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By Shon Ferguson, Simon Weseen and Gary Storey

Organic Oats Supply Chain Profile

1. Introduction

The supply chain for organic oats in Saskatchewan involves the production, processing, and distribution of oats and products made from oats to a variety of locations around the world. The organic oats supply chain encompasses all activities occurring between the production of oats and its final use by consumers. The main objective of this paper is to provide an overview of the organic oats supply chain, including its products and their uses, a description of how the organic oats industry is organized in its various distribution channels, and issues related to market access. Understanding how the supply chain is organized is critical to identifying various issues and opportunities related to the marketing of organic oats and its related products.

1.1 Approach of the Study

The organic oats profile is part of a larger study that seeks to describe the marketing steps for four organic commodities as they move along the supply chain from producer to consumer. This research involved gathering information from existing literature to describe the supply chains for organic wheat, oats, flax and lentils, and then supplementing this literature with information obtained through surveys and interviews with stakeholders at each successive stage of the supply chains, from producer to retailer. The groups surveyed include producers, marketers, processors, distributors and retailers. Participants from each group were asked to provide details about their transactions with other companies along the supply chain and to describe their relationships with these companies. In addition, information about distribution channels, industry structure, certification, cost and price data, inefficiencies, barriers, and opportunities within the organic supply chains was requested. Each group was asked roughly the same questions. This "mirror image" approach was used to determine if all industry participants perceive the same problems and opportunities, and to identify the degree to which a lack of market information along the supply chain is a problem for producers, processors, marketers, and others in the industry. This paper primarily focuses on describing the organic oats supply chain in terms of its processes and participants. Many of the broader issues described above are discussed in other industry papers related to this study.

1.2 Organization of the Study

The paper is organized in the following manner. Section 2 describes oats and oat products as well as their uses. Section 3 provides a description of the organic oats supply chain in general terms and then discusses the major companies involved at each stage of the chain. A supply chain price profile and a discussion of transportation costs, institutions and organizations are also included in this section. Section 4 discusses issues of market access including certification, accreditation and the requirements for exporting organic oats to the United States (US) and the European Union (EU). Finally, Section 5 provides a summary and conclusions that can be inferred from the organic oats supply chain profile.

2. Oats, Oat Products and Their Uses

2.1 What are Oats?

Oats have been grown on the prairies from the time of settlement, prior to 1900. There are several species of oats grown in the world. The most common type grown in Saskatchewan, *avena sativa*, is harvested with the hull still surrounding the seed (NAMA 2005).

The total area seeded to oats increased by 8 percent from 1992–96 to 1.9 Mha during 1997–2001 (CIGI 2004). Saskatchewan, Alberta and Manitoba respectively accounted for about 41 percent, 23 percent and 26 percent of total oat production in Canada during 1997–2001 (CIGI 2004). During this period there was a shift in oat production from Alberta to eastern Saskatchewan and Manitoba. This shift is partly attributable to the removal of the Western Grain Transportation Act (WGTA) subsidy and the eastern location of the major U.S. oat export markets in Minnesota and Wisconsin. About 25 percent of Alberta oats are forage crop. Less than 15 percent of commercially marketed oats come from Alberta. About 600 000 tonnes of Canada's oats are processed domestically and about 50 percent of the processed product is exported. During 1997–2001, about 40 percent of oats were exported to the U.S., including almost all of the processed oats (CIGI 2004). In Saskatchewan, oats yields averaged 2120 kg/ha between 1998 and 2002 (SAFRR 2004).

The importance of the U.S. market for food oats increased significantly during the 1990s, with Canadian exports more than doubling over the decade. The growth in exports coincided with the decline in U.S. oat production as processors switched to Canadian oats for economic reasons and because of a preference by some processors for the physical characteristics of Canadian oats. Oats are grown using both conventional and organic production systems.

2.2 Oat Products and Their Uses

In North America, oats are consumed mainly as a breakfast food, snack product, or bran form (NAMA 2005). Before oats are milled, the hulls are removed, leaving the oat groat. Groats are milled into steel-cut oat, rolled flakes, quick and instant flakes, oat flour, and oat bran. Industry sources estimate that 85% of human oat products are consumed as either standard or instant oatmeal or oat bran. The remaining 15% are used as oat flour or in snack products like granola bars.

Breakfast cereals, including both hot and ready-to-eat, are popular in the United States. Hot cereals comprise about 10% of the cereal market, with ready-to-eat cereals making up the rest. In the U.S., oatmeal-based products are the largest portion of the hot cereal industry, contributing two-thirds of all hot cereal production by weight. Instant oatmeal makes up over one-half of the hot cereal market. Oat bran is added to both hot cereals and ready-to-eat cereals and oat flour is used in many cold cereals.

