

For discussion
on 5 February 2013

Legislative Council
Panel on Food Safety and Environmental Hygiene

Report on Consultancy Study on Organic Food

PURPOSE

This paper reports the findings of the Consultancy Study on Organic Food (the Study).

BACKGROUND

2. In view of the growing consumption of organic food in Hong Kong and to facilitate the further development of the organic food sector, the Food and Health Bureau (FHB) commissioned in March 2011 the Study to assess whether and how the production and sale of organic food in Hong Kong should be regulated, if at all, as well as how to enhance consumer education and information about organic food. More specifically, the objectives of the Study are to:

- (a) gauge the level of understanding about organic food on the part of the trade and the public;
- (b) analyse the key issues of concern to the public associated with the emerging trend of increasing consumption of organic food in Hong Kong;
- (c) examine the global organic food landscape and regulatory regimes;
- (d) assess whether Hong Kong should regulate the production and sale of organic food; and
- (e) recommend options to enhance consumer education and information on organic food.

3. The Consultant conducted desktop research on the profile of the organic food sector in Hong Kong and the regulatory regime in a number of selected jurisdictions. Telephone surveys and face-to-face interviews were conducted to gauge consumers' level of perception and their purchasing habits on organic food, as well as interviews with key stakeholders in the organic food sector to better understand the current market situation and the key issues of concern pertaining to the further development of the sector. Based on the findings, the Consultant has identified a list of issues requiring attention and suggested a range of possible policy options, on the basis of which the Consultant has made recommendations for the way forward.

4. There is no universal definition of organic food. The term basically refers to food produced under organic farming principles and methods. An overview of the global organic food landscape and some pertinent issues for Hong Kong could be found in the paper submitted to this Panel for its meeting on 10 January 2012 (LC Paper No. CB(2)719/11-12(05)).

FINDINGS OF THE STUDY

(A) Profile of the Organic Food Sector

5. In Hong Kong, over 90% of the foodstuffs consumed are imported. In 2010, the total import of foodstuffs amounted to \$124 billion. Discounting the \$34 billion worth of foodstuffs re-exported subsequently, the amount of foodstuffs retained for local consumption amounted to some \$90 billion. In respect of local food production, the combined output of Hong Kong's agriculture and fisheries industries in 2010 was worth \$3 billion, or about 3% of the value of imported foodstuffs retained for local consumption that year.

6. The organic food sector constitutes only a small part of the overall food market. According to a report by the market research firm Organic Monitor released in 2011, it was estimated that the organic food and drink market in Hong Kong was valued at about \$450 million, which was roughly equivalent to less than 2% of food sales at local supermarkets or less than 1% of local households' expenditure on food. The Consultant also noted that the volume of organic food sold in restaurants in Hong Kong was minimal.

7. Fresh vegetables are the most significant locally produced

organic food product, while there is also some organic production of fresh fruits and live fish. As at October 2012, there were 452 farms in Hong Kong that declare themselves as operating according to organic principles (about one quarter of all farms in Hong Kong). These included traditional family-operated farms, enterprise-operated farms, educational hobby farms and self-claimed organic farms. Among these farms, 203 had joined the Organic Farming Support Service (OFSS)¹ provided by the Agriculture, Fisheries and Conservation Department (AFCD). As at October 2012, these 203 organic farms registered under OFSS occupied a total land area of 80 ha, which is equivalent to 20% of the actively farmed agricultural land in Hong Kong. On average, these farms produce about five tonnes of organic vegetables each day, which is about 10% of the total supply of locally produced fresh vegetables or 0.2% of the total fresh vegetables supply in Hong Kong.

8. In sum, the Consultant has observed that the local organic food sector is a niche market with minimal share in the food supply chain when compared to other locally produced or even imported food products.

