

REPORT ON

ECONOMIC BARRIERS TO ORGANIC TRANSITION

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Report on Economic Barriers to Organic Transition

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About CCOF

CCOF (California Certified Organic Farmers) is an organic certification agency, advocacy organization, and foundation. A small group of California farmers founded CCOF in 1973. Today, CCOF certifies and advocates on behalf of more than 3,000 certified organic members in 41 states and three countries, covering 2.1 million acres of productive farmland.

CCOF's mission is to advance organic agriculture for a healthy world.

We accomplish our purpose through organic certification, education, advocacy, and promotion. CCOF envisions a world where organic *is* the norm.

CCOF membership is diverse. From field to fork, we represent organic growers, livestock producers, ingredient suppliers, handlers, packaging companies, warehousing and storage facilities, brokers, wholesalers, private labelers, retailers, and restaurants. Collectively, our membership produces over 1,100 different organic crops, products, and services. CCOF also represents noncertified operations, such as organic consumers, who join CCOF as supporting members.

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Executive Summary

This report synthesizes discussions from two focus groups on the economic barriers to organic transition. CCOF hosted the focus groups under a contract with the U.S. Department of Agriculture (USDA) through its Sound and Sensible initiative, an effort to make organic certification accessible, attainable, and affordable. The focus group participants included conventional producers, organic producers, and representatives from mixed operations that produce both organic and non-organic products, economic development experts, policy experts, and other organic business stakeholders.

Discussions at the sessions had two parts: first, participants identified economic barriers to the transition of existing agricultural land to organic production; second, participants brainstormed policies, private industry models, and other options to remove barriers to transition.

Barriers to Organic Transition

The following primary themes emerged from the discussions concerning barriers to organic transition:

1. The three-year organic transition period poses numerous challenges, including need for capital investment, high operating costs, risk management, and regulatory compliance costs at the same time that product is not yet eligible for the organic price premium.
2. Inadequate information to sufficiently develop business plans or economic models for organic transition.
3. Public investment in organic agriculture research, technical support, and education is not sufficient to meet the needs of existing, expanding, and future organic producers.
4. Access to land and capital are significant challenges for farmers in high-cost regions of the United States.

Methods to Overcome Barriers to Organic Transition

No single method to remove barriers to transition was the most obvious solution; rather, participants weighed the costs and benefits of each barrier. From these conversations, five key considerations for removing barriers to transition emerged:

1. Develop solutions for the most challenging barriers, land and labor, in high-cost regions of the United States.
2. Develop public investment in organic research and technical assistance; consider public investment in transition programs.
3. Develop accessible sources of organic market information.
4. Develop transitional tools, such as a certified transitional label or certified transitional program, and continue communication and education about opportunities for organic production.
5. Develop educational tools and resources such as financial and technical assistance for new, beginning, and next-generation farmers.

Key Focus Group Takeaways

Participants identified a number of interrelated barriers and did not develop a specific method to overcome these barriers. Nonetheless, the following next steps from the discussions should inform future efforts to understand and remove barriers to transition:

1. Educate policy makers and public officials about the challenges and opportunities of organic transition.
2. Identify and gather economic information to inform transitional strategies.
3. Support new, beginning, and next-generation organic farmers with the information and resources they need to survive through the transition period.
4. Work to overcome land access barriers.
5. Explore strategies for overcoming labor shortages.

CHAPTER I.

Findings

Introduction

In 2014, the U.S. Department of Agriculture (USDA) contracted with organizations to identify and remove barriers to organic certification. The goal of the contracts was to make organic certification accessible, attainable, and affordable for all operations.

Among other projects, CCOF's contract included hosting two focus groups to learn about economic barriers to transition. CCOF invited a variety of participants, including economic development experts; organic, non-organic, and mixed operation farmers who produce both organic and non-organic crops; agricultural business representatives; agricultural policy experts; and other key stakeholders. CCOF contracted with organic policy expert Mark Lipson to develop the agenda and discussion questions, and facilitate the group discussions. See Appendix I for the list of participants and Appendix II for the agenda.

Identified Barriers

Participants identified the following economic barriers to transitioning agricultural land to organic production.

Three-Year Transition

To transition agricultural land to certified organic production, producers may not apply prohibited inputs to the land for three years prior to their first certified organic harvest. The transition from non-organic practices and prohibited inputs to organic practices and allowed inputs may result in yield losses and higher operating costs. Meanwhile, growers do not receive the premium organic price during the three-year transition because organic law specifies that they cannot sell, label, or represent crops as organic or use the organic seal until they complete the three-year transition period. Notably, the transition period is not an isolated barrier; rather, it increases the challenges and risks associated with other barriers because it is a unique period of time where producers are investing in new production and marketing practices without short-term returns in their investments.

