

## **Description of Proposed Research**

The market for organic products has emerged as a rapidly growing sector of the global agricultural economy. As consumer wealth increases, so to does their concern for the environment, food safety and their health. These changes in consumer preferences have fuelled the growth in the organic industry. Currently the market for organic products is concentrated in the European Union, the United States, Canada and Japan, however, the potential for global trade in organic products is growing. It is due to increased global markets that the importance of harmonized organic certification programs among countries has become evident. The absence of harmonization can inhibit the development of international markets and the growth of domestic industries. My Master's thesis will focus on the current absence of harmonization among countries with organic industries and will examine the potential impacts of harmonization on consumer and producer welfare.

Many international organizations (i.e. IFOAM, Codex Alimentarius Commission) have already begun the harmonization process by creating/setting guidelines for governments and industry to follow when establishing standards, certification and accreditation programs. The emphasis has shifted from establishing equivalency between end products to developing equivalent certification procedures. This switch allows national bodies to independently develop their own standards. However, without equivalency agreements there are high transaction costs deterring trade in organic goods. Equivalency can reduce these costs but harmonization could lead to even further reductions.

There are costs to negotiating equivalency agreements. Each country must negotiate with the country with which they are trying to establish equivalency. Though it may seem logical that if, for example, Japan has equivalency with the EU standards, and the US has equivalency with the EU standards that Japan and the US should be considered equivalent, this is apparently not the case. In many cases, certifiers need to be accredited through multiple accreditors in order to provide their producers with access to several markets. Harmonization of international standards would allow certifying bodies to be accredited with only one international accreditation body, be it through IFOAM's International Organic Accreditation Service (IOAS) or some other independent organization. This international accreditation would give producers access

to global organic markets and would eliminate the need for costly equivalency negotiations.

Although several international organizations have already developed guidelines for the certification of organic goods, no further progress has been made in the harmonization process. This project will attempt to determine what is preventing this harmonization. Currently, we have three possible answers: first, there may be substantive differences in the end products, perhaps consumers in importing countries truly believe that the imported organic goods are inferior and must be identified as such; second, the lengthy equivalency process may be seen as a means by which to protect domestic producers; and third, the transaction costs of harmonization may be too great to proceed.

My thesis will examine the current status of the global organic market and try to determine the economic effects of harmonization versus non-harmonization. It will compare the transaction costs of harmonization with those of equivalency negotiations or no-equivalency. In examining harmonization, it is important to consider institutional organizations already in place to deal with international trade, i.e. the World Trade Organization (WTO). The WTO's role will be examined in order to determine its importance in the harmonization process and how it may help to ensure that organic certification standards are not used as technical barriers to trade. Finally, we will determine the welfare effects of harmonization. Using trade models it will be possible to examine consumer and producer responses to different trade scenarios.

Canada's organic industry is at a crucial stage of its development. There are many important decisions looming. Should Canada regulate its organic industry? Should it be industry-run or government-run regulations and standards? What will be the trade effects of maintaining a voluntary standard? After December 31, 2005, the EU will no longer accept imports of organic goods from countries that have not developed equivalency agreements. As the EU is one of the largest markets of Canadian organic exports, this ban could have serious ramifications for Canadian organic producers if a national regulated standard is not developed and equivalency not negotiated. However, harmonization of standards would eliminate the need for a national standard and instead would allow trade in Canadian organic goods to flow smoothly around the globe.