

Generic Research and Promotion Order for Organic (GRO Organic) PROGRAM SUMMARY

In a groundbreaking move for the nation's organic sector, the Organic Trade Association, in collaboration with the GRO Organic Core Committee, has formally petitioned the U.S. Department of Agriculture (USDA) for a research and promotion check-off program for organic. This action reflects three years of dialogue with organic farmers, processors, handlers and businesses in town hall meetings, panel discussions, and phone calls. As proposed, the organic check-off would be a full supply chain check-off program, promoting the organic brand and organic production practices. A summary of the proposal is shared here along with the enclosed excerpt of the regulation. A copy of the full application can be found on the GROorganic.net web site. Please contact OTA (info@ota.com or 802.275.3800) with questions, or if you are interested in speaking with a member of the GRO Organic Core Committee.

Program Objectives

The American organic industry is relatively young, with a national standard set forth by the U.S. Department of Agriculture (USDA) in 2002. Despite the newness of the industry, it has experienced rapid growth with organic sales increasing by double digits annually in recent years. U.S. organic sales reached nearly \$40 billion in 2014.¹ The rapid growth of the U.S. organic industry has given rise to unique challenges that need to be addressed in order for the industry to sustain and continue its current growth. The GRO Organic Program would help to address such challenges as domestic supply shortages, viable pest management options, and market confusion.

The assessed funds would be dedicated to promoting organic goods and researching solutions to problems facing the organic industry. Initial goals of the program are to educate consumers about what organic is and its benefits, distinguish organic from other claims and unregulated seals like “natural”, confirm the science behind the environmental and public health benefits of organic, undertake research to solve problems such as invasive pests and weed control, and bring new farmers into organic production through information and technical assistance.

Domestic Supply Shortages

Supply shortages in the U.S. organic industry is one of the greatest challenges facing the industry today. Despite the continued growth in organic production, organic handlers are not able to keep up with demand, which has grown at an even faster rate than production. According to a 2004 USDA Economic Research Service (ERS) report, “44 percent of organic handlers reported short supplies of needed ingredients or products” and “13 percent were unable to meet market demand for at least one of their organic products that year.”² In addition, 52 percent of organic companies said that “a lack of dependable

¹ Catherine Greene, *Organic Agriculture*, Economic Research Service, USDA (last modified April 07, 2014), see *Overview*, available at <http://www.ers.usda.gov/topics/natural-resources-environment/organic-agriculture.aspx>. See also OTA's 2015 U.S. Organic Industry Survey (May 2015)

² Catherine Greene, Carolyn Dimitri, Biing-Hwan Lin, William McBride, Lydia Oberholtzer, and Travis Smith, *Emerging Issues in the U.S. Organic Industry*, Economic Research Service, USDA (June 2009), p. iii, available at http://www.ers.usda.gov/media/155923/eib55_1_1.pdf

supply of organic raw materials has restricted their company from generating more sales of organic products.” Organic food sales currently make up four percent of total food sales, while acreage devoted to organic agriculture is less than one percent of total U.S. cropland.

There has been increasing news coverage of the organic supply shortage. Bloomberg recently wrote about the lack of organic farmers and low supplies of organic feed grain that is restraining organic dairy production across the U.S. and causing “severe shortages in the organic dairy aisle.”³ The lack of domestic organic barley farmers, in addition to weather problems, is forcing brewers to increase prices and import more expensive foreign organic barley as reported in USA Today.⁴ Maine’s Public Broadcast News reported that one of the reasons behind the supply shortage was the lack of farmers willing to transition to organic due to the cost to transition and other factors.⁵ Agri-Pulse also reported the struggle to meet demand that food manufacturers are facing because not enough farmers are transitioning to organic due to “various financial and regulatory hurdles.”⁶ Demand for organic eggs is up, but there are not enough U.S. farmers growing organic soybeans and organic corn to feed the organic chickens making organic egg producers cut back on production or buy expensive foreign organic feed as reported by NPR.⁷

The organic industry has identified a growing need to close the gap between U.S. organic production and the demand for organic products. More needs to be done to assist farmers as they transition to organic agriculture, like programs educating farmers on the certification process, the organic label, and organic farming techniques. The lack of farmers willing and able to transition to organic has led organic processors and handlers to look abroad to fulfill their orders. Organic milk producers must turn to imports to source enough organic feed for their cattle.⁸ The amount of foreign-grown organic products imported into the U.S. demonstrates a need for growth in U.S. organic – which would be supported by a USDA-sanctioned organic research and promotion board.

