

America's Organic Farmers Face Issues and Opportunities

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- Organic agriculture has established a foothold in many U.S. farm sectors, particularly among horticultural specialties, but the overall use of organic practices lags behind that of many other countries.
- Recent data from several producer surveys illustrate notable differences and similarities between organic and conventional farmers.
- Emerging issues in the organic sector include dampened consumer demand resulting from the weaker U.S. economy and potential competition from new labels like the “locally grown” label.

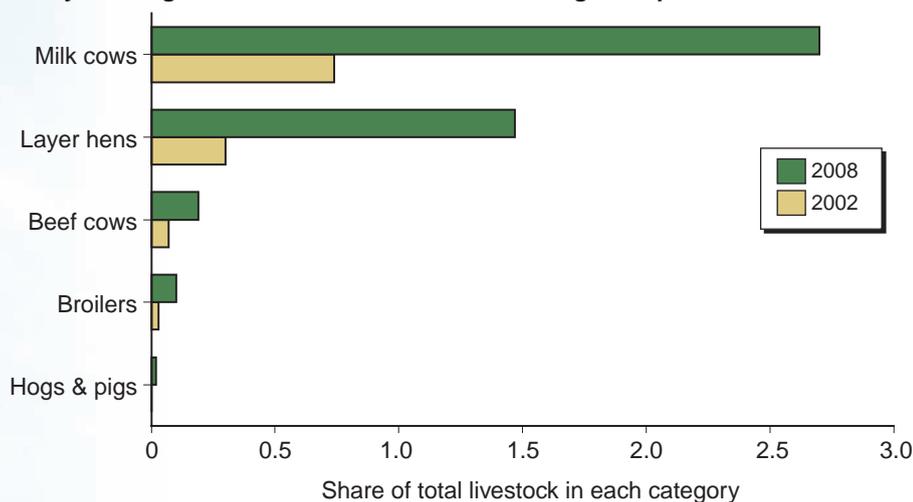
Consumer demand for organic food rose quickly over the past decade, outpacing domestic supply. Initially, the resulting supply shortages hampered growth in the organic food sector. Still, investment in the sector expanded as more farmers developed experience working with organic production systems, Federal regulations, and organic markets.

USDA's national regulatory program explicitly defines organic agriculture as an ecological production system, established “to respond to site-specific conditions by integrating cultural, biological, and mechanical practices that foster cycling of resources, promote ecological balance, and conserve biodiversity.” As such, organic crop producers use practices aimed at maintaining or

improving the physical, chemical, and biological condition of soil, minimizing soil erosion, and accommodating an animal's natural nutritional and behavioral requirements. These requirements not only increase organic farm production costs, but impose additional costs on farm operators who are transitioning from conventional to certified organic production.

In 2008, U.S. producers dedicated approximately 4.6 million acres of cropland, rangeland, and pasture to certified organic production, more than double the 1.8 million certified acres in 2000, according to ERS estimates (see box, “Tracking the Trends in Organic Agriculture”). Certified organic cropland increased 41 percent between 2000 and 2005 and was up 51 percent between

Dairy had largest share of livestock in certified organic operations in 2008



Source: USDA, Economic Research Service, based on information from USDA-accredited certifiers.

2005 and 2008, reaching over 2.2 million acres. The organic livestock sector grew even faster during this period, with the largest gains in organic dairy and egg production. Certified organic milk cows increased steadily from approximately 87,000 animals in 2000 to over 200,000 in 2008, and organic layer hens grew from 2.4 million to 348 million. Nonetheless, U.S. organic crop acreage accounted for less than 1 percent of total crop acreage in 2008, much lower than that in many other countries, including Switzerland (11 percent in 2007), Italy (9 percent), Uruguay (over 6 percent), UK (over 4 percent) and Mexico (nearly 3 percent).

