

The Organic Foods Production Act: How Will Implementation Change the Face of California's Organic Agriculture?

by Karen Klonsky

The Organic Foods Production Act (OFPA) of 1990 requires the USDA to develop national organic standards for organically-produced agriculture. The final regulations for implementation of the OFPA were published in the Federal Register in December 2000. The new rule took effect April 21, 2001 and marked the beginning of the transition period. Full compliance with the rule will be required by October 20, 2002 in order to use the word "organic" in marketing. At that time, products can begin to use the National Organic Program organic seal label.

Arguably, the single most important difference between the federal law and the California Organic Foods Act of 1990 (COFA) relates to certification. OFPA requires all growers grossing over \$5,000 to be certified by a USDA-accredited certifier, while COFA does not require certification for any growers. Among other things, organic certification means that a farmer must have an organic farm plan, maintain a paper trail for materials applied, and undergo an annual farm inspection by an accredited certification organization.

This article looks at the composition of organic agriculture in California to discuss how the implementation of the federal organic rule will impact California's organic growers by projecting from the current composition of organic production, income concentration, levels of certification and patterns of entry and exit in organic production. The data used in this article are derived from the registration forms required by COFA of all growers, handlers and processors of food labeled as organic. The most recent figures available are from 1998.

Organic Production in California

Over 70 commodities are produced and marketed as organic in California. Produce, including vegetables, fruits and nuts, dominates the organic farm sector with over 90 percent of total sales, 89 percent of farms and 74 percent of acreage. Although produce contributes 50 percent of gross sales to California agriculture as a whole, it is more important to the organic subsector.

California organic agriculture expanded rapidly throughout the 1990s, with double digit growth in registered acreage and sales. Growth of organic agriculture using these measures was considerably faster than growth in California agriculture as a whole. However, \$160 million of organic agriculture in 1998 accounted for only 0.8 percent of all crop sales and a much smaller percentage of livestock and livestock product sales.

Most registered organic farms in California are small in acreage with low annual sales per farm. In 1998, 50 percent of all organic farms consisted of five acres or less and reported gross sales under \$8,000. These results reflect a large segment of the industry