In addition to breakfast products, oats are also used in breads, muffins, and cookie mixes. Oat products offer moisture retention properties, which keep baked goods fresh for longer periods of time. Oats contain little gluten so they need to be combined with high gluten grains, such as wheat, to make yeast breads. Oat flour is used in baby cereals and rolled oats are a major ingredient in granola cereals and bars. With increased interest in health and nutrition, it is believed that oats will continue to find new used in food products.

Oat products have found use in the cosmetic industry as talc replacers and in skin care products (Can-Oat Milling 2005). Oats are used in skin care products because they have anti-irritant and anti-inflammatory properties. There has also been some interest in using oats as an edible oil source. The oil is very high quality, but low oil content of current varieties makes the process too costly for commercial application.

The market and products for organic oats is very similar to conventional oats, with breakfast cereals dominating oat demand. As Table 1 illustrates, the market for organic wheat-containing products is large. U.S. retailers sold $293 million worth of cereal and dry breakfast foods in 2003, making it an important end-use of organic oats. Organic oats are also used in handheld snacks (granola bars etc.), which was part of a $484 million organic snack food market in 2003. All of these product categories experienced enormous growth in 2003, varying from 18% to 29% growth in 2003. The market for breads and grains is expected to grow 14.7% per year between 2004 and 2008, while the market for snack foods is expected to grow 18.1% per year over the same period.

Table 1: Size and Growth of Organic Oat-Containing Products, U.S., 2003 (sales in US$mil)

Major Categories	2003 Sales	2003 Growth
Breads and Grains:		
Cookies	95	18.6%
In-store Bakery	64	17.3%
Baking Needs	39	18.1%
Cereal/Dry Breakfast	293	22.8%
Grains	37	19.4%
Snack Foods	484	29.6%

Source: Organic Business Journal 2004

Oats have many positive nutritional characteristics. They are whole grain products, high in starch and dietary fibre, low in fat, and concentrated in micronutrients including vitamins and minerals (NAMA 2005). Consumer interest in oats peaked in 1990 when oat bran popularity was at its height and has since decreased with media coverage of research that suggested that oat bran did not lower serum cholesterol. Oats can be a useful product to lower serum cholesterol when used in conjunction with other appropriate public health measures, including a low fat diet, exercise, smoking cessation, and appropriate drug therapy.

3. The Organic Oats Supply Chain

3.1 General Overview

The organic oats supply chain can be broadly defined as a network of companies and firms that transform oats into intermediate and finished products and then distribute these products to consumers. The output of one company is often the input of another, and value is added at each successive stage of the chain until a final product is produced. Although the organic oats supply chain is quite complex, in simple terms it consists of producers, cleaners, marketers/brokers, processors, distributors, and retailers. A diagram of the organic oats supply chain is provided in Figure 1.

3.1.1 *Producers*

Producers are typically viewed as the first stage of the organic oats supply chain, as they are responsible for the production of the raw commodity that is subsequently transformed into final products that are used by consumers. Producers anticipate making a profit but face both production and marketing uncertainty that can sometimes reduce profits. Production uncertainty includes factors like weather, insects, and weeds, some of which can be offset by purchasing crop insurance. Marketing uncertainty might include unexpected changes in price or not being able to find an appropriate buyer for a crop. These uncertainties are often reduced by entering into a deferred delivery or production contract with either a marketer (such as a grain company) or a processor. In these contracts the buyer agrees to purchase the oats for an agreed upon price at harvest or later, provided that it meets specified standards[1]. In some cases, a fixed price is part of the contract. At harvest, organic oats are typically stored on-farm until such time that the buyer calls for delivery. If the oats has

[1] More information on contracting is available in marketing study report Number 7: Contracting in Organic Grain.

been contracted, the farmer will forward a representative sample to the buyer to ensure that meets quality requirements.

