Will organic fruit, vegetables get cheaper soon?

August 26 2010

Many grocery stores now carry at least some types of organic fruit and vegetables, thanks to the growing demand for these products that are viewed as more environmentally friendly and safer to eat than other produce. From 2005 to 2008, organic food sales in the United States went up 53 percent. Now, a new study led by professor Timothy Richards of the W. P. Carey School of Business at Arizona State University looks at why organic produce prices have been so high, why they're finally starting to plunge, and whether a new safety risk is being introduced.

"The demand for organic fruit and vegetables has been growing at a rate far greater than the rest of the produce industry," says Richards, the Marvin and June Morrison Chair of Agribusiness and Resource Management at the W. P. Carey School of Business. "However, the steep cost needed for growers to buy new equipment and meet organic certification standards has meant the supply was slow to adjust, keeping organic produce prices high. That's beginning to change."

In his new study, recently published online in the journal Agribusiness, Richards and his co-authors looked specifically at apples grown in Washington State, which supplies about 70 percent of U.S. apples, as an example of the overall organic produce-price situation. Not surprisingly, the researchers found retail and wholesale prices for most organic apples were far higher than those for nonorganic apples. However, they also found that suppliers of organic apples have much greater market power and a higher profit margin than suppliers of other apples.

“This supports our idea that a shortage in organic apple supply has shifted bargaining power from retailers to suppliers for organic apples,” explains Richards. “Grocery retailers know they should charge lower prices on organic produce to induce new customers to try something that can often appear inferior in the store, but because of the lack of suppliers, they haven’t been able to do that.”

The new research shows retailers only earn 7.4 percent of the profit margin on organic applies, instead of 75.3 percent on nonorganic apples; that can leave big money for the suppliers. This realization is enticing more American suppliers to start growing organic, despite the cost of meeting certification standards, which can require investment in new production methods.

“Also, organic prices really started to fall once Walmart announced it was going to sell organic food, creating a huge new venue for the products,” adds Richards. “All of this together means prices will soon stop being an obstacle for consumers who want to buy organics.”

Still, one possible pitfall from the high profit margin centers on foreign suppliers. They are also getting into the market since they see the big profit potential and a lack of constraints from their own governments.

“Foreign suppliers are subjected to relatively weak standards, so their presence in the market is growing,” says Richards. “While this will help drive prices down, it also brings with it new food safety concerns and invasive species risk.”

Richards points out that this is important to examine as policy discussions on organic produce take place. He says it’s especially true when altering the definition of organic products, rules regarding their import, or advertising strategies by retailers and suppliers.

More information: The study can be found at onlinelibrary.wiley.com/doi/10 … 2/agr.20251/abstract

Provided by Arizona State University

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