Overcoming the barriers of organic production

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by Keith Nunes

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KANSAS CITY — Consumer demand for food and beverage products manufactured with certified organic ingredients continues to increase. Sales rose 11% in 2015 to $39.7 billion, and the trend is expected to continue as such demographics as Generation Z and baby boomers continue to influence food culture.

Perceptions of organic food differ between Generation Z and boomers, said Melissa Abbott, vice-president of culinary insights for The Hartman Group, Bellevue, Wash., during a presentation at the Summer Fancy Food Show, held in late June in New York. More than half of the younger generation perceives organic as healthier, which compares to only 39% of the older segment.

Melissa Abbott, vice-president of culinary insights for The Hartman Group

"Gen Z views organic as a symbol of healthy food, while boomers see it as an absence of negatives," Ms. Abbott said. "Gen Z sees organic as tasting better, too, but boomers don't necessarily see the organic symbol as tasting better or even worth it in many instances."

While consumer perception of organic is evolving, the themes surrounding the market for organic raw materials have not changed in recent years: There is tremendous demand, but not enough supply of meet the demand.

In 2015, for example, dairy and grains were two commodities where growth could have been more robust if greater supply had been available, according to the Organic Trade Association's 2016 Organic Industry Survey, which was released this past April.

"There is an industry-wide understanding of the need to build a secure supply chain that can support demand," the survey said. "This goes hand-in-hand with securing more organic acreage, developing programs to help farmers transition to organic and encouraging new farmers to farm organically. Some companies are dealing with these issues individually.

"Meanwhile, others are working together to address this concern. One exciting example is the U.S. Organic Grain Collaborative, whose members include Annie's, Stonyfield, Organic Valley, Clif Bar, Nature's Path and Grain Millers, among others."

Nathaniel "Nate" Lewis, senior crops and livestock

Nathaniel "Nate" Lewis, senior crops and livestock specialist with the Organic Trade Association, Washington, said organic ingredient supply tightness "has not really eased."

Two food manufacturers that have announced specific initiatives designed to increase organic acreage are Ardent Mills, Denver, and General Mills, Inc., Minneapolis. This past December, Ardent Mills introduced a program designed to help U.S. wheat growers double the amount of organic wheat acres in the country by 2019. As part of the effort, Ardent Mills will provide producers with access to direct support services, workshops and long-term contract for transitional and organic wheat bushels.

General Mills is taking a multi-prong approach to increasing the availability of organic raw materials. This past June the company announced a partnership with Organic Valley, a Wisconsin-based independent cooperative of organic farmers. As part of the effort, over the next three years General Mills will help 20 dairy farms add approximately 3,000 acres to organic feed production.

specialist with the Organic Trade Association

"We are committed to supporting a framework in partnership with Organic Valley that will not only ensure a consistent supply chain, but also make it easier for dairy farmers to successfully manage through the transition to organic," said David Clark, president of the General Mills Yogurt business unit.

Additionally, this past March, the company announced plans to more than double the organic acreage from which it sources ingredients. The company expects to have 250,000 acres by 2019.

"They (Ardent Mills and General Mills) have set some lofty goals, which is a noble way to indicate publicly their commitment to organic production," Mr. Lewis said. "Yet, while there have been these company-specific goals, they all need to participate in a broader collaborative process to be a functional part of the overall supply chain."

One way the O.T.A. is facilitating the process is through the Organic Grain Collaborative. The program is an effort to identify barriers to growth in four regions of the country, including the Pacific Northwest, Northern Plains, the Midwest and New England.

"The goal is to develop strategies companies can implement to overcome those barriers," Mr. Lewis said.

Some barriers identified include weed control and fertility management; the lack of a robust extension network to support producers in transition to organic certification and a network to assist in overcoming production challenges; the lack of a comprehensive organic grain handling infrastructure; the financial barriers to transitioning to organic production; and the cultural stigma around organic production in many farming communities.

Regarding the last barrier, Mr. Lewis said it should not be underestimated.

"It is real, and it is something that is a challenge to overcome," he said. "We need to make organic an acceptable way to farm."

Making the transition

One of the most costly aspects of organic production is the transition from conventional production to certified-organic, a process that takes up to three years. To ease the financial burden, groups such as the O.T.A. are working to develop a transitional certification process.

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"This is a project we have been working on for about a year," Mr. Lewis said. "We think there is the potential for a transitional market premium between conventional and organic."

The idea is to create a transitional status for producers, but there are challenges, most notably ensuring that any form of transitional status does not compete with producers and manufacturers that have achieved organic certification.

"We formed a task force within the O.T.A. to assess the risks and potential of such a program and have put together what we think a program would look like," Mr. Lewis said.

The trade association submitted its assessment to the U.S. Department of Agriculture, and the agency is reviewing how such a program may interact with the National Organic Program.

While the O.T.A. is working to formalize a transitional program within the N.O.P., there are other companies offering transitional certification.

For example, QAI, Inc., a certifier of organic food in North America and a part of NSF International, Ann Arbor, Mich., has designed a program to recognize and incentivize farmers as they transition their land from conventional to organic growing methods.

The new protocol, QAI Certified Transitional, is a way for companies to recognize "organics in training." Producers who want to transition to organic growing methods from conventional must do so over a three-year period. Through QAI Certified Transitional, consumers are able to see

which products are in the process of converting to organic. Products featuring a QAI Certified Transitional mark must contain a minimum of 51% transitional content.