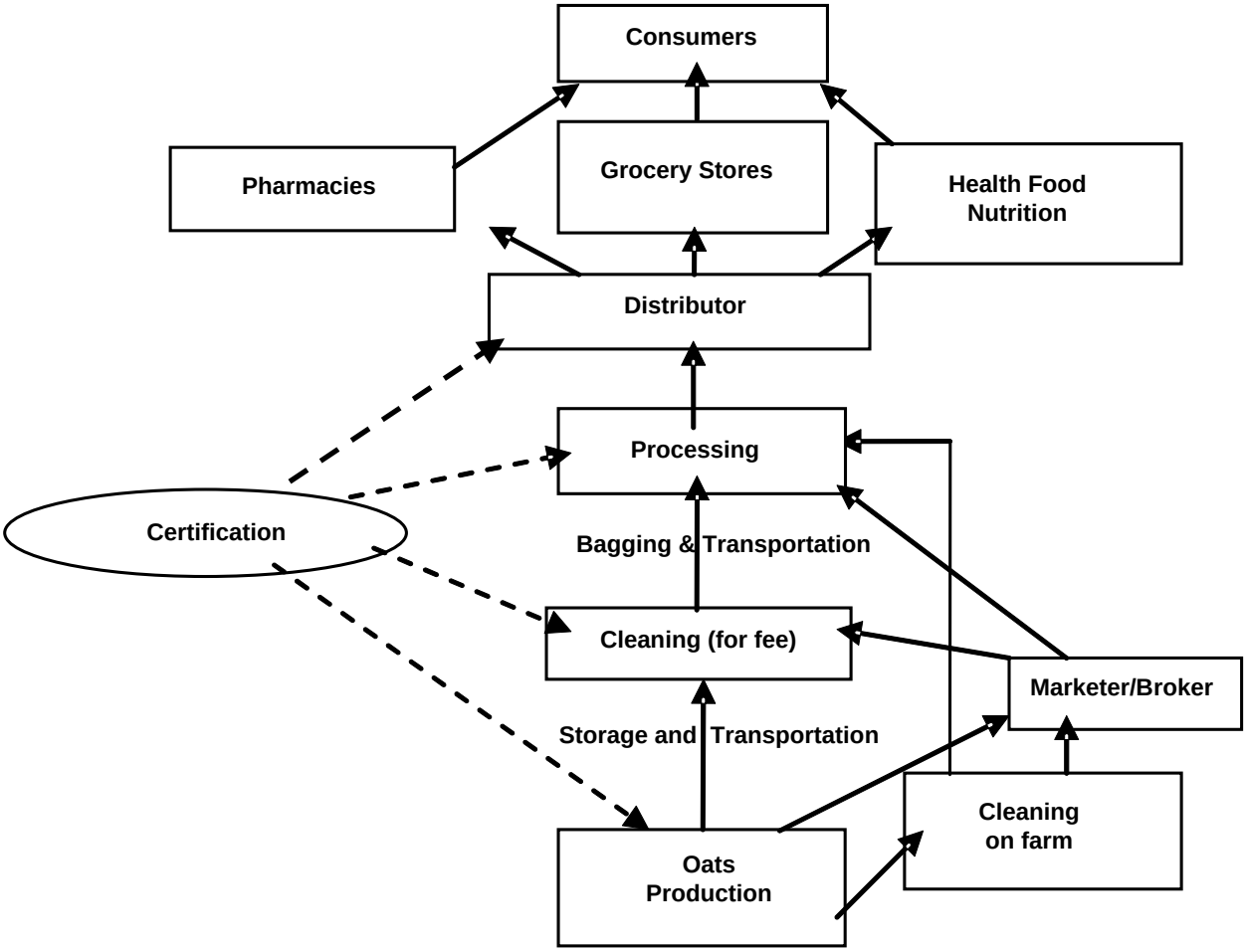

Figure 1: Organic Oats Supply Chain
Source: Author

If the oats was not produced under contract, the farmer will forward a sample to attract prospective buyers such as marketers, brokers and processors. Once sold, oats are usually transported by truck from the farm to cleaners who process it for buyers on a fee for service basis.

3.1.2 Grain Marketers

Grain marketers are intermediaries between producers and processors of organic oats. There are two main types of grain marketers: grain companies and commission brokers. Grain companies purchase oats from producers, cleaners or other marketers and sell it to processors or other downstream buyers for a profit. They provide service to producers by locating downstream markets for oats that producers may be unable or unwilling to find themselves. They provide service to downstream buyers by procuring specific quantities and qualities of oats on demand. Payment for these services is achieved by negotiating a price margin between grain purchased and sold. Grain companies often own a grain handling facility. Commission brokers provide the same services as grain companies except unlike grain companies they do not take ownership of the oats. Instead, they arrange for transfer of the commodity between producer and processor (or other buyers) for a fee.

Establishing price is one of the primary functions carried out by marketers. By negotiating both with producers and downstream buyers they effectively send price signals in both directions along the supply chain that reflect costs, scarcity, and consumer willingness to pay. Because there is limited public data on organic oats production (planted area, yield prospects) as well as stocks on farms and in commercial positions, the price discovery function of marketers is critical for all firms in the organic oats supply chain.

