

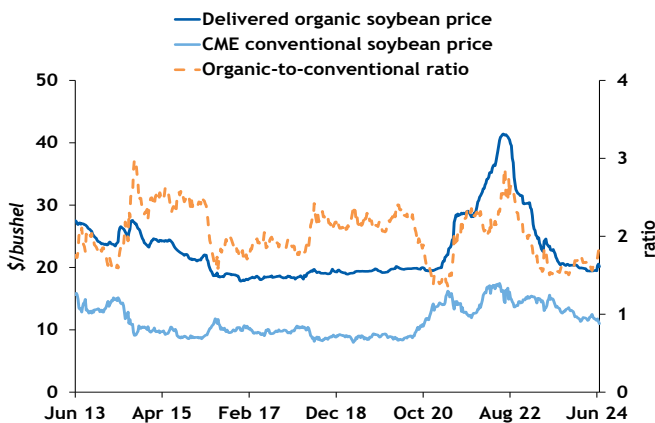
# The rise of low organic premiums: Threats to organic supply



Low organic commodity prices during the 2023-24 marketing year have eroded their premium over their conventional counterparts compared to pre-Covid-19 levels. The ratio of organic to conventional prices for corn and soybeans saw significant volatility in recent years as the overall organic market was roiled by the effects of Covid-19, including container shortages in ports. Since the beginning of the 2023-24 marketing year, organic soybean and corn prices have declined, while conventional pricing has not seen the same intensity of bearish pressure. These lower ratios have already affected supply within organic commodity markets and could have greater effects on producer behavior if they continue into coming marketing years.

To show the risks of a declining organic-to-conventional ratio, Argus has combined its proprietary Corn Belt delivered price for organic soybeans and corn with nearby prices from their AgriMarkets Organic & non-GMO service with the conventional equivalent taken from the CME futures markets. The organic-to-conventional ratio for soybeans, calculated by dividing the organic price by the conventional price, averaged 2.12 from 2017-18 through 2019-20—the three marketing years immediately preceding significant volatility in the organic market. However, for the 2023-24 marketing year through the week ending 19 July, the year-to-date average for the soy organic-to-conventional ratio has been just 1.63. Organic corn saw a similar decline, from an average of 2.59 for the period between the 2017-18 and 2019-20 marketing years to 1.76 year-to-date for 2023-24. Having both ratios running lower simultaneously has put financial strain on organic producers, who have experienced higher production costs without a significant return in revenue.

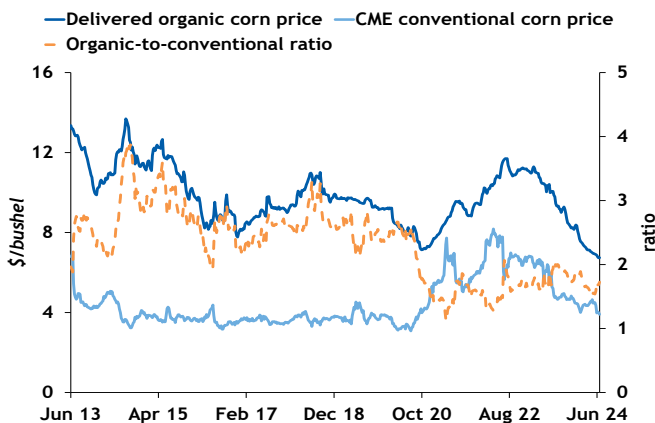
## US soybean prices and ratio



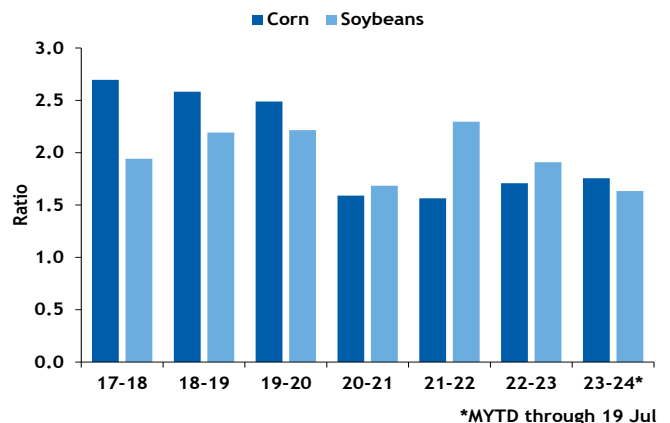
After the volatility of the recent marketing years, markets for organic corn and organic soybeans are moving to find new balances between supply and demand, resulting in these markets finding new market-clearing prices. If these low organic-to-conventional ratios are the new normal, this could have significant implications for the development of organic markets, both short- and long-term.