Figure 1. California Organic Growers Income Concentration 1997-98

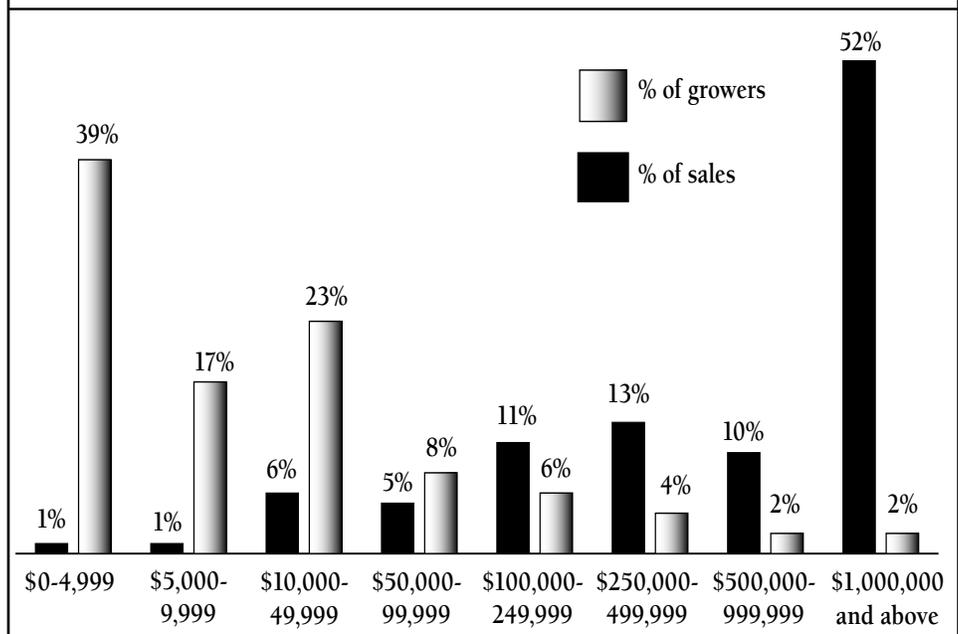
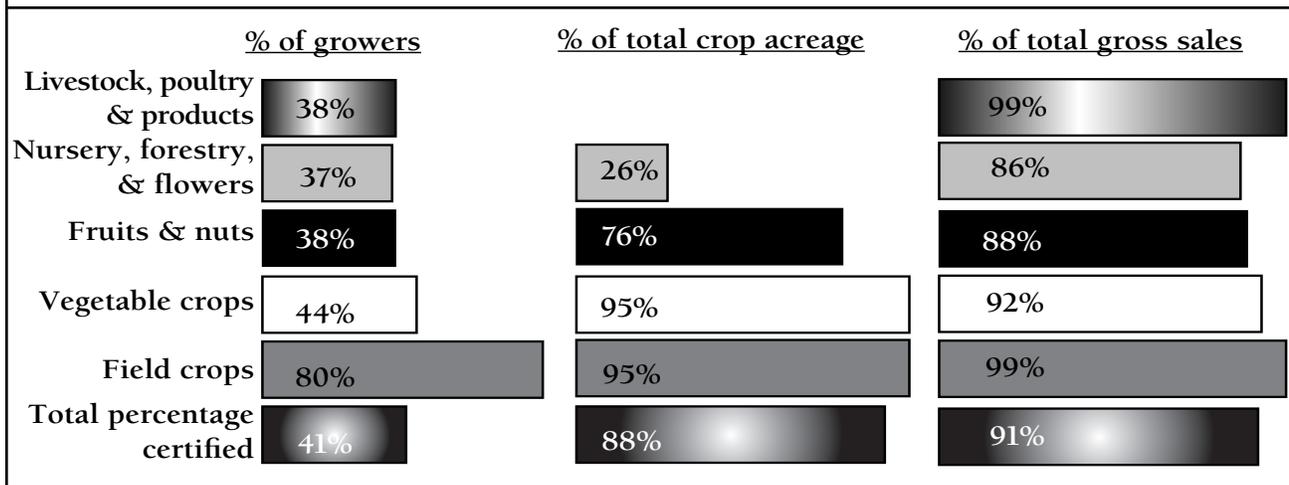


Figure 2. Percentage of Registered Organic Growers, Acres and Sales that are Also Certified, by Commodity Group



comprised of small or part-time growers, who undoubtedly use organic farming as a means of supplementing income.

Registered organic agriculture is highly concentrated. Only 10 percent of farms grossed over \$177,000. Registered farms that grossed over \$1 million annually represented less than 2 percent of the total number, but captured over half of the state's total sales in 1998 (Figure 1). Another 6 percent of all growers, those who grossed between \$250,000 and \$999,999 annually, claimed an additional 23 percent of the state's sales. At the low end of the scale, over half of all farms grossed less than \$10,000 and realized just over 2 percent of all sales in the state.

Over 75 percent of all farms in the lowest sales classes, those earning \$10,000 or less, grew fruit and nut crops, representing two-thirds of all fruit and nut growers. Over half of vegetable crop growers earned less than \$10,000 annually. However, of the growers who grossed over \$1 million, over three-quarters were vegetable crop growers.

Certified Farms

Currently, about 40 percent of all registered organic growers are also certified. Within commodity groups, field crop farms were more likely to be certified than vegetable or fruit and nut farms, undoubtedly because they are rarely direct-marketed (Figure 2). Eighty percent of field crop farms were certified, compared to only 38 percent of fruit and nut farms and 44 percent of vegetable farms in 1998. Field crops are more likely to be certified than produce with respect to acreage and sales. It is worth noting that 88 percent of fruit and

nut sales and 92 percent of vegetable crop sales were certified, reflecting the fact that most uncertified growers are small produce growers who make up over half of the organic growers, but realize only 2 percent of total sales.

