

ORGANIC DAIRY AND LIVESTOCK MARKETS IMPACTED BY ORGANIC GRAIN SHORTAGE

In the midst of the worst economic downturn since the Great Depression, consumer demand for organic food continues to grow. Organic commodity prices are strong, yet all kinds of organic food are in short supply due to a dearth of organic grain.

“We didn’t realize how much influence organic grain farmers had on the organic market until now,” says Mike Schulist, organic dairy farmer and marketing director of the Wisconsin Organic Marketing Association. “Right now, demand is high and supply is tight. It’ll take some time to balance out.”

Kevin Kiehna, a regional pool manager for Organic Valley, says that the organic grain shortage is the result of a “perfect storm” of market forces and bad weather.



Markets and weather

In mid-2008, organic feed corn sold for more than \$11 per bushel,²³ offering organic farmers a significant premium over conventional corn prices. This price slid downward throughout 2009 and 2010. By July 2010, the price of organic feed corn hit bottom, selling for \$4.24 per bushel in the Des Moines market.²⁴ Average prices for organic and conventional feed-grade corn were nearly identical by September, 2010.^{25, 26}

While these plummeting prices were difficult for all organic grain farmers, they were particularly tough on new farmers. Farmers making the switch from conventional to organic production are required to undergo a three-year transition where they use organic production practices, but receive conventional prices. Equipment and labor costs often increase when grain farmers convert to organic production.

In a typical market, organic farmers are rewarded with premium prices at the end of this transition, when they sell their crops on the organic market. Grain farmers who were completing this transition in 2010, however, did not receive the premiums they had hoped—and budgeted—for. As a result, numerous transitioning grain farmers switched back to conventional production. Schulist says that many of these farmers do not intend to go back to organic production, despite a dramatic price increase in 2011.

²³USDA Agricultural Marketing Service. Sept. 9, 2010. *National Organic Grain and Feedstuffs*. (search.ams.usda.gov/mndms/2010/09/LS20100909BNOF.PDF#xml=http://search.ams.usda.gov/mnsearch/hiliteinfo.aspx?i=3&docid=LS20100909BNOF.PDF). Accessed 12/9/11.

²⁴USDA Agricultural Marketing Service. July 14, 2010. *Upper Midwest Organic Grain and Feedstuffs Report*. (search.ams.usda.gov/mndms/2010/07/NW_GR11320100714.TXT). Accessed 12/9/11.

²⁵USDA Agricultural Marketing Service. September 17, 2010. *Daily National Grain Market Summary*. (search.ams.usda.gov/mndms/2010/09/SJ_GR85020100917.TXT). Accessed 12/9/11.

²⁶USDA Agricultural Marketing Service. September 22, 2010. *Upper Midwest Organic Grain and Feedstuffs Report*. (search.ams.usda.gov/mndms/2010/09/NW_GR11320100922.TXT). Accessed 12/9/11.



In addition, established grain farmers have been getting out of organic production for reasons including retirement, strong prices for conventional grain, escalating rental prices for cropland and the hassle of organic certification and marketing. John Bobbe, executive director of the Organic Farmers' Agency for Relationship Marketing (OFARM), estimates that at least 35,000 acres of cropland, and perhaps as many as 50,000 acres, are no longer being farmed organically in the Midwest.

Adverse weather in 2011 impacted production on many of Wisconsin's organic grain farms. Many Wisconsin farmers experienced extreme wet, then dry conditions, and high winds. In many areas, a wet spring made early weed control challenging. Organic farmers control weeds through tillage, which is more time-sensitive than chemical weed control, especially in rainy weather. Because organic farmers couldn't till their muddy fields when weeds were emerging, yields suffered.

According to Bobbe, 2011 was a bad year for just about all organic grain crops including corn, soybeans, wheat, oats and field peas. With organic grain in short supply across the U.S., prices were extremely high in late 2011 and showed no signs of falling. In mid-December, organic feed corn was selling for \$11-12 per bushel in the Midwest.²⁷ At the same time, conventional corn prices were also strong, with #2 yellow corn selling for close to \$6 per bushel in the Midwest.²⁸

Because organic livestock must be fed certified organic feed, high grain prices change the economics of organic milk, egg and meat production. Kiehnau says that it isn't profitable to feed organic grain to livestock in the current market.

