



## **Sustainable Finance Strategy: Challenges and Opportunities within Organic Agriculture in Australian**

As a member-owned industry body, Australian Organic Limited (AOL) strives to protect the interests of the industry and continues to engage with government and key stakeholders to address challenges across the sector. With over thirty-five years' experience in the organic industry, AOL is driven by a clear strategic approach to the future of organics and has positioned itself as a leader in Australian agriculture. AOL welcomes the opportunity to contribute to this submission process regarding the Sustainable Finance Strategy, supporting Australia's pathway to net zero.

### **Background: the Australian Organic Sector**

The global organic agriculture industry is valued at \$220 billion<sup>1</sup>, with the largest proportion of certified organic land (nearly 70 per cent) located in Australia. 53 million hectares of Australian land are now under certified organic management, which represents 12.4 per cent of the country's arable farmland and comprises approximately 3,035 certified organic businesses employing over 22,000 full-time equivalent workers.<sup>2</sup> Overall, the Australian organic industry is currently worth a conservative total of \$2.6 billion inclusive of direct and indirect contributions to the economy.

The organic industry fully supports emission reduction initiatives and would like to collaborate with government where possible to contribute to reaching its goals. The importance of emissions reductions within the broader sustainability context cannot be overemphasised, especially considering the work being done by Australia's key trading partners. For instance, the European Union has developed the Farm to Fork Strategy (F2F) as part of its European Green Deal that would, by 2030, see at least 25 per cent of its agricultural land become organic farming land and a significant increase in organic aquaculture.<sup>3</sup> Meanwhile, the United States Department of Agriculture has announced a \$300 million USD investment in a new Organic Transition Initiative designed to provide comprehensive support for farmers looking to switch to organic production.<sup>4</sup> Additionally, our closest trading partner New Zealand passed legislation on 30 March 2023 to protect the future of its organic production systems. Within Australia, the Australian Agricultural Sustainability Framework (AASF) identifies 17 overarching principles of sustainability for the

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<sup>1</sup> Choudhury, N. R. (2022). *Global Organic Food and Beverages Market Outlook (2023 to 2033)* (REP-GB-15960). Future Market Insights. <https://www.futuremarketinsights.com/reports/organic-food-and-beverages-market>

<sup>2</sup> ACIL Allen, Moblum Group, & NielsenIQ. (2023). *Australian Organic Market Report 2023*. Australian Organic Limited. <https://austorganic.com/resources-and-research/publications/organic-market-report-2023/>

<sup>3</sup> European Commission. (2020). *Farm to Fork Strategy: For a fair, healthy and environmentally-friendly food system*. [https://food.ec.europa.eu/system/files/2020-05/f2f\\_action-plan\\_2020\\_strategy-info\\_en.pdf](https://food.ec.europa.eu/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf)

<sup>4</sup> Organic Trade Association. (2022, June 1). *Organic Trade Association Applauds Investment of up to \$300 Million in New Organic Transition Initiative*. GlobeNewswire. <https://www.globenewswire.com/en/news-release/2022/06/01/2454439/0/en/Organic-Trade-Association-Aplauds-Investment-of-up-to-300-Million-in-New-Organic-Transition-Initiative.html>



agricultural industry. Organic farming principles are at the heart of many of these initiatives, including environmental stewardship and economic resilience, as well as people, animals and community.<sup>5</sup>

## Organics toward Net Zero

Scope 3 emissions represent the largest portion of a processor's total greenhouse gas (GHG) inventories compared to scopes 1 and 2<sup>6</sup>; and they are also the most difficult to measure and tackle, largely due to their indirect nature. While many companies, especially those with longer value chains, cannot directly control their scope 3 emissions, they can influence upstream and downstream processes to reduce emissions.

