declaration. It is believed that organic best fits under the "Green-I" label.

This is the brand for food, clothing and shelter
that provides basic items of everyday life with secured quality and reasonable prices.

GREEN-I
This is the brand for farm products
and stock farm products
that are produced with a lower
use of agrichemicals
and less chemical fertilizers.

SELECT
This is the brand for
high quality foods that are produced
by sticking so much to flavor,
materials, and function.

ECO-DECLARATION
This is the brand that can contribute
highly to environmental conservation.
This was developed from
viewpoints like"recycle," "clean," and
"natural," that aim at protecting beautiful
nature and limited resources.

Issues facing Aeon – Jasco are the certification of packing and processing – boning rooms. Product packed in Australia before shipping can potentially shorten shelf life. Distribution is also an issue when only certain stores sell lamb. The most popular conventional lamb sold in Aeon – Jasco is the shoulder cut – sliced 2 – 2.5mm thick, then the chuck roll and boneless leg. The loin is harder to sell as it doesn't have enough fat and price is too high. Potential is there to bone the short loin.

Australia's lamb is grown out to a larger weight than New Zealand lamb which can be a disadvantage as New Zealand lamb fits 5 pieces of meat to a tray as oppose to Australian lamb fitting only 3 pieces for the same weight. The quantity of meat per tray is important to the consumer. Meat trays need to be kept below a maximum price to appeal to the consumer. Many Japanese meat buyers have visited Australia to see producers, systems, the product and view first hand the industry traceability.

I personally believe organic lamb will increase its share of the lamb market over the next few years as it becomes more readily available to the Japanese consumer.

Case Study 2

Tokyo Speciality Shops

If you want to find organic food in Tokyo it would appear fairly difficult to find and you need to travel. So I embarked on a trip around Tokyo in the search for organic food.

Mothers Organic Market *has 7 outlets in Tokyo and the only organic meat stocked was frozen organic beef.*

Crayon House *is a restaurant owned by a famous novelist. Crayon House is an organic restaurant and supermarket. Stocking a range of products but no meat at all on the day I visited.*

Natural House *stocked pork, chicken and beef but no lamb, none were organic but had been fed a special diet. Most products on shelf appeared to be local produce. No imported rice or meat.*

Queens Supermarket *is a speciality supermarket, it did not stock any organic products. The lamb stocked was all New Zealand and it was well branded with its origin. The label clearly said "New Zealand Lamb under 1 year old. Good for health and blood pressure".*

Case Study 3

Bio Fach Japan 2006

While in Tokyo I spent 2 days at BioFach Japan located in the Tokyo Big Site exhibition centre. A vast range of people from various countries around the world were present. A huge range of products were on display, almost anything you could think of, as obscure as you like was on display but no organic lamb. The majority of products were in the natural cosmetics range, organic toys for children and babies, organic fish and chicken, grains, juices and fruit. Organic meat was conspicuous by its absence. I believe this creates a real opportunity in the future.

Australia

I have had several meetings with Australia's leading organic lamb processor Cleavers. Cleavers are based in Gosford on the NSW East coast. My organic lamb from Churinga is sold through Cleavers and with their assistance I have followed my lamb from paddock to abattoirs to the processing plant, through packaging to the shelves of the supermarket. I also attended the opening of a new supermarket in Sydney where my organic lamb was on sale.

The organic meat sheep supply is growing from a small base of around 40,000 lambs in 2000 to the current supply capability of around 112,000 lambs per year in 2007.

However!! Of the 112,000 lambs currently being weaned, it is my estimate that only about 35,000 are sold as organic lamb, the rest are sold as hogget or mutton and mostly into the conventional market.

The main regions focused on organic sheep production are centred around Balranald/ Broken Hill/ Wilcannia in NSW and Cunnamulla/Longreach in QLD.

It is anticipated that Woolworths and Coles will require in the vicinity of 200,000 lambs per year over the next 3-4 years with another 200,000 lambs per year into the Export markets of USA, Japan and Europe.

The margin for Organic product versus conventional product at retail, ranges greatly by cut description, however there is an average premium of about $12 to $15 per lamb nett.

Issues that are restricting this margin growth are associated with consistency, both quality and availability; as well as the current saleable meat yields which are averaging around 68%.

Under a focused well managed supply chain it is feasible to increase the SMY% by at least 4% providing added returns that would be shared between the Grower, or more specifically "The Finisher" and the Processor.

Supply chain improvements will require the establishment of specialised Organic finishing farms with secure access to high quality pasture/grain year round and an extended growing period.

