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ECONOMICS COMMENTATOR

SOUTH DAKOTA STATE UNIVERSITY

No. 374 April 16, 1997



PRICE COMPARISONS FOR ORGANIC CROP PRODUCTS

by

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with assistance from
Lisa Carr, Student Assistant*

The 1996 Farm Bill, entitled the Federal Agricultural Improvement and Reform (FAIR) Act of 1996, introduced almost unlimited planting flexibility for farmers. Except for fruits and vegetables, farmers may plant any crop they wish on base acres and still qualify for the "production flexibility contract" payments that are scheduled to run through 2002. This frees farmers to return to more diverse crop rotations if they choose. Many farmers with high corn and wheat bases were reluctant to abandon their narrow rotations under previous farm bills.

One way some farmers already have been maintaining both diverse rotations and farm profitability is by selling certified organic crop products at premium prices. To be certified organic, crop products must come from land on which synthetic chemical inputs have not been used for at least three years. (There are several different certifying agencies that operate in the Upper Midwest and Northern Plains. They should be contacted for information on the specifics of certification requirements.) To farm without commercial chemical inputs and have adequate fertility and weed control, farmers must utilize rotations that are more diverse than corn-soybeans or wheat-fallow. Generally, organic farmers in the Western Corn Belt have rotations that include some small grains and either forage or green manure legumes along with row crops. Many observers feel that such rotations are more ecologically sustainable than are rotations that include only corn and soybeans or only small grains.

Price premiums for portions of their crop output have helped many organic farmers to produce profitably, even when they sacrificed some farm program base and associated support payments under previous farm bills. Will the new planting flexibility, combined with price premiums, draw more farmers

into certified organic production over the next several years? If they were to be drawn into this kind of production rapidly and in large numbers, the price premiums could decline. Nevertheless, farmers considering a conversion to organic agriculture need some idea of how organic prices have compared to conventional prices in recent years. Such a price comparison is the subject of this Commentator issue.

Data sources

Data on organic crop prices are limited. However, one can subscribe to the Organic Food Business News Commodity Fax Service, through Hotline Printing and Publishing, for weekly data on organic prices. Weekly lows and highs for a wide variety of organic crop products are reported. For each of the grain commodities, prices are reported simply for the "U.S." as a whole, and not by State. We subscribed to receive those data for the third week of each month in 1995 and 1996. For each commodity, the midpoints between the highs and lows in those third weeks were calculated and used for our monthly observations. In this Commentator issue, we are reporting only the farm-level organic prices.

We compared those organic prices to South Dakota cash prices and to nearby futures prices for the products of conventionally grown crops.¹ Monthly South Dakota cash prices were obtained from the South Dakota office of the USDA's National Agricultural Statistics Service. Nearby futures prices for corn, soybeans, and oats were from the Chicago Board of Trade (CBOT), and the wheat futures prices were from the Minneapolis Grain Exchange (MGE). Those prices were obtained from the Data Transmission Network (DTN); some of the data had already been compiled by Bashir Qasmi (Economics Research Report 95-4, October 1995) and Kelly McDaniel, in the SDSU Economics Department.

Price comparisons

Yearly average organic and conventional prices for corn, soybeans, spring wheat, and oats--and comparisons in the form

¹Organic prices also could be compared to U.S. cash prices. For the 1991-1995 "marketing years", U.S. cash prices exceeded S.D. cash prices by averages of approximately 20¢ for corn and 35¢ for soybeans. But, S.D. cash prices for wheat averaged 5¢ more than U.S. cash prices in those marketing years. There was little difference between S.D. and U.S. cash prices for oats in most years of the early 1990s.

of ratios--are shown in Table 1. For cases in which organic price quotes were not available every month, the ratio calculations included only the comparable months for the prices of conventionally grown crops. Monthly organic and conventional prices are shown in Figures 1 through 4.

We can see in Figure 1 that organic prices for corn were consistently higher and tended to move with cash and nearby futures prices. Price ratios in Table 1 indicate that farm-level organic prices averaged 45 percent higher than SD cash prices for conventional corn in both 1995 and 1996. The organic prices averaged 22 and 30 percent higher than CBOT nearby futures in 1995 and 1996, respectively.