Effects on organic dairy farms

While many Wisconsin organic dairy farmers grow their own feed—both forage and grain—they can make more money selling organic grain for \$11-12 per bushel than feeding it to a dairy cow.

Both Bobbe and Schulist say that organic dairy farmers in the Midwest need \$30 per hundredweight (cwt) for their milk to turn a profit when the price of organic corn reaches \$12 per bushel. Both doubt that the marketplace will support that price, despite soaring demand for organic milk. Organic Valley currently pays its midwestern dairy producers \$24.55 per hundredweight, with an additional \$3/cwt premium in the winter months and a \$2/cwt pay raise scheduled for March.

²⁷USDA Agricultural Marketing Service. December 14, 2011. *Upper Midwest Organic Grain and Feed-stuffs Report*. (www.ams.usda.gov/mnreports/nw_gr113.txt). Accessed 12/15/11.

²⁸USDA Agricultural Marketing Service. December 14, 2011. *Daily National Grain Market Summary*. (www.ams.usda.gov/mnreports/sj_gr850.txt). Accessed 12/15/11.

Organic milk sales are surging, yet production is not currently keeping up with demand. Even though Organic Valley has added dairy producers, production per cow is down. Kiehnau says this is due to farmers reducing the amount of grain in feed rations. While cows are getting the grain they need to maintain body condition and reproduction, it is not enough for maximum milk production.

Effects on organic beef farms

Organic beef farmers are in an even tighter spot, economically, than dairy producers. According to Kiehnau, “Finishing cattle to USDA Choice grade with grain is not a profitable proposition right now.” While grass-fed beef producers can potentially survive in this market, finishing beef to Choice grade on grass requires superior management skills.

“The only organic beef producers who have a chance right now are people finishing cattle on grass,” said Bobbe.

Furthermore, with producers receiving similar prices for organic and non-organic grass-fed beef, there is less incentive for producers to go to the extra expense of certifying.

Effects on organic poultry farms

Because chickens eat mostly grain, and because laying hens require a consistent diet to maintain dependable egg quality, the organic grain shortage is potentially a bigger issue for poultry producers than for dairy or beef farmers. Kiehnau noted that Organic Valley egg producers are currently able to buy the feed they need, and Schulist confirmed that access to feed is not an issue for organic poultry producers, despite the national grain shortage.

As in dairy, demand for organic eggs is up and supply is down. As a result, Kiehnau says that Organic Valley has been able to increase the price they pay their egg producers. This pay bump is not enough to fully compensate for higher feed costs, however.

Improving profitability in the face of high grain prices

Organic dairy and livestock farmers can improve their profitability in this market by growing their own feed and increasing the nutritional quality of the feed they produce. When recruiting farmers, Organic Valley considers feed self-sufficiency. The co-op is working with its dairy and livestock producers to improve their soil fertility and build their management skills so they are growing more nutritious feed, increasing their use of pasture and other forages, and decreasing their dependence on grain.





Organic grain farmers, however, face limited options when dealing with market volatility, as their production systems are complex and they face a three-year transition before bringing new land into organic production. Unlike conventional growers, they cannot increase their acres under cultivation or intensify production on existing acres in response to falling prices.

Kiehnau and Bobbe agree that guaranteeing organic grain farmers a stable price is the ideal way, and perhaps the only way, to mitigate market risk. In order to increase the supply of organic feed available to dairy and livestock producers, Organic Valley is offering new grain producers a three-year contract that locks in at least some of their organic grain at a stable price. This contract will make the transition period more attractive to growers and lenders.

Both Schulist and Bobbe encourage farmers to diversify their crops and markets to cope with risk, and they suggest that farmers take advantage of the “buy local” movement. While most organic farmers can’t sell all of their products locally, building local markets can provide some security when commodity markets are unstable.

Ultimately, Kiehnau thinks organic grain production and markets will stabilize. “It’s a difficult time,” he says. “We’ve had them before. We’ll get through this.”