There will be a need for feeder stock alliances to supply these farms year round and close relationships with both domestic and export customers to provide forward contracts.

Value adding of the current supply is already proving very profitable with a small number of processors looking at rapidly expanding these opportunities under instruction from retailers and to a lesser extent, Food service operators.

The greatest opportunity will undoubtedly be the export markets where prices are higher and demand is far exceeding supply.

Location of the primary supply source is found in the following areas;

- Broken Hill / Wilcannia – 37,000 lambs
- Longreach / Blackall / Muttaburra - 20,000 lambs
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- Total = **111,500 Lambs**

Current supply sold as ;

- 35,000 lambs Organic
- 5000 lambs conventional
- 4000 Hogget / Mutton Organic
- 67,000 Hogget / Mutton Conventional or retained for breeding

As can be clearly identified, the weakness of the current supply chain is its inability to guarantee finish to spec on the bulk of turnoff.

Most growers are attempting to finish on country better suited to breeding, in a vain attempt to reduce costs. Unfortunately the reality is that the stock that is not reaching weight (18 – 25kg) is in many cases, a significant proportion of their turnoff, so not only are the growers missing an opportunity but the industry is also the net looser.

The Organic meat industry needs to guarantee turnoff to spec and ensure consistent product if it is to grow into its full potential. It is imperative that the final staging properties are found to deliver this certainty in order for processors and growers alike to be in a position to take on the orders that are available.

- The finishing system must reflect the essence of an "Organic environment"
- Location needs to consider its neighbours, some nearby intensive cropping systems will make it very difficult to satisfy Organic certification requirements eg; Cotton.
- Climate needs to be conducive to an extended growing season
- Water quality and availability will be a major issue
- Parasite and pasture management will have a significant impact on the ability to both maintain animal health and certification protocols.
- The use of suitable breeds and specific genetic traits must be harnessed in order to meet the needs of this market and ensure a sustainable business.
- Transport costs will have an impact on viability due to the distances between certified abattoirs and the growers/finishers
- Organic production will not match conventional production in the short term and consideration for this fact must be budgeted.

There are several reasons to consider the organic market and it will be largely determined by the individuals' needs and attitudes to their business and lifestyle.

Perhaps the simplest way to look at this market niche is to examine the current market trends and influences.

The current situation

- Consumers are becoming better informed and more alarmist regarding food safety
- Commodity margins are declining and niche marketing can achieve greater returns if the consumer can recognize and value the differences promoted
- Demand is growing for the organic product in the range of 30% per annum
- Supermarkets now recognize that organic is not a short term fad and are increasing shelf space for this category, both domestically and internationally
- Australia is in a strong position to capitalise on the growth of this market

- Organic sheep meat production is not only sustainable thanks to some of the new breeds but it is also viable in much of the broad-scale grazing environments of Australia
- Global competition from South America and other developing nations has already begun to erode our market share in the traditional beef commodity markets
- These competitors are on a lowest cost to operate strategy against which we cannot hope to compete.
- By focusing on the organic niche we should be able to establish a dominant position world wide, further harvesting our clean green reputation
- Other than New Zealand, Australia is the only serious supplier of lamb to the developed markets of Europe, Japan and the US.

Short term opportunities

- Western areas of Vic, QLD & NSW are ideally suited to the Organic lamb industry as a result of new alternate sheep breeds like the Dorper
- Land prices for western country is still selling at significant discounts to the more popular beef country, although recent sales would suggest there has been upward movement in recent months
- Harvesting the current lamb supply and finishing to specification under premium contracts will provide a low cost entry to a growing market as yet not dominated by major players.
- There appears to be in excess of 45,000 lambs slipping out of the organic supply channel due to not making weight prior to cutting first teeth. If these lambs can be channelled through a finishing block capable of year-round turnoff, there would be significant benefits to processors, hence the finisher will be in a strong position to negotiate premium prices.
- Genetics are in huge demand and the prices currently being paid makes it a very attractive option to utilise intensive artificial breeding programs to generate large numbers of desired seed stock in a far shorter period of time than will be available to less sophisticated operators

- Genetic franchising, leasing or buy back options as utilized by the poultry industry should also be considered. Buying seasonal turnoff generated from genetics supplied by the finisher to the grower is a recognize method of securing predictable feeder-stock.

Mid to Long term opportunities

Vertical integration will not only secure predictable sales but also enable the participant to further value add and brand their products.

Branding and value adding in the Australian meat industry is in its infancy when compared with the United States and Europe. Growth particularly in the US of branded and value added is significant and a recent report suggests that branded and value added now dominates retail shelves.