Farms with higher gross sales are more likely to be certified, with 100 percent of the farms grossing over \$1 million being certified, but only 30 percent of farms grossing between \$5,000 and \$10,000 holding some form of certification. Certified farms, though representing less than half of registered farms, accounted for more than 80 percent of the registered acreage and about 90 percent of the registered sales in the state.

Several explanations are possible for this difference in certified farms and registered organic agriculture as a whole. First, small farmers may consider the increase in sales gained from certification, if any, insufficient to justify the cost to certify. Second, incentives for certification may be greater for larger scale operators who are less likely to market their products directly and more likely to sell to processors, wholesalers or retailers who usually require certification. Finally, certification itself may improve the prospects of a farm through greater market recognition, greater access to markets or enhancement of production and marketing skills through information exchange among farmers, agencies and other partnerships.

Patterns of Entry, Exit, and Expansion

Although there were only 100 more registered organic growers in 1998 than there were in 1995,

Table 1. Entry and Exit Patterns of California Organic Growers, 1995-96 to 1997-92

	Number of growers		
	1995-96	1996-97	1997-98
Registered organic growers			
Continuing from previous year	1,092	1,126	1,190
Entering	335	349	343
Total number of organic growers	1,427	1,475	1,533
Exiting at the end of year	301	285	na
Continuing into the next year	1,126	1,190	na

looking at entry and exit from the ranks of the registered organic growers reveals that almost one-fourth of the growers are new in any given year and that about one-fifth of registered growers drop out of the program every year. About 340 growers are new every year and about 290 drop out every year (Table 1). Most of the growers coming in and out of the program gross less than \$50,000, although several growers enter the program with sizable acreage and sales. As a result, the number of organic growers increased by only 7 percent from 1995 to 1998, and the number of organic acres increased by 47 percent.

Discussion

When implemented, the federal Organic Foods Protection Act will require growers grossing over \$5,000 per year to be certified. This will impact registered organic growers who are not certified but will seek certification for the first time, as well as new entrants into organic production. In 1998, there were roughly 400 uncertified growers who would have required certification under the new rules, 95 per cent of whom grossed between \$5,000 and \$50,000. Certification for these growers could cost \$2,000 or more depending on the complexity of their operations and the certifier they choose.

Growers who are exempt from certification by the organic rule will be allowed to use the word organic in marketing but will not be allowed to use the USDA organic seal. Therefore, they may find themselves competing side by side with organic products bearing the USDA organic seal, which could put them at a disadvantage in farmers markets or natural foods stores.

The cost and paperwork involved in certification will inevitably drive some organic growers out of the market altogether. These growers may instead

use some other sort of green label such as “pesticide free” or “sustainably grown” that are currently not regulated. For new growers, the certification requirement could act as a barrier to entry into the organic market, particularly for growers grossing between \$5,000 and \$50,000 per year. There

have been over 300 new organic growers every year since the California organic program began. These new entrants might also seek another green marketing niche.

Further, the new rule creates uncertainty as to which certifiers will be in operation in 2002. Certifiers must apply for accreditation to the National Organic Program (NOP) by October 20, 2001. No doubt some certifiers may decide to cease operation rather than go through the NOP process, leaving their clientele to search for a new certifier. Therefore, there are several reasons why farmers will be seeking a certifier. They may never have been certified before, they may need to change certifiers because the current certifier does not gain approval by USDA, they simply want to change certifiers, or the certifier goes out of business. But the list of approved accredited certifiers will not be released before April 21, 2002. This will leave these farmers six months to be certified by another certifier in order to be certain of meeting the October 20, 2002 deadline for compliance. Other new certification organizations will no doubt appear that have no track record, creating more uncertainty for organic farmers.

The true impact of the National Organic Program standards, now finalized, will not be known for several years. Also not clear is how broader legislation concerning food-quality protection, water quality, biotechnology, international trade and a host of other issues will be felt by the organic subsector.

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