

EU–U.S. Organic Equivalence Agreement: Effects on International Trade

Kaitlyn Smoot and Chiao Su

Signed in February 2012, the EU–U.S. Organic Equivalence Agreement is aimed at promoting organic food trade between the two markets. This paper outlines the basic rules enacted by this agreement, its expected impacts on trade flows, and some potential negative side effects.

On February 15, 2012 the United States and the European Union (EU) signed a historic agreement to recognize one another's organic certification programs as equivalent. The agreement, which took effect June 1, 2012, allows USDA National Organic Program (NOP) certified organic products to be marketed in the EU as "organic" using the EU organic logo. At the same time, organic products certified in Europe can be marketed in the United States using the USDA Organic logo.

The purpose of the new agreement is to reduce "red tape," lower certification costs, and expand market access for organic producers and exporters in both the EU and the U.S. The Equivalence Agreement covers only food and feed products; it does not apply to textiles, aquaculture, or personal care products such as lotions and soap.

The agreement adds the United States to the EU's list of "third countries" whose organic programs are recognized as equivalent. Products which meet the national organic standards of countries on this list can be exported to the entire EU common market and are treated as organic goods produced in the EU. For its part, the United States has previous equivalence agreements with Canada, Japan, and Taiwan. The EU has previous

agreements with Argentina, Australia, Canada, Costa Rica, India, Israel, Japan, New Zealand, Switzerland, and Tunisia.

Prior to signing the agreement, representatives from the U.S. and the EU analyzed one another's programs to determine if there was adequate enforcement and to identify the major substantive differences between the programs. A 2011 report by the European Commission concluded that the United States' NOP was well-enforced, but raised several concerns regarding equivalence.

Specifically, it mentioned concerns with the definition of crop rotation, requirements for livestock living conditions, the inconsistent application of transition periods, use of manure from factory farms, and inadequate sampling of products to test for threshold levels of pesticide residues and GMO content. However, in the final draft of the equivalence agreement, these concerns were ignored.

Only two issues were flagged as "critical variances," exceptions to the new equivalence agreement which require separate verification: organic livestock products exported from the EU to the U.S. may not be treated with antibiotics, and apple and pear

exports from the U.S. to the EU may not be treated with tetracycline and streptomycin to control fire blight.

There are a few discrepancies regarding labeling requirements. Although the rule for "organic" processed products is the same in both the U.S. and EU—they must contain at least 95% organic ingredients—in the U.S. a product that contains 70–95% organic ingredients may be labeled as "made with organic," but this is not an option in the EU. Under the agreement, "made with organic" products will not be given the EU organic label. Furthermore, all products traded under the Equivalence Agreement must be accompanied by an organic export certificate stating the production location and the organization that certified the organic product.

The Global Organic Market

The global market for organic agricultural products has been growing dramatically over the past decade. In 2010 world organic agricultural sales were over \$59.1 billion, up from \$15.2 billion in 1999. The breakdown of the global organic market is shown in Figure 1. The U.S. market in 2010 accounted for \$26.6 billion