Depending on their size, marketers typically employ one of two strategies when buying and selling organic oats. Smaller marketers tend to operate on a back-to-back basis where they do not purchase oats from producers until they have a buyer and price for the crop. This way they eliminate the risk of price decreases that may occur while they are trying to find a buyer. In contrast, larger grain companies may purchase oats prior to securing a buyer on the speculation that oats prices will increase. Companies that take a long position in organic oats are usually financially secure enough to cover their losses in the event that organic oats prices decrease instead of increase.

3.1.3 Cleaners

Organic oats usually requires cleaning prior to being shipped to a processor. This function is carried out either on the farm, a grain company, or by a firm that specializes in cleaning. In most cases, it is unlikely that a cleaner will take ownership of the oats it is cleaning. Rather, the cleaning is done on a fee for service basis.

3.1.4 Processors

Processors are companies that transform organic oats from a raw commodity to intermediate products that are used by other processors and/or final products that are purchased by the end consumer. Processors typically purchase oats from grain companies, brokers or direct from producers. Often a processor will enter into a production contract with a producer who agrees to sell his/her crop to the processor for a specified price once the crop is harvested. Once the oats are processed, it is typically sold to other processors (as an ingredient) or to distributors (as a finished product). In most cases, processors enter into production contracts with distributors who specify the type and quantity of products that they want.

There are several steps in the primary processing of oats (NAMA 2005). Raw oats used by the oat milling industry undergo initial processes of cleaning and hulling. Cleaning removes the unwanted materials. The next step is the hulling process, where the outer shell (hull) is removed from the inner kernel, called the groat. These groats are then further processed to make an edible food product from a raw grain. The groats enter scouring machines where brushes clean the groats.

In the conditioning process, moisture content is increased before the groats pass through a kiln where they are heated using dry heat radiators to a temperature of approximately 100 degrees Celcius. During the heating process, steam inactivates several undesirable enzymes present in raw grain, the groats are given a roasted nutty flavor, starch gelatinization occurs, and moisture level is reduced to a point acceptable for project storage. Adjustments are made to the conditioning system depending on the desired finished product characteristics.

The product then enters the sizing system where width graders are used to size the individual pieces. Large groats enter the groat stream, while small groats and broken pieces are sent to the cutting system. In the cutting system, steelcut is produced from the groats and broken pieces. A small sifter is used to segregate the large and small pieces of steelcut. Small pieces are often referred to as baby steelcut (baby flakes are produced from it), while the mixture is referred to as regular steelcut. The large pieces are just called large steelcut.

The flaking system uses steelcut or groats as raw material and produces flakes. Before flaking, the products must be steamed to increase the moisture and elasticity. Large steelcut passes through the flaking mill to produce quick (minute oats, three minute) and thick quick, while baby steelcut produces baby flakes. Whole oat groats are rolled into various old fashioned type flakes.

Following rolling, the flakes are dried to approximately 11% moisture on a bed dryer before being packaged. The flour and bran system produces whole oat flour, or a combination of low bran oat flour and oat bran. Rollstands and hammermills are used to grind the product into flour or bran. Various granulations of both flour and bran can be produced.

Crushed oat products are produced using an attrition mill. Steelcut, groats, or flakes can be milled into crushed oat products. Granulation requirements determine which product to mill, and how to set the mill.

3.1.5 Distributors

Distributors are intermediaries between processors and retailers in the organic oats supply chain. Their primary function is to purchase oats products from processors and sell it to retailers. They provide service to processors by finding retail markets for processed products. They provide service to retailers by procuring organic products that are in demand by consumers. Additionally, they manage the logistics of moving processed products into the marketplace. Like marketers, they profit by negotiating a price margin between the products they buy and sell. In some cases, processors will carry out the function of a distributor by securing contracts directly with retailers. In other cases, retailers play a more active role in distribution so that they have more control over the movement of products into their stores. In cases where a distributor is not integrated with processors or retailers, they will take product orders from retail stores, places orders with the processor, and arrange for transportation of products from the processor to the retail outlet.

One key factor in the transaction between distributors and retailers is payment. Distributors who are not integrated with retail stores will have conditions for payment. This might consist of payment within one to two months following delivery. If payment is not received within the specified time frame, buyers will be notified that an interest charge is being applied, often at two percent per month. Similarly, if payment is made early, distributors will often offer discounts of up to two percent.

