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CAN ECOLABELLING HAVE AN INFLUENCE?

A conference titled, 'Produce of the Earth as raw material for ecolabelled products – can ecolabelling of industrial products influence environmental impact of agriculture and forestry' was held 10 October, 2001, in conjunction with the Global Ecolabelling Network (GEN) 2001 annual general meeting, at Oslo, Norway.

A key theme discussed at the conference was how sustainable resource management in forestry and agriculture can be incorporated in ecolabelling criteria for products. Some GEN members, such as the Nordic Swan eco-labelling programme, already reference sustainable forestry or organic certification in their criteria for paper and textiles products.

A presentation on organic certification was made by an IFOAM representative at the conference. IFOAM's participation in the GEN event continues the exchange started last year between GEN and ISEAL, an alliance of eight organisations that share a common desire to bring about positive social and environmental change. In the GEN annual general meeting following the conference, the formation of a contact group of GEN, IFOAM and ISEAL representatives was proposed to explore closer working co-operation between parties. ■

For more information regarding GEN see website: www.gen.gr.jp

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What cost is organic certification?

Organic certification has become a worldwide industry. In fact, the number of companies that are certified organic is now considerably greater than the combined total of ISO 9000 and ISO 14000 certified companies. The organic certification industry has a turnover of hundreds of million US dollars, but how do the certifiers compare? One valid comparison is the fee structure devised by the individual organisations.

Recently, *The Organic Standard* carried out a comprehensive survey of certification fees worldwide. More than 80 questionnaires were sent out to certification bodies and eighteen responded. Those that did respond were distributed like this:

North America: 7 respondents
Europe: 6 respondents
Australasia: 2 respondents
South America: 2 respondents
Asia: 1 respondent

Five of the responding certifiers are among the largest in the world. One is a state certifier, all the others are private companies (9) or other

non-governmental structures (8). Six of the respondents are in the IFOAM Accreditation Programme. The majority of the respondents deal with organic certification only, although five offer other certification services as well. Out of those five certification bodies, the organisation devoting the greatest proportion of their time to other services spent up to 70% of their time on organic certification.

The results show that there is a wide range in fees, and it is not possible to make general conclusions regarding the costs in different geographic regions. Indeed, the differences between certifiers within regions are larger than the differences between regions. Average certification

The respondents

Code	Region	Code	Region	Code	Region
AS1	Asia	EU4	Europe	NA4	N America
AU1	Australia	EU5	Europe	NA5	N America
AU2	Australia	EU6	Europe	NA6	N America
EU1	Europe	NA1	N America	NA7	N America
EU2	Europe	NA2	N America	SA1	S America
EU3	Europe	NA3	N America	SA2	S America

Note: It was not the purpose of this survey to become a shopping guide for the clients of the certifiers. In addition, it was expected that certifiers would be more willing to co-operate if they knew they would not be identified. Consequently, the identities of the organisations have not been disclosed.

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GERMAN GOVERNMENT TO PUSH FOR HIGHER EU ORGANIC STANDARDS

The German Federal Government intends to submit a memorandum this year which will highlight the weak spots of the EU Organic Regulations and give suggestions for raising standards, announced Assistant Secretary in the Ministry of Economic Affairs, Dr. Martin Wille at a recent agriculture ministerial conference in Prenzlau.

In terms of raising EU standards, the German Government will recommend that there is an obligation for the conversion of the whole farm and a revision of the EU regulation on animal feed. Feeds allowed for organic farming should predominantly come from self-produced materials or from a cooperating organic enterprise. The list of conventional feeds permissible in exceptional circumstances should be cut down, and conventional liquid manure and poultry manure should be deleted from the list of permitted organic fertilizers. To improve control in the food chain the Government will also recommend that all organisations involved in the market for organic foods should be included in the certification system, particularly the trade which does not fall under the scope of the EU-Regulation as long as it is not producing, packing, processing or labelling organic products. In addition, standards for aquaculture should be developed.

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What are fees charged for?

	Yes	No
Have an initial application fee	72%	28%
Charge all annual costs in one composed fee	50%	50%
Charge inspection work per actual hours spent and costs incurred	50%	50%
Charge inspection according to fixed basis	28%	72%
Charge certification work per actual hours spend	6%	94%
Charge certification according to fixed basis	61%	39%
Charge a licensing fee based on the sales for farmers	50%	50%
Charge a licensing fee based on the sales for processors /traders	67%	33%
Charge different fee schedules for domestic operations and foreign operations.	57%	43%
Charge random unannounced inspections separately	33%	67%

costs at the farm level are 3% of business turnover.

