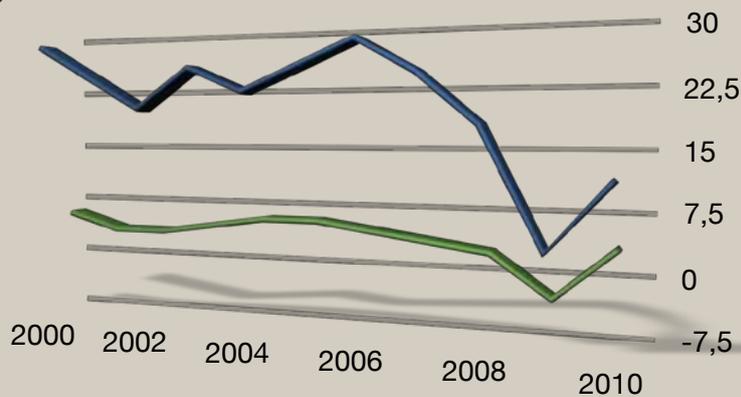


North American Update:

U.S. Market Perspective

With national organic standards in force since October 2002, the U.S. organic market has, for the first time, eclipsed the European Union organic market in size. After weathering tough economic times, the U.S. industry is now leading global growth in organic sales. Much of this growth can be credited to the integrity of the U.S. National Organic Program, which helps drive consumer trust in organic products sold in the U.S. marketplace.



Figure

The market recovered after the recession in 2008

Source: OTA

— Organic industry Growth rate
— GDP Annual Growth rate

BY LAURA BATCHA

In 2009, organic product sales grew by 5.3 percent overall to reach \$26.6 billion. Of that figure, \$24.8 billion was spent on organic food and the remaining \$1.8 billion on sales of organic non-foods.

Although the final figures for 2010 are not yet available, preliminary findings from the *Organic Trade Association's 2011 Organic Industry Survey* indicate that the U.S. organic market grew more strongly in 2010, at 9 to 10 percent overall, to reach an estimated \$29 billion in sales, with growth in all major product categories.

The lion's share of U.S. organic food sales - 54% - are through mainstream grocers, club stores and retailers. Natural retailers capture 40 percent of total organic food sales, with direct and export sales covering the remaining 6 percent. Although still a small percentage of sales, farmers' markets, co-ops and community-supported agricultural operations are attracting increasing interest as consumers look for locally and regionally produced organic foods. Meanwhile, the U.S. organic market has seen a surge in organic private label products. These represent 25 to 35 percent of total organic dairy and produce sales and between 35 and 45 percent in the organic meat, poultry and fish categories.

The graph on the previous page shows the statistical correlation between U.S. Gross Domestic Product (GDP) and the organic industry annual growth rate. While the two are correlated, organic growth consistently outperforms GDP and, while it fluctuates more, has shown no sign of dipping into negative growth. Recent robust financial reports from major publicly traded organic companies, such

as Whole Foods Market, United Natural Foods Inc. and the Hain Celestial Group, confirm the organic sector's recovery.

Organic production

The 2008 Organic Production Survey, conducted as a follow-on to the 2007 Census of Agriculture, counted 14,540 organic farms and ranches in the United States. These covered a total of 4.1 million acres, of which 1.6 million acres were harvested cropland and 1.8 million acres were pasture or rangeland. The remaining

acres were not in active production. Of those farms, 10,903 were certified to the National Organic Program, and 3,637 were exempt from certification (because their annual sales totalled less than \$5,000). The survey collected 2008 data from operators of farms that were either USDA-certified organic, were making the transition to organic production, or were exempt from certification. The survey found organic farms in all 50 states. Seventy eight percent of these farms plan to maintain or increase organic production levels over the next five years. The survey also found that on average organic farms have higher sales, higher production expenses, and higher operating profits than U.S. non-organic farms.