In addition to functions associated with procuring processed products for retailers, distributors provide several other services as well. These include searching out and providing information on new products to client stores, promoting and advertising of products, as well as helping retailers with the pricing and presentation of products.[2] Advertising may involve placing ads in local newspapers or distributing product flyers in newspapers. The distributor may sometimes offer a promotional discount on certain products, and may request that retail stores participate in this offer. For example, one distributor requests that retailers reduce the retail price of certain items by 15%. The distributor will absorb most of this discount by lowering the price at which it sells this item to the retailer but the retailer is often expected to absorb up to 5% of the reduction itself. Distributors will also occasionally offer discounts for transporting products to retailers based in the value of the products purchased by the retailer. This is a way of enticing retailers to purchase products in quantities that economics of size in transportation can be achieved.

3.1.6 Retailers

[2] For more information on the functions of distributors and retailers refer to marketing study report Number 14: How Retailers Procure Organic Products – Opportunities for Saskatchewan.

Retailers are the final stage of the organic oats supply chain, as they are responsible for purchasing finished products from distributors or processors and selling these products to the end consumer. Products to be sold are typically purchased on contract from processors and distributors with whom long-term relationships are often developed. Retail outlets for oats products include health and nutrition stores, pharmacies and small and large grocery stores, either mainstream or exclusively organic.

In addition to selling products, retailers are to a large extent responsible for identifying products or sets of products that consumer groups specifically want, and then sending signals back down the supply chain to ensure that these products are produced. Like distributors, retailers are also heavily involved in the advertising and promotion of products to the consumer. Promotion might involve advertising on television or radio and through mail-out flyers. Retailers also use promotional techniques such as free samples in order to increase the demand for some of their products. Generally, retailers request that suppliers contribute 5% of the value of their sales towards advertising and promotion at the retail level. However, some retailers prefer to receive a discount from suppliers instead of requesting a contribution for advertising and promotion.

3.2 Major Firms and Distribution Channels

The previous section provided an overview of the major participants of the organic oats supply chain in general terms. This section provides a specific description of the various companies involved at each stage of the supply chain.

Most of the organic oats produced in Saskatchewan are exported to other parts of Canada or to the U.S., either as raw oats or as oat flakes, flour, meal, bran, whole groats and steel-cut groats. Most of the organic oats produced in Saskatchewan is exported to other parts of Canada or to the U.S. It is estimated that about 60% of organic oats are exported to the U.S. in raw or processed form. Only a small portion of Saskatchewan organic oats are exported to EU countries, which is a stark contrast to the situation for organic wheat. Most of the Saskatchewan-processed organic oats are sold to other food processing companies. There is presently no data collected on the trade flows of Canadian organic oats within Canada or to other countries.

3.2.1 Producers

Approximately 71,000 acres of organic oats were grown in Canada in 2003, with 48,700 acres (69%) in Saskatchewan, 10,050 acres (14%) in Alberta, and 5476 acres (8%) in Manitoba (AAFC 2004).

3.2.2 Marketers and Processors

Saskatchewan organic oats are purchased by a relatively small number of buyers. Popowich Milling Corp. in Yorkton, SK is the primary buyer of organic oats, and most of their purchases are made directly with producers. Popowich Milling Corp. is owned by Grain Millers, which is a large oat miller headquartered in the U.S. Some grain companies and brokers also buy and sell a small amount of organic oats in Saskatchewan. Organic oats that are exported in raw form are typically cleaned at one of approximately 30-35 organic wheat cleaners in the province.

3.2.3 Distributors

Based out of Saskatoon, Greenline Distributors delivers a variety of organic products (including oats) to health food stores and pharmacies across western Canada and northern Ontario. Greenline sources its organic oats from processors as well as producers across Canada. Other potential Canadian distributors of oats products include Pro Organics, which distributes bulk organic products, and Puresource and Horizon Distributors, who distribute packaged products. U.S.-based distributors include United Natural Foods Inc., which is the largest organic/natural food distributor in North America, and Tree of Life.