Organic farming practices can play a significant role in GHG emissions reduction and contributing to net zero targets, especially when it comes to upstream considerations. The absence of mineral fertilisers within organic farming facilitates the avoidance of significant GHG emissions from both fertiliser application and the production of that fertiliser.<sup>7</sup> Further, a 2020 case study analysed the carbon footprint impact of organic livestock farming using a life cycle assessment (LCA) method and found that: 1) the emissions of organic farms are lower than that of conventional farms; and 2) the carbon sequestration levels of organic farms are noticeably higher.<sup>8</sup> Multiple long-term trials have already shown that organic farming systems can emit up to 40 per cent less carbon emissions than non-organic systems.<sup>9</sup>

These highlight the significant role that organic farming plays in reducing emissions and contributing to net zero targets. Organic producers are, therefore, poised to be key strategic partners for the government's Sustainable Finance Strategy.

## Main Recommendation

AOL advocates for **increased government support** aimed at **reducing the perceived risk** associated with investments in the organic industry. With adequate government support, private sector engagement in the organic space can be significantly bolstered. This engagement can create an enabling environment conducive to the long-term sustainability and financial viability of the organic sector within the broader Australian agricultural landscape.

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<sup>5</sup> Australian Farm Institute. (n.d.). *The Australian Agricultural Sustainability Framework*.

<https://www.farminstitute.org.au/the-australian-agricultural-sustainability-framework/>

<sup>6</sup> Siegl, S., Hagenbucher, S., Niggli, U., & Riedel, J. (2023). Addressing dairy industry's scope 3 greenhouse gas emissions by efficiently managing farm carbon footprints. *Environmental Challenges*, 11, Article 100719.

<https://doi.org/10.1016/j.envc.2023.100719>

<sup>7</sup> Holka, M., Kowalska, J., & Jakubowska, M. (2022). Reducing Carbon Footprint of Agriculture—Can Organic Farming Help to Mitigate Climate Change? *Agriculture*, 12(9), 1383. <https://doi.org/10.3390/agriculture12091383>

<sup>8</sup> Horrillo, A., Gaspar, P., & Escribano, M. (2020). Organic Farming as a Strategy to Reduce Carbon Footprint in Dehesa Agroecosystems: A Case Study Comparing Different Livestock Products. *Animals*, 10(1), 162.

<https://doi.org/10.3390/ani10010162>

<sup>9</sup> Moyer, J., Smith, A., Rui, Y., & Hayden, J. (2020). *Regenerative Agriculture and the Soil Carbon Solution*. Rodale Institute. [https://rodaleinstitute.org/wp-content/uploads/Rodale-Soil-Carbon-White-Paper\\_v11-compressed.pdf](https://rodaleinstitute.org/wp-content/uploads/Rodale-Soil-Carbon-White-Paper_v11-compressed.pdf)

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## Case Studies

Organic farming prioritises minimal inputs, which means greater reductions in GHG emissions. The following two case studies serve as compelling evidence to showcase the immense potential of the organic industry in advancing the government's net zero sustainability objectives. These case studies illustrate clear examples of where organic practices have led to measurable reductions in carbon emissions, aligning with broader national objectives.

### I. Hewitt Foods on Sustainable Finance

Hewitt Cattle Australia (Hewitt) is an organic producer success story that showcases just how impactful sustainable financing can be to emissions reduction efforts.

Hewitt is a global food producer with a fully integrated and ethical paddock-to-plate supply chain, spanning livestock production through to branded retail-ready products. Back in 2015, during a time when both domestic and foreign willingness to invest in Australian agriculture was lacking, Canadian mega-pension fund PSP Investments (PSP) invested \$400 million into Australian agriculture.<sup>10</sup> PSP specifically looked for business partners rather than buying farmland for capital gain. PSP wanted top-tier farm owner-operators who were already successful but lacked the capital to expand, and Hewitt ticked all the boxes. The joint venture has since boomed. The Hewitt group has grown from just four cattle stations in 2015 to now owning more than 20 major aggregations of cattle and sheep stations in the country.<sup>11</sup>

The success underlying the Hewitt-PSP partnership is simple; PSP partnered their capital with Hewitt but always maintained a respect for the environment and considered long-term sustainability. According to Marc Drouin, Global Head of Natural Resources Investments at PSP:

*"We are very comfortable investing in Australia and in agriculture; we understand agriculture and its volatility, but we are long-term investors and rural land values provide great stability."*