(B) Findings of the Consumer Research

9. In order to gauge the preferences and patterns of consumption relating to organic food and drink by the consumers, the Consultant conducted a telephone survey and face-to-face interviews between April and May 2011. For the telephone survey, a total of 2 018 Hong Kong residents were successfully contacted and 1 013 individuals aged between 18 and 64 responded to the survey questions, representing a response rate of 50%. The survey questions were designed to gauge the level of understanding and perception of organic food by the respondents, their expenditure on and frequency of organic food purchases, their reasons for buying or not buying organic food etc. Apart from the telephone survey, a separate face-to-face survey was conducted and a total of 321 Hong Kong residents aged between 18 and 64 participated. Among the 321 interviewees, 160 were classified as frequent organic food consumers, 91 infrequent consumers and 70 non-consumers, who were selected by quota sampling to achieve a sample of 50% frequent consumers and 50% infrequent consumers or non-consumers.

10. The key findings of the telephone survey and face-to-face interviews on the consumers are summarised below –

¹ In December 2000, AFCD launched an Organic Farming Conversion Scheme (later renamed as the OFSS) to assist conventional farmers to switch to organic farming by providing them with technical support.

- (a) An overwhelming majority (98%) of respondents had heard of the term “organic food”.
- (b) On the level of understanding of what the term “organic food” refers to, most respondents would associate the term with “non-use of pesticides”, “non-use of chemical fertilizers”, “non-use of chemical additives/preservatives” and “use of natural and organic inputs for planting or breeding”. A smaller proportion of respondents associated the term with “[food] produced using environmentally sound methods”, “ingredients [that] do not contain genetically-modified organism” or “[food] not processed using irradiation”.
- (c) It was observed that non-consumers had a similar degree of understanding of the term “organic food” as frequent and infrequent consumers.
- (d) Most respondents perceived organic food as safer, of higher nutritional value, better quality, a premium or luxury product, and with greater health benefits. This positive perception of organic food was shared by non-consumers, though to a lesser extent.
- (e) Slightly more than half of the respondents were motivated to buy organic food by its perceived health benefits. Curiosity and concern on food safety were among other major factors.
- (f) Among the organic food consumers surveyed by telephone, only one-fifth were regular consumers who purchase organic food at least once a week, with another one-fifth at least twice a month. The remaining ones purchased organic food infrequently (less than twice a month) or had not purchased any organic food in the three months preceding the survey.
- (g) Nearly 70% of the respondents cited supermarkets as the main location where they purchase organic food because of convenience, variety of products available, and consumer confidence in the quality of their commodities. Some would purchase at specialist stores given better quality assurance and some went to wet markets for convenience.
- (h) Over 80% of the respondents who have bought organic food indicated no strong preference on the country of origin of the

organic food product. About 30% of the frequent consumers indicated preference for locally produced organic food.

- (i) Most respondents estimated the cost of organic food to be about 50% higher than its conventional counterparts. Price was quoted by most non-consumers as the main factor why they do not buy organic food.
- (j) Other factors that might discourage consumers from buying organic food included doubts in the authenticity of food products claimed to be organic, confusion in the organic food labels and lack of choices.
- (k) Most respondents had confidence that organic food sold in specialist store, supermarket, food section in a department store and farms were genuinely organic. They had less confidence in wet market or on-line purchases.

11. By analysing the demographic data of the respondents, the Consultant noted that a typical organic food consumer in Hong Kong would most likely be a female aged between 35 and 54, working in a professional or semi-professional sector, with at least senior secondary education and a household income of \$20,000 or above. The survey results also suggest that the proportion of Hong Kong people willing to try organic products had been on the rise in recent years.

(C) Views of Key Stakeholders

12. Views on Hong Kong's organic food market were collected from key stakeholders, including relevant Government bureaus and departments, public bodies, certification agencies as well as industry representatives (both producers and traders). Their views on the current market situation and key issues of concern in the further development of the organic food sector are summarised below –

- (a) The organic food market in Hong Kong is a small sector and a niche market. The past decade saw a noticeable growth in the organic sector and the potential for further expansion is good. But it would remain relatively small in scale when compared to the conventional food sector in terms of product variety and supply, as well as contribution to sales and growth.
- (b) Local production of organic food mainly consists of leafy

vegetables. However, because of its unstable supply and the limited variety available, locally produced organic products tended to be more costly. They are sold mainly at farmer markets, farm festivals, online trading platforms and directly from the farms.

