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Options and Opportunities for Producers in Organic Agriculture

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I've been asked to talk a bit about options and opportunities for producers in organic agriculture. I'm going to start out by talking about the market first and work back to the farm and what the challenges are. I used to be a farmer, and I am still a farmer. I have about 3,000 organic chickens, raise about 4 acres of specialty crops, and have all my corn and small grains for my chickens at this time. But mostly I'm the CEO of Organic Valley.

Our cooperative is the CROPP Cooperative (the Cooperative Regions of Organic Producer Pools), started in 1988. The purpose of CROPP is to create and operate a marketing cooperative that promotes regional farm diversity and economic stability by the means of organic agricultural methods and the sale of certified organic products.

When we started we had no idea how we would succeed, and I think that really speaks to this conference. When we started, there were lots of farmers that needed infrastructure building out there, and so they asked us to help. Like the Minnesota farmers who said they wanted to do what we did, and we told them how we did it, and finally they said, "Why don't you just come over here and pick up our milk." So, we basically ended up becoming a national cooperative. We now have farmers in 22 states and it has been a phenomenal ride, and a wonderful experience to get to know farmers all over the country and see what organics has become for them.

Today we have farmers throughout the nation, and dairy is the bulk of our business. But we are a very diverse Co-op, and it is because farms have come to us. We are slowly growing our dairy pools in other regions to access both supply and markets with a more local approach. We have been in the meat business for about 5 years, and we are largely in the Midwest, but we are doing meat processing on the West Coast as well. We have an Egg Pool that is really doing well with eggs in the Midwest and the East Coast. And this all fits into our national marketing of the Organic Valley brand.

This year we are around \$245 million in sales. We have been sustaining \$30-50 million growth for the last 5 years. It has been a phenomenal experience to keep up with it all. And, our branded sales are about 70% of our business. Our brand is Organic Valley. Our product line — being from Wisconsin of course we have way too much cheese. We have tried to focus on the refrigerated dairy set, largely to have efficiency in the transportation, marketing, sales, and processing. We try to be focused, but again, we are driven by farmers. Milk is our main business overall, but our diversity fits not only the consumer demand but also helps balance supply and, a very important issue, utilization of all the ingredients and products.

Eggs are a very strong product as well. One of the things we have tried to do, because organic consumers are not only concerned about organic but also interested in supporting local agriculture, is have different milks that we label all over the country with a regional label so that farmers feel good about

selling their milk locally and consumers can feel good about supporting local agriculture.

We started a separate meat company, for several different reasons, and a separate brand. One of the things I will emphasize here is not all categories of organic agriculture are the same. When people say organic is growing 20% and anything works, that just isn't the case. Some categories are rather strong, some are weak, and some are underdeveloped. As a matter of fact, "organic" meat was illegal until October 2002. So, it has been very handicapped in its development and it is very, very small right now, probably one-tenth of one percent of meat sold. So, you hear a lot about meat, but it is still a category that is in development.

Behind all of this is a tremendous complexity of production plants. We are really a virtual business of sorts and this is where the interaction between us and the rest of the food system is so good, in that we utilize processing plants to process both conventional and organic. We manage over 70 processing plants and own one, and it is really a big difference to have that access.

The top organic categories start with produce followed by soy, milk, and yogurt. The growth rate really varies, but there are a couple of things I wanted to point out. One is the mass market is 59% of sales and the natural market is 41%. The market has changed tremendously in the last few years toward the mass market. Obviously there is a lot of market opportunity here. The mass market is just fueling a growth that no one ever dreamed about. Organic milk in some mass markets is now 5% of sales, and it is growing fast. In fact, we are holding back the market right now by lack of supply.

It is easy to think this is a big thing and that there is no bottom to it. But it is small enough that supply is a big deal. You can easily be oversupplied or undersupplied. Right now in dairy we are undersupplied. In eggs, last year it grew at 40%. But because of diet issues, the first six months of this year, eggs went flat as a pancake. A lot of producers had jumped in, but we had to depopulate some of the egg houses because the market dried up. And now it has taken off again. So it is a very small market and you have to be cautious. You have to have relationships in the marketplace, you have to know what you are going to do, and what your risk is for the markets. It is also the utilization. You have to use your butterfat and your skim. There is a lot to it.