Table 1: The value of one bushel of organic oats as it moves down the supply chain†

	Value-Added/Service	Units Produced	Price Received	Margin
Producer	Raw Commodity Production	1 bushel	$4/bushel	$4/bushel
Processor	Milling into Rolled Oats	~ 9 bags, 1 kg each	$1.80/bag or $16.00/bushel	$1.33/bag $12.00/bushel
Distributor	Distribution of Rolled Oats to Retailers	~ 9 bags, 1 kg each	$2.25/bag or $20.25/bushel	$0.45/bag$ 4.25/bushel
Retailer	Selling of Rolled Oats to Consumer	~ 9 bags, 1 kg each	$4.50/bag or $40.50/bushel	$2.25/bag $20.25/bushel

†The table only shows the value of oats as it pertains to rolled oats made from the groat, and does not consider value obtained from other parts of the oats, such as the hull.
Source: Author's calculations

3.2.4 Retailers

In terms of retail markets, the majority of organic oats products are exported to the United States. Oat products that aren't exported are usually sold in small and large grocery outlets. In Saskatchewan, major retailers that carry organic oats products include Superstore, Extra-foods, Safeway, IGA, and Co-op. Of these retailers, only Superstore and Extra-foods (both owned by Loblaws) have their own private label. The others carry organic products under an assortment of brand names. Small retailers of organic oats products in Saskatchewan include Steep Hill Co-op, Dad's Nutrition Center, Herb and Health, Eat Healthy Foods, Nature's Best Foods, and Old Fashion Foods. Whole Foods, Trader Joes, Capers and Blue Moon Organics are examples of devoted organic/natural retailers that have stores in larger Canadian cities.

3.3 Price Profile for Organic Oats in the Supply Chain

Having described the organic oats supply chain in detail, it is useful to examine the value of oat products as they move along the supply chain from producer to consumer. Table 1 below illustrates how value is added to one bushel of oats at each successive stage of the supply chain during the production organic oats flour.

Table 1 illustrates that the value of oats increases dramatically as it moves along the supply chain through each successive stage. In total, it is estimated that the value of one bushel of oats increases by at least 500% by the time oats are purchased by the end consumer in the form of rolled oats. The increase in value or price at each stage is attributable to firms having to cover their costs of production (for processing or other services) plus earn a profit. The results suggest that the single largest value-adding step in the supply chain is retailing.

3.4 Transportation Costs[3]

Transportation costs are included within the margin of different levels of the organic oats supply chain. Transportation from the producer to the location of the grain marketer (or to the location where containers are put on rails) costs an average of $0.25/bushel ($17/tonne) for organic oats, assuming an average total trucking distance of 227km (taken from the organic producer survey[4]). The cost of transporting a 20 tonne container from Saskatoon to a port in the EU is about $125/tonne. Trucking bagged grains from Saskatchewan to Vancouver costs up to $350/tonne in some cases. Transportation costs are a very large portion of total costs in the supply chain, and depend

[3] More information on costs in the organic grain supply chain can be found in report Number 12: Costs in the Organic Grain Supply Chain.
[4] Total trucking costs include trucking from farm to cleaner, then from cleaner to buyer or rail.

on how much transportation is required from producer to consumer.

3.5 Institutions in the Organic Oats Supply Chain

3.5.1 The Canadian Grain Commission (CGC)

The CGC offers a number of services to the grain industry as grain makes its way from the producer's field to markets (CGC 2005). The CGC establishes the grading guidelines that operators of primary elevators must use. The CGC also provides a dispute resolution service when producers and buyers disagree on grades. When grain is unloaded at terminal elevators and some transfer elevators, CGC staff grade the grain, verify its weight, and register its receipt. They follow similar procedures when grain leaves the elevators. Grain leaving terminal and transfer elevators is bound for domestic or export customers, usually by ocean vessel or by "laker" (used for marine transport in the Great Lakes).

Canadian grain is graded by its visual characteristics. Grades are carefully established to describe the processing qualities of the grain. In western Canada, the CGC licenses primary, process and terminal elevators, as well as grain dealers. The CGC oversees delivery only at terminal and transfer elevators and publishes maximum charges for services offered by elevators and for the use of elevator space. The CGC may also arbitrate in disputes over grain quality between buyers and sellers of grain.

3.5.2 Information in the Organic Oats Market[5]

Price discovery for organic oats is very different from price discovery for conventional oats. For conventional oats, the government and other private firms conduct surveillance of the supply and demand situation in all world markets that have a bearing on the present and future Canadian oats price. Public and private organizations use surveys to collect statistics on areas planted, yield, stocks, etc. These organizations disseminate and distribute this information for producers' use. The Chicago Board of Trade is the only North American commodity exchange with a futures contract for oats. Futures contracts provide price data that can be interpreted directly by producers or through government or private firms to yield price discovery information. Exchanges also utilize cash closing committees that are responsible for reporting a daily cash price. Radio, television and newspaper communicate conventional oat price data on a daily basis to the public.