Land Access

Cost and availability of farm land are both significant challenges to organic producers. They must make rent or mortgage payments on land during the three-year transition period. If crop yields drop and/or operating costs increase before growers receive the premium organic price, then they may not be able to afford their rent or mortgage payments. Notably, land cost and availability vary widely between states and regions. Therefore, the cost of land during the transition period may be too uncertain or too high for some producers in certain states and regions.

Moreover, competition for land with buyers desiring to grow high-value crops or for nonagricultural development is driving up costs and decreasing availability of land for purchase or rent. For leased land, producers must work with landowners to transition to organic. However, landowners may pressure producers to plant perennial or currently high value crops, such as nuts. Producers who are interested in purchasing land can be outpriced when competitors are willing to pay top dollar to grow high value crops such as nuts and perennials.

Participants also noted a need to inventory land in transition. Currently, no complete survey exists on how much land is in transition, how much land is already organic, how much land is non-organic, and how much land may be moving in or out of organic production. In other words, participants cited a need for an understanding of available organic acreage as well as land that may be available for organic production in the near future.

Land Ownership Versus Leases

Producers who operate on leased land face several challenges. Length of leases impacts the feasibility of transition. In some areas, leases as short as five years are common. The five-year leases common in California act as a disincentive to organic transition. Growers who farm under five-year leases are unlikely to transition to organic because only two years remain on the lease after the three-year transition to recoup their transition costs. Therefore, investing in a three-year transition on land with a five-year lease term may not be a viable option. Even with longer leases, producers have to work with landowners to transition to organic. Many landowners pressure producers to go into nut or perennial production rather than transition to organic because of high profit opportunities.

Capital Investments

Producers must invest in long-term capital such as machinery and infrastructure without short-term returns. For mixed operations, organic standards require growers to either use separate equipment or clean equipment between non-organic and organic use. Some types of operations may need new buildings such as storage facilities. Livestock producers need access to certified organic meat processing facilities. Thus, organic growers need capital to invest in infrastructure, and they may not see adequate returns to cover those investments until they can market their crops as certified organic at the end of the transition period.

Labor Cost and Availability

Generally, organic growers have higher labor costs because they utilize more human labor to manage weeds than conventional growers, who rely on synthetic herbicides. But perhaps the larger barrier is labor availability. Federal immigration policy and general disinterest in farm work among younger generations have created a shortage of agricultural labor. Existing organic growers already struggle to source enough labor to meet their existing needs. Even producers willing to absorb higher labor costs may not have the choice to transition because they do not have an adequate labor force.

Higher Input and Operating Costs

Organic production relies on long-term soil health management rather than synthetic fertilizers and inputs. For instance, organic growers rely on cover crops as a primary source of nitrogen, and the cost of growing and incorporating a cover crop is often not balanced by a marketable yield. In general, biological forms of crop nutrients are more expensive than inexpensive synthetic sources.

Skills and Training

Organic certification requires new recordkeeping and production management skills. Growers have to understand organic practices such as crop rotation, cover crop management, and biological nutrient and pest management. They will also have to understand what records to keep, how to prevent commingling of organic and non-organic crops, and how to comply with national (and in some cases, state) organic regulations.

Growers will have to train staff, and larger growers may need to create an organic compliance department.

Regulatory Compliance Costs

All agricultural producers must comply with state and federal regulations. Organic producers take on an additional level of regulatory compliance to meet federal organic standards. Organic producers in California must also comply with state-level organic registration and reporting requirements. Some operations may have to create organic compliance positions or departments and set up new recordkeeping and reporting systems.

Lower Yields

During the transition period, growers may experience yield loss as the system rebounds from chemical management. Meanwhile, growers do not receive the premium organic price because they cannot not sell, label, or represent the product as organic or use organic seals until they complete the three-year transition period. Thus, growers may lose profits during the three-year transition period because they may have lower yields and do not receive the premium organic price for crops harvested on transitioning land.

Market Volatility

Producers must manage for changes in the marketplace over the three-year transition period. For example, a grower may initiate transition when an organic crop premium is high. However, the grower may not receive that premium for three years because the grower cannot market the crop as certified organic. If an organic price is high at the start of transition, but drops close to the conventional price by the time the grower completes transition, then the producer invested significant resources for no or little return. Therefore, growers may be unwilling or unable to begin transition without some sense of market stability over the three-year transition for all crops used in the rotation.

Access to Organic Market and Price Information

Some producers may need more information regarding premium prices – including comparisons to non-organic prices – because producers will need to consider whether the organic premium price will offset the costs of transition. For many producers, general market information about premium prices may be helpful, but they will also have to make their own economic analysis based upon whatever price is set in their contracts with buyers.