PSP understands how local partners such as Hewitt are integral to their growth and success. The key here is PSP's long-term focus on investing and an ethos around improving its assets and helping the transition to net zero. Hewitt's inaugural 2022 ESG report highlights its key sustainability projects, including having baselined its Scope 1, 2, and 3 GHG emissions (achieving 6 per cent reduction in Scope 1 emissions from 2019 to 2021) and their ambition of developing and

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<sup>10</sup> Neales, S. (2023, August 30). *PSP Investments, Hewitt Cattle: How foreign investors bought outback hearts*. The Weekly Times. <https://www.weeklytimesnow.com.au/agribusiness/agjournal/psp-investments-hewitt-cattle-how-foreign-investors-bought-outback-hearts/news-story/8a344a5ef010dcb951f75f7db2de7d40>

<sup>11</sup> Neales, S. (2023, August 30). *PSP Investments, Hewitt Cattle: How foreign investors bought outback hearts*. The Weekly Times. <https://www.weeklytimesnow.com.au/agribusiness/agjournal/psp-investments-hewitt-cattle-how-foreign-investors-bought-outback-hearts/news-story/8a344a5ef010dcb951f75f7db2de7d40>



implementing their emissions reduction projects portfolio starting 2024.<sup>12</sup> PSP's investment in Hewitt has allowed it to become the success story it is now, as a producer of the most sustainable and natural meat in Australia, on the pathway to net zero.

## II. Bonnie Doone on Climate Change Mitigation and Adaptation

Bonnie Doone is a 20,000-acre certified organic property in Queensland that has made the news recently after generating a record number of 94,666 Australian Carbon Credit Units (ACCU) for an individual soil carbon farming project.<sup>13</sup> This means that for every tonne of livestock their farm carries, 6.6 tonnes of CO<sub>2</sub> are buried in soil after accounting for all emissions. For context, these 94,666 units are worth about \$2.8 million AUD. Notably, the carbon-negative cattle achievement comes at a time when the meat industry is still re-evaluating its carbon neutral goals.<sup>14</sup>

The Bonnie Doone soil carbon project involved many years of focusing on increasing soil carbon by altering their stocking rate, duration, or intensity of grazing. Despite the seasonal challenges posed by dry weather and fluctuating cattle prices, the owners were able to sequester 126,222 tonnes of GHG emissions into their soils over the five-year reporting period.<sup>15</sup> The Burnham family, who owns Bonnie Doone, echo the sentiments of Hewitt and PSP regarding the importance of long-term land viability. The Burnhams understood the importance of a more resilient operation if the next generations were to succeed, and this meant learning more about the grasses and the soil that supported them.<sup>16</sup>

The above is a milestone achievement for organic agriculture and agriculture in general, creating a new benchmark for soil carbon farming in Australia. It is further proof that producers who are committed to a tangible and quantifiable improvement in soil health can diversify their income streams through carbon credits while contributing to a healthier, more resilient planet.

### Key Barriers to Increasing Private Sector Engagement

Australian agriculture is inherently characterised by its boom-and-bust cycles, which leads to investors viewing the sector as a volatile and high-risk industry. Strategic investment and effective risk management are both crucial to navigating this challenging environment. Transforming

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<sup>12</sup> Hewitt Foods. (2023, July 17). *2022 ESG Report Released*. [https://hewittfoods.com/wp-content/uploads/2023/07/Hewitt-ESG-Abridged-Report\\_v290523\\_HEW-Edit5166.pdf](https://hewittfoods.com/wp-content/uploads/2023/07/Hewitt-ESG-Abridged-Report_v290523_HEW-Edit5166.pdf)

<sup>13</sup> Buchanan, K. (2023, September 28). *Queensland carbon-negative soil project issued record number of credit units*. ABC News. <https://www.abc.net.au/news/rural/2023-09-28/soil-project-record-carbon-credits-bonnie-doone/102907500>

<sup>14</sup> Buchanan, K. (2023, September 28). *Queensland carbon-negative soil project issued record number of credit units*. ABC News. <https://www.abc.net.au/news/rural/2023-09-28/soil-project-record-carbon-credits-bonnie-doone/102907500>