There is much less market information available to the organic oats industry as there does not exist any organization that gathers and interprets organic oat price data, nor is there a futures contract for organic oats. While there are several organic oat transactions made every week, there is no process to share this information that could inform individuals on the market clearing price. Price information is thus private unless transacting individuals choose to make it known to others. Moreover, there is no way to verify the truth of individual's statements on prices paid and received. This results in significantly less market information and lower quality marketing information in the organic oat supply chain regarding the prices of different sellers and expected prices in the future. Unlike downstream marketers and processors, most organic producers suffer to a greater extent because they do not have economies of scale related to price, supply and demand data collection and interpretation. Producers do not know all of the offer prices on a given day, and they have very little means to forecast organic oat prices in order to decide if they should sell now or wait for a higher price. As a result of these organizational limitations to price discovery, producers, intermediaries, and end-users discuss prices on a regular basis through person-to-person communication.

[5] More information on information in organic grains can be found in marketing study report Number 4: Organic Producer Perceptions of Market Information Availability, and marketing study report Number 10: Information in the Organic Grain Market

3.6 Oats Organizations

There is no single organization that focuses on the entire realm of Western Canadian oat issues, such as breeding, production information and marketing information. There is no check-off on oat sales, which contrasts the situation for pulse crops, flaxseed, canola, barley and wheat, where money is collected in order to fund breeding research or other activities. In the case of oats, production and marketing information is mainly provided by government agriculture departments. The North American Millers Association (NAMA) is a trade association representing the wheat, corn, oat and rye milling industry in Canada and the U.S. There are also several producer organizations of different ideologies that oat producers may choose to join.

4. Market Access and Acceptance Issues

As noted in the previous section, organic oats and its related products are primarily exported to the United States and the EU. Products that aren't exported are consumed domestically. In order to gain access to these markets, oats exporters must comply with organic regulations employed in these jurisdictions and be aware of any preferences that consumers in these countries might have that would limit their consumption of imported oats products. This section of the paper provides an overview of organic regulations that must be adhered to in each of these markets and discusses the role of market acceptance in gaining access to these markets.

4.1 Definitions

In order to understand regulations that can affect the exporting of organic oats products, it is necessary to define the terms certification and accreditation, as they are central to the organic regulatory process in most jurisdictions.

4.1.1 Certification

Certification is the process by which a certification body verifies that commodities moving along the supply chain are produced, stored, transported, and processed according to principles outlined in an organic standard. At each stage, certification requires adherence to organic principles in production, processing and handling. Documentation and inspections are used in order to verify that organic practices are followed. In this regard, certification signals the organic attributes of organic products to consumers. The certification process plays a critical role in verifying organic authenticity, since the organic attribute of a product cannot be detected by any other means.

4.1.2 Accreditation

Accreditation is the process of ensuring that the organic standards employed by certifiers are at a minimum acceptable level. Accreditation is necessary in cases where there are many certifiers who employ a variety of organic standards (e.g. the global organic industry) because the process of becoming familiar with these standards on a case-by-case basis can be costly and time consuming. By granting accreditation status, an accreditation agency acknowledges that the standards employed by a certification body are equivalent to its own. This gives organic sellers access to those markets for which the accreditation agency has jurisdiction. Some countries (like the U.S.) have government-operated accreditation agencies, which typically means that accreditation to those agencies will provide market access to the countries in which they operate. This will be discussed in more detail in the next section of this paper.

4.2 Gaining Market Access to the United States

The organic industry in the U.S. is governed by the United States Department of Agriculture's (USDA's) National Organic Program (NOP), which requires that all products produced and sold in that country meet the minimum U.S. national organic standard (NOP, 2005). Canadian companies can achieve market access to the U.S. in three different ways: certification to an NOP-accredited certification body, recognition of

conformity assessment, and equivalence determination.

Certification to an NOP-accredited certification body is the primary mechanism that most Canadian sellers use to achieve U.S. market access. This process is not difficult, as most Canadian certifiers are already accredited to the NOP. The following certification bodies operating in Saskatchewan have NOP accreditation:

- Canadian Organic Certification Co-operative (COCC)
- Saskatchewan Organic Certification Association (SOCA)
- OCPP/Pro-Cert Canada Inc.
- Organic Crop Improvement Association (OCIA)
- Organic Producers Association of Manitoba Inc. (OPAM)
- Quality Assurance International (QAI)

Recognition of conformity assessment means that the USDA recognizes a foreign government's ability to evaluate a certifier's ability to conform to the NOP. A foreign government can accredit individual certifiers on behalf of the USDA once conformity assessment is obtained by that government. The Canadian government is currently in the process of obtaining recognition of conformity assessment, while the provinces of Quebec and British Columbia (BC) have already obtained status.

