TRANSITION to ORGANIC Balancing Supply & Demand with Domestic Credibility

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Transition program proposed via USDA

Requirements for producers

- Follow all the USDA NOP organic protocols for at least 1 year to qualify crop as transitional
- Be verified transitional by USDA approved organic certifier
- One mistake allowance

Incentives

- Get a market premium – guesstimate
- Use Certifier as advisor, not just silent regulator – not policy
- Be a better prepared, more regulatory and production astute

Premium depends on consumer acceptance – Keys include D & Triple N

- Domestic ?? Not policy, Private requirement
- No unapproved pesticides - policy
- No unapproved fertilizers - policy
- Produced without GMO technology - policy

Label issue

- OFPA
- Romance language & PPS declarations

Non-GMO programs

Market demand drivers

- Asian market drives, defines regional character
- Non-GMO project and other Non-GMO labeling programs serve US market
- Market talks with dollars
  - Premium range over last 5 years
  - Corn/Soy history
  - Current bids
  - Contract v open market plans
- Supply / demand
- Buyer perception – an organic alternative
- Just a switch from GMO to non-GMO seed, nothing sustainable
- Support for organic transition - marginal

Organic markets – EU big, USA biggest

Organic Soybeans Imported into the US 2016

	11 months		12 mo projected		
Soybean	Qty	Qty	Qty	Value	Value
Source	MT	Bushels	**Bushels**	**$/bu**	**US$$**
World Total	352,973	12,969,537	14,148,586	$ 18.13	$ 256,491,273
Turkey	161,674	5,940,507	**6,480,553**	**$ 17.08**	$ 110,695,636
India	67,663	2,486,198	**2,712,216**	**$ 18.77**	$ 50,913,818
Argentina	46,520	1,709,326	**1,864,720**	**$ 19.17**	$ 35,746,909
Ukraine	31,194	1,146,182	**1,250,380**	**$ 17.41**	$ 21,766,909
Canada	16,508	606,579	**661,723**	**$ 23.58**	$ 15,606,545
China	13,326	489,631	534,143	$ 18.62	$ 9,948,000
Russia	6,677	245,326	267,629	$ 16.54	$ 4,425,818
Uganda	4,257	156,418	170,638	$ 21.28	$ 3,631,636
Uruguay	4,702	172,761	188,467	$ 18.26	$ 3,440,727
Ethiopia(*)	335	12,291	13,408	$ 17.41	$ 233,455
Lithuania	110	4,023	4,389	$ 17.40	$ 76,364
Netherlands	8	290	317	$ 17.23	$ 5,455

Organic Yellow Corn Imported into US in 2016

	11 months		12 mo projected		
Corn	Qty	Qty	Qty	Value	Value
Source	MT	Bushels	**Bushels**	**$/bu**	**US$$**
World Total	539,072	21,222,282	**23,151,581**	**$ 7.39**	**$ 171,153,818**
Turkey	390,447	15,371,201	**16,768,583**	**$ 7.49**	$ 125,637,818
Romania	55,928	2,201,782	**2,401,944**	**$ 6.32**	$ 15,171,273
Argentina	52,448	2,064,784	**2,252,492**	**$ 6.58**	$ 14,817,818
Netherlands	23,540	926,732	**1,010,980**	**$ 7.95**	$ 8,032,364
Canada	15,266	600,979	**655,614**	**$ 10.57**	$ 6,931,636
UAE	877	34,526	37,665	$ 6.98	$ 262,909
India	526	20,723	22,607	$ 12.69	$ 286,909
Panama	23	894	975	$ 10.07	$ 9,818
Mexico	17	665	726	$ 4.51	$ 3,273

Data generated on Thursday, January 19, 2017 at 11:03:27 AM EST
from US Census Bureau Trade Reports. Excludes seed.

Organic Soybeans Imported into US - $$ value

	January - December, $$US					Projected	
Soy Source	2011 (1,000)	2012 (1,000)	2013 (1,000)	2014 (1,000)	2015 (1,000)	2016 (1,000)	2016 Growth
World Total	**41,790**	**90,177**	**110,237**	**184,168**	**240,175**	**256,491**	**6.79%**
India	**5,327**	**12,729**	**29,819**	**74,365**	**77,818**	**50,914**	**-34.57%**
Ukraine	**0**	**0**	**0**	**16,608**	**71,856**	**21,767**	**-69.71%**
Argentina	**1,682**	**7,276**	**8,681**	**14,183**	**26,055**	**35,747**	**37.20%**
China	2,320	38,923	48,472	39,523	20,867	**9,948**	-52.33%
Canada	**32,462**	**29,748**	**18,603**	**16,996**	**19,026**	**15,607**	**-17.97%**
Turkey	**0**	**167**	**387**	**11,654**	**12,966**	**110,696**	**753.74%**
Romania	0	166	2,826	0	5,142	**-**	-100.00%
Russia	0	0	35	254	2,903	**4,426**	52.46%
Netherlands	0	631	0	2,091	1,025	**5**	-99.47%
Uruguay	0	0	447	131	766	**3,441**	349.18%
Uganda	0	0	0	360	722	**3,632**	403.00%
Others		536	966	8002	1030	310	-69.92%