The relatively low level of organic farming in the U.S. may be attributed to several factors. When demand for organically produced food began emerging in the 1970s, few resources existed to help farmers with production and marketing. Although more resources for conservation assistance are now available for farmers considering the transition to organic production, the level of assistance through

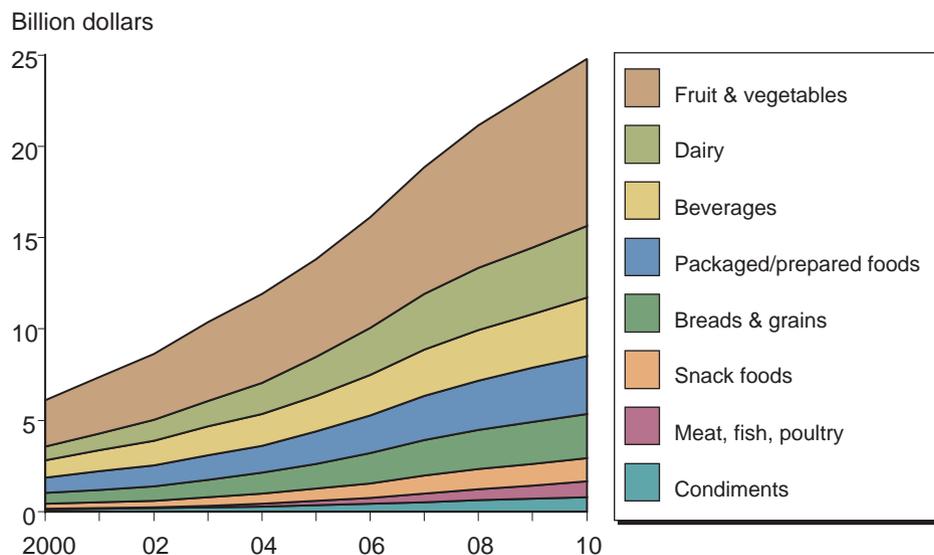
research and extension may be a limiting factor. Organic farmers also increasingly face competition from products with new labels like “locally grown.” And, the weaker U.S. economy over the past couple of years has presented U.S. organic producers with another challenge—dampened organic sales in some food sectors.

Organic Products Are a Small but Growing Share of Total Food Sales

Once available only in natural product stores and farmers’ markets, organic foods are now found in conventional supermarkets, value-priced big-box chains, and an expanding array of direct-to-consumer markets. According to the *Nutrition Business Journal*, U.S. organic food sales are expected to reach \$25 billion in 2010, up from \$3.6 billion in 1997.

Organic products accounted for over 3.5 percent of food sold for at-home consumption in 2009. Produce and dairy products accounted for over half of organic food sales in 2009, followed by soymilk and other beverages, packaged foods, breads/grains, snack foods, condiments, and meat. Sales of other organic products (including herbal supplements, personal care products, flowers, linens, and clothing) started from a smaller base but are growing even faster than total organic food sales.

U.S. organic food sales estimated to reach nearly \$25 billion in 2010



Source: USDA, Economic Research Service using data from the *Nutrition Business Journal*.

Who Are America's Organic Farmers?

The U.S. organic farm sector consists of a broad mix of farm sizes and production specialties and includes many farms that manage both conventional and organic crops and livestock operations. USDA-accredited groups provided organic certification to nearly 13,000 U.S. producers in 2008, including some who also process their goods into organic jam, cheese, wine, and other products. Operations with less than \$5,000 in annual organic sales do not have to be certified as organic, and a number of these small-scale farms opt not to obtain certification. In 2008, USDA

conducted its first nationwide survey of organic producers. Over 87 percent of certified and small-scale organic farmers responded to the 2008 Organic Production Survey—including 10,903 certified operations and 3,637 operations that were exempt from certification.