In the short term, the low ratio has pushed some operations to plant alternative crops in search of decreased costs or

## US corn prices and ratio



## Organic-to-conventional price ratios

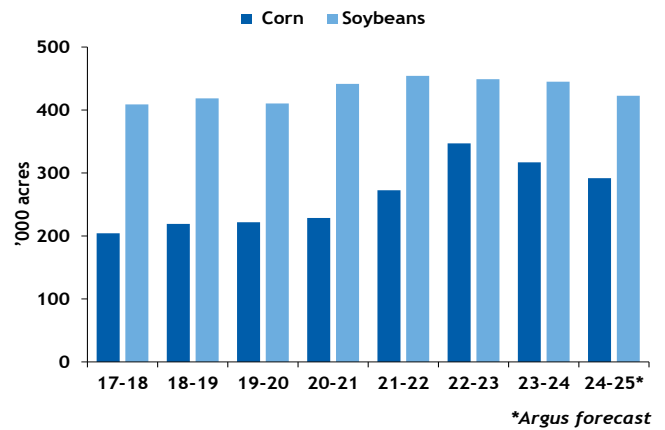


improved revenues. According to an Argus pre-planting survey of organic seed sellers, the 2024 planting season saw a significant increase in purchases of organic alfalfa seed with one participant indicating 100pc year-on-year increase. Alfalfa cuttings from organic fields are often sold into the local conventional market, limiting significant revenue increases from organic certification. However, the lower costs of alfalfa production — which is a perennial crop requiring fewer inputs and grows for multiple years — allows operations to maintain organic certification while avoiding some of the cost burden associated with organic corn and soybean production. Some organic farmers are also pursuing increased revenue through specialized, identity-protected varieties, but their ability to do so is dependent on having a local buyer in need of additional supply. Altogether, organic acres shifting into alfalfa or specialized crops will pull acres out of organic corn and soybeans production, which will help reduce the current supply surplus in the market, while minimizing the overall reduction in US certified organic acreage.

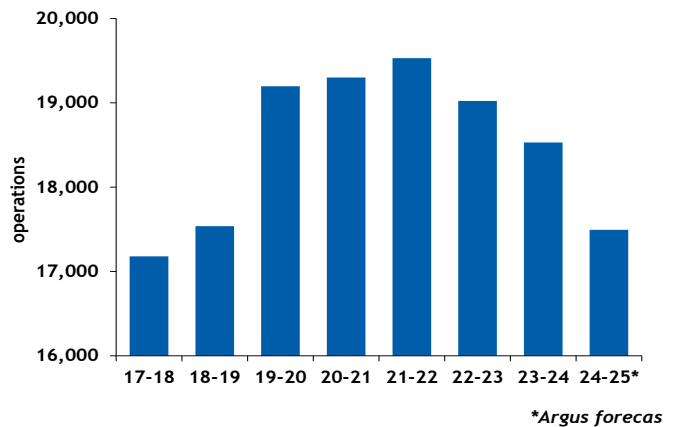
Reduced price premiums for organic corn and soybeans could also push operations to sell organic crops into the conventional market. While this would lead to a forfeit of any organic premium, for operations without a nearby organic buyer, the decreased costs of freight could offset the loss of slim organic premiums. Furthermore, organic farmers often have lower on-farm storage than conventional operations and have reported large on-farm stocks over the 2023-24 marketing year. As a result, organic producers could face a situation at harvest where they need to reduce old crop carryover stocks to hold new-crop harvest, further increasing the incentive to liquidate supplies through conventional market channels. While there has been no reporting of significant sales of organic crops into the conventional market as of this report, elevators and traders have expressed concerns about this occurring at a larger scale if organic premiums remain weak into the 2024 harvest. This would result in reduced availability of organic corn and soybeans, which could support prices. However, it would also result in a loss of revenue for producers who decide to use this option.

The primary long-term impact would be through effects on organic acreage, both through delaying organic expansion and through pushing some current acres out of organic production. The process of organic certification requires a significant investment of time and money, with a farm investing in three years of transitional production before it is allowed to sell its products as certified organic. While this certification period carries significant increases in production costs for farms compared to conventional operations, it has been historically justified by an expected increase in revenues once organic certification is achieved. If

### US organic acreage



### US certified organic operations



the ratio of organic prices to conventional remains low, without encouraging prospects of a near-term recovery, some producers could be discouraged from pursuing organic certification and abandoning the organic transition process.

The impact of fewer farms becoming certified organic would be further exacerbated if the rate of operations leaving organic production accelerates. As a result of the land-transition cost of organic certification, certified organic producers have been historically hesitant to surrender their certifications during periods of reduced prices. However, prices over 2024 have led to some older operators to accelerate retirement plans and some mixed organic and conventional operations to surrender their organic certification to focus on conventional production. The USDA's Organic Integrity Database lists 17,494 certified organic farms as of 1 July, 2024, which would be a decline from Argus' 2023 estimate of 18,530 certified organic farms in 2023 and the lowest count since 2017. If low premiums for

organic commodities continue into coming marketing years—with some farmers expressing concern it will not recover soon—organic farmers could be left considering if they can justify the continued expense of organic production. An accelerated rate of farmers leaving organic is likely to limit the ability of US organic feed operations to acquire domestically produced crops, increasing the likelihood that imported organic feed will capture this portion of demand.


High supplies and weak demand in the current organic corn and soybean markets have kept the organic-to-conventional

ratio historically low over the past marketing year. As of now, this trend has primarily impacted the market through shifting acres into other crops. However, if the trend of low ratios continues, it is expected to increasingly push out organic acres while reducing new certified organic acreage transition. While a decrease in acreage may allow the organic market to find a new equilibrium between supply and demand, organic market participants will need to keep an eye on how it could affect their supplies or profits. What the new normal prices will be for organic crops remains uncertain, but Argus will be monitoring potential impacts and ensure our clients are not caught off-guard.

**This paper draws market intelligence from the Argus AgriMarkets Organic and non-GMO service.**

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