Accounting for Crop Rotation Markets and Yields

Crop rotation is a standard organic practice—growers rotate crops that will support soil health and prevent pest and diseases. Some growers may grow high value crops, like tomatoes, but may need to grow a lower value crop to build the soil or bring nutrients into the system. The grower needs to account for costs and benefits of all crops in the rotation.

In addition to better understanding price premiums, participants stressed the importance of understanding yield changes and rates of return. Some organic producers have yet to determine the best crop rotation for plant and soil health as well as the best crop rotation for long-term economic planning. Moreover, organic growers need a whole system price index that includes crop pricing for rotational crops, because a high premium price for a crop that rotates with a low value crop may skew calculations.

Lack of Public Incentives or Tax Breaks for Organic Agriculture

Participants discussed the availability of federal and state incentives and tax breaks. The primary type of public support for transitioning land to organic is through technical and financial assistance under the Environmental Qualities Incentive Program (EQIP) provided by the Natural Resource Conservation Service (NRCS). However, the subsidy rate may not be sufficient to address actual economic concerns of growers, especially in states like California with high land costs. Another form of financial assistance to organic producers is federal cost share, which is a rebate to organic growers, but it only covers costs of certification.

Lack of Public Investment in Organic Research and Technical Assistance

State and federal investment in organic research is severely limited, which limits growers' options for managing pests and disease. Moreover, organic growers do not have access to the same level of plant breeding research as conventional growers. With less research and limited approved inputs, transitioning to organic may put producers in a more vulnerable position than conventional production.

Additionally, technical assistance for organic production varies by region. Some regions have Farm Service Agency and NRCS staff that are knowledgeable about organic practices, but some agency staff lack the experience and familiarity with organic practices and standards to advise organic producers.

Lack of Resources for New and Beginning Farmers, Including Next-Generation Farmers

Most participants agreed that new and beginning farmers are a promising source, if not the most likely source, for increased organic production in the United States. However, many beginning farmers lack the capital to purchase land and make the long-term investment in organic production. Next-generation farmers – farmers who will take over their family's farm – may lack the experience and technical support to transition a conventional family farm to organic production. Notably, existing agriculture degree programs may lack adequate focus on organic concepts. Many land grant universities could better prepare farmers to succeed in certified organic production.

Identified Solutions

Participants identified the following solutions to economic barriers to transitioning agricultural land to organic production:

Increase Public Investment in Research and Technical Assistance

Participants agreed that increased public investment in organic agricultural research and technical assistance would help producers transition to organic. Investing in research to support organic production would make transition less risky because it may increase options for effective pest and fertility management. Similarly, increased investment in technical assistance for organic production would bridge the gap between knowledge of conventional farming practices and organic farming practices.

Increase Public Investment in State and Federal Incentives or Tax Breaks

Some participants thought that more public incentives that recognize the multiple benefits of organic (water-use efficiency, reduced water and air pollution, carbon sequestration, etc.) would support transition because they would help bridge the three-year transition gap where producers do not receive the premium organic price. Incentives or tax breaks could also help farmers, especially new and beginning farmers, who lack capital to transition.

Other participants thought that public incentives and tax breaks are not viable solutions to transition barriers. They cited concerns that incentives or tax breaks could upset the premium price or disrupt the market. Instead of public incentives, they emphasized the need for individual operations to develop their own business plans to make transition a viable option.

Develop an Economic Model for Transition and Fill in Gaps in Organic Market and Price Information

Participants discussed methods to reduce risk of transition through an economic analysis. For example, participants suggested that if producers were confident that the premium price was worth the transition, even three years out, then they would overcome many of the economic barriers to transition. To calculate the economic viability of transition, producers need to take into account a number of factors such as market stability, cost of increased labor force, cost of new regulatory compliance (including non-monetary costs such as time), premium price stability, premium price compared to conventional prices, land costs, etc.

Some participants thought that agricultural economic experts could develop a general model that operations could use as a starting point for their own operation's calculations; others believed strongly that a general economic model for transition is not a worthwhile endeavor because operations will have too many variables depending upon their region, their business model, their contracts, etc.

Develop Certified Transitional Labeling, Increase use of Certified Transitional Programs

Participants discussed developing a certified transitional label to support producers during the three-year transition period. Organic standards allow for certified transitional labels, which are labels that explain that a crop or product was produced on transitional land that is verified by a certifier. However, certified transitional labels are not commonly used and uncertainty among organic producers and certifiers exist as to the meaning of such labels. The transitional label could support transition because end users, such as food manufacturers, may be willing to pay the premium price for product grown on transitional land with the understanding that certified organic crops will be available from the producer at the end of the transition period. A transitional label could help establish relationships between producers and end users that offset short-term investment costs.

Some participants noted that a transitional label scheme may be more successful with a certified transitional program. For example, CCOF has a program where producers can enroll at the beginning of the three years and receive support, guidance, and a discount on certification fees.

