



ORGANIC FARMERS ASSOCIATION

March 1, 2024

Erin Morris,
Associate Administrator, Agricultural Marketing Service
USDA
1400 Independence Avenue SW
Washington, DC 20250-0201

Re: Notice, Request for Information: Specialty Crops Competitiveness, Docket #
AMS-SC-23-0073-0001

To Whom It May Concern:

The Organic Farmers Association (OFA) is a membership organization that represents U.S. certified organic farmers. Our organization was founded by and is controlled by certified organic farmers, and only domestic certified organic farmers vote on OFA's policies and leadership. We appreciate the opportunity to comment on "Notice, Request for Information: Specialty Crops Competitiveness" (Docket # AMS-SC-23-0073-0001). In our comments we will focus on information related to the competitiveness of *organic* specialty crops.

Introduction:

Organic is a growing sector of the U.S. agriculture system, with tremendous potential to address climate change, help family farms flourish, revive rural communities and protect public health. Organic farms are often regarded as a success story in terms of farm economic viability, and organic farms can often function economically at a smaller scale. The USDA's 2021 Organic Survey shows that 71 percent of organic farms in the U.S. had annual sales under \$250,000.¹

The potential for economic viability for smaller farms has been a major strength of the organic sector, and is an important component of creating a domestic food supply that is resilient. But the dramatic growth of the overall organic sector and the comparative success of organic farms

¹ USDA National Agricultural Statistics Service. December 2022. "Certified Organic Survey: 2021 Summary," <https://downloads.usda.library.cornell.edu/usda-esmis/files/zg64tk92g/2z10z137s/bn99bh97r/cenorg22.pdf>

relative to their conventional peers does not mean that there are no risks that could undermine the continued success of the organic sector. OFA members are increasingly concerned about changes in the organic marketplace, ranging from a growing market share of domestic demand for organic products being filled by imports to increased merger and acquisition activity among various buyers of organic crops. Furthermore, the vibrant growth rate that the overall organic sector has enjoyed for many years disguises one troubling and persistent fact – the rate of growth in organic food sales in the U.S. has exceeded the rate of growth in U.S. organic farmland for twenty years.² The economic, environmental and social benefits resulting from organic agriculture should be gained here on U.S. soil. The United States Government should expand and improve programs that encourage organic farming.

Policy changes are needed to reduce current and future consolidation, limit mergers, redirect food and farmer subsidies toward local producers, and encourage local economic resilience through building regional food systems that support local producers, processors, and distributors and communities.

Questions for Comment

How could USDA increase awareness of available tools and resources to support broader participation and engagement by the specialty crops industry?

USDA should prioritize further outreach to all types of farmers and engage communities of color in particular to find out how to design programs that will work for every region and cropping system.

The continued economic viability of farms and providing adequate infrastructure for thriving local and regional food economies must be stated goals for USDA's efforts to increase specialty crop competitiveness. For organic, that means improved organic standards and stepped up enforcement to make sure that organic markets provide a level playing field and a fair price for farmers and a fair wage for workers. Additional organic technical assistance focused on the regional system differences for growing a variety of specialty crops, will lead to more successful farms.

Outreach to these producers will be necessary to improve participation in any programs USDA creates. Please consult with farm organizations, state departments of agriculture, accredited certification agencies (organic certifiers), and other entities outside the USDA to spread the word about new programs and how farms who may not be familiar with USDA county offices

² Andrea Carlson et al. Presentation at USDA 2021 Ag Outlook Forum. "U.S. Organic Production, Markets, Consumers, and Policy, 2000-2020."
https://www.usda.gov/sites/default/files/documents/S14_FINALCarlson_Andrea_Pres-v2.pdf

can access these programs. Reinstating an organic specialist within each state FSA office would also be helpful to send targeted information to all certified organic farms in the state notifying them of upcoming FSA opportunities. More coordination between state FSA offices and better utilization of the USDA NOP Organic Integrity Database for farmer notifications would enhance farmer outreach efforts needed to increase participation.

Processing infrastructure within the organic industry is also in great need of expansion. For many organic specialty crops, producers cannot extend into new markets because they lack access to processing facilities that are also certified organic. We need both an assessment process and funding. We need to assess where new infrastructure is needed and potential for expansion of existing infrastructure to adopt organic certification to grow their client-base and expand their markets. As a next step, funding to implement the results would greatly support specialty-crop farmers' success and access to markets. Funding for rurally-based incubator kitchens has shown to be a successful way to provide small scale processing for both developing products as well as small scale production.

