

**REPORT OF THE
VIRGINIA DEPARTMENT OF AGRICULTURE
AND CONSUMER SERVICES**

**THE STUDY OF THE FEASIBILITY
AND APPROPRIATENESS OF
BECOMING A CERTIFYING AGENT
UNDER THE FEDERAL ORGANIC
FOODS PRODUCTION ACT**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 12

**COMMONWEALTH OF VIRGINIA
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COMMONWEALTH of VIRGINIA

J. Carlton Courter, III
Commissioner

Department of Agriculture and Consumer Services

PO Box 1163 Richmond Virginia 23218
Phone 804/786 3501 • Fax 804/371 2945 • Hearing Impaired 800/828 1120
<http://www.state.va.us/~vdacs/vdacs.htm>

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TO

The Honorable James S. Gilmore, III
Governor of the Commonwealth of Virginia

The Members of the General Assembly of Virginia

It is my privilege to present this report constituting the response of the Virginia Department of Agriculture and Consumer Services (VDACS) to HB 2729 which was passed during the 2001 Session of the General Assembly

HB 2729 requested that the Department of Agriculture and Consumer Services "study the feasibility and appropriateness of becoming a certifying agent under the federal Organic Foods Production Act of 1990 for organically produced foods in Virginia and report its findings to the Governor and the General Assembly on or before December 1, 2001 "


J. Carlton Courter, III
Commissioner

cc The Honorable Barry E. DuVal
Secretary of Commerce and Trade

Preface

This study was undertaken in response to House Bill No 2729 requesting the Department of Agriculture and Consumer Services to study the feasibility and appropriateness of becoming a certifying agent under the Federal Organic Foods Production Act of 1990 for organically produced foods in Virginia. We wish to recognize the individuals of the task force who contributed their time and expertise to this effort. Task force members are as follows:

J Carlton Courter, III
Commissioner of Agriculture and Consumer Services

Donald G Blankenship
Deputy Commissioner of Agriculture and Consumer Services

Donald B Ayers
Marketing Assistant Director
Division of Marketing

Catherine T Belcher
Marketing Promotions Representative
Office of Promotion and Marketing Services
Division of Marketing

Susan B Giannasi
Manager Processed Foods and Special Projects
Office of International Marketing
Division of Marketing

David A Robishaw Jr
Regional Market Development Manager
Office of Domestic Sales and Market Development
Division of Marketing

Thomas N Sleight
Director
Division of Marketing

Thomas H Smith, Jr
Agricultural and Consumer Services Supervisor
Office of Commodity Services
Division of Marketing

Special recognition is given to Ms Donna L Whitmarsh, Organic Farming and Certification Consultant for her time, expertise and contribution to this study.

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Executive Summary

Over the past decade, organic agriculture has been a small, but one of the fastest growing sectors in U S agriculture. In the U S , 1.3 million acres were certified in 1997, with an average annual growth rate between 20 and 30 percent in the 1990's. Organic production in Virginia has roughly mimicked national trends. Currently there are 9,327 certified organic acres in Virginia, which represents less than one percent of total agricultural land in the state, and approximately one percent of total food sales.

Nationally, retail sales for organic products have grown for the past 10 years with a compounded annual growth rate of 22.74 percent. Current national sales of organic products are projected at \$9.3 billion (two percent of total food sales), with projections for sales to reach \$20 billion by 2005.

In 1990, Congress and the Virginia General Assembly passed organic food production acts. It took a decade and over 300,000 public comments for USDA to issue a final rule on December 20, 2000. Both acts establish a means by which producers can have their food production systems certified as being in concert with the established procedures for organic production, meaning food products produced without the aid of chemical or synthetic products or procedures.

In Virginia, the implementation of the Virginia Organic Food Act (§3 1-385.5) first took the form of the Virginia Association for Biological Farming (VABF) providing inspection and certification processing as an agent for the Virginia Department of Agriculture and Consumer Services (VDACS). By 1996, VABF no longer wished to provide this service and VDACS took over the full implementation of the organic certification program. VDACS undertook this responsibility even though the agency had no specific funding appropriation for this purpose.

Since the inception of the Virginia Organic Food Act, the philosophy behind the Virginia organic certification program was to maintain a state certification program until the federal program came into being. No one predicted it would take ten years to get to this point.

With the National Organic Program (NOP) to become fully operational on October 21, 2002, the Commonwealth of Virginia must evaluate the role it will take for organic certification under the NOP. The basic choices are to

1. Seek full accreditation from USDA to implement the NOP in Virginia as a State Organic Program, with full responsibility for implementation and enforcement of the NOP.
2. Become one of many organic certifying agents in Virginia.
3. Withdraw offering organic certification, current organic producers could seek certification from private organizations.
4. Construct a cost-share program with producers for organic certification.

There currently are 120 enterprises certified by the Commonwealth of Virginia under the Virginia Organic Food Act. It is estimated another 20-25 Virginia organic enterprises are certified through private organizations.

In 2001, the Virginia Department of Agriculture and Consumer Services (VDACS) conducted a survey of the current roster of producers certified under the Virginia program. The producers in the Virginia program are mostly small-scale growers producing for local, direct market sales (roadside stand, farmers markets and subscription farming), or new-to-market organic farmers transitioning from other conventional farming enterprises, e.g. southwest Virginia tobacco producers. The main points revealed by the survey are:

1. Virginia's organic producers consider the current state organic certification plan to be cost effective for them.
2. A majority of participants directly market their products to consumers.
3. A majority of producers surveyed indicated they fall under the USDA threshold of \$5,000 in sales. Producers below \$5,000 in sales are not required to have organic certification under the NOP.
4. Eighty-five percent of producers surveyed indicated they would not pay a higher fee to be certified, and would likely forgo organic certification if the fee increases.