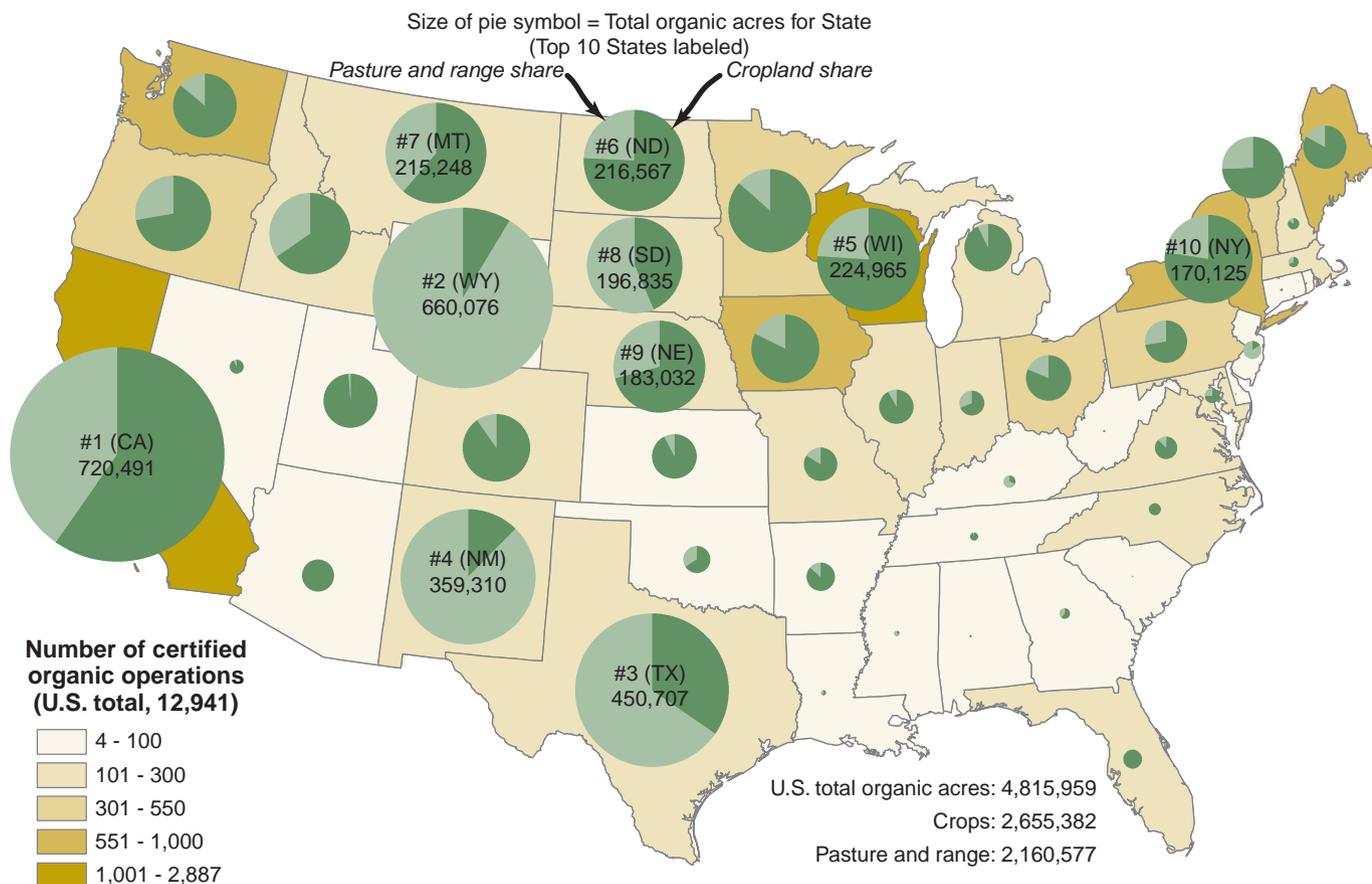
Although there is no typical organic farmer, data from the survey show that certified and exempt organic farmers, on average, tended to operate smaller farms (280 acres) than all U.S. farmers (418 acres). Organic agriculture also has a higher share of female farm and ranch operators (22 percent, compared with 14 percent for conventional agriculture) and younger

operators (average age was 53 for organic and 57 for all farm operators).

Farming is the primary occupation for 60 percent of organic operators and 45 percent of all agricultural producers. And, similar to the shares for conventional agriculture, more than 90 percent of organic farm sales are made by about 25 percent of the organic farm operations. About 31 percent of the organic operations had sales under \$5,000, compared with 45 percent of conventional operations.