Because organic specialty crop markets are still growing, these markets lack support from service providers. Support for education within the agriculture lending space about organic production, organic market growth, and funding risk would support specialty crop growers interested in expanding their businesses to address new markets. Currently many organic specialty-crop growers have had to fund business growth through alternative financing strategies because traditional lenders are not knowledgeable about the industry and unwilling to fund these operations.

How could USDA enhance or adapt currently offered programs (loans, grants, nutrition programs, conservation programs, insurance programs, food safety programs, pest management programs, etc.) to support the specialty crops industry to increase its competitiveness?

Specialty crop producers - in particular, smaller, diverse, and socially-disadvantaged farmers - need better access to risk management tools. Available crop insurance options need to be improved to work better for these farmers. Policies such as Whole Farm Revenue Protection (WFRP) and Micro Farm are promising, but still need improvement. Of equal importance is improving these farmers' access to available program options. Crop insurance agents and Authorized Insurance Providers need to be both required and financially incentivized to offer and sell all types of policies, including Whole Farm Revenue Protection and Micro Farm. In some states, specialty crop growers have had trouble finding any crop insurance agents willing to provide WFRP, even though they are legally required to sell all the crop insurance programs.

OFA supports a number of improvements to crop insurance programs that would benefit organic and smaller specialty crop farmers.

Information and tools should be shared across USDA agencies to make programs accurately reflect the value and risk associated with various programs and forms of production. More organic prices for crop insurance need to be developed and organic farmers should be allowed to use organic prices for all federal farmer programs including NAP and Farm Storage Facility Loan Programs. Additionally, policies that artificially cap Contract Price Addendums at two-times the conventional price election for a specific crop should be eliminated.

Whole-Farm Revenue Protection (WFRP), which was established in the 2014 Farm Bill, needs continued improvements. Information sharing among USDA agencies and organic certification agencies would help minimize the farmer's paperwork burden to participate in WFRP. The change in farm revenue after a farm has transitioned to organic must be recognized. If farmers transitioning to organic utilize WFRP, an *uninsured gap* occurs the first year of organic certification when the farmer receives organic prices for crops. The same challenge occurs if a farmer is moving from lower-value to higher-value crops. In 2023, expansion due solely to certified organic production has a limit of the higher of 35 percent or \$500,000. This is an improvement, but the cap should be increased.. We urge you to raise the cap to 50% on increased production value under the expansion provision.

The settlement deduction from other insurance policies when a claim is filed should be eliminated. Whole farm Revenue Protection is attempting to insure more diverse crop rotations, but diversity of crops needs to be better rewarded in the WFRP system. WFRP currently functions as catastrophic coverage, so it should be very inexpensive, as the likelihood of a diversified farm having a WFRP claim is very slim. In WFRP, if a claim is filed, the settlement from any other insurance policy is deducted. If a crop failure happens in one crop, other crops often have typical yields. This deduction from other insurance policies should be removed. If this were to change, WFRP would function less like catastrophic coverage and could be worth purchasing as a functional form of crop insurance for diversified producers.

The majority of beginning organic farmers are specialty crop farmers. The definition of "beginning farmer" in crop insurance programs should be changed to align with other USDA programs (and with WFRP) to extend crop insurance protections for beginning farmers to the first 10 years of farming.

How could USDA enhance or adapt procurement to support the specialty crops industry?

Most organic and small specialty crop farms have not traditionally accessed food purchasing

programs run by the USDA.

Any USDA program must be accessible and feasible for all types and sizes of farms – organic, diversified, small-scale, in all regions of the country. Historically, this has not always been the case for USDA programs, where organic farmers have had trouble accessing crop insurance, research, and payment programs. It is vital that USDA's plan for specialty crop competitiveness does not repeat past mistakes by focusing only on large-scale conventional farms in a few regions of the country.

One obstacle that could exist for many organic, small and specialty crop producers is lack of familiarity with Farm Service Agency offices or AMS contracting procedures. There is widespread perception among organic farmers that the AMS CPP bidding process focuses primarily on price, and that a large amount of product is necessary to participate.

Organic and specialty crop operations are frequently smaller than the large conventional operations with which USDA commonly contracts. It is imperative for these farmers to be paid on time and potentially an advance upon awarding of the contract. Small farmers are less likely to survive if payments are late. Small and larger organic diverse vegetable farms are also less likely to be financed through traditional agricultural lending, as lenders are not familiar with the financial benchmarks of diversified operations. These farms tend to create alternative funding mechanisms which rely on contract buyers to finance part of the purchase up front to cover seeds and labor, financing conventional farms typically receive from lending institutions. To foster more small or underserved business participation in the procurement process, USDA needs to build trust, and establish accountability mechanisms to ensure timely and complete payments. This is especially important to disadvantaged farmers who have historically experienced discrimination from USDA.