Five Options for certification were explored. Given the relatively limited scope of organic production in Virginia, it is not practical for Virginia to establish a State Organic Program under the NOP. We recommend that the Commonwealth end its current certification program and instead facilitate the organic certification assistance through private organizations. Virginia should also provide cost-share support, marketing assistance and certification advice and training to producers seeking certification. Under this plan, the small-scale direct marketing producer will likely drop out of an official certification program, as they will fall under the USDA sales threshold. The larger, commercial-scale organic producer will not require state assistance. Hence, state assistance would be focused on the new-to-market organic producer who is likely transitioning out of another conventional agricultural enterprise, e.g. tobacco, and would benefit from the certification training and cost sharing.

Introduction

The words, “organic farming” carry many different definitions and impressions for producers and consumers. Organic farming can carry lifestyle, marketing, economic, and philosophical connotations. The Economic Research Service of USDA provides the best description of “organic” farming systems as a frame of reference for the consideration of Virginia’s role for organic certification.

Organic farming systems rely on ecologically based practices such as cultural and biological pest management, and virtually exclude the use of synthetic chemicals in crop production and prohibit the use of antibiotics and hormones in livestock production. Under organic farming systems, the fundamental components and natural processes of ecosystems such as soil organism activities, nutrient cycling, and species distribution and competition, are used to work directly and indirectly as farm management tools. For example, habitat needs for food and shelter are provided for predators and parasites of crop pests, planting and harvesting dates are carefully planned and crops are rotated, and animal and green manures are cycled in organic crop production systems.

Organic livestock production systems attempt to accommodate an animal’s natural nutritional and behavioral requirements. Livestock standards address the origin of each animal and incorporate requirements for living conditions, access to the outdoors, feed ration, and health care practices suitable to the needs of particular species. For example, dairy cows must be organically managed for a year prior to producing organic milk, must receive only 100 percent organic feed and allowed supplements, and cannot be treated with antibiotics.¹

In the United States and Virginia, producers have turned to organic production as a means to potentially reduce input costs, decrease the reliance on nonrenewable resources, capture high-value markets with premium prices, and boost farm income.

Over the past decade, organic agriculture has been a small, but fast growing sector in U.S. agriculture. In the U.S., 1.3 million acres were certified organic in 1997, with this acreage growing at a 20 to 30 percent per year rate during the 1990’s. In Virginia, currently 9,327 acres are certified under the Virginia organic certification program, comprising 120 enterprises. This is compared to 91 certified organic farms in 1999, and 110 farms in 2000, mimicking the national growth rate of past years. For Virginia in 2001, there is a perceptible upward trend in new-to-market organic farms being established in order to take advantage of the growth in organic food consumption. At the same time, some smaller organic farms are letting their certifications lapse for various reasons, some relating to competitive pressures, some relating to business and financial considerations.

Retail sales of organic products have grown steadily for the past 10 years, with a compounded annual growth of 22.74 percent since 1990. In the past three years, growth of

¹ Economic Research Service, Agricultural Outlook/April 2000, Washington, D.C.

organic sales has accelerated to an annual growth rate of 24.72 percent, with national sales projected at \$9.3 billion. Expectations are that U.S. sales will reach \$20 billion by 2005.²

In Virginia, as in the United States, the role of the government has been focused on developing certification standards to assure consumers that organic commodities meet a set of standards consistent with the nationally and internationally accepted organic production practices. The focus for organic certification is on the production **process rather than on the product**. While there are many differences among states as to how each organic certification program is structured, the ultimate goal of all programs has been to facilitate interstate and international commerce for organic products.

Organic Foods Production Act

In 1990, Congress passed the Organic Foods Production Act (OFPA) as part of the 1990 Farm Bill. Congress passed the Act to (1) establish national standards governing the marketing of certain agricultural products as organically produced products, (2) assure consumers that organically produced products meet a consistent standard, and (3) facilitate commerce in fresh and processed food that is organically produced.

The driving force behind the OFPA was an outcry from producers, processors and, to a lesser extent, consumers for a consistent national standard for organic production. Currently, various state organic programs combined with several private organic certification programs create a myriad of options for organic certification. In 1997 there were forty organic certification programs, twelve state and twenty-eight private. While many state programs are relatively consistent, the lack of one national standard created confusion and became a particular impediment to expanding export sales of U.S. organic products. Without an accepted U.S. standard, importing countries would often require different inspections from different international certifying agencies.

After a decade of work and two proposed rules that attracted 316,377 comments from the public, the USDA National Organic Program announced its final rule on December 20, 2000. Full implementation of the OFPA will begin on October 21, 2002.

Under the OFPA, the Commonwealth of Virginia has three basic options it can choose from to provide organic certification:

1. Become an accredited State Organic Program (SOP) - Under this option, any state can apply to USDA's National Organic Program to have its state organic program approved by the Secretary of Agriculture. Organic production standards for the state must be consistent with the national organic standards established under the OFPA. A state's organic requirements cannot be less restrictive than the NOP requirements, but they can have more restrictive requirements. A good example of this may be specialized production requirements Virginia may wish to impose in concert with the Chesapeake Bay Watershed.