Consumer trends

According to findings from the *U.S. Families' Organic Attitudes & Beliefs 2010* tracking study, jointly sponsored by OTA and *KIWI* Magazine, in 2010 U.S. families continued to buy more organic products than ever before and from a wider of categories. Forty one percent of parents reported they were buying more organic foods in 2010, up significantly from 31% reporting organic purchases in 2009. In addition, their trust in organic labelling increased significantly during this period, with 34%

'Many consumers are confused about the difference between the claims for 'natural' and organic foods'

of all parents (compared to 28% in 2009) and 44% of organic buyers (compared to 34% in 2009) saying their trust in organic labelling had increased.

Parents reported they see organic products as generally healthier, allaying their concerns about the effects of pesticides, hormones and antibiotics on children, or providing a means to avoid highly processed foods and/or artificial ingredients. The study found that three-quarters of U.S. families purchase some organic products. Newly organic families, who have begun purchasing organic products in the past two years, now represent more than three in ten U.S. households (36% in 2010, versus 32% in 2009). Demographically,

Figure

Organic buyers and non-buyers

Source: OTA

	Organic buyers		Non-buyers	
	2009	2010	2009	2010
<i>Base = Total parents</i>	<i>(n=862)</i>	<i>(n=862)</i>	<i>(n=862)</i>	<i>(n=862)</i>
Under 25 years old	14%	17%	5%	6%
Education				
High School	21%	20%	43%	37%
College	61%	60%	46%	52%
Graduate school	23%	20%	9%	11%
Annual Income				
<\$35,000	26%	22%	41%	28%
\$35,000 - \$100,000	51%	51%	48%	60%
\$100,000+	15%	22%	5%	8%
Ethnicity				
White	78%	81%	88%	85%
Asian / Pacific Islander	9%	7%	2%	2%
African American / Black	7%	7%	6%	10%

Shading of boxes indicates notable differences between Organic Buyers and Non-Buyers.

consumers' education level appears to be more significant than income level in predicting organic purchase behaviour.

The influence of research findings

During 2010, several reports increased consumer concerns over conventional food production. For instance, the U.S. President's Cancer Panel Report released in May 2010 exhorted consumers to choose food grown without pesticides or chemical fertilizers, antibiotics, or growth hormones to help decrease their exposure to environmental chemicals that can increase their risk of contracting cancer. Organic agriculture and food meet all of these recommendations. "The American people—even before they are born—are bombarded continually with myriad combinations of these dangerous exposures," said the Panel's letter to President Obama. It added: "the Panel urges you most strongly to use the power of your office to remove the carcinogens and other toxins from our food, water, and air that needlessly increase health care costs, cripple our nation's productivity, and devastate American lives."

This was followed by a major study in the journal *Pediatrics* warning consumers about the potential hazards of pesticides in food. This study concluded that exposure to organophosphate pesticides at levels common among U.S. children may contribute to the prevalence of attention deficit/hyperactivity disorder (ADHD) in these children. The use of organophosphates is prohibited in organic production. Meanwhile, in July 2010, the U.S. Food and Drug Administration (FDA) announced draft guidance recommending the judicious use of antibiotics in food-



producing animals. The FDA said the evidence now indicates the non-therapeutic use of antibiotics to promote animal growth or promote public health has not protected human health. Up to 70 percent of all antibiotics used in the United States are used for 'non-therapeutic' purposes in industrial food animal production, according to the Union of Concerned Scientists, which defines 'non-therapeutic' as the use of antibiotics in the absence of diagnosed disease. Food-producing animals on industrial farms often are routinely fed antibiotics in food and water to promote weight gain and feed efficiency and to compensate for overcrowding and unsanitary conditions. Organic practices in the United States do

not allow any use of antibiotics in food-producing animals.