Research for Pest Management Solutions

Organic farming faces very real and imminent threats from invasive species and other types of pests. There was a supply shortage of organic apples across the U.S. in April 2014 due to insect problems and some acreage reduction.⁹ Organic farmers, however, face an even harder battle in developing an effective program of pest management. Not only do organic farmers have to find the right combinations of techniques and substances, the pool of available substances is limited. Organic farmers are limited to the substances that are approved in the National List of Allowed and Prohibited Substances (National List), which includes limited approved pest management strategies.

³ Lydia Mulvany, *Grocery Stores Are Running Out of Organic Milk*, Bloomberg Business (February 9, 2015), available at <http://www.bloomberg.com/news/articles/2015-02-10/not-only-hipsters-cry-when-u-s-grocers-run-out-of-organic-milk>.

⁴ Tony Kiss, *Barley Shortages has Craft Beer Makers Foaming*, USA Today (February 3, 2015), available at <http://www.usatoday.com/story/money/business/2015/02/03/beer-barley-shortage/22792533/>.

⁵ Jennifer Mitchell, *Organic Milk Scarce on Maine Store Shelves as Demand Outstrips Supply*, MPBN News (January 15, 2015), available at <http://news.mpbn.net/post/organic-milk-scarce-maine-store-shelves-demand-outstrips-supply>.

⁶ Aarian Marshall, *Organic Farmers Struggle with Recruiting – and Supply*, Agri-Pulse (June 4, 2014), available at <http://www.agri-pulse.com/Organic-farmers-struggle-with-recruiting-and-supply-06042014.asp>.

⁷ Dan Charles, *Chickens That Lay Organic Eggs Eat Imported Food, And It’s Pricey*, NPR (February 27, 2014), available at <http://www.npr.org/blogs/thesalt/2014/02/26/283112526/chickens-laying-organic-eggs-eat-imported-food-and-its-pricey>.

⁸ Mark Peters, *A Gap in Organic Food Chain*, The Wall Street Journal (July 14, 2013), available at <http://www.wsj.com/articles/SB10001424127887324867904578594171667940126>.

⁹ Dan Wheat, *Organic Apples May Run Out Sooner Than Usual*, Capital Press (April 8, 2014), available at <http://www.capitalpress.com/Organic/20140408/organic-apples-may-run-out-sooner-than-usual>.

The National Organic Standards Board (NOSB) maintains the National List and reviews petitions from individuals and organizations to add, remove, or change a listed substance and makes recommendations based on those petitions to the USDA twice a year.¹⁰ The list has been fine-tuned several times since its creation in 2002. Several substances that were once allowed are now prohibited in an effort to improve the list and limit the number of synthetic substances allowed in organic production. With the removal of certain substances, organic farmers must reevaluate how to manage particular pests with what remains available to them.

The transition of organic apples and pears from antibiotic to non-antibiotic fire blight management tools is one example of changing pest management strategies that the GRO Organic Program could help organic producers develop. Antibiotic fire blight management tools were phased out of organic production in late 2014. There is research being done on non-antibiotic fire blight management tools with approved substances, but the final results have not been released. Once the final results are released, it will be some time until they can be translated into actual farming practices.¹¹ This gap can leave organic farmers unprotected against some very serious pests. Additional funding for research (via a research and promotion board) could help farmers during these gaps, and could anticipate changes to the list so that alternative farming techniques can already be in place when a substance is phased out.

Most current funding for organic research is devoted to researching prohibited substances. There is a lack of funding for research devoted to helping organic farmers develop practices for current and possible future pest management issues, such as citrus greening. There is no strategy, either conventional or organic, that has proven to be 100 percent effective at treating or preventing the spread of citrus greening. Application of synthetic pesticides, however, has been mandated as an eradication method in California without any organic alternative, leaving organic growers in a predicament.¹² Organic citrus growers need viable alternatives to the synthetic pesticides used in the conventional treatment of citrus greening and other pest issues. The Organic Agriculture Research and Extension Initiative (OREI), which is administered by the National Institute of Food and Agriculture, helps organic farmers develop pest management strategies, but the funding is limited, not exclusive to pest management, and requires recipients to contribute matching funds or in-kind support.¹³ More funding is needed to research better and more effective pest management techniques and applications for organic agriculture – and that could be accomplished through GRO Organic.