The structure of the U.S. organic production sector differs significantly from that of conventional agriculture. For example, fruit and vegetables account for a

Organic operations accounted for less than 1 percent of total crop acreage in 2008



Source: USDA, Economic Research Service, based on information from USDA-accredited certifiers.

much larger percentage of total acreage in organic farming than in conventional farming. Organic fruit and vegetable acreage expanded substantially during the past decade: 3 percent of U.S. fruit acreage and over 8 percent of U.S. vegetable acreage was managed organically in 2008, up from 2.5 and 4.7 percent, respectively, in 2005. Among all U.S. fruit and vegetables, the highest adoption levels includes berries (9 percent of total U.S. berry acreage), lettuce (8 percent), and apples (5 percent). California remains the leading State in certified organic cropland, with nearly 400,000 acres, with over 40 percent in fruit and vegetable production.

Organic farming is a small segment of many farm sectors—corn (0.2 percent of total corn acreage is organic), soybeans (0.2 percent), and cotton (0.14 percent) have the lowest levels of adoption. U.S. grain production accounts for a much bigger share in the conventional agriculture sector than in the organic sector. For example, corn acreage accounts for 25 percent of conventional cropland, but just 7 percent of certified organic cropland. Conventional grain producers generally associate organic production with a wide variety of financial and other risks.

The organic market has its origins in premiums that small-scale farmers derived from marketing produce directly to consumers and small health food stores, a niche particularly well-suited to maintaining the profitability of small farms. In 2008, 83 percent of total organic sales were made through wholesale markets and 7 percent directly to consumers, mostly at farm stands and farmers' markets and through community-supported agriculture subscriptions and Internet sales. In comparison, 0.4 percent of total

Tracking the Trends in Organic Agriculture

USDA has monitored changes in the U.S. organic farm sector since the 1990s using a variety of information sources. ERS has compiled data on the amount of certified U.S. organic acreage and livestock since 1997, identifying State-level adoption patterns for over 40 commodities based on information from State and private organic certifiers, who are responsible for assuring that organic products are grown and processed according to USDA's national standards.

The 2007 Census of Agriculture surveyed U.S. farmers about their farms and ranches, and the more detailed 2008 Organic Production Survey surveyed all U.S. organic farmers, covering such topics as organic sales, the gender and age of the organic operator, and whether farming is considered the operator's primary occupation.

ERS, along with USDA's National Agricultural Statistics Service, included a targeted sample of organic producers for the first time in the 2005 Agricultural Resource Management Survey (ARMS). ARMS collects detailed information about the production practices and costs on U.S. farms and ranches.

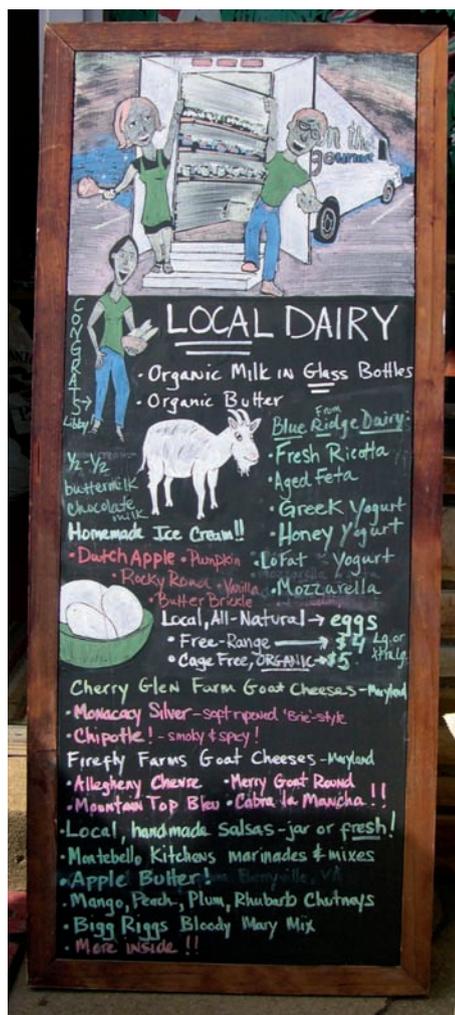
ERS also conducted two nationwide surveys of organic distributors, processors, manufacturers, and other handlers, which were administered in 2004 and 2007, to assess their procurement and contracting of organic products and ingredients (see "U.S. Organic Handlers Mostly Small, Focus on Fruits and Vegetables" in the September 2008 issue of *Amber Waves*).