Due to rising domestic labour costs in all three nominated markets it is becoming very attractive for these customers to purchase product fully processed as retail ready or cook-ready for food service.

New technology enables extended shelf life on fully processed products both chilled and frozen (later defrosted for sale) thus allowing penetration to markets previously unserviceable under prior processing methods.

As mentioned previously the Organic meat market is still in its infancy and as yet there is no dominant player in the market. Existing participants are growing rapidly from very small bases with minimal resources at their disposal.

Recommendations

As the world organic industry develops and evolves there are and will be great opportunities for Australian Certified Organic lamb producers. To capitalise on these opportunities producers need to take their organic certification to the export level with JAS (Japan certification), USDA NOP (United States Department Agriculture National Organic Plan.

Consistent high quality and continuity of supply will be vital to establish a viable export industry. Producer finishers and producers group working closely with reputable exporters will be vital to maintaining required quality and supply for export markets.

With MLA in Australia and their overseas offices continuing to develop organic policy, this will play a critical part in promotion and access to the overseas market.

Conclusion

With organic consumption increasing world wide at around 30% per year and in many countries organic meat leading the way in organic consumption there is great opportunity for Australian organic lamb producers.

The rangelands of Australia are an ideal location for certified organic production. It is one of the few regions of the world where organic production can take place without taking a drop in production as a consequence.

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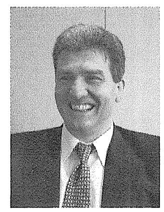
Appendix I Cleavers - The Organic Meat Company

CLEAVER'S

THE ORGANIC MEAT COMPANY

Cleavers is the creation of its founder...

A founding director in 1998. Ken Taylor bought out his partner and became sole owner in 2004



In 1998 the time was right!

- BSE (Mad Cow Disease) had just decimated the British Beef industry.
- Genetcally Modified foods were becoming an international issue.
- Factory farming was pushing nature beyond its natural limits e.g. VRE, Newcastle Disease.
- Organic market was exploding globally
  - Europe: sales x 3 1990 - 1997 (£2 billion)
  - USA: a $4 billion market & growing @ 30%
  - Japan: a $1.7billion & growing @ 30%

Australia: $100m market & growing fast.

Consumers see the Purity of food as a major issue

- 88% concerned about integrity of food
- 65% saw chemicals as a major worry
- 40% anxious about genetic engineering
- 49% pay more for pure, natural foods

Source: Dangar Research '99.

"Consumers are increasingly concerned about what they were eating"

Organic Food Increasingly Appealing

- Pure, natural
- Flavoursome
- Free of Chemicals
- Environmentally sound

In tune with trend towards 'healthy living'

Some Major Marketing Issues

- Organic meat is not well understood (misconceptions as to what it actually is)
- A clear positioning for the meat has not been firmly established (Taste? Purity? Environmental?)
- Shoppers will not automatically select or trial
- Enormous skepticism over authenticity

Major barriers to overcome

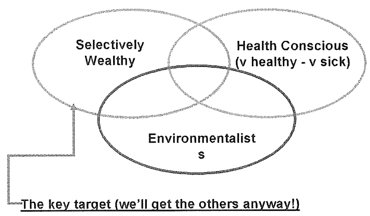
Our Approach to Marketing : Positioning

"A healthy gourmet meat : incomparable in its, flavour, texture & quality"

Why?

Slowly Reared naturally
On clean pastures
No chemicals
No growth hormones
No antibiotics
Preservative Free

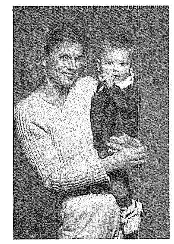
Our Approach to Marketing : Our Target



Our Approach to Marketing : Our Target

She Is Not a Nimbin Hippy!

- Affluent
- Family
- 35+
- White Collar Suburbs
- Seeking:
  - Quality
  - Taste
  - Reassurance

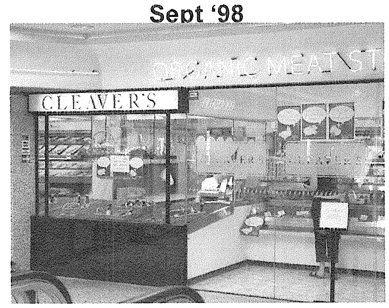


Where Does She Shop?