Market Confusion

According to Consumer Reports, 84 percent of U.S. consumers buy organic foods sometimes, and 45% buy them at least once a month, but there's a disparity between what

¹⁰ National Organic Program, *About the National List*, Agricultural Marketing Service, USDA (last modified on February 24, 2015), available at <http://www.ams.usda.gov/AMSV1.0/NOPPetitionedSubstancesDatabase>.

¹¹ Harold Ostenson and David Granatstein, *Critical Issue Report: Fire Blight Control Programs in Organic Fruit*, The Organic Center (November 2013), see page 4.

¹² The Organic Center, *Organic Solutions for Citrus Greening* (last modified June 24, 2014), available at <http://organic-center.org/citrus-research/savecitrus/>.

¹³ National Institute of Food and Agriculture, *Organic Agriculture Research and Extension Initiative: 2014 Request for Applications*, see p. 14, available at http://www.nifa.usda.gov/funding/rfas/pdfs/14_OREI.pdf.

the seal means and what consumers think it means.¹⁴ The Natural Marketing Institute issued a report stating that most consumers “don’t know what the characteristics or regulations of organics are, they are unclear about the benefits, or they easily confuse it with natural.”¹⁵ Today, there is an ever-increasing number of labels that may be used on packaging (e.g. Natural, Local, non-GMO, etc.) contributing to consumer confusion.

A number of articles from major news agencies emphasize the problem of consumer confusion facing the market today. ABC News released an article on how several labels in the market, including “natural,” mislead consumers about what is actually in their products.¹⁶ Forbes covered a report showing the organic label to be one of the most confusing labels in the market due to the rapid growth in organic demand and not enough public education on the label.¹⁷ The New York Times showed that more choices on food labels has increased the confusion about what all of the labels mean.¹⁸

New organic families - those who only began purchasing organic products in the past two years - consistently account for between thirty and forty percent of American families. In 2014, 34 percent fell into this category.¹⁹ This means that for organic to succeed in the long term, the industry must continually invest in educating consumers who are new to organic on what the label means. Through a research and promotion program, the organic industry will educate those who are unaware of the benefits of organic products, as well as clear up confusion among consumers regarding what it means for food to be “organic” – as compared to unregulated “natural” products and other eco-claims in the marketplace. These other non-organic claims confuse the everyday consumer and there is a strong need for a clear, unified message across the entire industry to relay the organic message. The NOP does a great job at ensuring the organic standard maintains its level of integrity. It has emerged as a strict regulator and enforcement arm for the organic industry – but it will never fill the role of educator, marketer, or promoter.

The GRO Organic Program proposes an assessment rate of one-tenth of one percent of net organic sales. (“Net Organic Sales” is defined as total gross sales of organic products minus the cost of certified organic ingredients, feed, and inputs used in the production of organic products.)²⁰ The assessment is anticipated to generate over \$35 million for the GRO Organic Board.²¹ This assessment is vital to the long-term success of the industry so that the resources of the diverse organic community can be pooled together to solve the problems faced at the farmgate, in the research labs and test fields, and in the minds of the consumers.

¹⁴ National Research Center, *Organic Food Labels Survey*, Consumer Reports (March 2014), p. 3, available at <http://www.greenerchoices.org/pdf/CR2014OrganicFoodLabelsSurvey.pdf>.

¹⁵ Natural Marketing Institute, *2015 Growing the Organic Industry, Strategies for Brand Success* (February 2015), available at <http://www.nmisolutions.com/index.php/research-reports/health-a-wellness-reports/2015-growing-the-organic-industry-strategies-for-brand-success>.

¹⁶ David Kerley, ‘Natural’ vs ‘Organic’: How Food Labels Deceive, ABC News (February 17, 2014), available at <http://abcnews.go.com/blogs/lifestyle/2014/02/natural-vs-organic-how-food-labels-deceive/>.