² Organic Consumer Trends 2001, Natural Marketing Institute, Harleysville, PA, 2001

In this instance, the SOP would assume full accreditation and enforcement requirements for the NOP in Virginia. This would represent a major commitment of time and resources.

2. Become one of many certifying agents in the Commonwealth of Virginia - In this instance, Virginia would apply to USDA for approval as a certifying agent. USDA would retain enforcement responsibilities for the NOP in Virginia. Virginia would be audited from time to time for its certification procedures at state expense.
3. Do nothing - Once the OFPA comes fully into effect, Virginia can end its certification program and producers would then be required to obtain certification from a private certifying organization.

A key provision of the OFPA that affects the role Virginia may or may not play in the organic certification is that if a farm or handling operation's sales are \$5,000 or less a year in organic agricultural products, that operation is exempt from the certification requirements under the OFPA. These producers and handlers must still abide by the national standards for organic production and may label their products as organic. However, they may not sell their products as "certified organic" and may not use the USDA organic seal.

History of Virginia Certification Program

In 1990, the Virginia Organic Food Act was passed (§ 3-1-385.5) making it unlawful to sell any food or agricultural product as organic unless certified as organic by an independent third party. The Commissioner of Agriculture and Consumer Services was granted the authority to certify organic production practices and third party certifiers could apply to the Commissioner to become a certifying agent.

In 1991, the Virginia Association for Biological Farming (VABF) was approved as a certifying agent for organic production in Virginia. VABF established an Organic Certification Committee (OCC) which created and published organic production standards. VABF/OCC paid for and published an annual manual for growers and processors, arranged for inspections by trained inspectors, and reviewed all applications and inspector reports before forwarding an organic certification to the Commissioner for approval.

As organic production grew in Virginia in the 1990's, so did the workload for the Organic Certification Committee of VABF. Travel expenses increased as production expanded to all regions in the state, and VABF volunteer inspectors, certifiers, and review board members donated more and more of their time, without compensation, to help expand organic agriculture in Virginia.

In 1995, a dispute developed concerning a refusal for certification by VABF. Legal action was threatened, with the dispute eventually being resolved. In the aftermath of this action, VABF became uncomfortable with the liability risk they had assumed. They carried no liability insurance, nor did they have the resources to cover liability insurance costs.

The concern over the liability combined with the increasing expenses of implementing the Virginia organic certification program led to the January, 1996 decision by the Organic Certification Committee of VABF to discontinue organic certification services

Later in 1996, the Virginia Department of Agriculture and Consumer Services, despite having no funding to implement an organic certification program, decided to directly administer the organic certification program directly in order to maintain and encourage organic production in the state. VDACS hired an independent contractor who supplied inspection and certification materials directly to the Department for internal review and certification by the Commissioner

The decision to provide this service directly was intended to be a temporary measure based on the United States Department of Agriculture (USDA) announcements that the final federal organic standards would go into effect in October 1996. Thus, the VDACS plan to directly implement an organic certification program was intended to only be a "bridge" program until the federal standards came into effect, which at the time appeared imminent. Once the federal standards came into effect, the VDACS recommendation was that the Virginia Organic Food Act should be repealed, since the federal law would supersede state law for organic production standards

The problem encountered with this solution was that the proposed federal organic standards became embroiled in considerable controversy. The entire organic industry became fractured over the proposed USDA standards. Various revisions and public comments were taken into consideration until, at last, in December 2000 the final National Organic Program was established. VDACS continued to operate the organic certification program from 1996 to present without a specific funding appropriation

From 1996 to present, the Virginia organic certification program has been implemented by VDACS, first as a function of the Office of Policy and Planning, then shifting to the Division of Marketing in 2000

The certification process begins with the producer calling or writing to the Organic Certification Coordinator requesting a manual and application. The producer completes the application, including a complete farm plan for the year and a five-year history of each field. The coordinator reviews the forms for completeness and then assigns an inspector to the producer. The producer and the inspector set a date and time for an on-site verification and inspection of the farm. The producer pays the inspector for their services and expenses

Once the inspection is completed, the inspector returns the forms to the coordinator with a recommendation for certification. The coordinator then submits the forms to VDACS for review and final approval by the Commissioner. The certificate of certification approval is then mailed to the grower with a copy submitted to the coordinator

The Organic Certification Coordinator is currently working under contract with VDACS and receives \$450 for new certification packages submitted and \$240 for re-certification packages

Virginia's organic certification program is relatively in line with other states, with the qualification that Virginia's current program maintains a relatively lower cost to the producer when compared to other states. It is difficult to fully compare these programs from state to state, as there is a wide variation in approach. At the low end, one state offers certification for a simple \$10 fee to the producer. Many other states offer some type of cost share program like Virginia, with generally either 50/50 or one-third producer pays/two-thirds the state pays, being common. Beyond this come the total user-fee supported programs that must be self-supporting (like many other inspection and grading programs in the Commonwealth of Virginia). Private certifiers also exist and generally serve the larger volume, commercial scale organic farms. These organic enterprises can pay \$1000 and beyond, depending on sales volume, for a certification. For these enterprises, an organic certification is an absolute requirement of the buyer in order to conduct business. Some producers and buyers consider the current state certification program not stringent enough or lacking enforcement strength to ensure customer confidence and answer potential liability.

Profile of the Virginia Organic Farmer

Currently there are 120 growers scattered throughout Virginia from the Southwest to the Eastern Shore. Acreage certified for organic production under the Virginia Organic Program ranges from one-quarter of an acre to 1,172 acres.