Procurement contracts to feed specified community groups, should prioritize specialty crop growers who are also a part of that community group. This not only would result in accountability and responsible use of the funds, but would garner goodwill among underserved communities and the USDA.

AMS could increase organic and specialty crop farmer participation in CPP by establishing mission-driven bidding systems and set-asides that pay a competitive premium for certified organic products, local products, and products produced by disadvantaged and underserved farmers. Small and specialty crop producers have different costs of production than large conventional operations and producers must be assured that the price offered through USDA programs will be competitive with that available in the open market, where consumers are willing to pay a premium for value added products. Mission driven bidding systems particularly align with contracts for institutions where healthy food is desirable, such as institutions serving children, the sick, and elderly.

Please share any ongoing or anticipated challenges in the specialty crops industry that impact your ability to maintain competitiveness.

Organic Specialty Crop Growers need a level playing field

The continued economic viability of organic specialty crop farms requires improved organic standards and stepped up enforcement to make sure that organic markets provide a level playing field and a fair price for farmers and a fair wage for workers. It also requires ensuring the competitiveness of organic specialty crops so that farmers earn a fair price.

Because the U.S. organic market continues to demonstrate high-levels of growth, the risk for import fraud is high as other international players hope to gain access to the U.S. premium organic market. Research into organic specialty crop market vulnerabilities at the border would help identify strategies for keeping import fraud out of the domestic organic specialty crop marketplace.

The organic certification of hydroponic and container-based facilities has created an unfair playing field for organic specialty crop growers. Healthy soil is essential to healthy organic food, healthy ecosystems and efforts to address climate change. The Organic Foods Production Act lays out requirements for soil fertility for organic farms and building soil health is a foundational principle of organic agriculture. The NOP's decision to allow hydroponic (soil-less) operations to be certified organic, as well as controversy over inconsistent interpretation of the NOP's guidance for how container operations transition to organic, has created economic hardship for soil-based specialty crop farmers competing under the same label but different production systems. This could undermine consumer confidence in the organic label overall and reduces the potential for organic agriculture to sequester carbon. The NOP should clarify that organic farming occurs in the soil and ensure that all organic certifiers are consistently applying this requirement. For organic agriculture to maximize its potential as climate-friendly agriculture, soil must be recognized as the cornerstone of organic production. Sustainable hydroponic production has its place in the market under a different verified label and program.

Organic specialty crop growers face consolidating markets for agriculture and food products.

U.S. organic farmers are more reliant on direct marketing to consumers (bypassing retailers) than their conventional counterparts.³ Organic is more reliant on direct markets in part because

³ U.S. Department of Agriculture Economic Research Service. "Organic Market Summary and Trends." May 6, 2022. <https://www.ers.usda.gov/topics/natural-resources-environment/organic-agriculture/organic-market-summary-and-trends/>

organic farms tend to be smaller and many organic farms raise produce that can be sold to consumers without further processing. But organic farms also rely on direct markets because an increasingly consolidated food retail sector does not serve most organic producers adequately, if at all. Enhancing local food production improves the freshness and quality of the specialty crops consumed in that region, as well as improving local economies.

The trend of consolidation through mergers and acquisitions is widely acknowledged in conventional agriculture supply chains, while the organic and natural food sector is often regarded as home to more innovative start-up operations and brands. But the organic sector has not escaped the consolidation trend, in consumer facing brands and also distribution. This trend has been documented by Dr. Phil Howard, a researcher at Michigan State University, who notes that the trends of consolidation “have only intensified, to the point that nearly all of the 30 largest processors in North America have acquired organic brands.”⁴ This roll up of organic processing and consumer brands results in less competition in organic markets, potentially lowering prices paid for farm products and creating tighter linkages between large processors and large retailers that can thwart the access of new entrants to organic retail shelf space. A particularly dramatic consolidation trend in the organic sector has been in distribution. Dr. Howard notes that in 1982 there were 28 consumer cooperative distributors, but by 2008 there was just one.⁵

Because the organic and natural food sector is a distinct market, dominance by a small number of companies can have dramatic effects. For example, United Natural Food, Inc. (UNFI) is the largest distributor of natural and organic groceries and is nearly three times larger than the only other nationwide distributor.⁶ UNFI has been a key supplier for Whole Foods Market, which often has represented a third of UNFI’s business, and maintains a supply contract with Whole Foods that runs through 2025.⁷ Amazon pursued Whole Foods Market in part to capture its supplier relationships,⁸ potentially including the relationship with UNFI, which could distort or foreclose supplies of organic and natural grocery merchandise to other organic, natural and healthy grocery retailers.⁹

⁴ Philip H. Howard. “Organic Processing Industry Structure 2020.”
<https://philhoward.net/2020/09/24/organic-processing-industry-structure-2020/>

⁵ Philip H. Howard. “Organic Distribution & Retail Structure.”
<https://philhoward.net/2011/11/01/organic-distribution-retail-structure/>

⁶ UNFI. “Building out the store.” Stephens Non-Deal Roadshow. Boston, Mass. September 1, 2015 at 5 and 14.