Develop Support Systems for New, Beginning, and Next-Generation Farmers Who Want to Transition Land to Organic

Beginning farmers will need additional technical assistance and financial support to make the short-term investments in organic transition. Some participants also suggested that it would be helpful to have a report that examines how next-generation farmers have saved the family farm through organic transition, as well as how new and beginning farmers are accessing land to bring into organic production.

Address Labor Availability

Although lack of sufficient labor was cited as a high barrier to transition, no viable solutions were identified.

Address Land Access

Similar to labor, access to land in some states and regions was cited as a high barrier to transition, but no viable solutions were identified. For example, intense competition for land in California from growers desiring to grow high value nut and perennial crops will continue to make land costs too high or landowners unwilling to rent for organic production. In some regions, the high cost of land for beginning farmers will continue to be a barrier unless public subsidies or private capital sources are channeled to these farmers.

Communicate Economic Opportunities Among Stakeholders

Participants agreed that communication and education about economic opportunities in organic production could be improved. For example, end users such as retailers and food manufacturers may need education about why paying the premium organic price during the three-year transition is necessary to increase domestic supply of organic product. A means of communicating specific opportunities to producers, such as industry demand for organic canning tomatoes, could be created. Connecting buyers to organic producers could help reduce economic risks associated with transition. Finally, companies and consumers may need education about what organic production means, and the difference between the organic seal and other eco-labels.

Next Steps to Address Barriers to Transition

Based upon the identified barriers, solutions, and key themes from the focus group discussions, CCOF offers the following next steps to address economic barriers to organic transition:

Educate Policy Makers and Public Officials About the Challenges and Opportunities of Organic Transition

To increase public investment in research and technical assistance, stakeholders will have to work with policy makers and public officials. The high demand for organic production coupled with the low domestic supply sends a strong message that more public investment to overcome barriers to transition is appropriate. Some institutions may need further education about organic research priorities and some technical service providers may need further training in organic production.

Although participants had mixed opinions on the viability of incentives, tax breaks, or subsidy programs, state and federal governments may have tools to help bridge the three-year transition to organic production. Some states, like California, are already developing

incentive programs for agricultural practices that have environmental benefits, especially related to climate change. Therefore, the environmental benefits of organic practices should be communicated to public officials as an initial step for exploring options for public investment in organic transition.

Furthermore, opportunities may exist for agencies to work together to ease unnecessary regulatory burdens or costs of transition.

Identify How to Gather Missing Information for Economic Analysis to Transition

The three-year transition period makes it difficult to calculate the long-term economic viability of organic production. Producers could better evaluate risks if they had access to information such as organic price premiums, market fluctuations during the transition period, yield returns, rotational crop prices, etc. To understand what information is not being gathered, an economic development expert could create a list of basic information relevant to economic analysis of transition. Then, the expert could identify how that information could be supplied by industry or by public agencies. Operations will still have to make decisions on a case by case basis, but more information will improve their ability to calculate risks and potential profits.

Support New, Beginning, and Next-Generation Organic Farmers Through Increased Access to Capital, Land, Technical Assistance, and Educational Opportunities

A strong starting point to address barriers to transition is to explore options to support new and beginning organic farmers because they have less access to capital and land while also requiring more technical and educational assistance. Providing similar resources to next-generation farmers would also be worthwhile.

Work to Overcome Barriers to Transition for Leased Land

Although participants did not identify a best option to address land availability, participants explained that land leasing poses several additional challenges to transition, such as working with short-term leases and addressing landlord pressures to move into one type of production over another. Therefore, efforts to overcome barriers to transition should develop solutions to transitioning leased agricultural land.

Monitor and Explore Options to Address Land Price Competition and Labor Shortages

Land price competition and labor shortages are two of the most significant barriers to transition, yet participants did not identify solutions to address these barriers. Both topics warrant further discussion. For example, a focus group solely dedicated to land price competition and organic transition ideas may be helpful for producers.

APPENDIX I.

Focus Group Participants

Group I: June 22, 2015

Laura Batcha

Organic Trade Association (OTA)

Cathy Calfo

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Bud Colligan

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Group II: June 23, 2015

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APPENDIX II.

Focus Group Agenda

The agenda for both meetings was as follows:

- 9:00 a.m.** Welcome & Opening Remarks
- 9:15 a.m.** Facilitator & Participant Introductions
- 9:30 a.m.** Identify Challenges to Transition
- 10:00 a.m.** Review Existing Efforts to Overcome Challenges to Transition
- 10:45 a.m.** Brainstorm Solutions and Opportunities
- 11:45 a.m.** Wrap Up & Next Steps

APPENDIX II.

Acknowledgements

Facilitator

Mark Lipson
Pacific Plate Organics

Note-taker

Jane Sooby
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Meeting Organizers

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