Vegetables, tobacco, fruit, berries, herbs, and flowers make up most of the small acreage production. Pasture, hay and woods comprise the larger acreage production. The majority of the organic fruits and vegetables are marketed to specialty markets, restaurants, roadside stands, and through on-farm sales.

Virginia's organic farmers are as varied as the products they produce. They range in age from the "young" farmer just getting started to "middle-aged" farmers seeking a less stressful lifestyle to innovative "conventional" farmers seeking a competitive advantage and better returns by selling organic products. Despite the differences, there is a common thread that runs through virtually all of the organic growers surveyed, and that is their commitment to the principles and philosophy of organic farming.

At the present time, woods and/or pastureland makes up 85 percent of the total organic acreage. The average organic farm in Virginia is 20 acres or less, with one to two acres in actual production, the majority of which is vegetable production. The product mix for Virginia organic farms includes early greens such as collards, kale, mustard, and spinach, with traditional vegetables like tomatoes, cucumbers, peppers, squash, beans, beets, corn, and an increasing amount of specialty crops, such as heirloom tomatoes, hot peppers, herbs, and specialty lettuces.

Most organic farms have an alternate source of income. Geographically, organic farms are spread throughout the state with a larger concentration of producers in Floyd County and Southwestern Virginia (see attachment A). This is mainly a factor of better organization of local producers in those areas. Otherwise, proximity to urban markets, whose consumers generally

have higher levels of disposable income and do not mind paying higher prices for organic produce, drives where organic agriculture flourishes

It bears special note that Virginia organic farmers do enjoy the competitive advantage of being close to more affluent urban centers. However, pest and weed pressures are greater on the humid East Coast and Virginia. Organic growers in many other states, e.g. California, Washington, and countries, e.g. Mexico enjoy lower costs of production due to lower pest pressure and/or lower labor costs, which combine to offer significant current and future competitive pressures for Virginia's organic producers

Domestic Marketing Opportunities for Organic Farmers

According to a USDA survey, "nearly half of the organic producers, and the majority of those with under 10 acres, reported marketing their vegetables directly to consumers through farmers' markets, consumer subscriptions, restaurants, and other direct marketing outlets." These "other" direct marketing outlets include pick your own, on-farm markets, roadside markets, gourmet/specialty stores, health food stores, and mail order.

Most Virginia farms are too small to produce enough produce to sell to retail chains. However, with the current consumer demand for organic produce, there is a variety of marketing opportunities to explore. Virginia has several successful marketing cooperatives, which allow producers to pool their products and sell to the larger restaurants, hotels, and even grocery chains, but they are the exception rather than the rule. There are some growers who successfully sell directly to retail grocery stores, but usually the grower can only service a very small number of stores. There is an increasing number of subscription farming operations (otherwise known as Community Supported Agriculture or CSA's) in Virginia, and they appear to be a good way for the grower to receive much needed capital, and in some cases even gain temporary workers. In addition to fresh product, there is a growing market for organic value-added products. Processors, as well as grocery and natural food stores, may contract with growers to provide their customers with organic products.

International Marketing Outlook for Organic Products

The potential for U.S. organic product exports is increasing steadily throughout Asia and Europe. Organic sales in the U.S., Europe, and Japan will amount to about \$24 billion in 2001, up almost seven percent from 2000. In most categories of organic products, demand outweighs supply, providing numerous opportunities for organic growers and processors to fill the niche.

International growth trends in organic food products mimic trends in the United States as increased levels of health consciousness alters consumer preferences. As in the United States, in many (mainly developed) countries there is a similar proliferation of health food stores, specialty shops and organic sections in convenience grocery outlets. Organic produce, milk, eggs, pasta and frozen dinners are items that organic consumers look for and are now appearing in mainstream supermarkets around the world.

Export demand is strong for raw products such as fruits and vegetables, intermediate goods such as ingredients, as well as finished goods like canned and frozen foods, snacks and beverages

With the recent scares over Mad Cow disease (BSE) and Foot and Mouth disease, demand for organically produced meat products is skyrocketing. A concurrent explosion in demand is occurring for organically produced feedstuffs for organically produced meat. Speculation is that the U S , with the controversy over biotechnology and genetically modified organisms (GMO), may lose this growing market to Eastern Europe and China

The United Kingdom is the most dynamic consumer market in Europe (concern over Mad Cow and Foot and Mouth disease being the driver again) with growth estimated at 55 percent between 1999 and 2000. Imports account for 75 percent of the organic sales in the United Kingdom. In the United Kingdom, people said that they weren't necessarily buying organic products for the same reasons that Americans buy them. They are turning to organic products because they feel they cannot rely on their government to regulate their food source the way FDA regulates the U S food supply. The premise is the less that has been done to their food, the safer it is for them to consume.

In the Pacific Rim, Japan is the fastest growing market for organic products. Japanese consumers are educated about the benefits of organic products and don't mind paying a higher price for organic products, as they are perceived as a higher value product.

According to the VDACS survey of Virginia organic producers, interest in pursuing potential export markets for their products is very limited. Virginia growers for the most part are small operations and are not producing enough organic product to meet domestic demands, let alone produce for export. Specialty food manufacturers who export say that because their product is already at a premium price, sourcing ingredients in order to certify products as organic causes the price to be prohibitive in the consumer market. This problem is exacerbated when it reaches a foreign market because of the tariffs imposed on most specialty products being exported.