<sup>15</sup> Beef Central. (2023, September 26). *New soil carbon credit issuance becomes Australia's largest ever with 94,666 ACCUs*. <https://www.beefcentral.com/carbon/new-soil-carbon-credit-issuance-becomes-australias-largest-ever-at-94666/>

<sup>16</sup> Buchanan, K. (2023, September 28). *Queensland carbon-negative soil project issued record number of credit units*. ABC News. <https://www.abc.net.au/news/rural/2023-09-28/soil-project-record-carbon-credits-bonnie-doone/102907500>



perceived risk into sustainable opportunities lies in aligning investments with sectors that exhibit resilience and consistent growth. Organic farming stands as a testament to this principle, characterised by its resilience amidst the effects of climate change and increasing global demand. There are currently two key barriers identified to increasing private sector engagement in financing opportunities for the organic industry:

### I. Lack of Domestic Regulation

One of the ongoing challenges the Australian organic industry faces is a lack of domestic regulation. The domestic industry currently operates under a voluntary certification process, where organic operators may choose to become certified to demonstrate truth in labelling and support their organic claims. Certified operators go through rigorous certification from one of Australia's five government-approved certification bodies, which can be a costly and time-consuming endeavour. As of 2022 there were approximately 2,120 businesses claiming to be organic in Australia that were not certified, with some of the more frequently cited constraints to pursuing certification being the associated costs and a lack of financial benefits.<sup>17</sup> Despite this, support for compulsory certification was high among both certified (69 per cent) and uncertified (45 per cent) operators.<sup>18</sup>

This underscores the increasing interest in certified organic farming among producers and processors. However, the absence of an enforced domestic standard for operators across supply chains poses a significant challenge. Presently, there are minimal or no legal ramifications for the misuse of organic claims, with enforcement actions that are often lengthy and ultimately unsuccessful. The severity of any penalties are often insufficient to deter repeat instances of fraud. Certified organic operators are thus forced to compete with non-certified businesses, which puts at risk the credibility as well as financial benefits of their certified organic status. This issue emphasises the urgent need for a robust regulatory framework that rewards integrity across the organic industry.

### II. Restricted Trade and Market Access

Another barrier to increasing private sector engagement is restricted/limited trade and market access for the Australian organic industry. There are prevailing concerns that the current organic export market is too concentrated, with some commodities only being exported to one country based on available data. Data also shows that there has been a contraction in the number of overseas markets Australian organic products are reaching, decreasing from 62 different countries

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<sup>17</sup> KG2. (2022). *Organic Industry Data Collection Report 2022*. Department of Agriculture, Water and the Environment. <https://www.agriculture.gov.au/sites/default/files/documents/organic-industry-data-collection-kg2-final-report-feb-2022.pdf>

<sup>18</sup> KG2. (2022). *Organic Industry Data Collection Report 2022*. Department of Agriculture, Water and the Environment. <https://www.agriculture.gov.au/sites/default/files/documents/organic-industry-data-collection-kg2-final-report-feb-2022.pdf>



in 2020 to 36 in 2022.<sup>19</sup> This is happening despite a significant demand increase being forecast for organic products over the next five years.<sup>20</sup>

As the organic sector continues to grow and mature, there is an increasing need to extend beyond the current scope of our markets and diversify trade and market access for organic goods. This continues to be a priority as organic exports are expected to grow by 29 per cent annually up to the 2026-27 financial year<sup>21</sup>. Countries such as China and Vietnam have shown a willingness to pay premiums of up to 35 per cent or more for Australian certified organic beef.<sup>22</sup>

Regarding organic exports, there are currently three different ‘levels’ of trade and market access arrangements for Australians looking to export. These range from **equivalency arrangements** negotiated with countries that have an established organic program, **to conformity arrangements** where a specific Australian certification body is accepted and found to conform with the organic requirements of the importing country, to emerging organic markets where there are **no formal agreements in place**.