Publication of fee schedules

In almost all cases the fee schedules of the responding certifiers are available publicly. One European certifier negotiated foreign services on a case-by-case basis, and had no fee schedule for foreign operations. Two certification bodies, both in the USA, were not prepared to submit any detailed information. One responded:

'It is our position that any effort to make fees the same is a violation of the U.S. Sherman Anti Trust Act. For this reason we will not share our fees with the industry since to do so would be an act toward making fees the same. The point is that once all fees are compared they will tend to become the same and this is an act which will hinder competition and the spirit of free enterprise. A violation of the Act can be criminal and in the civil aspect treble damages can be obtained as well as all attorney fees.'

The other US certifier did refer to a published fee schedule, which was quite difficult to follow. They claimed that 'any further breakdown of how

we set our fees is proprietary business information.' It should be noted that more than sixty certifiers did not respond at all to the questionnaire, and some of them may have the same reasons as those two quoted above. Both the ISO 65 and IFOAM require that fee schedules should be publicly available.

Standards

Most of the respondents (13) have their own published organic standards. Three of the EU bodies that responded (out of a total of six) certify directly to the EU regulation; and of these one has its own standards for use in countries not covered by the EEC 2092/91. Of the seven certifiers in the US, three of them certify according to the National Organic Program (the Federal Rule), one of those also certify to their own standards.

Geographic activity

Five out of the 18 respondents are not active outside their home country. A further five, of which four are based in Europe, have a worldwide coverage, while the remaining eight certifying bodies offer their services in

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When, a few months ago, Germany's Minister for Agriculture, Renate Künast, presented the requirements for the new German Organic Seal, which is based on the EU-Regulation, she announced that Germany would fight for stricter requirements on organic products in the European Union. During its meeting in mid-October the Upper House of the German Parliament, which represents the German states (Länder), requested the Government should push for higher EU-standards. It was also critical that the Organic Seal would be based on the EU-Regulation instead of the stricter standards of the private certifiers. In a comment the representatives said that they expected that the free-enterprise position of German organic farmers and the high level of its products and label requirements would be put at risk. In addition, the Upper House demanded that a combination of the Organic Seal and the declaration of the region of origin should be allowed. Thomas Dosch, President of Bioland, the largest private certifier in Germany, supports the initiative of the government, and stated that 'To avoid unfair competition it is necessary to tighten the legal requirements for organic agriculture'.

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neighbouring countries in a limited manner.

Construction of fee schedule

Amongst the respondents the fee schedules are generally based on:

Operators' nature and size of production:	50%
Operators' volume of sales:	78%
The work incurred:	56%
Other:	22%

Many of the certifying bodies referred to the 'other' category when they used a hybrid system that incorporates the different options. Thus, it is clear that most operate a mixture of criteria for calculating the fee.

An overview of some specific questions regarding the fees can be seen in the box above.

Some certifying bodies have very elaborated fee schedules, while others operate basically fixed fees. The simplest of them all is the US state program, which has only a sales based fee and no other specified fees.

Sales related fees

Half of the certifiers charge farmers some kind of sales related fee. The fees are often calculated according to a staggered scale, and will typically be in the range of 0.5 to 1% for a normal farm, and in most cases will be proportionally higher for smaller units. One North American certifying

body charged up to 10% of the sales value for the smallest farms and down to 0.1% for the largest. In the case of Asian certifying body the sales fee is 0.3% of turnover for the smaller operators and 0.8% for the larger ones.

Foreign certification

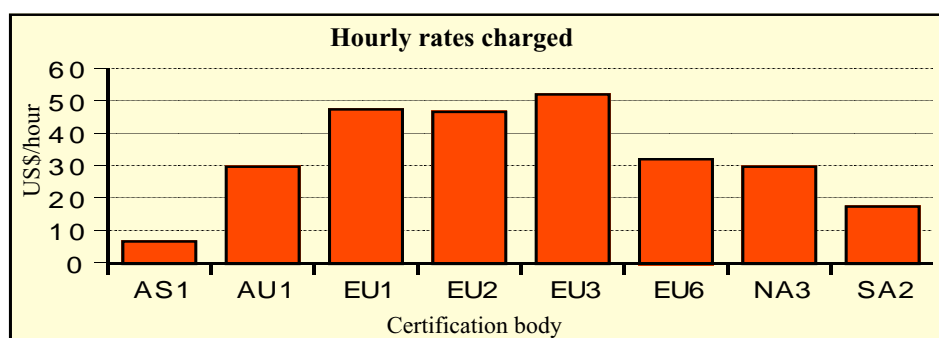
A general trend is that for certification outside the home country, fees become more directly related to the work and other costs involved and less based on templates. All the certification agencies with a large international coverage charge fees differently for foreign operators than they do for domestic operators. Two of the certification bodies also had special fee schedules for specific countries, depending on whether they had a local representation of the certifying body or used local inspectors.

