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Information in the Organic Grain Market

This document is based on the results of producer, marketer and processor surveys administered as part of the marketing study being conducted by the Project on Organic Agriculture in the Department of Agricultural Economics. The objective of the study is to examine the issues, opportunities and challenges in organic grain marketing and to provide insight to the organic grain industry on what can be done to improve the organic marketing system for the benefit of all participants. These papers are designed to provide industry participants with a brief summary of this information. This document is one of a series that will constitute the complete marketing study.

1. Introduction

The organic grain market is characterized by a lack of available data on supply and demand in Canada and around the world. This situation contrasts with the large amounts of data available for commodities such as wheat and canola in the conventional grain industry. Market data could help producers and other supply chain members make forecasts of price changes and thus make more informed decisions on what to grow, when to sell and where to sell their organic products.

In the mid to late 1990's, the Saskatchewan Research Council (SRC) created an entity called the Organic Product Information Service (OPIS) to conduct surveys on a bi-monthly basis to examine prices recently received by producers and to determine the stocks of organic crops available on farms. Data were collected from all three Prairie provinces, with the majority being collected from Saskatchewan (~ 70%). The mandate of OPIS was to establish linkages between producers and buyers of organic commodities. Survey information was tabulated, summarized, and made available to all entities holding OPIS membership. OPIS has since ceased to exist, and buyers have developed their own producer lists and price databases (SRC 2002).

Although organic grain transactions occur every day, this information is privately held by individuals and is

not shared unless the buyer or seller chooses to share this information with others. Organic grain producers currently rely on personal communication with other producers and buyers to determine current and future prices. Organic grain marketers, processors and other downstream buyers may have superior information on organic markets compared to organic producers because they perform more transactions and have superior information-gathering expertise and resources. This situation of uneven information can be referred to as a problem of "information asymmetry".

A survey was undertaken, as part of the University of Saskatchewan Project on Organic Agriculture that attempted to find out what organic producers, marketers and processors in Saskatchewan think about their access to information on organic markets. Questionnaires were mailed to 90 organic grain producers randomly picked from across Saskatchewan. The sample included producers from 4 Certification Bodies (OCIA, Pro-Cert, COCC and SOCA¹). The membership of OCIA is divided into 8 chapters, of which 5 participated in the study.² The sample yielded 52 respondents who answered the

¹ OCIA – Organic Crop Improvement Association
COCC – Canadian Organic Certification Cooperative
SOCA – Saskatchewan Organic Certification Association
² Of the three excluded OCIA chapters, one was excluded because it did not certify organic wheat producers, one could not be successfully contacted, and one declined to participate.

questions relating to information asymmetry. Five grain marketing companies and 8 grain processing companies also answered questions regarding information asymmetry. This paper summarizes the results of the surveys, compares the results across the groups and discusses some of the implications of the results.

2. Marketing Information Sources

Survey Questions

Question 2.2.4c in the survey asked producers to estimate the amount of money they pay per year for marketing publications, etc. Question 2.2.4d asked producers to describe the type of marketing information that they purchase. These questions were asked in order to find out how much marketing and price information they are currently able to obtain for a specific amount of money.

Results

On average, producers bought \$26 of marketing information per year. Several producers responded that they spent no money on marketing information, while the highest response was \$300 per year. The marketing information obtained by the producers included farm papers, newsletters and books. However, organic producers do not appear to have access to organic price information. The authors of this study are not aware of any price information for organic grains that is available for purchase or free of charge, other than the Organic Agriculture Centre of Canada (OACC) that reports wheat flour prices weekly on their website and the University of Saskatchewan Organic Information Website that reports historical grain prices. The results suggest that there is almost no public or private price information available to organic grain producers.

3. Producer Interest in Price Information

Survey Questions

Producers, marketers and processors were surveyed for their thoughts on hypothetical price information.

Producers were asked to rate four hypothetical types of price information, including:

- 1) monthly prices that other farmers have received, plus their inventories
- 2) monthly market outlook and future price forecasts
- 3) daily price quotes from organic grain buyers
- 4) weekly price quotes from organic grain buyers.

Marketers and processors were asked to rate the four information sources above, plus an additional four:

- 5) Estimates in June of organic planting intentions by crop in Western Canada
- 6) Estimates in June of organic planting acreage by crop in Western Canada
- 7) Estimates of organic yields in July and August
- 8) Estimates of farm and commercial stocks of organic crops, July 31 and quarterly.