The gap between organic and conventional (both SD cash and CBOT nearby futures) prices was much higher for soybeans--in both absolute and relative terms--than for corn, wheat, and oats. However, the fluctuations in organic soybean prices are not as closely correlated with movements in conventional prices (Figure 2) as they are for corn and wheat. Because of the strong influence of the Japanese market on the demand for organic soybeans, markets for organic and conventional soybeans are somewhat divorced from each other.

The organic soybean prices shown here are for the Clear Hilum type, on a cleaned basis. Clear Hilum soybeans are required for the Japanese market, where much of the product is converted to tofu. Those prices averaged more than double the SD cash and nearby futures prices of conventional soybeans in 1995, and averaged nearly double in 1996 (see Table 1). Even accounting for a 10-15 percent loss in volume from cleaning organic soybeans, these are substantial price differentials.

TABLE 1

Crop Commodity, and Year	Prices (\$/bu)			Price Ratios	
	Organic-Farm*	Conv-CBOT or MGE**	Conv-SD Cash	Organic-Farm/Conv-CBOT or MGE	Organic-Farm/SD Cash
	Corn, 1995	3.46	2.83	2.38	1.22
Corn, 1996	5.06	3.88	3.49	1.30	1.45
Soybeans, 1995	12.52	6.16	5.53	2.03	2.26
Soybeans, 1996	13.41	7.54	6.89	1.78	1.95
Spring Wheat, 1995	6.09	4.33	4.17	1.41	1.46
Spring Wheat, 1996	7.67	5.15	4.92	1.49	1.56
Oats, 1995	1.97	1.64	1.54	1.20	1.26
Oats, 1996	3.17	2.06	1.95	1.54	1.63

* The organic soybeans refer to Clear Hilum, cleaned

** Chicago Board of Trade (CBOT) for corn, soybeans, and oats; Minneapolis Grain Exchange (MGE) for spring wheat.

FIGURE 1

CORN PRICES

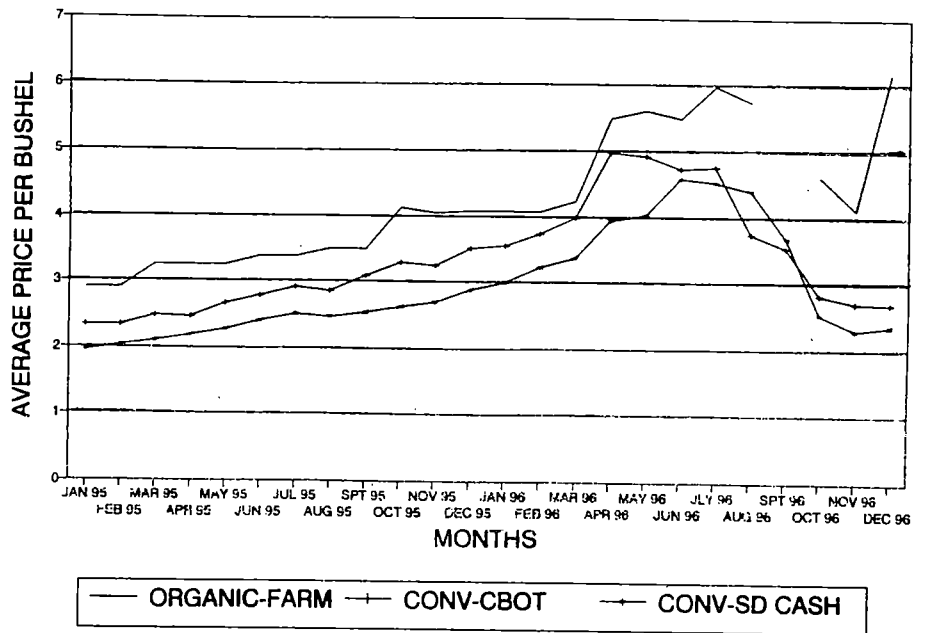
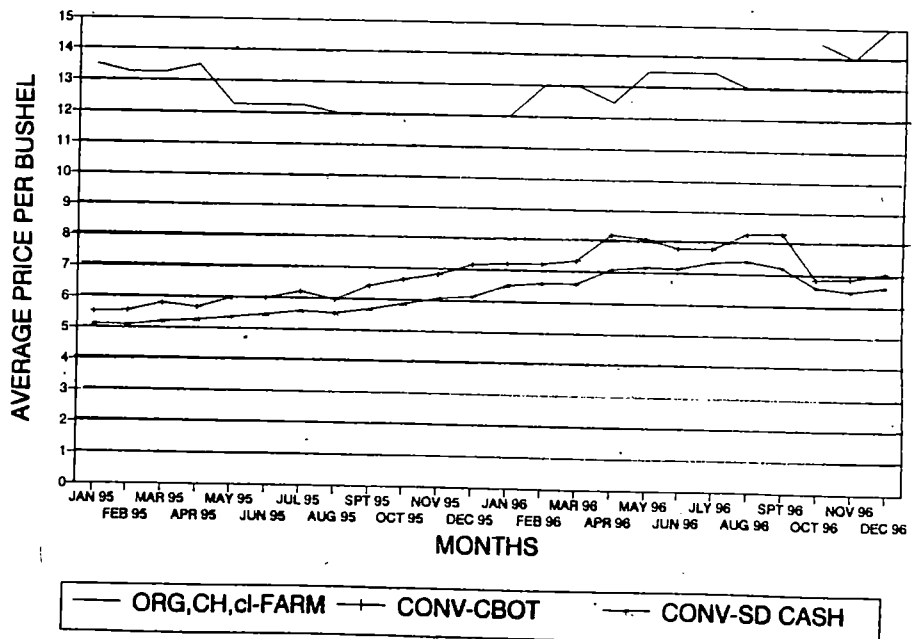


