

Rising Consumer Demand for Organic Products

Consumer demand for organically produced goods has risen sharply for over a decade, providing market incentives for U.S. farmers across a broad range of products. The World Trade Organization/United Nations International Trade Centre (ITC) estimates that U.S. organic sales were \$9-\$9.5 billion in 2001 (International Trade Centre, 2002). ITC also estimates that the combined retail sales of organic food and beverages in major world markets—the United States, Japan, Denmark, France, Germany, the Netherlands, Sweden, Switzerland, and the United Kingdom—jumped from \$11 billion in 1997 to approximately \$21 billion in 2001 (International Trade Centre, 2002). Organic food sales account for 1-2 percent of total food sales in most of these countries, including the United States, and, according to the ITC, annual medium-term growth rates are forecast at 10-20 percent for most of these countries.

Fresh produce remains the top selling organic category, followed by nondairy beverages, breads and grains, packaged foods—frozen and dried prepared foods, baby food, soups, and desserts—and dairy products, according to industry statistics (Packaged Facts, 2000). Organic dairy grew most rapidly during the 1990s, followed closely by juice, soymilk, and other nondairy beverages. Organic meat sales accounted for 3 percent of total organic sales in 2000, and the jump in organically raised livestock between 1997 and 2001 confirms the rapid growth of this sector.

Markets for organic flowers, fibers, and other agricultural products have also been developing in recent years. Most organic herbs and flowers (excluding those used as an intermediate good) are sold locally and direct to the consumer, through Internet sales, subscription programs (CSAs), or farmers' markets (Dimitri and Greene, 2002). Markets have been developed for organic cotton and are

emerging for rayon, linen, and other fibers. Organic cotton acreage fell during the mid-1990s but grew during the study period (1997-2001), as big companies developed fabric blends of organic cotton and other fibers and specialty retailers experimented with organic clothing lines.

Farmgate, wholesale, and retail price data, collected by private and nonprofit organizations, have indicated substantial organic premiums for fruits, vegetables, and milk over the last decade. USDA tracked wholesale organic price premiums for two vegetables between 1989 and 1992—based on prices reported by the nonprofit Community Alliance for Family Farmers—and found annual average prices that were generally double conventional prices, with wide variation on a weekly basis (Economic Research Service, 1989-92). Monthly farmgate price premiums for several major fruits and vegetables consistently exceeded 100 percent between 1992 and 1996, based on reports from the *Organic Food Business News* (OFBN) published by a private firm (Vandeman, 1998). Supermarket scanner data showed similar results for frozen vegetables during this period (Glaser et al., 1998), as well as a 60-percent premium for organic milk over conventional milk brands from 1997 to 1999 (Thompson and Glaser, 2000).

Organic grain and soybean crops also enjoyed substantial price premiums during the 1990s, exceeding 50 percent for corn, soybeans, wheat, and oats during 1993-99 (Dobbs, 1998 and 1999). Researchers have also calculated price premiums of about 34 percent at the retail level for clothing made from organically grown cotton, based on 1996 catalog data (Nimon and Beghin, 1999). Conventional and organic grain prices have both fallen since 1999, but organic prices still carry a substantial premium over conventional prices (Bertramsen and Dobbs, 2002).