Organic corn imported into US - Value $$

Corn Source	January - December, $$US					Projected Jan - Dec, $$US	
	2011 (1,000)	2012 (1,000)	2013 (1,000)	2014 (1,000)	2015 (1,000)	2016 (1,000)	2016 Growth
World Total	**0**	**0**	**36,620**	**35,700**	**112,712**	**171,154**	51.85%
Romania	**0**	**0**	**545**	**11,604**	**53,460**	**15,171**	-71.62%
Turkey	**0**	**0**	**0**	**6,797**	**36,355**	**125,638**	245.59%
Argentina	**0**	**0**	**21,282**	**3,677**	**10,303**	**14,818**	43.82%
Canada	0	0	1,826	6,420	7,436	**6,932**	-6.78%
India	0	0	0	684	2,652	**287**	-89.18%
Netherlands	0	0	0	6,519	2,217	**8,032**	262.31%
Greece	0	0	0	0	190	**-**	-100.00%
Bulgaria	0	0	0	0	93	**-**	-100.00%
Mexico	0	0	0	0	7	**3**	-53.25%
United Arab	0	0	0	0	0	**263**	
Others			12,966			**10**	

Data sourced Jan 19, 2017 from US Census Bureau Trade Reports

USDA Certifiers' Organic Reports

US	2014	2015	Growth
Operations	13,174	14,861	12.8%
Acres reported	4,081,903	5,336,058	30.7%
Pasture and rangeland	1,467,874	2,160,764	47.2%
Barley	63,774	57,961	-9.1%
Corn	209,659	262,089	25.0%
Oats	56,215	63,689	13.3%
Soybeans	100,952	140,345	39.0%
Wheat	319,874	393,281	22.9%
Forage	641,404	707,108	10.2%

Organic – recent trends selected states

	Organic Operations			Organic Crop Acres		
State	**2014**	**2015**	**Delta**	**2014**	**2015**	**Delta**
CA	2318	2500	7.9%	324707	378017	16.4%
IL	199	218	9.5%	20486	27275	33.1%
IN	288	397	37.8%	13209	18547	40.4%
IA	696	840	20.7%	77993	90310	15.8%
KS	86	99	15.1%	17234	25908	50.3%
MN	584	659	12.8%	100130	125780	25.6%
MO	229	308	34.5%	25287	26885	6.3%
NE	165	178	7.9%	71434	61438	-14.0%
OH	552	608	10.1%	50086	53022	5.9%

Livestock and Poultry, US, 2014 and 2015			
	2014	**2015**	**Growth**
Operations	1401	2001	42.8%
Total animals, poultry	16,509,520	22,389,214	35.6%
Cattle	233,133	334,514	43.5%
Hogs	2,956	4,740	60.4%
Sheep	4,625	5,345	15.6%
Goats	1,007	1,313	30.4%
Other livestock	3,143	4,103	30.5%
Chickens	**15,375,993**	**20,826,831**	**35.5%**
Turkeys	**606,138**	**968,402**	**59.8%**
Other poultry	282,545	243,966	-13.7%

Domestic Production Estimates

	2016			2017		
Crop	**Acres**	**Yield**	**Bushels**	**Acres**	**Yield**	**Bushels**
Corn	300,000	120	**36,000,000**	375,000	125	**46,875,000**
Soy	180,000	30	**5,400,000**	240,000	35	**8,400,000**

Imported Production Estimates (bu)

	US actual	Estimate	Estimate	Estimate	Acres Estimated
Crop	2015	**2016**	**2017**	Growth	2017
Corn	12,000,000	**23,152,000**	**35,000,000**	51%	280,000
Soy	11,700,000	**14,149,000**	**18,393,700**	30%	525,534

