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11-19-1999

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Recommended Citation

Dobbs, Thomas L.; Shane, Richard C.; and Fuez, Dillon M., "Prospects for Organic Agriculture in the Upper Midwest" (1999). *Economics Commentator*. Paper 394.

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ECONOMICS COMMENTATOR

South Dakota State University

No. 402

Nov. 19, 1999



Prospects for Organic Agriculture in the Upper Midwest

by

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This article is a summary of the evaluation of a recent, major effort to expand the supply of and demand for organic commodities and food products in the U.S. Upper Midwest.

Previous articles in the *Economics Commentator* (No. 374 in April 1997 and No. 397 in April 1999) have provided some perspective on the prospects for organic agriculture by comparing "organic" and "conventional" crop prices. Those price comparisons were documented in more detail in Econ Pamphlet 99-1 ("Organic Price Premiums for Northern Great Plains and Upper Midwest Crops: 1995 to 1998", SDSU Economics Department, May 1999). The pattern described in these publications was one of fairly substantial price premiums for several organic crops—especially soybeans—in recent years. Farmers have experienced difficulty in obtaining favorable new contracts for some organic commodities in 1999, however.

A broader perspective on organic agriculture prospects can be obtained from recent experience with a project called the Upper Midwest Organic Marketing Project. We recently completed an evaluation of this project, and some of our findings are reported in this issue of the *Commentator*.

In early 1993, The Pew Charitable Trusts, concerned about the amount of pesticides applied

in traditional farming practices, began exploring ways to promote organic farming. After analyzing the economic barriers to organic farming, The Trusts concluded that lack of an efficient production and marketing infrastructure was a key impediment to the growth of this industry.

The following production, or supply, problems were thought to exist:

—organic farmers were not organized in ways that allow them to gain economies of size in marketing their products;

—there were insufficient processors and distributors for organic food; and

—many organic farmers had limited access to capital.

The key marketing or demand problem was thought to be that consumers did not understand the relationship between their food purchases and the environmental and health impacts of how it is produced.

In September 1993, The Trusts funded the Upper Midwest Organic Marketing Project, which resulted in creation of the Midwest Organic Alliance (MOA), to test whether these barriers could be overcome in a geographically defined region. The MOA had a dual emphasis on (1) increasing demand for organic food in the Twin Cities of Minneapolis and St. Paul, Minnesota, and, at the same time, (2) improving the supply and distribution of organic food from the surrounding five-State region. The region consisted of North Dakota, South Dakota, Minnesota, Iowa, and Wisconsin. The primary emphasis was on organic grain, bean, and dairy products.

We utilized a combination of quantitative and qualitative approaches in evaluating the effectiveness of MOA strategies. Most of the quantitative data were provided by MOA staff. We carried out analyses with the data and provided

interpretations. In addition, we interviewed many participants in the organic food system while conducting qualitative portions of the analyses.

Increasing the demand for organic foods

Perhaps the most notable success of the MOA was its ability to encourage conventional grocery stores to offer and promote organic foods. This, along with a broad marketing campaign and cooperation with television and print media, increased mainstream consumers' awareness and knowledge of organic products and led to increased sales of many organic foods.

There was strong growth in organic food demand in the Twin Cities market during 1996 and 1997, following initiation of MOA efforts. Retail data on the demand side of the organic food market are thin because of the newness of the organic industry, so it is difficult to be precise about the extent of that demand growth. But, the existing data show organic food sales increases between 1995 and 1997 in the Twin Cities market that range, by product, from roughly 45 to 90 percent. There was also a significant increase in the number of conventional grocery stores carrying organic products and the number of products carried in each store.

Data for organic food sales growth in other markets were not available for purposes of direct comparison, so it was difficult to say how much of the growth in the Twin Cities was attributable to MOA activities. However, there was strong qualitative evidence from our interviews that the MOA played an important role in increasing sales of organic foods in the Twin Cities and in bringing organic foods into conventional grocery stores.

Increasing the supply of organic foods

The MOA efforts to expand the regional supply of organic food concentrated in three areas:

(1) Providing technical assistance

MOA's technical assistance provision was complicated by the fact that cooperatives and their members have multiple goals and operate in a very dynamic environment. The original strategy envisioned a central role for cooperatives in marketing—and possibly processing—the products of organic farmers. There have been very mixed results with the organic cooperatives observed in this project. Creating and nurturing cooperatives can be extremely discouraging. Nevertheless,

cooperatives can be important in preserving and enhancing the economic viability of small- and moderate-sized organic farms. Strategies need to focus on how particular cooperatives can fill specific voids or niches.