Achieving a price that can compete within a targeted market will be the biggest challenge that Virginia companies will face. Mexico is beginning to produce organic fruits and vegetables to compete with the rest of the world. Japan has been producing organic specialty products for sometime. Virginia will need to figure out a way to produce a quality product at a competitive price and ship it to the end user at a reasonable cost.

Survey of Virginia Organic Producers

During the spring and summer of 2001, VDACS personnel surveyed either by phone or personal interview the roster of currently certified organic farms. Sixty-six of the 110 farms on the organic certification list (as of April 2001) were interviewed. (Note the 24 organic producers aligned with the Appalachian Sustainable Development Group were interviewed through the director of their organization)

Farmers were asked the following seven questions, the results of which are summarized below

- 1 What are the current benefits of the Virginia Organic Certification program?
- 2 What is the mix of products you produce?
- 3 How do you market these products?
- 4 Do you have \$5,000 or more in gross annual sales?
- 5 Is it appropriate for VDACS to continue to offer organic certification?
- 6 Given the likely higher costs involved for organic certification under USDA rules, would you pay a higher fee to be certified?
- 7 Have you considered the export market for your products?

Question #1 - What is the current benefit of the Virginia Organic Certification program?

The predominant benefit realized by program participants was the low cost of the Virginia program. Nearly half of the respondents cited this. After cost, participants said the certification opened marketing doors for them, gave them a sense of legitimacy for their products, and enhanced the impression that their products were safe.

Question #2 - What is the mix of products you produce?

Vegetables, fruits, flowers and herbs comprised the vast majority of products offered. Some producers were involved with meat and egg production, but these operations are, for the most part, just getting off the ground. (For a full listing of organic products produced, see Attachment B)

Question #3 - How do you market these products?

Fifty-three percent of the organic farms used direct marketing to sell their products. Direct marketing takes many forms, including on-farm sales, sales at local retail farmers markets and sales to local restaurants. Subscription sales, otherwise known as Community Supported Agriculture or CSA's, are becoming more popular. CSA's are marketing agreements, whereby the farmer sells a pre-season share of the farm's annual production to the subscriber. Once harvest begins, the farmer prepares a share of the harvest for the customer. The subscriber gains a consistent supply of fresh, organically-grown local produce throughout the season. The grower gets much needed up-front cash to finance planting and shares both the benefits and risks of the growing season with the subscriber.

The remaining 47 percent of the growers represent the larger or more specialized growers who are consolidating their harvest with other local growers to sell larger volumes of organic produce directly to organic food wholesalers. Included in this group are a limited number of growers who have established specialized supply agreements for specialized products (mainly herbs) going directly to the manufacturer.

Question #4 - Do you have more than \$5,000 in gross annual sales?

Question #4 is of critical importance. Under the USDA National Organic Program, if a farm's gross sales for organic products is under \$5,000, that farm does not have to be officially certified. However, the farm cannot sell their products as "certified" organic. They may not use the USDA organic seal, nor can they sell their products to a manufacturer as an ingredient for processed organic product (e.g. organic herbs for an organic sauce). The producer may market their products as "organic," and if they do, they are still obligated to comply with USDA's National Organic Program standards for organic production. USDA retains the enforcement responsibility for organic producers under this scenario.

The results from this question were split. Sixty-five percent of respondents indicating they would fall under the \$5,000 limit on gross sales, yet several of these producers said that they were close and hoped to expand their operations to hopefully break this barrier. Most of the other respondents under \$5,000 in sales said they had no plans to expand and wanted to stay where they were on sales volume.

Question #5 - Is it appropriate for VDACS to continue to offer organic certification?

The responses to this question were nearly unanimous. All but one respondent felt that it was appropriate for VDACS to offer an organic certification program, citing the fear that federal or private certifiers, unfamiliar with Virginia organic production, would be much harder to work with.

Question #6 - Given the likely higher costs involved for organic certification under USDA rules, would you pay a higher fee to be certified?

Not surprising, only 15 percent of respondents indicated a willingness to pay a higher fee for organic certification. Of those 15 percent, most would only indicate a willingness to pay a higher fee if it were "not much higher." Only two respondents indicated they would pay whatever it took, citing that organic certification was critical to their business. They would incorporate the fee as a normal business expense which would be passed on to the consumer.

Noteworthy among the responses indicating they would not pay an increased fee was that 30 percent of the respondents said not only would they not pay an increased fee, but also they would drop out of the organic certification program if they had to pay a higher fee. These producers were the smaller volume producers, and they felt that they had established excellent business relationships with their customers. While the state organic certification is a nice item to tack up on their stand, they believe their customers knew them well enough by now that an official certification would not matter.

Question #7 - Have you considered the export market for your products?

This question was included in an attempt to gauge export interest for organic products for possible tie-ins with regional and national organic export promotion programs. Only two of the respondents indicated an interest in exporting their products. The positive respondents had specialized, gourmet herb products that could enjoy export success to the more sophisticated export markets of Western Europe and Japan.

“Beyond Organic”

It bears noting that some organic producers in Virginia, particularly in produce, are becoming increasingly concerned that more and more “conventional, industrialized” producers are entering the organic market given the price premiums that can be realized. These well financed, vertically integrated companies will present intense competition for their organic markets. One producer interviewed for this study opined that Virginia’s small organic producers must move “beyond organic.” Simply producing and selling an organic product will not be good enough in the future to guarantee market share. Innovative producers must sell “*Fresh, Organic, and Local*” to separate themselves from the competition. This bears consideration as the Commonwealth of Virginia considers how best to position its producers for the marketplace.