For each type of information, respondents were asked to rate the value of the information, their willingness to pay for that price information, and the amount of time that price information would save them. The rating of each option was given on a scale of 1 to 5, where 1 represented a poor rating and 5 represented a very good rating. The willingness to pay question asked for the amount that the respondent would be willing to pay per year for the information. The “time saving” question asked producers to provide an estimate of the time that the information would save them per sale. These questions were asked in order to find out the kinds of information that organic producers, marketers and processors would be interested in receiving.

Table 1 – Price Information Ratings

Information service that is provided	Average Rating (1-5 Scale, 1=low value, 5=high value)		
	Producer	Marketer	Processor
1) Monthly prices that farmers have recently received plus their inventories	2.36	3.40	3.29
2) Monthly market outlook and future forecasts	2.46	3.20	2.58
3) Daily price offers from organic grain buyers	2.14	2.60	2.86
4) Weekly price offers from organic grain buyers	2.76	3.00	3.00
5) Estimate in March of organic planting intentions by organic crop in Western Canada		3.50	2.00
6) Estimates in June of organic planting acreage by crop in Western Canada		3.50	2.00
7) Estimates of organic yields in July and August		3.50	2.00
8) Estimates of farm and commercial stocks of organic crops on July 31, and quarterly		3.50	2.00

Source: Organic Producer Survey

Table 2 – Willingness to Pay for Price Information

Information service that is provided	Average Willingness to Pay (\$/year)		
	Producer	Marketer	Processor
1) Monthly prices that farmers have recently received plus their inventories	21.07	175.00	380.00
2) Monthly market outlook and future forecasts	18.21	50.00	100.00
3) Daily price offers from organic grain buyers	17.18	175.00	340.00
4) Weekly price offers from organic grain buyers	23.19	175.00	340.00
5) Estimate in March of organic planting intentions by organic crop in Western Canada		66.67	266.67
6) Estimates in June of organic planting acreage by crop in Western Canada		66.67	266.67
7) Estimates of organic yields in July and August		66.67	266.67
8) Estimates of farm and commercial stocks of organic crops on July 31, and quarterly		66.67	212.50

Source: Organic Producer Survey

Results

The results of the price information ratings, willingness to pay and time saved are given in Tables 1, 2 and 3 respectively. The ratings on a 1-5 scale are all within a range between 2 and 3 for producers, indicating small differences in preferences among the information options. Producers rate *Weekly price offers from organic grain buyers* the highest, and also perceive this option to result in the highest time saved per week and are willing to pay the highest annual fee

for this service. *Monthly market outlook and future forecasts*, and *Monthly prices received plus inventories*, rank second on the rating scale for producers. *Daily price offers from organic grain buyers* are rated the lowest by producers. The results suggest that weekly price offers is the price information service that these organic producers would value the most.

Table 3 – Time Saved from Price Information

Information service that is provided	Average Time Saved (hours per transaction)		
	Producer	Marketer	Processor
1) Monthly prices that farmers have recently received plus their inventories	0.83	0.17	1.08
2) Monthly market outlook and future forecasts	1.01	0.33	1.00
3) Daily price offers from organic grain buyers	1.03	0.83	1.00
4) Weekly price offers from organic grain buyers	1.32	0.00	1.00
5) Estimate in March of organic planting intentions by organic crop in Western Canada		0.00	1.08
6) Estimates in June of organic planting acreage by crop in Western Canada		0.00	1.08
7) Estimates of organic yields in July and August		0.00	1.08
8) Estimates of farm and commercial stocks of organic crops on July 31, and quarterly		0.00	1.08

Source: Organic Producer Survey

In contrast, organic marketers rated estimates of planting, yield and stock information (Services 5, 6, 7 and 8) highest, although they are willing to pay the most for *Monthly prices that farmers have received plus their inventories*. *Monthly market outlook and future forecasts* and *Monthly prices received plus inventories* rank second on the rating scale for marketers. Daily and weekly price offers (Services 3 and 4) are rated lowest and second lowest respectively on the rating scale for marketers.

The opinions of processors also differed slightly from the other groups. *Monthly prices that farmers have received plus their inventories* are rated highest by processors. Processors rate *Weekly price offers* second highest on the rating scale.

Overall, there were general differences in the responses across groups. Marketers provided the highest value ratings of the hypothetical information sources, even though they believe that they would save the least time per transaction of any group. However, since marketers handle several more transactions than any other group, their total time savings would be great. Producers provided the lowest value ratings, indicating some skepticism

regarding the usefulness of the hypothetical information sources. Consequently, the results indicate that producers are not willing to pay more than \$20 per year for price information. Marketers and processors are willing to pay much more for price information than are producers. However, the results suggest that organic market research could not be financed privately. If 1000 organic farmers (approximately the number of organic farmers in Saskatchewan) and 20 marketers and processors each paid a \$20 and \$200 subscription respectively for price information, the revenue from subscriptions would be \$24,000 annually, which is less than one market analyst's annual salary and expenses. It is important to note, however, that willingness-to-pay questions typically underestimate the actual value of goods or services.

4. Discussion and Implications

The results from the "producer marketing problem" data suggest that almost no public or private price information exists for organic producers. This situation is very different from conventional grain producers who have access to a large amount of public and private information. Given this situation of asymmetric information, the survey indicates that

producers are somewhat interested in having more price information and they perceive substantial time savings if they had such information. Producers are clearly not willing to pay very much for price information, which poses a problem for any private delivery of these services.

It is interesting to note that even though producers indicated in the survey that they need better information on current and future prices, they responded with the lower ratings for the hypothetical information sources compared to marketers and processors. The producer responses likely indicate some doubt that the information will benefit them. Many producers believe that improved price information will be used to the advantage of marketers and processors. What many producers do not understand is that many marketers and processors already have superior information compared to producers, especially regarding prices that farmers have recently received and are currently being offered by competitors. Marketers and processors also have superior information on acreage, yields and stocks on farms. Marketers and processors may have rated the market information sources higher than producers did because they already know the value of information. In contrast, producers have relatively less information and thus may not fully understand its value. Producers can directly benefit from having a market information service because it allows them to save time and helps them to more effectively negotiate a market-clearing price for their products.

It is important to note that the benefits of information that accrue to marketers and processors can indirectly benefit producers. For example, improved price discovery information can decrease the uncertainty of future prices and allow buyers to better predict supply, which can assist them in planning their purchases from a given region. Uncertainty of supply may discourage some buyers from sourcing from particular regions and may hinder the ability of buyers to establish long-term relationships with sellers in those

regions. Several processors in the survey emphasized the importance of ensuring consistent supply.

The collection of data pertaining to the information services evaluated in the surveys poses several challenges. Recent prices received, recent stocks on farms and current price offers can be found using surveys of producers and buyers, but the data may be biased due to non-response by some individuals. Notably, several marketers stated that they would not be willing to disclose offer prices to a price information service. While planting intentions and planted acreage data can also be collected through surveys, estimates of organic yields would require crop surveillance and an understanding of the impact of weather, disease and pest conditions on organic crops. Price forecasting of organic grains poses extra challenges, particularly since it requires an understanding of all of the supply and demand factors that affect organic grain prices over time. Supply factors include yield (affected by weather, disease and insects), acreage, and carryover, both domestically and around the world. Demand factors include the willingness to pay by downstream buyers, the growth of the organic food sector, exchange rates, and the prices of close substitutes.

The results suggest that there may be a role for public or private price information organizations in the organic wheat sector. The lack of willingness to pay for price information suggests that the role of private firms to provide price information may be limited. Publicly available price information may be the most viable method to transmit price information to firms in the organic grain sector at the present time.

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The marketing study consists of the following papers:

- Number 1: Introduction*
- Number 2: Organic Producer Perceptions of their Marketers*
- Number 3: Organic Producer Perceptions of Organic Regulation in Canada*
- Number 4: Organic Producer Perceptions of Market Information Availability*
- Number 5: Organic Producer Perceptions of the Role of Certification Bodies*
- Number 6: Analysis of Organic Wheat Buyers in Saskatchewan: A Vertical Coordination Approach*
- Number 7: Contracting in Organic Grains*
- Number 8: Priorities and Problems in the Organic Grain Supply Chain*
- Number 9: Organic Regulation in Canada: Opinions and Knowledge of Producers, Marketers and Processors*
- Number 10: Information in the Organic Grain Market*
- Number 11: The Performance and Role of Certification Bodies*
- Number 12: Costs in the Organic Grain Supply Chain*
- Number 13: Organic Grains and the Canadian Wheat Board*
- Number 14: How Retailers Procure Organic Products – Opportunities for Saskatchewan*
- Number 15: Organic Wheat Supply Chain Profile*
- Number 16: Organic Oats Supply Chain Profile*
- Number 17: Organic Flax Supply Chain Profile*
- Number 18: Organic Lentils Supply Chain Profile*
- Number 19: Summary*
- Number 20: SWOT Analysis, Conclusions and Recommendations*