

Public Abstract

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Title:ORGANIC MILK DEMAND AND SUPPLY IN THE U.S. AND IMPLICATIONS FOR ORGANIC MILK INDUSTRY

Organic food in the U.S. has attracted great interest from consumers since the late 1990s for health and environmental reasons. Organic dairy is the second largest organic food group after fruit and vegetables. Two large organic milk processors coexist in the U.S. One of them is a cooperative and the other is an investor-owned firm. The pricing strategy for organic raw milk is very different than for conventional milk. Since 1989, the price of organic milk has steadily increased with a clear trend. However, the price of conventional milk has fluctuated from year to year, and even from month to month. Compared with conventional milk, the organic milk farm price is more stable and predictable from month to month. I hypothesize that the duopsony market structure and the cooperative play important roles in the pricing of organic raw milk and protect organic dairy farmers' profitability.

The general objective of this study is to examine the organic dairy industry supply-demand coordination challenge with a specific emphasis on the consumer demand side. Specifically, my first objective is to examine consumer demand for organic and conventional milk in the U.S. and how consumer response to price and income changes. This study provides information about market conditions and how consumer demand for organic milk products affect farm milk price.

The second objective is to describe participants in the organic milk industry from production to processing, to compare price and profitability for organic and conventional dairy farms, and to provide decision-making information for potential organic dairy farmers.

The third objective is to examine a supply chain coordinator in the organic dairy industry, Organic Valley, and its internal decision-making challenges in balancing supply and demand, and stabilizing the price of raw milk in the organic milk value chain.