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conventional sales were made directly to consumers, according to the 2007 Census of Agriculture. Organic farmers also marketed directly to conventional supermarkets (5 percent of total sales); natural foods stores (4 percent); and restaurants, hospitals, schools, and other institutions (1 percent).

While organic food often commands significant price premiums at the farm level, it also costs more to produce than conventionally produced food. According to recent ERS analysis of national dairy and soybean producer data, total production costs were significantly higher for organic dairy and soybean operations than for conventional operations (see "Organic



Gary Jeter

Dairy Sector Evolves To Meet Changing Demand” in the March 2010 issue of *Amber Waves*). With an average price premium of \$6.69 per hundredweight for organic milk, organic milk producers were able to cover most of the additional costs of organic production in 2005. In 2006, organic soybeans were more profitable than conventional soybeans, mainly because the price premiums paid for organic soybeans compensated for their higher costs of production.

U.S. Organic Farmers Face New Competition—Locally and Globally

Despite the rapid growth of the organic sector and the entry of larger organic farms over the past decade, the smallest U.S. organic farms have maintained their consumer base. Small-scale farmers producing a wide variety of horticultural products—and, increasingly, livestock products—for sale in direct markets have seen little increased competition from more distant suppliers. Many patrons of farmers’ markets, independent restaurants, small food shops, and other direct markets are explicitly seeking locally grown organic products. However, some fruit and vegetable growers who marketed to natural foods grocery stores during the 1990s have reported losing some of their sales to imports and to larger domestic producers as these stores have expanded beyond their original markets.

The 2002 U.S. National Organic Program (NOP) streamlined the certification process for international as well as domestic trade. Organic farmers and handlers are permitted to export organic products to the United States if they meet NOP and other regulatory standards and if they are certified by a public or private organic certification body with USDA accreditation. In 2007, USDA-accredited organizations certified approximately 11,000 producers and handlers in over 100 countries. Canada, Italy, Turkey, China, and Mexico accounted for half the total.

According to USDA’s Foreign Agricultural Service, organic imports include fresh fruit and vegetables, products not grown much in the United States (such as coffee, tea, cocoa, and tropical produce), and raw ingredients, including soybeans.

Imports have increased in response to the rapid growth in U.S demand for organic products and the price premiums organic products command. Organic farming is often labor intensive, and developing countries with lower farm labor costs may have a competitive advantage for some organic products. A 2004 ERS survey of organic distributors, processors, and other handlers (see box on page 37) indicated that, while respondents relied primarily on domestic suppliers, 38 percent imported some or all of their organic products. U.S. feed grain distributors and soy product manufacturers report sourcing organic soybeans from other countries. U.S. organic soybean acreage has remained relatively flat since the early 2000s despite increasing demand for organic feed grains and consumer products such as soy milk.

U.S. organic cotton producers began losing market share in the 1990s to countries with lower labor, input, and technology costs. While some small specialty shop retailers, such as Patagonia, have been carrying products made with organic cotton for well over a decade, mainstream clothing and linen retailers have only recently begun to do so. Wal-Mart made an increase in the use of organic cotton one of its sustainability goals several years ago and has begun purchasing transitional cotton at organic cotton prices to help encourage farmers to make the switch to organic management. U.S. organic acreage accounted for only 4 percent of the nearly 400,000 certified organic cotton acres worldwide during the 2007/08 crop year.

Organic producers also face competition from new labels like “locally grown.” USDA regulations define organic production as an ecological production system and do not address where or how

organic farmers and handlers market their products. Several national surveys have found that consumers tend to prefer local products, even if they are not organic, over nonlocal organic products.

The relationship between organic and local agriculture is not well understood. The popular literature has often portrayed organic and local as competing food labels even though they are complementary—organic agriculture addresses the way food is produced, and local agriculture addresses where it is produced. According to the 2007 Census of Agriculture and follow on survey of organic producers in 2008, approximately 136,000 farmers reported selling agricultural products directly to consumers, while only about 14,540 farmers reported producing organic products.