FIGURE 2

SOYBEAN PRICES



Some organic farmers in south-eastern SD and climatically suited areas elsewhere grow the Vinton variety of Clear Hilum soybeans, which command an even higher price premium. For example, cleaned organic Vintons averaged 2.51 times the SD cash price of conventionally grown soybeans in 1996, compared to the 1.95 ratio (see Table 1) for other organic Clear Hilum soybeans. The Vintons tend not to yield as much per acre as other Clear Hilum varieties, however.

Hard red spring wheat organic prices averaged over \$6/bu in 1995 and over \$7.50/bu in 1996. These prices were around 50 percent higher than SD cash and MGE nearby futures prices for conventionally grown spring wheat in 1995 and 1996 (Table 1). Organic oats prices averaged approximately one-fourth higher than CBOT and SD cash prices in 1995, but were more than 50 percent higher in 1996. The 1996 ratios of organic to conventional prices for oats were similar to those for wheat (Table 1).

Summary

Prices for certified organic grain and soybean commodities have been substantially higher during the past two years than for the same commodities produced by conventional farming methods. Organic soybean prices have been especially high in comparison to conventional soybean prices. Most organic farmers are quite entrepreneurial in their marketing, however. They market to a wide variety of brokers and processors.

They are not necessarily successful in selling all of their organic production at premium prices every year, and there can be wide variations in the premiums obtained from year to year and by different farmers in the same year. Moreover, a decision about whether to begin organic farming involves not only knowledge of relative market prices, but analysis of the total farming system changes required to effectively produce organically and be certified.