- (c) Supermarkets and specialist stores are the main outlets of organic food, mostly processed food imported from other markets. They seldom carry local fresh produce due to unstable supply and higher costs.
- (d) According to two major local supermarket chains, organic food products accounted for less than 1% of the total food products available at their retail outlets. Another major local supermarket chain indicated that organic products constituted about 5-10% of its stock.
- (e) Demand in organic food is growing in the region and competition for quality organic food products may further limit the supply of organic food in Hong Kong.
- (f) The problem of fraudulent and counterfeit organic food might exist. However, the interviewees were of the view that very few retailers had knowingly infringed the law (referring to the offence on false description of products sold pursuant to the Trade Description Ordinance).
- (g) Some considered regulatory actions undesirable because of concerns about prospective compliance cost and difficulties in conforming to a single set of regulations. Some doubt the need for regulation given the small size of the market. Finding a common definition of “organic food” and drawing up a set of common standard on organic practice would be a challenge.
- (h) Some cautioned that regulation of the organic food sector might have negative impacts on both traders and consumers, e.g. products might have to be removed from the market if they do not comply with the Hong Kong requirements and retailers might be less willing to introduce new products, hence further restraining the product choice to consumers. The increased compliance cost might be shifted to consumers, driving up the price of organic food products further.

- (i) Enhanced consumer education to improve consumers' knowledge in organic food would be a useful alternative to regulation.

(D) Market Issues Identified and Reference to Experience of Other Jurisdictions

13. Based on the above findings from the consumer research and consultation with stakeholders, the Consultant has identified five market issues pertaining to the organic food sector in Hong Kong and has drawn reference to the experience of selected jurisdictions in addressing these market issues. The jurisdictions studied include Australia, the European Union, the Mainland of China, Singapore and the United States. The observations of the Consultant are summarised in the ensuing paragraphs.

Ambiguity of the term “organic” undermines consumer confidence

14. The results of the consumer surveys suggest that there is a general lack of confidence in the authenticity of food products claimed to be organic, which might have discouraged consumers from purchasing organic food products. As noted in paragraph 4 above, there is no universal definition of organic food. The term basically refers to food produced under organic farming principles and methods. In Hong Kong, there are currently 452 farms in Hong Kong that declare themselves as operating according to organic principles. Among these farms, 103 farms are certified by the Hong Kong Organic Resource Centre (HKORC) as meeting a set of organic production and processing certification standards. Another nine farms are certified by the Hong Kong Organic Certification Centre (HKOCC)². Products from these farms may carry labels issued by the certification bodies to certify that they are organic products.

15. In the selected jurisdictions studied, the definition of organic food and farming refers to a standard which sets out the rules and procedures for ensuring the consistency and reliability in organic products. Only the food product properly produced in such manner can be branded as “organic”. In jurisdictions where multiple standards are available, such as Australia, they tend to adhere to one single set of minimum standards and are moving towards this direction by referencing to a set of “minimum requirements” to define the term “organic”.

² HKORC and HKOCC are independent certification bodies. HKORC is accredited to the International Federation of Organic Agriculture Movements (IFOAM), which is a non-governmental organisation leading organic movements worldwide.

Lack of basic knowledge among consumers regarding organic certification and labelling

16. The Consultant has observed that greater consumer knowledge of organic food is correlated to their increased consumption. As revealed from the surveys, many consumers have perceived organic food as safer and of higher nutritional value, despite the fact that evidence on the relative nutritional value and safety of organic food vis-à-vis conventional food has been inconclusive. Indeed, most governments regulate food safety and nutrition issues separately from any organic food policy, and for the purpose of handling food safety and nutrition-relating matter, organic food and conventional food are treated equally. It would be important to enhance consumer knowledge and understanding of what organic food and farming are and how to interpret the organic labels issued by various certification bodies.

17. In this regard, it is observed that in the selected jurisdictions studied, the industry and government join efforts in providing non-technical information to consumers about organic farming and food to enhance public knowledge of organic food, including the relevant certification standards and labelling. In these jurisdictions, the industry usually takes the lead in the campaigns for consumer education and promotion of organic products. In some jurisdictions, such as the European Union, organic food and farming is part of the food and health curriculum.