Broadening Public Support for Organic and Transitioning Farmers

USDA implemented a National Organic Program in 2002, which set a national organic standard and required organic farmers, processors, and han-

dlers to be certified by a State or private organization accredited by USDA. This major USDA initiative helped trigger rapid growth in consumer demand for organic food by ensuring consumer confidence in the organic label according to a number of research studies. Nonetheless, the switch to organic farming practices among U.S. farmers has not been sufficient for domestic organic supplies to keep pace with consumer demand in a number of food sectors.

The aim of public investment in organic agriculture is to facilitate wider adoption of organic farming practices among the Nation's farmers and to improve consumer access to organic products. The 2008 Farm Act included several national initiatives designed to increase the amount of organic acreage and to address a wide range of issues that farmers expressed as major obstacles to adopting organic production. In 2009, USDA's Natural Resources Conservation Service implemented a new conservation initiative, the Environmental Quality Incentive Program (EQIP) Organic Initiative, aimed

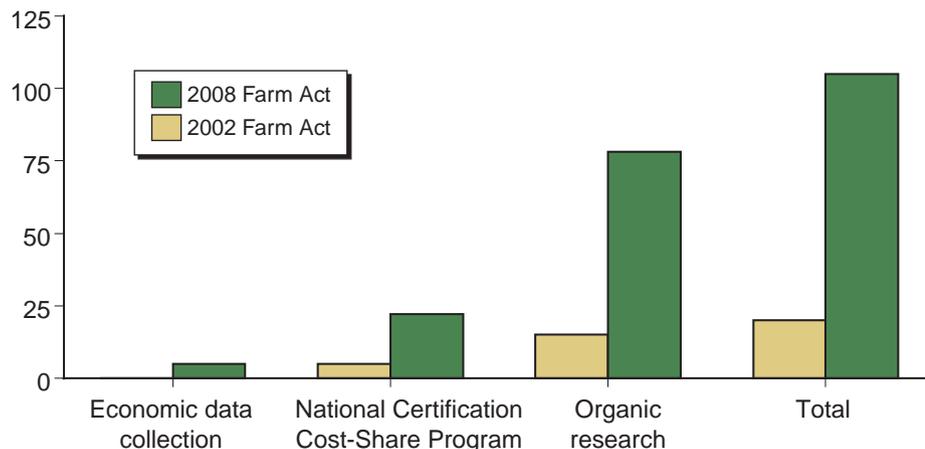
at assisting organic and transitional farmers. This new initiative makes conservation practices related to organic production and transition to organic production eligible for payments under the EQIP conservation program.

According to NRCS, in 2009, the EQIP Organic Initiative obligated over \$36 million in financial assistance under nearly 1,500 contracts with certified and transitioning organic farmers in 49 States. Over 300,000 acres of farmland is enrolled under these contracts.

USDA has increased producer subsidies to help pay for the cost of certification and is taking steps to increase access for organic producers to Federal credit, trade assistance, and crop insurance programs. USDA also is bolstering funding for research on organic production and for organic-oriented marketing research and data collection. *W*

Mandatory USDA spending on organic agriculture is up fivefold from 2002

Million dollars



Sources: USDA, Economic Research Service using USDA, Office of Budget and Policy Analysis budget summary data (2002) and Congressional Budget Office (2008).

This article is drawn from . . .

Emerging Issues in the U.S. Organic Industry, by Catherine Greene, Carolyn Dimitri, Biing-Hwan Lin, William McBride, Lydia Oberholtzer, and Travis Smith, EIB-55, USDA, Economic Research Service, June 2009, available at: www.ers.usda.gov/publications/eib55/

ERS Data on Organic Production, available at: www.ers.usda.gov/data/organic/

ERS Data on Commodity Costs and Returns, available at: www.ers.usda.gov/data/costsandreturns/

NASS Ag Census and Organic Production Survey data, available at: www.agcensus.usda.gov/Surveys/