⁷ Springer, Jon. “UNFI takes a hit in Whole Foods investment.” *Supermarket News*. April 11, 2017; Richards, Brian. “How Whole Foods transformed its relationship with United Natural Foods.” *Motley Fool*. February 19, 2013.

⁸ Deutsche Bank Markets Research. “WFM+AMZN: Making Fresh Prime.” June 19, 2017 at 2.

⁹ UNFI (2015) at 13.

A white paper by the National Grocers Association details how “power buyers” in food retail rely on unfair practices that disadvantage independent grocery retailers in many urban and rural areas.¹⁰ These types of practices imposed on those who wish to supply food retailers can serve as insurmountable obstacles, blocking farms or small processors from being able to sell through traditional retail outlets. A recent article by *Food & Power* provides a useful case study of how changes to various terms imposed by Whole Foods Market after the retailer was acquired by Amazon has served to stifle access by innovative food startups to the retailer. This is notable because for many years, the company served a unique role as the first significant retail account for many small companies.¹¹

Another practice that deserves scrutiny is the growth of private label food products, controlled through contracts or outright owned by retailers (both online and brick and mortar), and the impact this has on competition in upstream markets for crops and livestock. There is currently a growing trend of large retailers creating their own supply chains, with Costco branching out into chicken production and Walmart opening a milk processing plant and establishing its own beef supply chain.¹² The continued rise of private label products controlled or owned by retailers needs to be examined in terms of obstacles created for new entrants or existing rival brands that cannot access store shelves because the retailer is promoting its private label brand. The potential for online retailers to manipulate the visibility of rivals to their private label brands should also be examined.

A merger that has had significant impacts on the organic sector was the acquisition of Whole Foods Markets by Amazon in 2017. This would be a particularly useful merger to examine for several types of impact, including effects on innovative food companies that were very dependent on Whole Foods’ regional procurement model for accessing store shelves when they were in their early stages of growth; the impact on small farms serving regional markets who were dependent on Whole Foods Market’s regional procurement system; and the creation of tighter linkages between dominant distributors like United Natural Foods Inc. and Whole Foods and the impacts this had on other retailers and sellers in the natural and organic foods market.

Organic specialty crop growers need investments in infrastructure

¹⁰ National Grocers Association. “Buyer Power and Economic Discrimination in the Grocery Aisle: Kitchen Table Issues for American Consumers.”

<https://www.nationalgrocers.org/wp-content/uploads/2021/03/NGA-Antitrust-White-Paper25618.pdf>

¹¹ Claire Kelloway. “The Amazonification of Whole Foods Goes Beyond Store Tech.” *Food and Power*. April 28, 2022. <https://www.foodandpower.net/latest/whole-foods-amazon-purchasing-changes-labor-cuts-2022>

¹² Grant Gerlock. “Costco Builds Nebraska Supply Chain For Its \$5 Rotisserie Chickens.” National Public Radio. October 22, 2018; Anna-Lisa Laca. “Dozens More Farmers Lose Milk Contracts.” *Dairy Herd Management*. March 5, 2018; Tom Polansek. “Walmart creates Angus beef supply chain, cutting out meat processors.” *Reuters*. April 24, 2019.

Organic farmers across the board, from specialty crop growers, to grain producers, to livestock and dairy farmers would all benefit from investments in processing facilities, water infrastructure, and better access to storage and processing facilities, funding for farmer cooperatives, and funding to study where the bottlenecks are in moving organic products to market.

OFA farmers know that efforts to grow organic markets through targeted investments in small to mid-scale regional infrastructure will be most effective when paired with strategic policy changes to reduce current and future consolidation, limit mergers, redirect food and farmer subsidies toward local producers, and encourage local economic resilience through building regional food systems that support local producers, processors, and distributors and communities.

We appreciate the opportunity to comment on these critical issues. If you have questions or need more information, please contact our policy director, Lily Hawkins, lily@organicfarmersassociation.org

Sincerely,

A handwritten signature in black ink, appearing to read "Kate Mendenhall".

Kate Mendenhall, Executive Director