¹⁷ Beth Hoffman, ‘Organic’ One of the Most Confusing Labels, Report Says, Forbes (July 17, 2014), available at <http://www.forbes.com/sites/bethhoffman/2013/07/17/organic-causes-confusion/>.

¹⁸ Kim Severson, *More Choice, and More Confusion, in a Quest for Healthy Eating*, The New York Times (September 8, 2012), available at <http://www.nytimes.com/2012/09/09/us/would-be-healthy-eaters-face-confusion-of-choices.html?pagewanted=all>.

¹⁹ The Organic Trade Association, *2014 U.S. Families’ Organic Attitudes and Beliefs Study* (April 2014), available at <https://ota.com/what-ota-does/market-analysis/consumer-attitudes-and-beliefs-study>.

²⁰ United for More Organic, *Organic Check-off Preamble (Version 3.0)*, Organic Trade Association (Last accessed February 4, 2015), available at <http://www.unitedformoreorganic.com/research-promotion-program/organic-research-and-promotion-program-preamble/>.

²¹ This is based upon data from the 2012 U.S. Census of Agriculture, Characteristics of All Farms and Farms with Organic Sales (NASS, USDA), Issued September 2014.

Expected Income, Fees and Assessments

The GRO Organic Board could expect to generate over \$35 million in income from U.S. organic operations at the optimum assessment rate. The proposed assessment rate is one-tenth of one percent of Net Organic Sales. Organic handlers would pay one-tenth of one percent of Net Organic Sales. Organic producers would have the option of paying one-tenth of one percent of either Net Organic Sales or Producer Net Profit. This will apply to all assessed organic producers, organic handlers, and importers of organic products. Small farms, with gross organic revenue of less than \$250,000 annually, would be covered but not assessed, and would have the option of not paying in, or paying a voluntary assessment of the same one-tenth of one percent of Net Organic Sales. (“Gross Organic Revenue” is defined as total gross sales in organic products.)

In order to administer the program, all mandatory organic certificate holders²² throughout the supply chain, including producers, handlers, brand manufacturers, co-packers, and importers, with Gross Organic Revenue in excess of \$250,000 per year, would be subject to a mandatory organic check-off assessment. Because of the complexity and diversity of the organic value chain, the Organic Trade Association and the GRO Organic Core Committee determined that the assessment rate would be a value-added model that would assess one-tenth of one percent of Net Organic Sales (i.e. total gross organic sales minus the cost of certified organic goods). For example, there would be a \$300 assessment at \$300,000 Net Organic Sales and a \$3,000 assessment at \$3,000,000 Net Organic Sales.

The GRO Organic Program will impose minimal compliance requirements on small businesses. Organic producers, handlers, and importers with Gross Organic Revenue of less than \$250,000 in the last fiscal year will not be assessed, but may voluntarily contribute to the program. Organic producers, handlers, and importers will have the option to participate in the program as a voluntarily assessed entity by remitting an assessment of one-tenth of one percent of their Net Organic Sales, which will allow them to request a ballot to vote in any program referendums. By casting a vote, they agree to voluntarily pay into the program for seven years. All of the required compliance requirements will be annual so there will not be a distinction in initial versus operating costs.

The GRO Organic Program has set a cap of 15 percent on administrative expenses. This cap would also apply to any organization (e.g. a research university) that receives funding from the GRO Organic Program. Government reimbursements are not expected to exceed \$350,000 annually. It is estimated that the funds remaining after program administration costs are paid would be nearly \$30 million.

The 2014 Farm Bill allocated \$167.5 million for organic programs over five years, which amounts to roughly \$33.5 million per year.²³ This money includes funding for certification assistance (\$11.5 million per year), economic data research and database upgrade (\$2 million per year), and organic agriculture research and extension funding (\$20 million per year).²⁴ The GRO Organic Board will have comparable funds to these Farm Bill programs.

²³ Catherine Greene, *Organic Agriculture*, Economic Research Service, USDA (last modified April 07, 2014), see *Farm Act-Organic Provisions*, available at <http://www.ers.usda.gov/topics/natural-resources-environment/organic-agriculture/farm-act%E2%80%9494organic-provisions.aspx>.

²⁴ Ibid.