Multiplicity of labels may contribute to consumer confusion

18. Hong Kong imports over 90% of its foodstuffs from other places. Organic products produced locally or imported from other places may carry labels issued by different certification bodies. The existence of multiple labels on different organic products might cause confusion to consumers and undermine their confidence in organic products. Most respondents in the face-to-face survey recognised the labels issued by HKORC and the local organic vegetable labels issued by the Vegetable Marketing Organisation (VMO). However, the level of recognition of other labels issued by foreign certification bodies was low.

19. The Consultant noted that single labelling would be conducive to building consumer confidence and better recognition of organic products. In some of the jurisdictions studied, the adoption of a single and standardised labelling system is being implemented or gradually developed. However, the degree of stringency in adopting a single and standardised labelling system in the jurisdictions studied varies. For example, in Australia,

organic food for domestic consumption is certified to different standards when compared to organic food for export.

Risk of food fraud, especially in wet markets

20. The problem of fraud and mis-labelling occur when an organic operator (e.g. producer, handler, retailer or other actors involved in the supply chain) identifies a product as organic while it contains non-organic ingredients or where the organic production standards are not adhered to in the production process. This could be intentional, which is a fraud, or accidental due to the mishandling in the production process or in the supply chain. It is difficult if not impossible for the consumers or even the traders to verify the authenticity of the organic products visually or by other means of examination. Certification, monitoring and enforcement systems are the primary mechanism adopted to guard against such mal-practices in all of the jurisdictions studied. However, the Consultant also observes that the risk of such problems is difficult to eliminate completely.

Gap between belief and evidence on comparative safety and nutritional value – potential for false claims

21. The Consultant has noted that development of the organic market in many countries has been grounded primarily in environmental sustainability but often spurred by concerns with health and food safety. Food scares in some countries have led to increased consumer interest in organic food, as consumers generally perceive organic food as more nutritious and safer despite the lack of clear evidence substantiating such correlation. Consumer belief that organic food is of higher nutritional value and safer than conventional food is a key drive in the organic food market. Findings from the consumer surveys in the Study also saw such tendency.

22. In the jurisdictions studied, governments are engaged in providing impartial and empirical information to assist consumers' purchasing choice. Generally, they do not take active measures to promote the consumption of organic products for the sake of food safety. It is however noted that some governments do promote the concept of organic food and farming for considerations including environmental sustainability and promotion of export trade. In some cases, the issues of food safety and nutrition value of organic food are addressed by the same benchmark as their conventional counterparts.

(E) Policy Options Developed by the Consultant

23. The Consultant has noted that the main policy objectives of the Government in respect of food are to ensure food safety and stable food supply in Hong Kong. The production and sale of organic food in Hong Kong have limited relevance to these objectives given that the organic food sector is a niche market that is unlikely to gain a significant share in the food supply chain in the near future. Also, organic food together with their conventional counterparts are readily regulated under existing food safety and trade regulations and they are treated by the same standards. As such, the Consultant considers that any policy options seeking to enhance control over the organic food sector in Hong Kong should be developed from a consumer protection angle and from the perspective of ensuring fair and free trade. Based on these broad objectives, the Consultant has developed four policy options, in respect of which it has interviewed a few selected key stakeholders to gauge their views on the perceived outcomes and effects of different policy options. The policy options suggested by the Consultant and its assessment of each of the policy options are set out in the following paragraphs.

Policy option 1 – Maintaining the status quo

24. Under this option, the Government would maintain the status quo, i.e. the prevailing measures in the handling organic food (e.g. voluntary schemes of the certification bodies, and the educational and promotional efforts made by the industry) would continue and we would leave it to the market to manage and address the market issues identified above. By so doing, the market issues identified might eventually be addressed but it would however likely take a long time before any significant changes could be seen. The selected stakeholders interviewed supported the continuation of the administrative and promotional measures currently adopted by the Government and the certification schemes of independent certifications bodies. Additional efforts would be welcomed.

Policy option 2 – Awareness raising

25. The market issues might be rectified by raising consumers' awareness, including dissemination of information to organic producers, traders and consumers on websites, publications, leaflets and television, and building into the school curricula and extra-curricular activities the concepts of organic food and farming. These initiatives may be jointly taken forward by the Government and the industry or separately. It is worth noting that some stakeholders interviewed were of the view that the Government should

not take a role in promoting organic food as a superior alternative to conventional food. Some remarked that the Government might not have the professional knowledge and experience in taking forward these initiatives, while additional resources might be required for the industry or schools to take the lead.

