

QUALITY APPROVED: TROPICAL ORGANIC PRODUCTS

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THE DEMAND

The Organic Marketplace

There is enormous, and rapid, growth in the retail sales of organic food. Most observers, in both the conventional and natural food markets, agree on this and currently project overall growth at anywhere from 20% to 25% per annum. With 1994 organic retail sales estimated at 2.4 billion it was the 6th consecutive year of double digit growth. The greatest growth was experienced in the processed foods sector with a 25% increase.

Many industry members feel that the full implementation of the federal U.S. Organic Foods Production Act in early '97 will make these figures seem conservative as the mass market will respond to the conventional legitimization of Organic Food. Recent conversations with venture capitalist verifies that these numbers have aroused the scrutiny of the money managers as they position themselves to move into the organic trade.

This projected growth is based on the premise that Organic Food will maintain its positive image and that increased volume will help lower prices. The looming problem that the organic food trade will face is supplying this significant increase in demand. We had a taste of this during the "Alar crisis" when skyrocketing demand for organic apples resulted in damage to the organic industry as poor quality and dubious authenticity caused retail disappointment.

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A key to organic retail sales growth is the attitude of the consumer concerning price and cosmetic quality. High price is an oft-mentioned problem with organic foods. The real problem is not that organic food is high priced but that all food is priced far too close to the cost of unecological production through corporate and government manipulation. In fact, even if marketers were able to reduce the cost of organic commodities the price at retail would not necessarily drop. Current retail price is not necessarily related to the price paid to the farmer and certainly not to the real environmental cost of production. A great deal of education is necessary to convince consumers to pay for the real cost of food production. Until that day arrives the organic trade is under intense pressure to reduce retail costs.

When food marketers refer to food quality they are usually referring only to cosmetic appearance. Not many years ago organic food was condemned by the food industry as sub-par at best. This has changed rapidly as organic production tools and handling systems have become more professional and processed food manufacturers have converted sound but cosmetically-challenged raw ingredients into smartly packaged convenience foods. Having answered the challenge of U.S.D.A. and Agriculture Canada grading we are now poised to create a data base and be able to talk about real quality issues such as pesticide residues and nutritional balance. Companies like Earth's Best have done years of lab tests on their raw materials.

Another threat to the burgeoning growth of retail organic sales is the emerging market presence of "alternate" labels such as green seals, residue-free claims, grown without pesticides, I.P.M and other "Environmentally Preferable Products". We will probably see foods in the future that are indexed (a numerical rating system) based on verified eco-audit of their adherence to criteria such as sustainable agricultural practices and social responsibility. The organic community should support all organizations that seek to reduce pesticide use and transform agriculture. In the current market

place however certified organic is the only seal that has clear standards, rigorous verification systems, and government regulatory enforcement.

Quality; An Organic Concept

The organic trade has marketing savvy and entrepreneurial talent. One common trait in organic marketing efforts is the emphasis on food quality. We need to expand the focus on quality to include the principles of quality management .

Quality management, as originally developed by the late W. Edwards Deming and others, has become the new paradigm of business management. It is based on a holistic, systems approach. This approach emphasizes the production process rather than final product specifications, places value on teamwork and the empowerment of people which replaces a fear-oriented hierarchy and management by objective.

The parallels to organic agriculture are obvious. Certified organic food is not measured by product specifications (i.e. residue level, nutrient analysis, cosmetic appearance) but by the quality of the farming process. The value-added component of organic foods, as different from conventional, is in the farm production methodology not the processing component. Industrial agriculture uses large amounts of energy and capital to create specialized monocultural food assembly lines and secures this risk at the expense of the community through government support. Organic agriculture internalizes these risks by co-operating with nature through ecological design.

The Japanese corporations, Deming's first students, have implemented the strategies of quality management especially the tactic of expanding a market with innovative quality rather than shaving costs to get market share. I once had the opportunity of sitting in on a meeting between a U.S. trader and a consumer-retailer-manufacturer Japanese consortium.

When the trader proposed selecting a packer based on price the Japanese delegation all carefully explained they wanted to increase the price to the best packer to insure his participation as part of the team and guarantee a consistent quality service.

This win-win approach is not based on charity but sound economic planning. Organic agriculture shares common principles with Quality Management and by adopting this method of doing business we can solve some of our fundamental problems. In expanding the market for organic foods our approach should not be based on cutting prices to the farmer and consumer but on marketing our environmental vision of stewardship, sustainability, and planetary health. This is not idealistic philosophy but good business. Companies like Ben & Jerry's are highly profitable by combining hard-nosed accounting and quality production with an emphasis on their social, economic and ecological statements of mission.