There are a lot of limitations about why farmers do not go into organic. You have heard a lot of them today. The lack of infrastructure is a pretty major one. The lack of support, which I know a lot of people in this room are trying to counter. Presently you cannot even go to your extension agent. Although they are warm to organic, they have very little information to share. There is little outreach other than what is going on in the private world. And, of course, there is no better teacher than your fellow farmer and that is what really happens. People in organic go into it for one of two reasons. The first is personal choice. A lot of farmers just say "no more" to chemicals. The other reason is the economic incentive. And I refer my comments here to dairy — we heard that grains are a challenge for organic, but dairy is a natural fit for organic. You have rotation crops already, you have manure, and you have people on the farm already doing the work. It is also one of the lead categories for organic.

But as we heard, farmers also face criticism. We have neighbors that have been organic for 30 years and their brother next door farms conventionally, and he used to rub their nose in it. It isn't anything like it used to be. It used to be really bad. Organic is starting to gain a lot of respect, especially in the dairy world. Contrary to what was said, we actually have bankers seeking organic dairy farmers to finance because they know where they are at, and they know there is a stable price. That is a whole new paradigm.

But farmers are traditionalists. It is hard to change what you are doing and it is hard to change relationships. We have dairy farmers that could go organic now, but they are hard pressed to change their milk hauler or feed mills because it is based on the relationships. We come to them and say, throw all your traditional relationships away and work with us and that is hard for them. That is not the way they are. But people are also frustrated with farming not working — the need for off-farm income and the lack of income on farms. So a lot of farmers actually go organic as their last step — "if this doesn't work, I'm going to leave farming." It is better than quitting I would say.

However, there are problems. The lack of government programs is a real problem; the lack of loan deficiency payments as you rotate and diversify your crops is also a serious issue. Transition is a serious issue. It actually takes 5 years before you see top production, so that is not an easy time period to go through. There are ways to go through it on the dairy farm. With grain farms I think it is much harder. If you reduce your corn or soybean acreage, you get less money from the government. So, right away you are getting that whack. Then you have the potential of lower yields depending on how you go at it, because organic is more of an art form. A lot of farmers go at it by changing their inputs and not their thinking, and that is a formula for disaster. A lot of farmers will change for economic reasons but then a few years later figure out that they have to change their whole way of thinking. It is a big challenge. The last thing of course is the need for more paperwork — certification. There is nothing that a farmer hates more than another form to fill out.

So there are all kinds of challenges that stop farmers, but there are all kinds of reasons why they do it. I think the real reason farmers are doing it is because they are trying to find a way to make their farm go and to feel good about farming again, and to give their children an opportunity. Probably the most rewarding thing I see is the youth in organic are extremely excited about farming. Going back 20 years, farmers were telling their children, "I just don't want you to farm because I don't want you to go through what I went through." With organic farmers now, you just see youth really excited about farming and the generation changes. They are more assured by the economic stability they found and the enthusiasm. Because organic farmers are really "reborn" farmers — they have thrown away the yoke of someone telling them how to farm and opened up their eyes to how they should farm, what their place tells them is best to do. They are not throwbacks. They are using modern technology. It is a wonderful marriage. There is new machinery out there that isn't just traditional no-till. That has all been real rewarding for me to be a part of.

Economics is a big part of the reality of it. They are trying to find a way to overcome the \$1.50 corn. The treadmill of pulling more and more yields to keep up with a falling price. So, it makes a big difference. Organic has to offer economic stability and economic opportunity. But it isn't a magic bullet. Farmers have to be cautious. I've seen a lot of farmers go into organic and they didn't have their marketing taken care of. I've seen a lot of them see how their neighbor did it and say, "Well that's great but I'm going to try it my way the first year," and then they found out that is not the way they should do it. You should find a success and follow it. Organic is also a way to have a greater connection to the marketplace, something farmers have an inherent need for. Organic is a phenomenal message from the marketplace going back to the farmer that we want to reward and honor you for what you do. There is a real satisfaction there for the farmer. The economics are there, but the satisfaction is very high and that is a major factor.