Policy option 3 – Administrative Measures

26. The Government may consider working with the industry to accelerate change through a range of administrative measures, including further promoting organic certification schemes and streamlining the certification procedures, encouraging international accreditation of local certification bodies, developing a set of minimum standards to define “organic” and promulgating a reporting mechanism of food fraud. Regarding the above suggested measures, the Consultant noted that the organic farms had expressed a general concern about the existing administrative requirements of certification process. There were also views that Hong Kong certification labels were sometimes perceived by consumers as inferior to certification labels issued by other overseas certification bodies, despite the fact that one of the certification bodies for organic products in Hong Kong has been accredited to an international accreditation body. Retailers generally supported the development of a set of “minimum standards” for organic food to facilitate reference by the trade and their compliance. The selected stakeholders interviewed also welcomed the idea of consumers reporting general food fraud although they have cautioned whether the consumers were able to differentiate authentic organic food from the counterfeit ones. They were of the view that a more practical alternative might be for the industry to step up the policing efforts.

Policy option 4 – Legislation

27. The Government may consider proposing a new legislation with a view to imposing restriction on the sale of organic food unless the organic food comes from a producer that has been certified to a recognised organic standard. Some stakeholders were of the view that the organic food sector was still a small market and organic food should not be a priority issue for the Government. General food safety issues should be addressed first before introducing legislation specifically for the organic sector. They also expressed concern about the potential negative impacts of a legislative approach on the industry and considered it more desirable for the Government to first employ administrative measures in the short and medium term. Whether there would be a need for legislation should be reviewed in the longer term.

(F) Recommendation of the Consultant

28. In conclusion, the Consultant notes that the organic food market is a niche market in Hong Kong and organic food products are mainly imported from other places outside Hong Kong. Local production of organic food is limited in quantity and variety. Domestic export of organic food product is minimal. These notwithstanding, the Consultant considers that government actions to strengthen the protection of the interests of consumers and legitimate producers and traders would be warranted.

29. The Consultant has evaluated the pros and cons of the four policy options suggested above, bearing in mind the market size of the organic food sector and the main policy objectives of the government for ensuring food safety and stable food supply. The Consultant considers that maintaining the status quo (policy option 1) might not be a good option as the interest of legitimate producers and traders would continue to be undermined and consumers' confidence in buying organic food would remain at a low level. There is also expectation from the public for government action in enhancing control over the organic food sector and hence maintaining the status quo might not stand up to scrutiny.

30. The other end of the range of policy options is legislative approach (policy option 4). Whilst pursuing a legislative approach might arguably be effective in offering the highest level of protection to consumers, the Consultant notes that such an approach might not be proportional to the size of the local organic food sector and the scale of the market issues that Hong Kong is facing. The industry considered the legislative option to be too cumbersome and believed that the additional restrictions might bring about negative impacts to both producers and traders. These adverse impacts might also be transferred to consumers, hindering the development of the organic food sector. Compared to other jurisdictions studied, there is no pressing need in Hong Kong for regulating domestic export of organic food given the small amount of local production that is basically consumed locally. There does not appear to be any pressing concern on imported organic food given that they are largely sold in reputable supermarkets or specialist stores where there are minimal false organic claims.

31. On balance, the Consultant recommends the Government to consider stepping up efforts in raising awareness (policy option 2) and administrative measures (policy option 3). Through such measures, the Government may enrich consumers' knowledge of organic food and encourage the industry to produce, source and trade authentic organic products, so as to facilitate consumers in making informed purchasing

decisions and avoid the proliferation of non-authentic organic products. The lead time and administrative costs incurred would be comparatively lower. Furthermore, these two options may cast positive impact on the demand for and supply of organic food, thus encouraging sustainable development of the organic sector in Hong Kong.

ADVICE SOUGHT

32. Members are invited to note and comment on the findings of the Study and the recommendation of the Consultant. The Administration will further examine the report and take into account the views expressed by the Panel in mapping out the strategies in governing the production and sale of organic food in Hong Kong, including enhancing consumer education and information about organic food.

Food and Health Bureau
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