Figure 1. Distribution of Global Organic Sales by Country, 2010

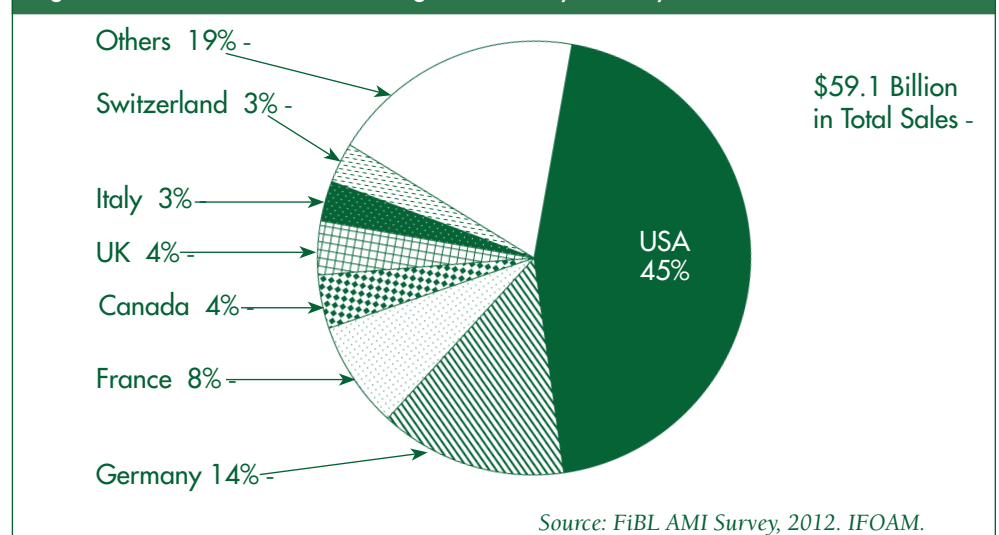


Table 1. Selected U.S. Organic Exports to the EU, 2011

| Product | Value Exported \$1,000 USD | Quantity Exported Metric Tons | Exports to EU as a Percent of U.S. Exports of Given Product to the World | |
|-----------------|-------------------------------|----------------------------------|--|----------|
| | | | Value | Quantity |
| Cherries | 3,015 | 541.1 | 10.87 | 9.86 |
| Roasted Coffee | 1,808 | 256.9 | 13.54 | 11.91 |
| Grapes | 860 | 186.9 | 0.88 | 1.44 |
| Apples | 514 | 360.7 | 0.98 | 1.11 |
| Strawberries | 313 | 70.6 | 1.90 | 1.98 |
| Tomato Sauce | 180 | 210.9 | 0.98 | 0.82 |
| Oranges | 78 | 111.2 | 0.72 | 0.55 |
| Peppers | 60 | 44.5 | 5.41 | 2.99 |
| Carrots | 59 | 42.7 | 0.27 | 0.26 |
| Blueberries | 20 | 2.9 | 0.09 | 0.12 |
| Onion | 11 | 22.4 | 0.35 | 0.49 |
| Cauliflower | 7 | 8.4 | 0.04 | 0.04 |
| Cherry Tomatoes | 4 | 2.8 | 0.37 | 0.35 |

Source: FAS Global Agricultural and Trade System Online

of organic food retail sales (45% of the world total), while the EU market accounted for \$24.5 billion (41.5%).

Organic exports make up a small portion, less than 2%, of total world agricultural trade. The United States is the biggest player in organic trade; it is the biggest importer by far, sourcing products mostly from Canada and Latin America. While the U.S. and the EU are the two biggest players in the global organic market, bilateral trade between the U.S. and EU accounts for less than 5% of the total world organic trade.

The United States exported approximately \$1.8 billion of organic products in 2010. Organic exports are expected to grow at around 8% annually over the next several years. Canada, with which the United States signed an Equivalence Agreement in 2009, is the primary destination of U.S. organic exports, accounting for over 50% of the total U.S. exports.

As shown in Table I, several of the major organic products exported from the U.S. to the EU include cherries, apples, tomato sauce, and roasted coffee (re-exported from third countries). The primary organic

products imported from the EU to the U.S. are chocolate and olive oil.

Access to EU Market, Pre-Agreement

Before the agreement took effect, all organic products exported to the EU had to obtain a second EU certification from an accredited certifier. Such accreditation, for example ISO Guide 65, could cost the certifying body tens of thousands of dollars. The cost to the individual grower, on the other hand, was modest.

For example, Quality Assurance International (QAI) charged \$300 to certify growers holding a previous NOP certification to export to the EU, while the California Certified Organic Farmers' (CCOF) equivalent certification, the Global Market Access (GMA) program, cost \$250. This was a small portion of the cost of the original NOP certification, which is \$1,500 in annual inspection and certification costs, plus a \$275 application fee, for a farm with a production value of \$450,000.

The second required step for exports to the EU was the most burdensome aspect of the whole process:

paperwork requiring traceability throughout the entire supply chain. Exporters needed to obtain their own EU certification for their operation, and they also needed to supply documentation proving that all ingredients from all suppliers were EU-certified.

This could be very difficult, especially for exporters of processed products with a large number of ingredients. Clif Bar, for example, has 20–30 ingredients per flavor, which can translate into hundreds of thousands of farmers at origin and other operations along the supply chain. Also, producers were required to obtain a separate export certificate for every EU member state to which it wished to export its product.

Access to EU Market, Post-Agreement

Under the Equivalence Agreement, many NOP-certified growers in the United States are no longer required to obtain a separate EU certification. Operations that directly export organic products must still obtain a special EU certification, but growers in earlier stages of the value chain who do not themselves engage in exporting are no longer required to do so. The only exception is that all growers of apples and pears, which are ultimately exported to the EU, must be EU-certified.

Even for farmers and exporters who still must obtain the certification, the cost has been reduced. CCOF's GMA program, for example, still exists under the new regulations, but now costs only \$125. Furthermore, the program has been streamlined, such that the single \$125 annual fee covers export certification for the EU, Canada, Japan, and Taiwan.

These certification cost savings to individual growers are minimal, however; the primary impact of the agreement is the elimination of both the cumbersome supply-chain verification and the separate application for exports to each EU member state. This

will have the largest effect on exporters of processed products that contain many ingredients, because their paperwork burden is now much smaller and they no longer need to worry about purchasing only from suppliers who have obtained an EU-certification.