Unannounced inspections

Surprisingly, one third of the certifiers charge for random, unannounced inspections. In most cases extra inspections caused by complaints or triggered by infringements incur a charge.

Fee levels for work

The hourly rate charged by the certifying bodies ranged from US\$7 to US\$52. European certifiers seem to have the higher rates. Not all organisations indicated what fee rates they charge for inspection or certification work.



Extra fees

Some certifiers charge extra for almost all services. For example, a North American certifier, which already had the highest basic fees in the survey, had a fee schedule detailing extra charges. The following were listed as 'Typical additional fee components':

- Inspection time and travel
- Additional sampling or clerical time
- Additional administrative time
- Additional sampling and analysis of products
- Additional analysis of soils for chlorinated hydrocarbons
- Additional analysis of soils for nutrient baselines
- Other Direct Expenses (such as additional travel, lodging, communication, outside audit, etc.)
- Unusual and/or Unforeseen Circumstances'

The same certifier charges US\$250 for reviewing one label. Another certifier charges separately for telephone calls and postage.

Many certifiers have specified fees for late applications, incomplete forms and similar. A few have special fees for appeals, which in one case amounts to more than US\$250.

One European certifier is charging extra for dealing with units that are not fully converted. For instance, the basic fee charged to farms is doubled if it is not fully converted, and a special fee, with a minimum of US\$300 per crop, is charged for parallel production. In the case of processors the fee is four times higher where conventional produce is handled in parallel to organic produce.

Another European certifier gives the operator a choice between paying per hour or paying according to certain fixed fee classes. Thus, a small farm can choose between paying a

fixed fee of US\$150, and paying US\$30 per hour. Travel time is not charged, though travel costs are.

In the USA, some certifiers allow the operators to make direct financial arrangements with the inspectors, a practice that hardly follows international norms.

Fees for processing and handling

The survey focused mainly on the fees paid by farmers. When it comes to processing and handling certain points became apparent:

- Most certification bodies operate a sales-based fee. In almost all cases the fees are staggered in some way. The range is often between 0.1 to 2% for the smaller and normally ends up at a 0.1% level for the larger operations.
- Several certifiers are using a value added basis for the calculation of the fee, *i.e.* the value of the bought-in organic materials are deducted before the fee is calculated. Thus, the total fee will remain the same, even if a product is passing through many hands before the final sale.
- Sometimes the fees for processors are lower than for farms, sometimes higher.
- Some have a fixed ceiling for the fee. In one case this is approximately US\$3,000, in another the certifier gives a 50% discount on all fees exceeding US\$3,000.
- One North American certifier bases its fees for processors on the number of units produced, where the certification fee corresponds to US\$0.45 per unit for the smallest companies and becomes less than US\$0.02 for the larger ones.
- Many operate fees that include a special fee for products/labels.
- In addition there are fixed annual fees, fees for extra production units, fees for certificates etc.

A three hundred million dollar industry?

How big is the turnover in the organic certifications industry? By using the figures given by the eighteen respondents for the sample farms (see overpage) it is possible to see just how big it might be. It is important to note that the farms are fairly small and certification costs go down for larger units. However, there are also a lot of much smaller organic farms certified, and they are likely to have even higher costs.

Using these farms as an example, the total certification fees for farms are in the range of 3% of the turnover. It is considerably more difficult to calculate any average fee level for the following steps of handling and processing, but a reasonable guess is likely to be in the range of 1-2%.

The global turnover of organic products at the retail level is US\$20 billion. Thus, assuming that retail mark-up is 100%, the global turnover of organic products at wholesale and processor level would be US\$10 billion, and the turnover on the farmers level would be in the range of US\$5 billion. Using the certification fees of 1-2% and 3% respectively, the total fees would be 150 millions on the processor level and 150 million on the farm level. So, although estimates are hard to make and the actual figure could be far greater or somewhat lower, the total worldwide turnover in the organic certification industry is likely to be around 300 million US\$, *i.e.* around 1.5% of the retail value. ■

Sample farms

To illustrate fee schedules under practical conditions the following standard farms were described to the respondents who were then invited to calculate the fees if they were relevant to their conditions:

Horticulture

Total size: 6 hectares

Crops: 3 hectares intensive horticulture, 3 hectares of land under grain, rice, pulses, hay or green manures.
Animals: No sales of organic animal products, a couple of goats/sheep kept for own consumption.