Also under the topic of “Beyond Organic” is the expanding reality of today’s marketplace where consumers are increasingly interested in the process rather than just the product. With global, year-round, plentiful supplies of food products, the consumer wants to know how a product is produced and is less concerned that a product is simply available. There is a growing trend for new market identifiers that validate the production process. Examples abound “Grass-fed beef”, “locally grown”, “family farm raised”, “raised under fair trade”, “free-farmed” (animals are allowed to roam freely in pastures), bird friendly production - the list goes on. “Organic” may not be enough to establish market identity and maintain market premiums.

Options for Virginia Organic Certification Program

When the growth of organic agriculture in the U S and the world is combined with the growth in organic production in Virginia, it is appropriate that the Commonwealth of Virginia consider various options to assist organic producers to segue into the National Organic Program. This assistance could be provided in a number of different ways under the NOP. The options described below are the most viable options, but certainly not the only options. Many other states with existing organic programs are considering these same options under the NOP.

For analysis of the various options, several assumptions were made.

Key Assumptions

1 Marketing is a constant for all certification options

The Virginia Department of Agriculture and Consumer Services/Division of Marketing will continue to provide marketing assistance for organic producers regardless of the Commonwealth of Virginia's ultimate role may be in the organic certification process.

This assistance will come in two basic forms. First is the fundamental process of putting buyer and seller together, which manifests itself in many ways. This assistance can come in the form of direct marketing (farmers markets, roadside stands, etc), to assistance to develop contacts with regional, national and international buyers, to assistance with promotional efforts. The second, equally important, form of marketing assistance comes with grading and inspecting products for market, which is normally a user fee-based service. With any certification scenario, this marketing assistance provided by VDACS will remain a constant.

2 Options are evaluated based on 120 participants

Certification options are calculated using the current participant roster of 120 enterprises/farms. This roster does NOT include the 20-25 commercial organic farms that do not currently utilize the Virginia organic certification program. The total number of farms requiring certification will increase or decrease depending on the ultimate cost of the program to the participant, industry growth, and competition.

3 The current average cost of the entire certification process to the producer is \$100 (producer paying only the inspection costs)

The 2001 survey of organic producers revealed that an overwhelming majority of producers are unwilling or unable to pay much more for organic certification. Accordingly, a base inspection figure of \$100 is used for calculating future program options.

4 Yet, certification costs will increase

The NOP will not come into effect until October 21, 2002. As the program begins and the problem areas are identified and solved, costs will surely rise. Consumer concern for food safety

continues to rise, and it is assumed the NOP will become stricter in answer to this continuing pressure. Inspections and certifications will take longer to complete and may also cause costs to rise. ***Cost analyses used in this study must only be considered estimates to indicate the magnitude of expenses for each program option***

5 No budget allocation exists for the organic certification program

The Virginia Department of Agriculture and Consumer Services has accommodated the organic certification program without a specific budget allocation. Any increased expenses beyond current spending levels for the organic program will come at the expense of current VDACS programs.

Current Virginia Organic Certification Program

Essential Components

Inspection
 Certification
 Marketing

Description

The Virginia Department of Agriculture and Consumer Service (VDACS) provides organic inspection and certification services for 120 organic enterprises in the state. VDACS provides this service through a contractor who arranges for the inspection through a network of six independent inspectors, and then prepares the necessary certification paperwork for approval by the Commissioner.

The producer pays the cost of the inspection, VDACS covers the cost of the certification process.

Analysis

Pros - The current system has proven to be user-friendly and efficient, given the relatively small number of certifications that are processed.

Cons - There has not been a specific budget allocation for the certification process. The growth of organic production in recent years has increased the volume and complexity of this task. This structure is not workable under the National Organic Program, as certifications will have to be done on a yearly basis. This annual review, plus new business, will substantially increase the workload, and, accordingly the budget exposure to provide this service under this arrangement will increase.

Program Cost

Total cost/ certification	Producer cost/ certification	State cost/ new certification	FTEs	Total projected state cost for certification program (FY 2002)
\$550	\$100*	\$450*	0***	\$35,000****

*Under the current program the producer only pays the inspection cost. This cost is agreed to by the producer and the inspector, and normally includes reimbursement for time and mileage expenses. An average inspection fee was \$100 in 2001.

**The \$450 cost represents the actual per applicant fee that is paid to the VDACS consultant to prepare the certification documents for approval. Under the current program, the total annual

cost for the organic certification program will vary depending on the number of new applications and re-certifications that are received each year

***The review and processing of organic certifications have been absorbed into the VDACS/Division of Marketing. The equivalent of 0.5 FTE is devoted to this operation, but not calculated into the total cost of the program.

****Normally annual expenditures are \$20,000 or less. In FY 2001 and 2002, there has been an accelerated pace of organic certifications in reaction to the improved market for organic products, as well as the impending implementation of the NOP in 2002.

Recommendation

The solution of using a contracted consultant to facilitate the organic inspection and certification process has served the Commonwealth of Virginia well in the past. Under the NOP, this arrangement will no longer work unless VDACS itself is approved by USDA to become a certifying agent or the contractor utilized by VDACS is a certifying agent (See options B & C).

Option A: Full State Organic Program

Essential Components

Accreditation
 Inspection
 Certification
 Enforcement
 Marketing

Description

The Commonwealth of Virginia would be approved by USDA/National Organic Program to solely implement and enforce the NOP for USDA in Virginia. This option is by far the most extensive and most expensive option to consider. Incumbent with this accreditation is that the state assumes all responsibility for approving and auditing independent certifying agents operating in the state. The state also assumes all enforcement responsibilities for the NOP.