Organic price premiums were especially high for eggs, yogurt and milk in a U.S.D.A. report, but the prices did not hold back consumers.

Mr. Lewis said that as demand for organic continues to outstrip supply, the industry will see more efforts aimed at bridging the gaps and overcoming the barriers to shifting from conventional production to organic.

“That is the limiting factor to the growth of the industry,” he said. “Manufacturers are looking for ingredients that are often not there.

“They (manufacturers) are aware they need to become more engaged in the incentivizing of producers in a more comprehensive manner.”

Organic share, 2004 vs. 2010.

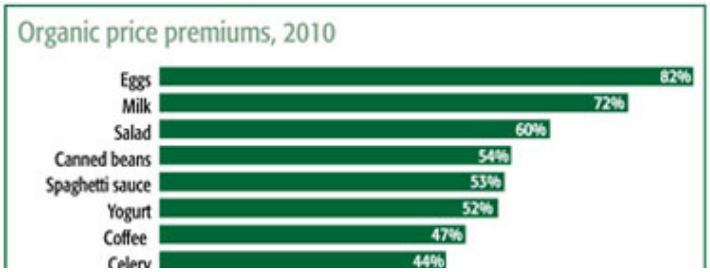
Data indicate steep organic price premiums in 2010

Organic price premiums were especially high for eggs, yogurt and milk in a U.S. Department of Agriculture report, but the prices did not hold back consumers. The U.S.D.A.’s Economic Research Service used Nielsen’s Homescan data for 2004-10 in creating the report “Changes in retail organic price premiums from 2004 to 2010” released this past May.

The organic price for eggs in 2010 was 82% higher than the non-organic price, which was the highest percentage for all of the 17 product categories in the study but still down from a peak 173% premium for organic eggs in 2005. For organic yogurt, the price was 52% higher than the non-organic price in 2010, which compared with a low of 25% in 2004, and for organic milk it was 72%, which compared with a low of 50% in 2008.

“Yogurt, milk and eggs had organic price premiums that were generally higher than the other products,” the U.S.D.A. said. “This difference was likely driven by supply-side cost issues since organic livestock farmers must provide their animals with organic feed and pasture land, cover the cost of transitioning from a conventional to an organic herd, and only use organic health care practices, which do not allow the use of antibiotics or growth hormones.”

Organic sales still increased in the three categories in the time period of 2004-10. The organic share of total egg sales rose to 3.4% from 0.8%. The organic share of total yogurt sales rose to 5.2% from 2.5%, and the organic share of total milk sales rose to 5.5% from 1.3%.



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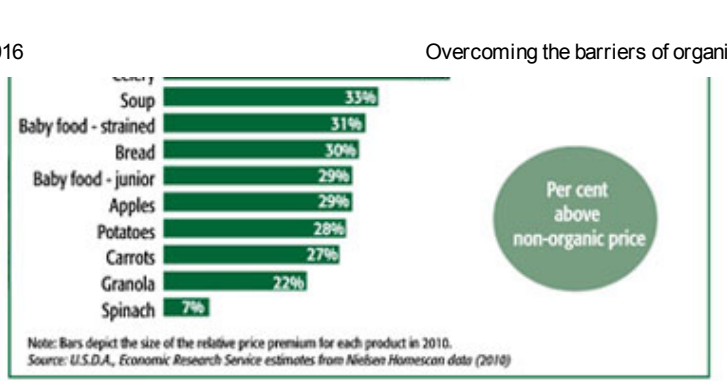
“Despite the higher premium for these three products, they are among the most popular organic foods chosen by consumers,” the U.S.D.A. said. The U.S.D.A. cited data from the Organic Trade Association showing that in 2012, 89% of households with children who purchased organic food



purchased organic dairy products.

In the U.S.D.A. study, organic prices at the retail level in 2010 were more than 20% higher than the non-organic prices for 16 of the 17 products analyzed in the study. Organic spinach, at 7%, was the only product below 20%.

Most premium prices fluctuated, meaning they did not steadily increase or decrease over the seven years. The premium prices steadily decreased for organic spinach, canned beans and coffee. The premium price for organic spinach plunged to 7% in 2010 from 57% in 2004. The premium price for organic canned beans dropped to 54% from 99% over the seven years, and for organic coffee it fell to 47% from 106%. Organic coffee sales made up nearly 3% of total coffee sales in 2010, which compared with 0.4% in 2004.

The yogurt premium price was the only one that steadily increased. Premium prices for processed foods in 2010 ranged from 22% for granola to 54% for canned beans.

Organic bread, with a 30.2% premium price in 2010, barely changed from 30.1% in 2004. The highest organic bread price premium was 46% in 2005, and the lowest was 25% in 2008. Organic bread made up 1.3% of total bread sales in 2010, which compared with 0.5% in 2004.

The premium price for organic soup hit a high in 2010 at 33%, which compared with a low of 16% in 2006. Organic soup sales made up 4% of the total category in 2010, which compared with 0.7% in 2004.

Organic spaghetti sauce had a price that was 53% above non-organic spaghetti sauces in 2010, which compared with a high of 72% in 2004 and a low of 34.7% in 2007. Organic spaghetti sauce made up 2.5% of total spaghetti sauces sales in 2010, which compared with 0.6% in 2004.