Dairy

Total size: 30 hectares.

Crops: Fodder for the animals and pasture (if there is a charge for the crops, use figures relevant for feeding the number of cows indicated below).

Animals: 20 dairy cows, raising of their offspring for slaughter and replacement.

Grower group

Crop: Coffee or cocoa

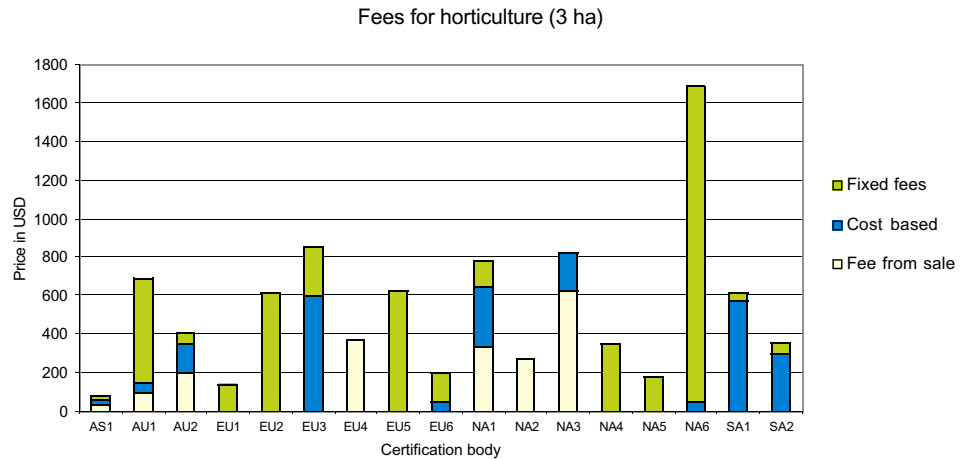
Size: 500 farmers with approximately 1 hectare of coffee/cocoa each + x hectares of crops for direct consumption or local sales. Small animals are kept for self-consumption. The assumption is that this is an operational grower group with internal control. Approximately 10% of the individual farmers are inspected and the internal control needs to be evaluated. The total inspection time is estimated to 12 days + reporting. One inspection per year.

Plantation

Few responses on plantation fees were received, therefore the results are not presented here.

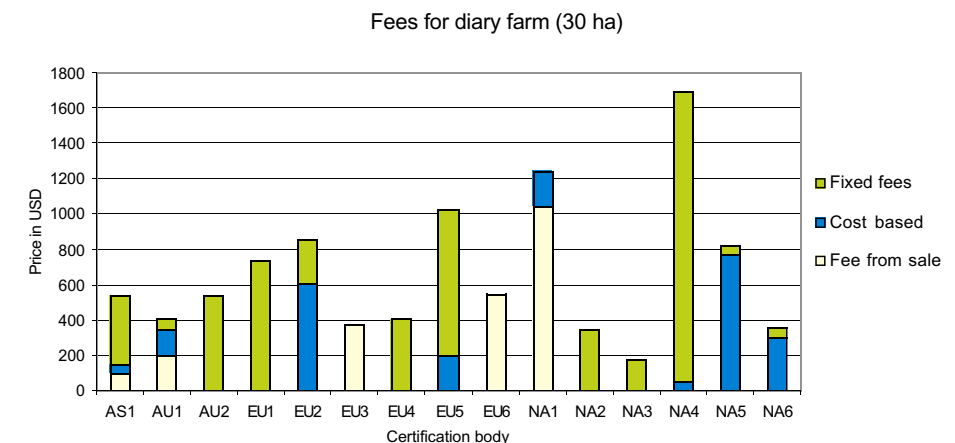
Horticulture Farm

The fee ranged from US\$79 to US\$1690. Average fee was US\$530. Calculated on an annual turnover of US\$20 000 that corresponds to around 2.7% of the turnover.



Dairy farm

The dairy farm was given an average fee of US\$672, which is somewhat higher than the horticulture farm. Five of the certifiers charged the same fee, either because they charge one set fee for everybody, or because the holdings fit into the same turnover category. However, amongst the individual certifiers the picture ranged widely. EU1 charged US\$140 for the horticulture farm and US\$536 for the dairy farm, while EU5 charged US\$405 for the dairy farm and US\$628 for the horticulture. The lowest fee was US\$175 and the highest US\$1,690. The average fee corresponded to an estimated 3.4% of the farm's turnover.