Analysis

Pros - The major advantage of Virginia establishing a State Organic Program is that the state retains control over the program. This control could manifest itself as an enhanced reputation for Virginia's organic producers, if the state program is more restrictive than the federal program. The structure of the program can be also designed to address particular environmental sensitivities, e.g. the Chesapeake Bay Watershed. This may also enhance the environmental reputation of a Virginia producer certified under a State Organic Program.

Cons - Under a SOP, the Commonwealth of Virginia would assume all enforcement responsibility for the National Organic Program. The projected cost of nearly \$400,000 may turn out to be a conservative estimate, for as the National Organic Program unfolds, USDA's first priority will be enforcement and costs can be expected to rise as challenges to the NOP are addressed and solutions implemented. Establishing a SOP is equivalent to establishing a separate work unit replicating the model of the Office of Pesticide Services already established within the Virginia Department of Agriculture and Consumer Services. Presently the Virginia Department of Agriculture and Consumer Services does not have the resources to absorb this new program.

Cost Estimate

Total projected cost/certification	Producer cost/certification	State cost/certification	FTEs	Total State cost for certification program
\$3078	\$100	\$2978	5	\$357,360

Recommendation

It is hard to justify the creation and maintenance of a full State Organic Program at this time given the limited scale of organic production in Virginia. The cost to the producer would be too high for the majority of producers unless the state assumed all, or nearly all, the costs of the program.

States with large industrial scale organic production such as Washington and New Mexico are considering this approach. There is a somewhat less extensive alternative to a full State Organic Program. The state could act solely as an accreditation and enforcement agency for the NOP and not offer any certification or inspection service. California is considering this approach. Given the extensive enforcement responsibilities, this would only slightly reduce resource requirements.

Option B: State Becomes a Certifying Agent

Essential Components

Inspection
Certification
Marketing

Description

The Commonwealth of Virginia would become one of many organic certification agents for the National Organic Program in Virginia. Similar in nature to the current implementation of the Virginia Organic Food Act, Virginia would hire a full time inspector/certifier who would annually inspect and prepare certifications for Virginia organic enterprises. Virginia's organic producers may choose alternative certifiers, as they are able to now.

Analysis

Pros - Being a certifying agent provides the best transitional solution for the currently certified producers under the Virginia Organic Food Act to transition into the National Organic Program. Virginia's current organic program would be transformed to comply with the new national organic standards. Once, and if, the Virginia organic certification program is accepted into the NOP, producers currently certified under the Virginia program would gain a one-year "grand-fathering" into the NOP. This will ease the transition into the NOP, which many feel is in flux and will remain in flux until it operates for two to three years. This is a service that would principally benefit small and newly established organic farmers in Virginia.

Cons - The Commonwealth of Virginia would lose a portion of its identity (albeit limited) and transfer control of the organic certification program to USDA/NOP. The state would also be directly competing with private sector certifiers to supply this service. It is possible that other sectors of Virginia's agricultural economy may also object to the state supplying this service if the service is subsidized.³ If certification rates are not subsidized, many current organic producers may simply drop out of the program.

³ However, it must be remembered that the organic certification process is unique when compared to other grading and inspection programs. Organic certification approves the *process* of production, not the *product*. If required by the buyer, organic products are subject to the same grading and inspection requirements as conventionally produced products.

Cost Estimate

Total projected cost/certification	Producer cost/certification (inspection fees)	State cost/certification	FTEs	Total State cost for certification program
\$900	\$100	\$800	2	\$96,000

Recommendation

If the Commonwealth of Virginia wishes to maintain an official presence for organic certification, this is a viable option. The cost options are reasonable both for the state and for the producer.

Of greater importance is that it is appropriate and necessary that the Commonwealth of Virginia protect the current competitive advantage of its organic producers. By becoming a certifying agent, Virginia's organic producers gain a minimum of one-year transition time with their current certification to transition into the National Organic Program. Currently, certified Virginia producers will be accepted into the NOP once Virginia's organic program is accepted into the NOP. This is highly probable as the Virginia program was constructed and updated to remain in sync with the current industry organic standards that USDA based the new national standards on. Clearly, the NOP itself is a work in progress, and anything the state can do to provide "cover" while the NOP unfolds will benefit Virginia producers.

Option C. Contract with Outside Certification Organization, (Modified cost-share program)

Essential Components

Inspection
 Certification
 Marketing

Description

The Commonwealth of Virginia would contract with an independent, private organization to implement the certification program for Virginia organic enterprises. Services would be provided to Virginia producers on a cost-share basis, in that the producer will pay for the inspection and the Commonwealth of Virginia would pay for the processing of the certification.

Analysis

Pros - Contracting with an outside certification agent would enable the Commonwealth of Virginia to continue to service the organic community with a certification program. Expenditures would be limited to the contract, and Virginia would not have any enforcement responsibilities.

Cons - Since the current Virginia organic certification program would not be accredited by USDA, current Virginia organic growers certified by the Virginia program would have to be re-certified immediately in order to transition into the NOP. This could represent an extra expense for currently certified producers. In addition, the inspection costs using a private organization will be significantly higher than most producers have been paying.