FIGURE 3

SPRING WHEAT PRICES

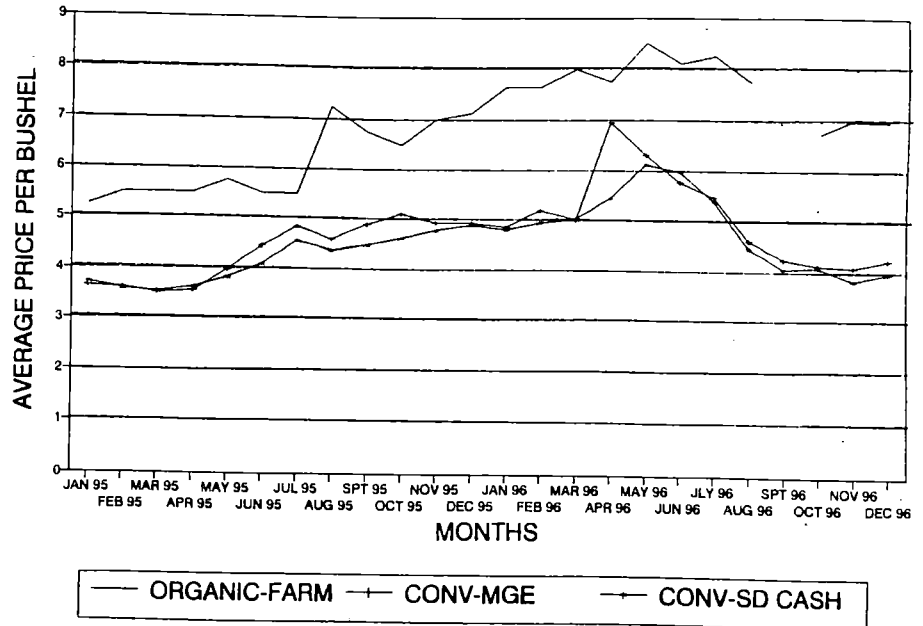
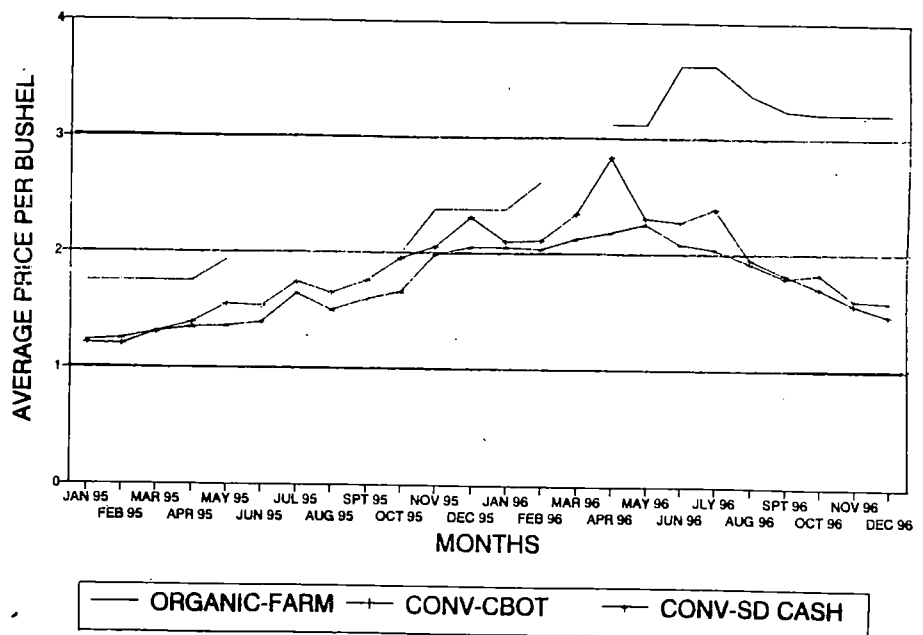


FIGURE 4

OATS PRICES



**MIDWEST MARKET ANALYSIS
Arrives on the INTERNET**

Midwest Market Analysis now has its own web page within the SDSU Ag Communications home page on the world wide web. Each week, Gene Murra and Alan May will provide market analysis and commentary condensed from material covered on *MMA*. Also included are weather comments by Al Bender, State Climatologist, who provides a weekly weather update on the show. The web page will be updated each week after *MMA* airs on South Dakota Public Television on Friday night at 8:30 pm and Saturday afternoon at 12:30 pm.

To view the *Midwest Market Analysis* web page, simply access the SDSU College of Agriculture and Biological Sciences home page at:

www.abs.sdstate.edu

From there, click on Ag News to find the *MMA* web page.

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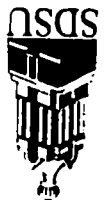
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