Sources of organic feed grains for US markets

Surplus corn & soy

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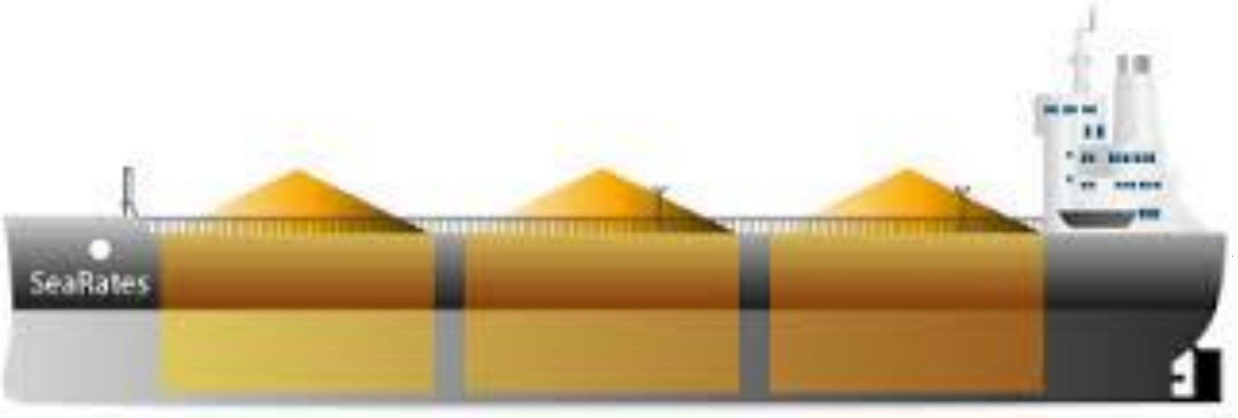
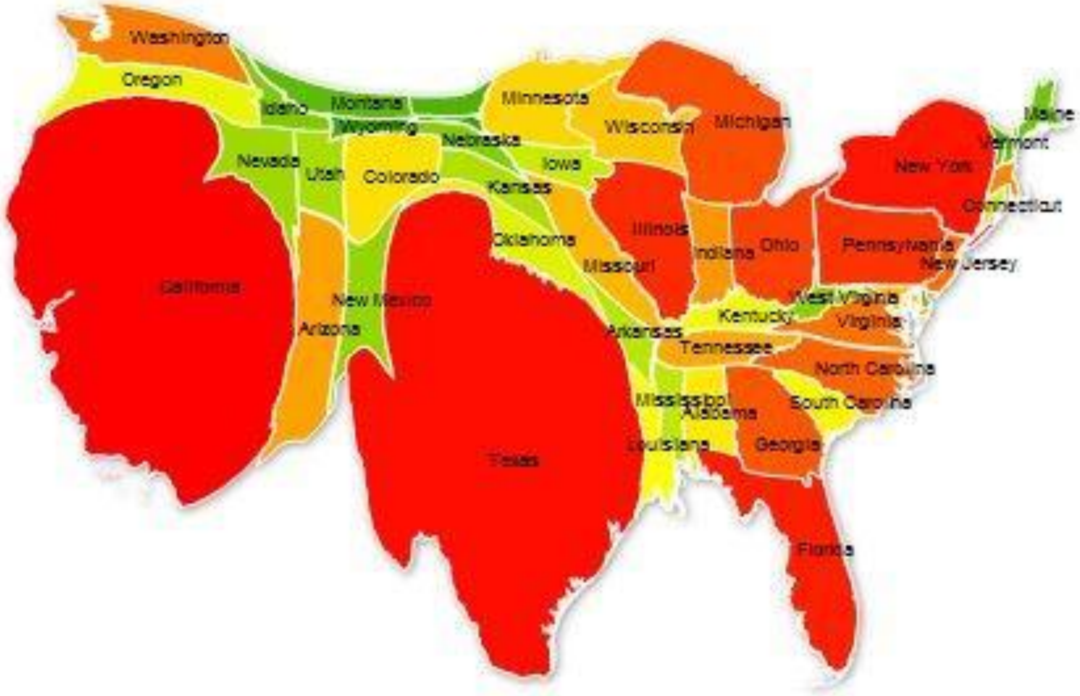
Logistics



Compare – Map | Population USA 2010

MAPS4OFFICE

Anamorph



Mercator

Credibility

Rule or wish
- NOP rules
- EU Equivalency
- Indian Equivalency

Consequence if fraud by
- Farmer
- Handler/consolidator
- Certifier

EKTO – the case of the No, No, Yes certifier
- EU – lost certification
- Canada – lost certification
- USA – appears last week to still be certified

If no penalty, perhaps we just have a wish. If so, that is biggest single threat to the credibility of the US organic label

Growing demand market – how to satisfy and maintain credibility?

Options

- Higher prices
- Tariffs or restrictions on imports
- Consumer & supplier emphasis on DOMESTIC feed and production
- Transition
- Combination

Goal of transition

- Enhanced domestic supply
- Consumer pressure to see domestic as part of label
- Enhanced credibility for products within the US jurisdiction due to
  - Uniform commercial code
  - Good industry regulation
  - NOP regulations
  - Better oversight
  - Penalties – civil and criminal

Consequence

Con

- More competition which will depend on more demand to avoid lower prices
- Not good for organic lite brackets
  - Natural
  - GMO
- ??

Pro

- Improved incentive for farmers to take land into organic certification
- Increased organic acres without run-away conversion
- Better credibility
- More organic feeders will come on line as they become more confident of reliable supplies
- More competition, reduced price, more demand
- Avoids differing norms
- Competitors follow the same rules

Experience, predictions, dialogue

History

Client discussions

Predictions

- ❑ Transitional with tightened international regulation
- ❑ Transition al with increased consumer emphasis on domestic production
- ❑ Serious increase in US organic production via transition IF
  - Consumers agree
  - Processors & feeders push

Questions, challenges, perspective

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