The organic community has the opportunity to achieve its goals if we stick together and follow through. We need to influence the implementation of government regulation, base our business activity on quality management principles, and creatively market our vision to consumers.

BARRIERS AND THRESHOLD GUARDIANS

There are major challenges that constrict the supply of certified organic food from matching the size and speed of retail sales growth.

Growers that are currently organic or predisposed to organic have largely been accessed by manufacturers and distributors. While they can expand their acreage this will not be a significant increase. The growth in supply must come from conventional growers who switch to organic

Conventional agriculturists are increasingly interested in organic for 3 stated reasons ; the promise of a premium price

or at least a protected market, the increasing cost, and lower return, of agricultural chemicals, and the immense impact of environmental regulation from state and federal agencies. For example, growers in Florida are being forced to implement sustainable practices, such as cutting their nitrogen inputs by half, or lose access to the agency-controlled water supply. Another reason for conversion is the unstated, but not insignificant, increasing environmental awareness. One Florida farmer commented to another at a meeting that the way his grandfather farmed with a legume ground cover makes sense to him now after years of herbicide/nitrogen mis-management.

There are a number of inducements for conventional agriculturists to convert to organic practices but there are also barriers or obstacles and threshold guardians or certification requirements.

Certification

The period of transition required for organic agricultural production is an implementation of a threshold guardian that prevents the abuse of the organic marketplace. In the U.S. and Canada the certified organic seal requires a 36 month field transition from the last use of a prohibited substance. This may not differ much from a 2 year transition based on growing seasons. This transition period properly prevents large conventional acreage from quick access to the organic marketplace. This rule is not based on scientific residue data but on the traditional understanding of the need for the soil and the farmer to reorient their systems.

This biological transition is also covered in the U.S. regulations by the requirement of compliance to a "farm plan" or in the draft Canadian regulations to a "certification plan". This documents the focus on sustainability for organic production. The Organic Food Production Act (O.F.P.A.) declares "The term 'organic plan' means a plan of management of an organic farming or handling operation that has been

agreed to by the producer or handler and the certifying agent and that includes written plans concerning all aspects of agricultural production or handling described in this title including crop rotation and other practices as required under this title". This approach also applies to the traditional, non-chemical, agricultural methods of the developing world farmers.

The requirement of a transition period and/or an organic management plan is a quality standard that conventional and traditional operations must meet in order to participate in the organic marketplace.

Regulatory

A major regulatory barrier to the development of organic technology is the registration of organically-acceptable production tools such as fertility aids, pest and weed controls. The cost to provide toxicity and efficiency databases and the fees for state registrations is enormous. This is accentuated because many of these bio-rational controls are non-patentable and there is little financial incentive. A recent example is the U.S. federal regulators blocking of interstate shipments of beneficial insects. Even more dangerous is the ploy of Grace Chemical to patent an active ingredient of the Neem tree. A corollary threat is the increasing genetic manipulation of current organic biological controls which would render them unavailable to certified organic producers.

The other major regulatory obstacles are technical barriers to trade that arise from the import provisions of national and supra-nation organic legislation. Currently North American organic foodstuffs face a tortuous route to enter European Union countries. The real fear however is that countries or blocs will not agree on equivalency and organic trade wars will follow the conventional pattern. I hope the government officials have some productive meetings to create a basis for multi-lateral free and fair trade in organic food. I think it

would be a mistake to think that the organic labeling provisions of Codex Alimentarius will be much more than a criteria of last resort. There are other concerns such as the import fumigation requirements of many countries, national organic legislation that is dramatically different from world standards, and rubber-stamp government accreditation programs.

Agronomic

The conversion of a conventional agricultural production unit to an organic one takes 3 years of transition. During this time the grower will probably experience increased costs and lowered yield. The 3 year transition is not just a federal regulatory mandate but a soil-based biological necessity. It is also approximately the amount of time a farm manager needs to become proficient in a new methodology.

Organic farming is a complex and difficult task. It is management , design, and information based rather than input product based. The technology transfer necessary to allow conventional farmers to begin using organic strategies and tactics is a massive undertaking. The government extension service can not do it due to budget cut-backs and lack of private funding. There is no incentive for chemical companies that fund research and its transfer to farmers to support an organic system. There lack of sustainable agricultural research also impacts farmers who want to switch. For example organic farmers often need different plant varieties such as scab resistant apples as well as organic pest controls. It is usually accepted that the biggest problem for organic farmers is weed control. This is often critical for new farmers that have not established a weed controlling rotation which does take years. There are a wide range of agronomic problems facing would-be organic farmers with very little in the way of support from research institutions or educational services.

