The Market for Organic Dairy
Beginning Organic Farming
Purdue University
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What is Organic Milk?
- Certified to comply with USDA National Organic Program
- Animals under continuous organic management for 1 year
- Replacement animals on organic management from the last third of gestation, or for 1 year before milking

Organic Dairy Markets: The Stylized Facts
- Organic markets have growth trajectory and potential
  - Manufacturers have money
  - Consumers have money
- Demand is outpacing supply
  - Farm premiums for organic milk ($5/cwt)
- Additional costs of production
  - Cost of organic feed
  - Negative returns to organic dairy farms in Northeast
  - Better outlook for Indiana?

Outlook for Organic Dairy: TBD
- Questions unanswered as market develops.
- How do premiums at retail translate to farm prices?
- How will premiums respond to growth in organic production?
  - Barriers to entry
  - Availability/Prices for organic inputs
    - Feed, heifers
    - Prices for corollary outputs
      - Heifers, dairy beef, crops

What does “Organic Management” mean for dairy operations?
- Feed and Forage
  - Certified organic feed (no chemical fertilizers, pesticides, herbicides, etc. for 36 months)
  - Access to organic pasture (30% DMI, 120 days??)
- Living Conditions
  - Access to outdoors, shade, direct sunlight
- Medicine and Health Care Practices
  - Prohibited: rbST, breeding hormones, antibiotics
  - Allowed: organic vitamins and minerals, AI
- Record Keeping
  - “sufficient to preserve the identity of all organically managed animals”

Hurdles to Organic Dairy Certification
- Organic soil management
- Sleep learning curve
- NOP only says what you can’t do
- Sourcing organic feed
- Record-keeping
  - annual certification review
- Financial
  - Getting through the transition period
  - Buyer programs?
Outlook for Organic Dairy, cont’d

- What’s happening on the conventional market?
  - Recent strong milk prices ease the transition period
- Location
  - CROPP: Midwest benefits from availability of feed & pasture
  - Where are the processors
  - Critical mass—enough milk to make a route

More Resources

- Indiana Certified Organic, Cissy Bowman
  8364 SSR 39
  Clayton, IN 46118
  317-539-4317
  E-mail: cvof@quest.net
- CROPP/Organic Valley, Lowell Rheinheimer
  message: 888-809-9297 x509
  mobile: 651-492-2184
- NOP
  www.ams.usda.gov/nop/indexII.htm
- MOSES
  www.mosesorganic.org/factsheets/dairychecklist.pdf
- ATTRA
  www.attra.ncat.org

More Resources

- Northeast Organic Dairy Producer’s Alliance
  http://www.nodpa.com/
- “The Organic Decision: Transitioning to Organic Dairy Production Workbook” developed by Cornell Cooperative Extension specialists in consultation with NODPA
  - To order a copy, please call Faye Butts at 607-254-7412 or email to fsb1@cornell.edu. The cost is $12 to cover printing and postage.

Total US: Organic Sales Projected Growth ($ in billions)

US Organic Sales are projected to triple in the next Five years!

Source: Datamonitor; NMI & OV Analysts

Organic Dairy

- Growth in Organic Dairy Demand
  - $1.4 billion in retail sales (2003)
  - Demand growing at 21%/year in recent years
  - 13 percent of organic food sales
  - Still a small part of the U.S. dairy sector
    - 2.8% of fluid milk consumption
    - <1% of U.S. milk production

Demand for Organic Foods: What are Consumers Paying For?

- Perceived benefits
  - More nutritious food
  - Safer food
  - Improved environmental stewardship
  - Animal welfare
  - "Family farms"

- Evidence on Willingness-to-Pay for organic milk
  - Consumers willing to pay
    - $1.50/gal. for rbST-free
    - Additional $1.50/gal. for organic
  - Organic consumers unresponsive to price changes
“Health and Nutrition” is the Top Motivator to Buy Organic Products

Top motivators for Organic Food and Beverage Purchases—Organic Users

- 66%
- 48%
- 46%
- 40%
- 39%
- 34%
- 28%
- 26%
- 25%

Source: The Hartman Group, "Organic Syndicated Study 2002"

Typical Organic Price Premiums

- Wide variation in organic price premiums
- Tend to be higher for vegetables and dairy than grains
  - Fruits, Vegetables, ex. romaine lettuce, cherry tomatoes: 100%
  - Milk: 60%
  - Corn, soybeans, wheat, oats: 50%


U.S. Certified Organic Livestock, 2001

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<tr>
<th>Category</th>
<th>Number</th>
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<tr>
<td>Beef cows</td>
<td>15,197</td>
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<tr>
<td>Milk cows</td>
<td>48,677</td>
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<tr>
<td>Hogs &amp; pigs</td>
<td>3,135</td>
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<tr>
<td>Sheep &amp; lambs</td>
<td>4,207</td>
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<tr>
<td>Total cows, pigs and sheep</td>
<td>72,209</td>
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<tr>
<td>Layer hens</td>
<td>1,611,662</td>
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<tr>
<td>Broilers</td>
<td>3,286,456</td>
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<tr>
<td>Turkeys</td>
<td>98,653</td>
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<td>Total chicken and poultry</td>
<td>5,014,015</td>
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</tbody>
</table>

Source: Greene and Kremen, USDA-ERS, AIB No. 780

U.S. Certified Organic Livestock, 2003

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<tr>
<th>Category</th>
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<tr>
<td>Beef cows</td>
<td>27,285</td>
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<tr>
<td>Milk cows</td>
<td>74,435</td>
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<td>Hogs &amp; pigs</td>
<td>6,564</td>
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<td>Sheep &amp; lambs</td>
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<td>Total cows, pigs and sheep</td>
<td>124,346</td>
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<tr>
<td>Layer hens</td>
<td>1,591,181</td>
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<tr>
<td>Broilers</td>
<td>6,301,014</td>
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<tr>
<td>Turkeys</td>
<td>217,353</td>
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<tr>
<td>Total chicken and poultry</td>
<td>8,780,154</td>
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IN Certified Organic Livestock, 2001

- Layer hens (Eggs): 52,600
- No beef cows, milk cows, hogs, or sheep/lamb

Source: Greene and Kremen, USDA-ERS, AIB No. 780

IN Certified Organic Livestock, 2003

- Other poultry: 33,000
- No beef cows, milk cows, hogs, or sheep/lamb

IN, 2005: Lots Has Changed!

- Certifiers say all categories of organic operations are increasing in Indiana
  - Organic dairy and livestock operations
  - Amish dairies in Lagrange
  - Many transitional dairy operations, some poultry
  - Traders Point, Smith Dairy (Richmond)
  - Active interest from Organic Valley, others?

U.S. organic cropland and pasture, 2001

U.S. organic cropland and pasture, 2003