Cost Estimate

Total projected cost/certification	Producer cost/certification (inspection fees)	State cost/certification	FTEs	Total State cost for certification program
\$425	\$175	\$250	0	\$30,000

Recommendation

This option is also recommended as an excellent means to control costs for the state and for the producer. The transitional year of 2002 becomes the question with this option, and the Commonwealth of Virginia should take the necessary steps to ensure that currently certified producers can easily transition into the NOP. Virginia may have to take an extra step to become a certifying agent first, then contract out the service.

Option D: Withdraw State Support for Organic Certification Services

Essential Components

Marketing

Description

The Commonwealth of Virginia would terminate its organic certification program. Current enterprises that are certified under the Virginia organic program would have to turn to a private certification organization for service.

Analysis

Pros - As intended with the original Virginia Organic Food Act, as soon as the national organic standard was established, the Commonwealth of Virginia would cease to be a certifying agent and turn that authority over to private certifiers and National Organic Program enforcement.

With this option, it must be kept in mind that under the National Organic Program, a producer selling less than \$5,000 of organic products per year does not have to be certified. They can still sell their products as organic so long as they comply with the organic production standards under the NOP, **but they do not have to go to the expense to become officially certified.** They cannot sell their products as "certified organic," they cannot use the USDA organic seal, nor can they sell their products as ingredients for a processed organic product. Of the current Virginia certified organic producers under the Virginia Organic Food Act, 65 percent stated they fell under the \$5,000 sales limit. Of this 65 percent, most producers felt they would continue to produce and market their organic products without any official certification.

Cons - Costs for certification for the producer would substantially rise. For a small producer, costs would at least triple to over \$300 per year. While that may not sound like much money to most commercial producers, to the small organic farmer this is not affordable. If smaller, direct market, organic producer decides to forgo certification the consumer would have no official assurances that the product was produced organically and would simply have to trust the producer or vendor.

Another major disadvantage to the state pulling out of the certification program completely would be the cadre of small to medium-sized producers who are attempting to break into wholesale marketing channels for organic products. It is essential for a producer to have an official organic certification to sell to a wholesale buyer or broker. These buyers will not purchase from anyone without a certification. Many of the new-to-market organic producers are transitioning from tobacco production. If the required certification fees rise significantly, it will constrain these producers' ability to penetrate this new marketing channel.

Cost Estimate

Total projected cost/certification	Producer cost/certification (inspection fees)	State cost/certification	FTEs	Total State cost for certification program
\$425	\$425	0	0	0

Recommendation

This option would disadvantage the many Virginia organic producers just at the time when market forces are moving in the direction of organic products. However, removal of the program may not harm the small organic farmer selling directly to consumers, as they will likely continue sales through farmers' markets and roadside stands without official certification.

The harm will come to the farmers transitioning out of other enterprises (tobacco, large scale conventional farming) who are attempting to break into larger volume wholesale and retail (supermarket) sales. Here, an organic certification is essential to doing business, and many of these transitional producers may not be able to afford the higher cost of private certification. This will, hopefully, change over time as market channels and the NOP stabilize.

Option E: Establish A Cost-Share Program for Organic Certification, Offer Full-time Assistance for Certification Process

Essential Components

Certification assistance
Marketing

Description

The Commonwealth of Virginia would create a 50/50⁴ Cost-Share Program to assist small to medium-size Virginia organic producers to apply for, and defray the costs of, an official organic certification. The state would concentrate its efforts on marketing assistance and add an FTE to advise producers on how to prepare their records for certification.

In 2001, USDA has provided some states with funding to offset organic certification costs. Virginia was not included in this program, due to other agricultural enterprises in the state participating in federal crop insurance/risk management programs. Budget proposals to provide similar financial assistance to all states were withdrawn from the FY 2002 USDA budget at the last minute. There is a possibility this federal program may be proposed again in the near future.

Analysis

Pros - The state would remove itself from the organic certification business and turn this responsibility over to the federal National Organic Program, as originally intended. By offering cost-share assistance for certification, the Commonwealth of Virginia could assist the small and new-to-market organic producers to easily transition into the NOP. The state could focus its time and resources on advising prospective producers on how to maintain and prepare their organic production records for certification, as well as continuing domestic and international marketing assistance.

Cons - For the small and new-to-market organic producers, certification by a private organization will not be as convenient, and costs, even with a cost-share program will likely rise. As with any cost-share program, the parameters for sharing costs must be carefully and clearly established. There is a cadre of 20-25 organic enterprises in Virginia that have not needed organic certification services from the state, preferring instead to be certified by private entities. Addressing the needs of these enterprises under a cost-share system must also be considered. Lastly, a cost-share system such as this may also be considered to be unfair subsidization.

⁴ Cost share programs vary widely from state to state. With the transition to the NOP, many states considering a simple cost share program are evaluating a 50/50 cost share, or a 1/3 producer pays, 2/3 state pays cost-share.

Cost Estimate

Total projected cost/certification	Producer cost/certification 50/50 split	State cost/certification *	FTEs	Total State cost for certification program
\$425	\$212 5	\$795 83	1	\$95,500

*Includes cost-share plus pro-rated costs for one FTE to manage the cost-share program and provide assistance to producers with the certification process

Recommendation

This option is the most logical outgrowth of the Virginia Organic Food Act. For the size and scope of organic production in Virginia, it is better to leave enforcement of organic production standards to USDA/NOP. Private organizations/companies are available to supply inspection and certification services. It is more appropriate for the Commonwealth of Virginia to concentrate its efforts on marketing and certification assistance, rather than certification itself.

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