With regard to markets where there are no formal agreements in place, there is considerable scope to increase organic export trade with the emerging markets of South-east Asia, whose organic regulatory systems are still in a state of immaturity. These markets can help protect the Australian organic industry against the concerning trend of overly concentrated export markets, especially with those Australia has conformity arrangements with, such as USA, Canada, South Korea, and the UK. However, existing challenges for Australian organic operators are still present, such as the lack of information available regarding specific markets and how to approach them. This lack of understanding leads to issues around red tape and comprehension of regulation in these countries. Tailored, country-specific information delivered via government and department channels would help ease the burden for organic operators and facilitate improved market access, in turn leading to increased private sector engagement.

## Overcoming the Barriers

### The Need for Government Support

The two key barriers outlined above underscore the organic sector’s need for increased government support, which will play a significant role in reducing the perceived risks for potential investors. Fostering an environment that addresses regulatory gaps and improves trade and

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<sup>19</sup> ACIL Allen, Moblum Group, & NielsenIQ. (2023). Australian Organic Market Report 2023. Australian Organic Limited. <https://austorganic.com/resources-and-research/publications/organic-market-report-2023/>

<sup>20</sup> ACIL Allen, Moblum Group, & NielsenIQ. (2023). *Australian Organic Market Report 2023*. Australian Organic Limited. <https://austorganic.com/resources-and-research/publications/organic-market-report-2023/>

<sup>21</sup> ACIL Allen, Moblum Group, & NielsenIQ. (2023). *Australian Organic Market Report 2023*. Australian Organic Limited. <https://austorganic.com/resources-and-research/publications/organic-market-report-2023/>

<sup>22</sup> Zhang, A., Schrobback, P., Maxwell, C., Kinch, N., Lim, S., Ha, T. M., & Feng, N. (2023). *Consumer preference for beef attributes and willingness to pay for Australian organic beef: A comparative study of China, UK, and Vietnam*. Trusted Agrifood Exports Mission. CSIRO. [https://www.csiro.au/-/media/Missions/Trusted-Agri/23-00384\\_AF\\_BROCHURE\\_PremRoadmapBeef\\_DL\\_WEB\\_230814.pdf](https://www.csiro.au/-/media/Missions/Trusted-Agri/23-00384_AF_BROCHURE_PremRoadmapBeef_DL_WEB_230814.pdf)



market access will improve outcomes in this regard. The Sustainable Finance Strategy provides an opportunity for such interventions, as increased government support and risk reduction measures are fundamental to fostering an environment where organic operators can easily connect with market opportunities.

By nature, the Australian certified organic industry already has sustainability at its core, as well as robust verification, traceability, and certification systems in place. However, overcoming the barriers to private sector engagement requires government support to leverage these systems and amplify efforts. Organic producers, as evidenced by the two case studies above, are poised to be key partners of the government's Sustainable Finance Strategy toward net zero emissions.

One of the key objectives of the Sustainable Finance Strategy is *“ensuring Australian entities can access capital and pursue business opportunities that support the transition and are aligned with positive sustainability outcomes.”* The organic industry already has a strong foundation with its existing certification frameworks ensuring the integrity of organic claims. However, the absence of mandatory domestic regulations poses a significant challenge and jeopardises the credibility and financial benefits for certified organic producers.

## Conclusion

The multifaceted benefits of organic practices extend beyond economic gains to encompass environmental sustainability and agricultural resilience, all of which align with the government's net zero goals.

Enforcing compulsory certification across the organic industry would increase its integrity and create a fairer playing field, ensuring more organic producers can access and pursue business opportunities both domestically and internationally. This regulatory support can pave the way for attracting private sector engagement, sustaining the growth of the organic sector, and in turn contributing to the government's net zero targets.

Despite Australia's prominence in global organic agriculture, there is a need for local producers to diversify their market reach to reduce the risks associated with market concentration. Limited market information and understanding hinders organic producers from tapping into lucrative emerging markets, particularly within South-east Asia. Additionally, many organic producers are often small to medium-sized farms with capital constraints and accordingly, a lower appetite for risk.

It is therefore crucial that the government recognises the significant potential of organic producers in advancing its larger sustainability objectives by offering its robust support. By leveraging existing verification, traceability, and certification systems within the certified organic industry, government backing can incentivise private sector engagement and thus expedite Australia's pathway to net zero.