- She's selective : uses a broad repertoire to find the best
  - Woolworths/Coles/Franklins
  - Delicatessens/Farm markets
  - Favourite butcher ($750m)
  - WoolworthsHomeshop/Online
  - Fish markets
- She organic food as statement about herself and her search for quality and reassurance
- She'll pay substantial premium for quality (average 25%)

She's potentially the ideal Supermarket Shopper

The First Step
Cleavers Organic Meat Store opened in Sept '98

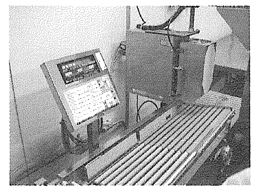


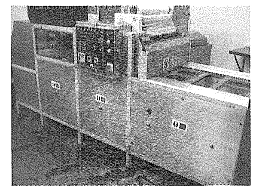
- A retail outlet for all organic meat producers (chicken +pork +beef +lamb)
- Provides a street presence and home for our brand
- Allows a direct dialogue with our consumers

Step Two: Gosford Pilot Production Facility Opened September 1999

- Certified regional abattoirs feed our Gosford plant.
- Fully WVQMS HACCP certified.
- Rigorous hygiene standards

Invested in State of Art Meat Packing Technology

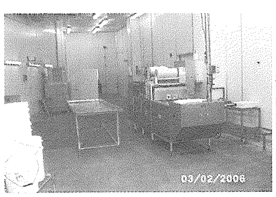




Giving our produce up to 8 days shelf life.

1. Begin to develop supply.
2. Formulate and put in practice production procedures.
3. Train staff in organics, best practice production.
4. Awaken supermarket to benefits

Step 3 Export Works



In January 2006 Cleavers purchased an existing AQIS approved formally US licensed export plant at Gosford

We Strengthened our Management Team

Ken Taylor
Managing Director
Leader in Organics

Expreienced
In Livestock
Purchasing
Toby Scales
Chief Procurement Mgr

Dylan Markey
Managing Partner
Operations
Specialist

Janet Holmsby
Marketing & Sales

A blend of skills uniquely equipped
to handle the supply, production & marketing of organics.

The Supply chain

1. Supply was erratic in volume and quality
2. Producers are geographically dispersed
3. Those original growers were breaking new ground so had to work through issues in isolation
4. Many lacked scale and in many cases were located in an environment that was not conducive to finishing lambs
5. Found it difficult to fill trucks with finished lambs
6. This is changing

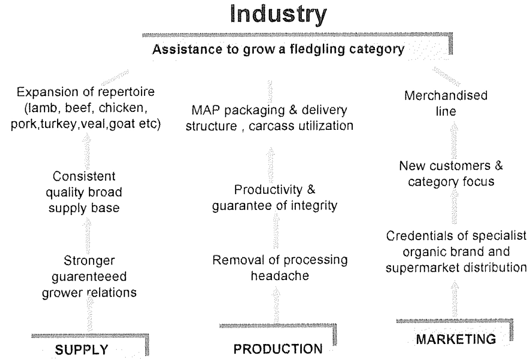
The Organic Industry is at a Critical Stage of its Development

- Small, fragmented with associated problems of high costs, quality and consistency.
- Small rapidly growing category ,$300 million in total sales or 0.4% total food sales
- 1,862 certified grower, 11,650,000 ha or 3-4% production
- Growing at 30% per annum, growing pains

How Cleaver's is Managing Supply Issues

- As an established specialist organic company we're trusted by growers
- We have strong relationships with growers and producers
- Seen as medium for industry education (participate in govt.advisory councils, conventions, seminars etc)
- Promoting conversion of new suppliers who also seek us out
- Credible quality control organisation through being able to handle volumes of different grades to multiple markets

What Cleaver's Aims To Bring to the Industry



The Power of Organics

Summary

Organic meat is part of a fundamental social shift that will see consumers (and politicians) demanding purer, healthier food, grown in a sustainable environment.

Represents a massive financial opportunity.

What does Organics offer

1. Predictable prices
2. Growth of 30% world wide
3. Solid premiums
4. Forward contracts and supply agreements
5. Sustainable production
6. A network

What does the industry need

1. Predictable supply
2. Grower commitment
3. A fully integrated supply chain
4. Transparency
5. Integrity

What does Cleavers need

1. Greater supply of quality lambs
2. Finishing farms
3. Year round production
4. Supply agreements that work
5. Supplier integrity

Where are the current suppliers

- Location of the primary supply source is found in the following areas;
- Broken Hill / Wilcannia – 37,000 lambs
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To finish!

1. We need to develop a supply chain that delivers consistently no matter what the season.
2. Consumers don't care if we are the middle of a drought they still expect the same quality every day and if they don't get it the will buy organic chicken or some other dodgy alternative.
3. Fit your operation around your environment not your environment around your operation.