Economic

Selling at conventional prices for 3 years while learning to produce organically is not a proposition that most farm accountants would endorse. The reduced yield without access to a premium market spells financial disaster for the already hard pressed farming community. Indebted farmers may not even be allowed by the lending institutions to try to farm organic. In the North American heartland government commodity programs support major crops like corn, soybeans, and wheat but not minor crops like millet, buckwheat, and flax which doubly constrict the farmer from growing niche market foods and prevent the development of ecologically sound rotations.

THE SOLUTIONS

In order to safeguard a consistent supply of certified raw material the organic trade must develop a long term strategy, and intensify current tactics, that maintain present sources and develop new ones. For example, we need a strategy to finance grower and consumer education. We need to continue to create more tactics such as; orchardists planting perennial fruit trees in conventionally-treated acreage and developing their organic management over the 3 years or more before fruit bearing without suffering economic damage.

Traditional Farming

Many growers enter the organic market by bringing land into production that has been free of prohibited materials for at least 3 years. In many undeveloped areas traditional agriculture did not use any chemical inputs and with some help on a farm management plan this production can be certified as organic.

Transition Label

There is a possibility that once the federal organic program is implemented the U.S.D.A. may institute a "TRANSITION" label. This would be allowed on food grown according to organic regulations but with only 1 year of transition time. There is a great deal of pressure on the U.S.D.A.'s national organic program staff for this label from conventional and sustainable agricultural groups. The organic labeling standards at step 6 of the Codex Alimentarius process allow a transition label with the above-mentioned standards.

Although some marketers claim that a transition seal would confuse consumers the value of this label is immense. It would offer financial support to farmers making the switch to organic when they need it most. It will also allow handlers and manufacturers to stage the growth into organic with an assured supply line.

International Trade

A main source of supply for the organic industry will be from countries where the traditional, non-chemical style of production can be shifted to organic. As long as trade is fair and not bio-colonialism it is appropriate. For example it is more ecological to produce sugar in Cuba and Belize than in the Florida everglades or western dry lands.

Regulatory

In North America we need to influence government to drop programs that hinder the growth of free market organic production such as commodity support programs, federal and state marketing orders, public money support of mega-industrial farming and processing operations, and the whole gamut of farming subsidies colloquially termed the "pork barrel".

We must support and monitor our government representatives in their effort to implement bi-lateral and multi-lateral organic trade agreements including Codex. We must insist that these agreements are entered into in the spirit of public/private co-operation with the inclusion at the bargaining tables of non-governmental organizations like the Organic Trade Association (O.T.A.)

Organic Extension and Research

I.D.R.C. is a world leader in technology transfer to developing countries. Companies like Cascadian Farm are developing an agricultural support service for farmers that they contract with. The entire organic industry needs to follow this lead and realize that support of the farmer, in every way, is essential to the long term growth of their company and the trade. We also need to find points of linkage with the research community and arrange funding of sustainable practices in concert with sustainable agricultural community

Business Practices

The reality in the North American corporate marketplace is that small organic companies are being purchased by large food companies or investment groups. The positive side of this development is that not only do these companies have access to more capital, marketing, and distribution but they can access conventional growers and processors. A growing number of intermediate processors and packers, especially in Pacific Coast states, are becoming certified to handle organic supplies. They are also spreading the word to their contract growers about the organic marketplace. Companies like Knudsen and Made In Nature because of their parent companies, utilize these contacts to access a pool of new suppliers.

Organic food companies need to remember the fragile nature of most farmers economic situation when it comes to practices such as contracts, receiving, transport, grading, and sorting procedures. Those making these everyday decisions need to be reminded that it is a partnership not exploitation with suppliers. We can shave costs in other areas.

Companies like Earth's Best Baby Foods have implemented other business practices that will assure future organic supply include increasing the priority of the brokerage business, especially in the transitional category, for the purpose of continuous contact with a wide variety of producers, budgeting additional staff and travel allowance for grower operations personnel to attend and make presentations at conventional grower meetings and visit transitional farming prospects.

There are many more solutions for securing the future of organic supply and, not incidentally, the health of people and the planet. This forum and fair is part of the process. The key is co-operation; with nature, with traditional agrarian communities, with conventional farmers, with government, with the sustainable agriculture alliance, with consumers, with environmentalists, but most of all with each other.