Where the respondents had not filled in the sample farms but where their fee schedule was sufficiently comprehensible, the author has filled in the figures.

Where turnover based fees are used, but no calculation made by the respondent, the author has based the fee for the horticulture farm on US\$20,000, for the dairy farm on US\$20,000 and for the Grower Groups on US\$200,000, which corresponds to US\$400 per grower.

Grower Group

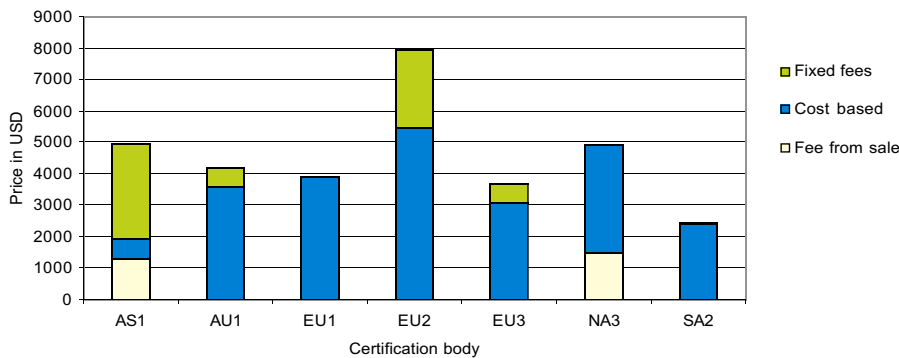
The spread in fees for the grower groups' scenario is smaller than in the other examples (because there is a clearer international competition in this regard?). The highest calculated fee was almost US\$8,000 and the lowest was US\$2,500, with the average costs about US\$4,500. Some charged an extra fee based on the number of members on top of regular inspection fees. For instance, AS1 charged a fee per grower of US\$7, which ends up being almost half the total fee, and another certifier charged US\$3 per farmer.

EU1 and EU3 indicate that the costs would vary significantly depending on the location, as they have local inspectors in some countries and varying fee schedules. Travel costs were not included in any of the calculations, so assuming international travel costs, hotels, car rental and other costs charged would be in a range of US\$2,500, the total average cost of the international inspection would amount to US\$7,000. Based on an estimated turnover of US\$200,000, that corresponds to 3.5% of the turnover. ■

Cheap certification in US states

Margaret Misner of the Idaho State Department of Agriculture, has made a survey of the fees charged by US state organic certification programs. Thirteen of the states responded. Compared to the fees in *The Organic Standard* fee survey, they are generally low. Fixed annual registration fees are in the range of US\$10 to US\$300, with most in the range of US\$100. Idaho, Iowa, Utah, Washington and New Hampshire have sales-based fees in the range of less than 0.1%-1.5% (depending on volume etc.). Four programs charge inspection fees and costs separately. Inspectors' fees range between US\$23 and 32 per hour. Kentucky seems to be the best place to be a certified organic producer; the only fee is US\$10 per year, which is the same for farmers and handlers!

Fees for grower group



Benchmarking certification services

What do the operators get for their fees? There is a lot of talk about accreditation in the certification industry, but accreditation – when it works – is only concerned with the reliability of the certification, not the quality of the service. Most operators in the organic industry can recount horrifying stories of lack of service orientation, ignorance, arrogance and slow processing, just to mention the most frequent complaints. However, it is a difficult task to measure the efficiency and customer satisfaction in a certification service. How do you value the service? One would suspect that certifiers giving 'easy' certifications, *i.e.* where inspectors do not find violations, or

where operators with disclosed violations are dealt with leniently, would be popular with their clients – provided their reputations remain intact. But if a reputation becomes tarnished, the value of that service diminishes rapidly.

Quick responses, short lead times from application to final decision and clear information are popular measures of quality among operators. The speed of the process flow(s) could be measured, *e.g.* time from application to certification decision. So could the time taken for an operator to receive a response to a written question, and the time taken for a complaint to be handled. In terms of resource use, the number of inspections per full time inspector, the number of screened in-

spection reports per office staff, the volume of staff overhead per certified operator could all be measures of quality. But then how is the quality of the service assessed? It was reported in *The Organic Standard*, issue no. 6 (page 8) that an inspector in Austria conducted 760 inspections in one year. Is that possible while maintaining quality work? It would be an interesting and challenging task to develop a set of common benchmarks for measuring efficiency and customer satisfaction in the organic certification industry. ■

Any readers with experience in measures of quality in organic certification or any other certification sector are invited to share their experiences. Please contact The Organic Standard main office at office@organicstandard.com