An equivalence determination occurs when the governments of two independent nations agree that each other's national standards are equivalent for trade purposes. Once an equivalence determination is made, sellers in both nations have free access to the other nation's markets. Currently, the governments of Canada and the US are not involved in equivalency negotiations.

4.4 Gaining Market Access to the EU

Council Regulation (EEC) 2092/91 is the primary regulation governing organic agriculture in the EU and is applicable in all EU member states. Despite the widely held belief that the European Commission plays an integral role in administering EEC Regulation 2092/92, it is the member states themselves that have jurisdiction over this function. Each member state is in charge of establishing a certification/inspection system, designating a competent authority to be responsible for the approval and supervision of certifiers, imposing sanctions in the event of fraud, and for admitting exports from nations outside the EU. Member states wanting to import must establish an inspection scheme capable of product identification (e.g. quantity, type, origin, transportation details, and certification), verification of organic authenticity, and the ability to track the movements of individual shipments (The Organic Standard, November, 2002).

At present there are two methods through which exporters can gain access to EU markets:

1. The exporting nation is granted status on the Third Country List, or
2. The importer (or exporter) can prove on a case-by-case basis that products were produced according to procedures deemed to be equivalent to those described within EEC Regulation 2092/91.

To become registered on the EU Third Country List, the exporting nation must have its organic standards evaluated by the European Commission for equivalence to EEC Regulation 2092/91. The equivalence evaluation includes an examination of production and processing standards as well as measures to ensure effective control of those standards. Once Third Country Status has been granted to a country wanting to export to the EU, exporters in that country are permitted to export freely to all EU member states.

The procedures for establishing equivalence on a case-by-case basis are similar to those described above, except that they must be carried out for every shipment being exported into the EU. The exporter must deal with the competent authority in the

destination member state, rather than the European Commission. The EU has stated that this option will be available only until December 31, 2005, after which only nations holding Third Country status will be granted access to EU markets.[6]

4.4 Market Acceptance

Exporters often believe that meeting the legal requirements described above will guarantee market access. However, in well-developed EU organic markets this is not always the case, as both consumers and retailers have been known to reject standards that have otherwise been approved. Sainsbury's, an organic retailer in the UK, has been known to reject products that were not certified by an IFOAM-accredited certifier. Several supermarkets in Denmark have rejected produce sprayed with copper, despite the fact that EEC Regulation 2092/91 permits this procedure. In the well-developed Swedish organic market, consumers have become accustomed to products certified by the private certifiers Demeter and KRAV, and may therefore perceive products bearing other labels as being substandard. These examples suggest that exporters need to be familiar with specific foreign markets as well as with the regulations used in those markets (The Organic Standard, January 2002).

5. Summary and Conclusions

This document has provided a profile of the organic oats supply chain including a description of oats products, a summary of the functions carried out by companies, institutions and organizations in the supply chain, a list of the participants, and a discussion of market information and market access issues.

The organic oats supply chain is still in the early stages of development, although organic oat markets are larger and somewhat more mature compared to organic flax and lentils. The growing world-wide market for organic foods indicates a market opportunity for producers and companies in Western Canada. However, compared to high value crops like organic lentils and flax, organic oats are a lower-value crop.

Most of Canada's organic oats exports are destined for the EU. As a result, maintaining access and acceptance in this market is critical for Canadian organic oats producers. Access to the U.S. is easily obtained through certification to an NOP accredited certification body, while access to the EU is achieved by evaluating organic shipments on a case-by-case basis. Because this option in the EU will only be available until December 31st, 2005, it is important that the Canadian government negotiate an equivalency agreement so that it can be placed on the EU's Third Country List.

It is important to remember that legal access for oats exporters into the EU and U.S. does not guarantee success in these organic markets. Consumers and retailers in these countries (particularly in the EU) have shown preferences for domestically produced products, thus making it difficult for exporters to sell.

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The authors can be contacted at:

Department of Agricultural Economics

University of Saskatchewan

51 Campus Drive

Saskatoon SK S7N 5A8

Ph: (306) 966-4008; Fax: (306) 966-8413

Electronic versions of these papers are available at http://organic.usask.ca.

The Authors: Simon Weseen is the Organic Trade and Market Analyst in the Department of Agricultural Economics at the University of Saskatchewan. Shon Ferguson is a Research Associate in the Department of Agricultural Economics at the University of Saskatchewan. Professor Gary Storey is a Professor Emeritus in the Department of Agricultural Economics at the University of Saskatchewan.

The marketing study consists of the following papers: