

# Department of Agricultural Economics

## Project on Organic Agriculture



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### **Organic Regulation in Canada – Perceptions of Producers, Marketers and Processors**

*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**

Canada presently has a voluntary national standard for organic food production and handling. The federal government is working with the organic sector to develop a mandatory national standard. A mandatory standard is necessary to allow the Canadian government to negotiate organic standard equivalency agreements with other countries so that organic agri-food products can continue to be exported from Canada. An equivalency agreement is needed with the European Union before December 31, 2005 in order for Canada to continue to export organic products to EU member states. Equivalency is currently established on a sale-by-sale basis, which is a costly and time-consuming process. The U.S. and EU, two of Canada's largest export markets, already have mandatory national standards in place.

Regulations such as a mandatory national standard can have a profound effect on organic producers, marketers and processors due to their implications for trade. It is therefore important that these stakeholders understand the regulatory process that is occurring in the organic sector. It is also important that stakeholders' opinions on the matter are heard by one another in the sector and by government. The objectives of this paper are to find out the opinions of organic producers, marketers and processors on

issues of regulation and to evaluate the organic industry's knowledge of Canadian organic regulations.

A survey was undertaken, as part of the University of Saskatchewan Project on Organic Agriculture that attempted to find out what producers, marketers and processors of organic grain in Saskatchewan think about organic regulations. The survey also attempted to measure how well these groups understand what is going on with respect to the development of a mandatory national standard. 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 SOCA<sup>1</sup>). The membership of OCIA is divided into 8 chapters, of which 5 participated in the study.<sup>2</sup> The sample yielded 52 producer respondents that answered the questions relating to organic regulation. Five grain marketing companies and 8 grain processing companies also answered questions regarding organic regulation. This paper summarizes the results of the surveys, compares the results across the groups and discusses some of the implications of the results.

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<sup>1</sup> OCIA – Organic Crop Improvement Association  
COCC – Canadian Organic Certification Cooperative  
SOCA – Saskatchewan Organic Certification Association  
<sup>2</sup> 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.

## 2. Survey Questions

The questionnaire included a list of 11 statements about organic regulations in Canada. Organic grain producers, marketers and processors were asked to indicate how much they agreed with the statement. Answers were provided on a scale of 1 to 5. A response of 1 indicated that the respondent “strongly disagreed” with the given statement, and a response of 5 indicated that the respondent “strongly agreed” with the given statement. Responses of 2, 3 or 4 indicated that the respondent “slightly disagreed”, was “neutral” or “slightly agreed” with the statement respectively. Respondents were also asked to rank the importance of three marketing challenges for the organic grain industry: developing a mandatory national organic standard, educating consumers about organic food, and promoting organics to consumers.

**Table 1: Opinions on Organic Regulation in Canada**

Statement	Opinion - Mean Response (Number Reporting) (1-5 Scale, 1 = strongly disagree, 5 = strongly agree)		
	Producer	Marketer	Processor
1) Canada currently has a voluntary national organic standard	2.88 (15-5-10-11-9)*	3.60 (0-1-1-2-1)*	2.43 (3-0-3-0-1)*
2) The organic regulatory system is effective	2.33 (11-21-7-11-9)	2.40 (1-1-3-0-0)	3.00 (0-3-1-3-0)
3) Canada should implement a <u>government</u> regulated mandatory national standard	3.43 (9-2-12-14-14)	3.60 (1-0-1-1-2)	3.00 (3-0-0-2-2)
4) Canada should implement an <u>industry</u> regulated mandatory national standard	3.71 (10-2-3-14-22)	4.40 (0-0-1-1-3)	3.00 (3-0-1-2-2)
5) Having a mandatory national organic standard in Canada would facilitate market access to the United States	3.63 (3-5-14-15-14)	4.00 (0-0-2-1-2)	3.86 (0-1-2-1-3)
6) Having a mandatory national organic standard in Canada would facilitate market access to Europe	4.41 (1-1-5-13-31)	4.20 (0-0-1-2-2)	4.71 (0-0-0-2-5)
7) Having a mandatory national organic standard would protect domestic consumers against fraud (i.e. it would decrease the ability to sell non-organic commodities as organic)	3.92 (3-5-8-12-23)	3.60 (0-1-1-2-1)	4.50 (0-0-0-4-4)
8) Having a mandatory national organic standard in Canada would increase the profitability of my operation	3.39 (1-7-19-19-5)	3.80 (0-0-3-0-2)	3.38 (1-0-4-1-2)
9) I am aware of initiatives that are being undertaken to regulate Canada’s organic industry	3.71 (0-6-17-14-14)	3.20 (0-1-2-2-0)	4.14 (0-0-1-4-2)
10) Canada <u>has</u> a permanent advisory board made up of industry representatives that provide guidance to the government for making revisions to our national organic standard and for other policy decisions.	2.85 (9-11-16-11-5)	2.50 (1-0-3-0-0)	3.00 (1-1-2-1-1)
11) Canada <u>needs</u> a permanent advisory board made up of industry representatives that provides guidance to the government for making revisions to our national organic standard and for other policy decisions.	4.16 (3-2-6-13-27)	4.25 (0-0-1-1-2)	4.33 (0-0-2-0-4)

\* The numbers in brackets indicate the number of responses for each rating category (1, 2, 3, 4, 5).

Source: Organic Producer Survey

## 3. Results of the Survey

Producer, marketer and processor responses on several statements regarding organic regulation are reported in Part A. These responses gauge opinions on organic regulation and knowledge of the regulatory process and its implications. Responses regarding marketing challenges for the organic grain sector follow in Part B.

### Part A: Review of Opinions and Knowledge on Organic Regulation in Canada

Responses related to 11 statements on organic regulation are summarized in Table 1. Significant differences in responses between groups (producers vs. marketers, marketers vs. processors and producers v. processors) are indicated in Table 2.

Statement 1 asked respondents if they agree or disagree that Canada currently has a voluntary national organic standard. This statement is true: a voluntary national organic standard has been in place since 1999. About half of the producers in the sample, however, gave a response of 3 or less and an average response of 2.88, indicating that they were neutral or did not agree with the statement. Most of the marketers and processors in the sample did not agree with the statement either. This suggests that many organic producers, marketers and processors do not know that a voluntary standard exists in Canada.

Statement 2 asked respondents to rate their opinion on the effectiveness of the organic regulatory system in Canada. Most producers, marketers and processors reported that they do not agree with the statement that the organic regulatory system is effective, which indicates that none of the groups surveyed are pleased with the current regulatory regime. Producers disagreed most with the statement, responding with a significantly lower rating compared to processors (see Table 2).

Statements 3 and 4 asked respondents if they think that a mandatory standard should be regulated by industry or government. Producers and marketers agreed more with an industry-regulated standard, but processors agreed equally to a government- or industry-regulated standard. Marketers agreed to an industry-regulated standard significantly more than producers (see Table 2).

Statements 5 and 6 asked respondents if they agreed that a mandatory national organic standard would facilitate market access to the United States and the EU respectively. Processors gave the highest ratings of any group for statements 5 and 6, which were statistically significant compared to the ratings by producers or marketers. Producers and marketers stated that a mandatory standard would facilitate market access to the EU significantly more than it

would facilitate market access to the U.S.<sup>3</sup> It is true that a national standard is necessary for market access to Europe, and that making it mandatory would enforce participation in the national standard, which is an EU requirement. On the other hand, the current Canadian regulations will allow trade with the U.S. for the foreseeable future. This result suggests that many organic producers, marketers and processors do not realize that the Canadian regulatory status quo is sufficient to sustain trade with the U.S.

Furthermore, this result suggests that some people in the organic industry do not fully understand the organic regulatory system.

In addition, processors agreed significantly more than producers or marketers that having a mandatory national organic standard in Canada would facilitate market access to Europe. Processors thus appear to have a stronger understanding of the implications of such a standard on trade with Europe.

Statement 7 asked respondents if they agreed that a mandatory organic standard in Canada would protect domestic consumers against fraud. The current voluntary standard does not prohibit the use of the word “organic” on food products that are not certified organic, which may mislead consumers. Processors agreed more strongly with this statement, compared to producers and marketers. This may be the case because processors have a more direct interaction with consumers.

Statement 8 asked respondents if they agree that a mandatory national organic standard would increase their profitability. While very few respondents agreed strongly with the statement, the average respondent agreed somewhat that profitability will increase. Statement 8 is somewhat true; while a mandatory national organic standard may not increase organic

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<sup>3</sup> A paired 2 sample t-test for significant difference between the means of statements 3 and 4 indicated that the ratings were significantly different from each other at a 90% one-tailed level.

prices in Canada, it may avoid loss of export markets and domestic consumer confidence, and in doing so would help to ensure that profitability does not decrease.

Statement 9 asked respondents if they are aware of initiatives being undertaken to regulate Canada’s organic industry. Processors appear to be the most aware group, with the highest average response, while producers and marketers are somewhat aware. The responses were significantly different across all groups. This result indicates that many stakeholders are not fully informed about the current organic regulatory process.

Statement 10 tested the knowledge of organic producers, marketers and processors by asking them if Canada *has* a permanent advisory board made of industry representatives that provides guidance to the government about making revisions to the national organic standard and other policies. Currently there are ad hoc advisory boards but no permanent advisory board in place. There appears to be varied knowledge of a permanent advisory board, as some respondents disagreed with the statement, some agreed with the statement, and most producers gave a neutral rating (neutral=3). The results suggest that producers are generally not aware that there is no permanent advisory board.

**Table 2: Opinions on Organic Regulation in Canada**

Statement	Significant Difference between Groups			
	Producer-Marketer	Producer-Processor	Marketer-Processor	All Groups
1) Canada currently has a voluntary national organic standard				
2) The organic regulatory system is effective		Y		
3) Canada should implement a <u>government</u> regulated mandatory national standard				
4) Canada should implement an <u>industry</u> regulated mandatory national standard	Y			
5) Having a mandatory national organic standard in Canada would facilitate market access to the United States				
6) Having a mandatory national organic standard in Canada would facilitate market access to Europe		Y	Y	
7) Having a mandatory national organic standard would protect domestic consumers against fraud (i.e. it would decrease the ability to sell non-organic commodities as organic)		Y	Y	
8) Having a mandatory national organic standard in Canada would increase the profitability of my operation				
9) I am aware of initiatives that are being undertaken to regulate Canada’s organic industry	Y	Y	Y	
10) Canada <u>has</u> a permanent advisory board made up of industry representatives that provide guidance to the government for making revisions to our national organic standard and for other policy decisions.				
11) Canada <u>needs</u> a permanent advisory board made up of industry representatives that provide guidance to the government for making revisions to our national organic standard and for other policy decisions.				

A 2 sample t-test was used to test for significant difference between the responses of the groups at a 90% one-tailed level. Source: Organic Producer Survey

**Table 3: Opinions on the Main Marketing Challenges for the Organic Grain Industry**

Marketing Challenge	Importance Ranking		
	Producer	Marketer	Processor
1) Developing a mandatory national organic standard	1	1	1
2) Educating consumers about organic food	2	3	3
3) Promoting organic food to consumers	3	2	2

Source: Organic Producer Survey

Statement 11 is identical to question 10, but asks respondents if the permanent advisory board is *needed*. The majority of respondents, especially marketers and processors, agreed that a permanent advisory board is needed.

Overall, the results suggest that many stakeholders have a limited understanding of the current voluntary national organic standard and the regulatory processes occurring in the organic sector. Stakeholders are generally not aware that there is no permanent advisory board. Organic producers are, however, very aware of the implications of a mandatory national organic standard for market access to Europe.

#### **Part B: Review of Opinions on Marketing Challenges**

The rankings of three marketing challenges for the organic grain industry are given in Table 3. The three challenges specified are: 1) Developing a mandatory national organic standard, 2) Educating consumers about organic food, and 3) Promoting organic food to consumers.

All respondents in the sample ranked the development of a mandatory national organic standard first in terms of importance. Educating consumers ranked a distant second for producers and promoting organic food to consumers ranked third. On the other hand, promoting organic food to consumers ranked second for marketers and processors and educating consumers ranked third. The rankings given by marketers and processors are

thus identical. The results further emphasize that producers believe a mandatory national organic standard is very important.

#### **4. Discussion and Implications**

The results illustrate the knowledge of producers, marketers and processors on organic regulatory matters, and suggest that many stakeholders in the industry are unaware that Canada presently has a voluntary national standard. Moreover, stakeholders generally understand that a mandatory national organic standard in Canada is important, but they are unsure of some of implications of a mandatory national organic standard. For example, some stakeholders do not understand that a mandatory national organic standard would protect domestic consumers against fraudulent selling of non-organic products as organic. In addition, many stakeholders are unaware that there is no permanent advisory board related to the creation of organic regulations. Overall, it appears that processors are the most knowledgeable group of stakeholders.

These results suggest that producers need to be better informed regarding organic regulation in Canada. Since organic producers are stakeholders in the regulatory system, it is important that they be given the ability to inform themselves about current and future organic regulations.

In addition to measuring knowledge, the results also highlight the opinions of several stakeholders on

organic regulation. First, the survey has shown that producers, marketers or processors do not believe that the organic regulatory system in Canada is effective. This result has important consequences for government, as it indicates a problem with the current state of organic regulation, or that the benefits of current regulations are not being conveyed to the industry. Second, the survey has shown that there is no clear preference for a government- vs. industry-regulated mandatory national organic standard by producers or processors, but marketers clearly exhibit a preference for industry regulation. While many stakeholders are unsure that a mandatory national standard will increase the profitability of their operation, they have indicated that it is a main challenge of the organic grain industry. In addition, most stakeholders believe that Canada needs a permanent advisory board for organic regulation.

Given the lack of knowledge that exists regarding the state of organic regulation in Canada, it is evident that something needs to be done to increase industry awareness of current and future organic regulation issues. There are many potential avenues through which regulation information can reach the organic grain industry. An organic sector organization could provide information on regulatory issues as part of their services to producers. Government could also take the lead in providing organic regulation information to those interested. Increased information on current regulatory efforts may improve stakeholders' perceptions of the effectiveness of the regulatory system.

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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*