In other news, scientists at the Louisiana Universities' Marine Consortium reported that the dead zone—the oxygen-depleted area where little marine life can survive—in the Gulf of Mexico this past summer

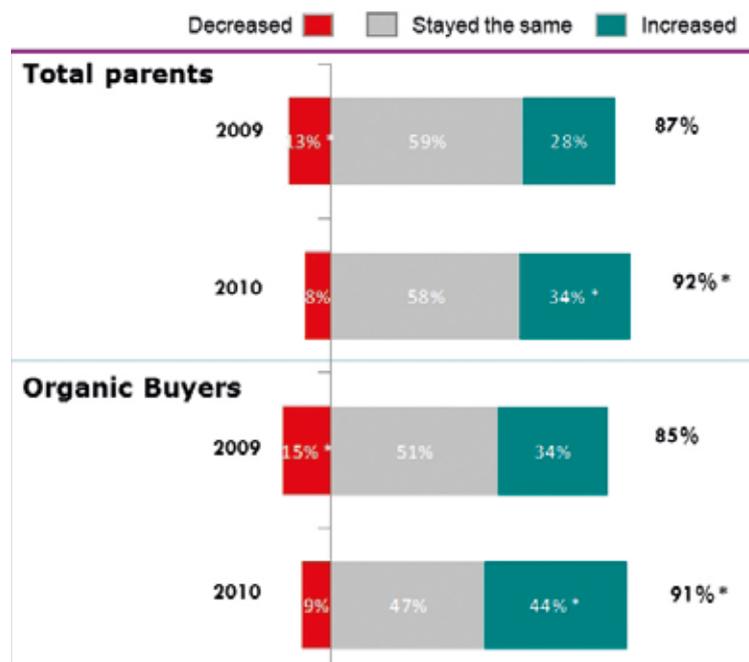
was the biggest ever, equalling an area the size of the state of Massachusetts. In 2010 the dead zone stretched from the mouth of the Mississippi River, west to Galveston, Texas. The source of this phenomenon is the runoff of excess nitrogen and phosphorus from synthetic fertilizers used in fields in the Midwest corn-belt region.

Market challenges

Despite such findings, there is an ongoing need to get messages about the benefits of organic not only to consumers but also to policy-setting bodies. The current challenges facing the U.S. organic sector include the lack of distinction between competing and unregulated eco-labels

Figure
Changes in Trust of Organic Labeling

Source: OTA



and organic products, competitive pressure from non-organic agriculture, a changing political climate resulting in federal budget cuts and non-tariff barriers to trade.

Many consumers are confused about the difference between the claims for 'natural' and organic foods. On average, eight in ten parents believe foods labelled as 'natural' follow the standards and requirements of organic foods. At the same time, a majority of parents have indicated a willingness to pay for food grown without synthetic pesticides or fertilizers, antibiotics or synthetic hormones, and other practices that are only offered through organic agriculture.

Meanwhile, groups such as the Alliance for Food and Farming are actively sending out confusing messages by claiming the practices used in intensive conventional agriculture are safe and should not be of concern to consumers. In addition, a changing political landscape and efforts to cut back on agricultural programmes threaten the gains that the organic sector has made on the national level in recent years.

Solutions and trade news

Recognizing the need to further educate consumers about competing unregulated eco-labels and the benefits of organic agriculture, the Organic Trade Association (OTA) launched an online ad campaign



in late 2010 targeting consumers by providing timely information on topical food-related issues. These ads appear on Google and Facebook in proximity to relevant online news stories and drive traffic to OTA's consumer website (www.OrganicWorthIt.com). This contains specific pages that address key issues, encourage people to sign-up to newsletters and help consumers find organic products via OTA's member directory. In the first 60

days alone, this campaign, which differentiates organic as the solution, garnered over 22 million viewings. On the international trade front, meanwhile, the United States has adopted Harmonized System codes to trace both imports and exports of organic products. The new U.S. trade codes include 20 import

and 23 export codes. Such codes will also be useful tools to trace U.S. imports and exports of organic products and will provide concrete data for use in future trade discussions. ■

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Additional resources are available at www.ota.com, www.TheOrganicPages.com, www.USOrganicProducts.com, and www.organicWorthIt.org.

	Organic Farms	All Other Farms
Gross Sales	\$217,675	\$134,807
Production Expenses	\$171,978	\$109,359
Operating Profit	\$45,697	\$25,448

Figure
Changes in Trust of Organic Labeling

Source: OTA