(2) Educating farmers A major accomplishment of the MOA was, with U.S. Department of Agriculture funding, to launch a project to develop an organic curriculum for farmers. It served as a catalyst in bringing various sustainable agriculture groups together to focus on organic production and marketing. The impact of this work is not likely to be apparent in the short term, but the effort could produce solid long-term gains.

(3) Increasing the number of processors and distributors One way in which the MOA worked to improve the supply of organic food was to make it easier for suppliers to get their products to market. An important accomplishment of the MOA was getting the distribution system for organic foods more attuned to the potential and needs of supermarket chains. Due in part to the MOA's presence and coordinating efforts, conventional distributors began to carry more organic products. Distributors became much more responsive to mainstream grocery store needs for reliable organic supplies. The hope was that by streamlining the distribution system, regional organic production and processing would increase. The evaluation did find solid increases in some measures of regional organic production. However, given that much of the market for organic products from the Upper Midwest is outside the region, in markets not directly affected by MOA activities, it is not entirely clear what role the MOA played in those increases.

A key assumption of the project was that there is a strong connection between regional supply and demand for organic products. Broadly speaking, the assumption was that increasing demand for organic foods in the Twin Cities area would influence farmers in the region to farm more land organically. However, it was found that the amount of raw and semi-processed organic product that is sold regionally is insignificant relative to that exported nationally and internationally. So, for many types of organic food, supply from the five-State area surrounding the Twin Cities—part of what is often referred to as the bread basket of the world—is driven far more by national and international demand than by local demand. Although demand for organic foods in the Twin Cities has, in fact, increased, the impact on regional

organic production has been minimal, thus far. Of course, there are inevitable time lags between project activities and observable supply responses.

Conclusions

Expanding the acreage of land under organic production will take time. Switching from more conventional to organic farming is not a simple matter of changing a few *practices*. Organic farming is an entirely different kind of production, that requires wholesale *system* changes. It also entails various kinds of production and price risks, especially during a several-year transition period. The organic production and marketing educational efforts initiated by the MOA can help enable future expansion of acreage under organic farming. However, many other elements probably will be needed if there are to be serious national or regional strategies to encourage organic farming.

Developing regional or national strategies to promote organic agriculture involves some fundamental issues about the future structure and nature of organic farming and food systems. Whether organic agriculture can remain centered on small- and moderate-sized family farms that operate in a somewhat independent and entrepreneurial fashion is one issue. There are powerful forces pulling both organic and conventional agriculture in the direction of large farms that are vertically integrated in many ways with national and multinational companies. A related issue is whether organic agriculture should and can be a vehicle for encouraging food systems that are more *regional* in geographic scope.

How these issues are resolved has important strategic implications. If a high priority is going to be placed on relatively independent, small- and moderate-sized organic farms and on regional food systems, specific policies and strategies will be required. Preserving an organic farming and food system that differs substantially from the presently-evolving "industrial" system may necessitate a slower and more deliberate approach than was used by the MOA. This could involve some sacrifice in the rate of growth in organic supply and demand, at least in the short run.

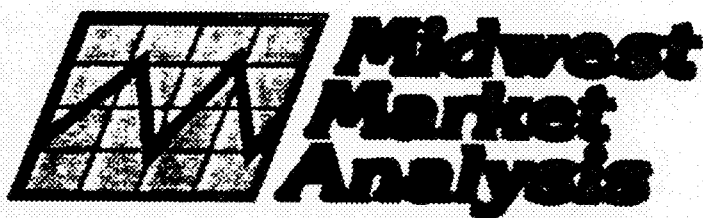
The Upper Midwest Organic Marketing Project provided many valuable lessons for future organic food and farming projects elsewhere. Those lessons are spelled out in some detail in the full report. Individuals in the U.S. who wish to receive the full report can send a check for \$10.00 (payable to SDSU Economics Department) to Janet Wilson, Economics Department, Box 504, SDSU, Brookings, SD 57007-0895. Ask for "Expanding the Organic Food and Agriculture System in the U.S.'s Upper Midwest: Strategies and Lessons of a Pilot Project" (August 1999).

ECONOMICS COMMENTATOR

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March 2000	Lennox, Sioux Falls, Veblen, Webster

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