Expected Impacts

Many involved parties, including representatives of the CCOF, QAI, and Organic Trade Association (OTA), predict that U.S. organic exports to the EU will increase substantially under the agreement. In her announcement of the Equivalence Agreement, U.S. Deputy Secretary of Agriculture, Kathleen Merrigan, reported that some estimates predict a 300% increase in annual trade between the U.S. and EU over the next several years. Currently, there are over 17,000 NOP certified operations in the United States. With this agreement, all of these growers and processors now can participate in the EU market with almost no trade barriers.

The increase in U.S. organic sales to the EU will likely be most dramatic in a few of the EU member countries, notably in Germany, which currently has the largest organic market in the EU and second largest in the world. Currently, U.S. organic agricultural exports to Germany are negligible, but they are expected to increase under the agreement because of the elimination of separate export certificates.

One might expect that certification bodies, such as CCOF and QAI, would lose revenues because of the reduction in the size of their international certification programs, but Jaclyn Bowen, General Manager of QAI, said that she expects to see a net gain for the company because these changes will enable them to focus on more important industry issues.

Concerns

Though the public reception of the agreement has been mostly positive,

there are critics who worry that this will lead to the erosion of animal rights in the European Union because the U.S. organic program has much less strict animal rights regulations. Also, the criticism could be leveled that all such Equivalence Agreements are inappropriate because national organic standards reflect the preferences of consumers in those countries, so harmonization of standards could lead to a decline in consumer utility.

However, a study by Sawyer et al. compared the preferences of consumers in the U.S., UK and Canada, through surveys in which subjects ranked preferences for different organic standards. The results suggested that consumers do not have a strong attachment to the current national organic standards.

Next Steps in the Partnership

The agreement set up an Organics Working Group, made up of representatives from the USDA, the U.S. Trade Representative, and the European Commission. This group is scheduled to meet once a year with the purpose of exchanging information on organic practices and further harmonizing the regulations between the U.S. and the EU.

Specific topics to be discussed include: animal welfare, use of veterinary drugs in organic production, GMOs and the avoidance of contamination, and monitoring of conversion practices. The Working Group is also tasked with reviewing instances of non-compliance with organic standards and with conducting a comprehensive review of the agreement by January 2015.

However, since a number of discrepancies between the EU and U.S. organic programs were ignored for the purposes of this agreement, there is a risk of consumer resistance and scandal. For example, if in the future U.S. organic produce marketed with the EU organic logo are revealed to have a GMO content higher than the EU threshold level of 0.09%, this could provoke a political

backlash. The Organics Working Group is supposed to help address such potential controversies and to adjust the agreement accordingly, but this is far from an adequate control mechanism to prevent such problems. It seems that both the U.S. and the EU have accepted the risk of potential political problems in the future for the immediate promise of increased organic trade.

Suggested Citation:

Smoot, K. and C. Su. 2012. "EU-U.S. Organic Equivalence Agreement: Effects on International Trade." *ARE Update* 15(6):9-11. University of California Giannini Foundation of Agricultural Economics.

Kaitlyn Smoot is an M.S. student and Chiao Su is a Ph.D. student in the Department of Agricultural and Resource Economics at the University of California, Davis. They can be contacted by e-mail at kasmoot@ucdavis.edu and ccusu@primal.ucdavis.edu, respectively.

For additional information, the authors recommend:

Bendz, K., R. Krautgartner, M. Pinckaers, and K. Strzelecki. (2012). "The EU-U.S. Organic Equivalence Cooperation." USDA FAS Global Agricultural Information Network (GAIN) Report No. NL2006. [http://gain.fas.usda.gov/Recent Publications/The EU-U.S. Equivalence Cooperation_The Hague_Netherlands EU-27_2-15-2012.pdf](http://gain.fas.usda.gov/Recent%20Publications/The%20EU-U.S.%20Equivalence%20Cooperation_The%20Hague_Netherlands%20EU-27_2-15-2012.pdf)

CCOF. (2012). "European Union Organic Requirements." www.ccof.org/eu.php#equiv.

Organic Trade Association. "U.S.-EU Organic Equivalence Arrangement." www.ota.com/GlobalMarkets/US-EU-Organic-Equivalence-Arrangement.html.

Sawyer, E.N., W.A. Kerr, and J.E. Hobbs. (2008). "Consumer Preferences and the International Harmonization of Organic Standards." *Food Policy* 33: 607-615. www.sciencedirect.com/science/article/pii/S030691920800033X.

USDA National Organic Program. (2012). "International Trade Policies: European Union." www.ams.usda.gov/AMSv1.0/nop-tradeeuropeanunion.