

CRS Report for Congress

Organic Agriculture in the United States: Program and Policy Issues

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Summary

Congress passed the Organic Foods Production Act (OFPA) in 1990 as part of a larger law governing U.S. Department of Agriculture (USDA) programs from 1990 through 1996 (P.L. 101-624, the Food, Agriculture, Conservation, and Trade Act of 1990). The act authorized the creation of a National Organic Program (NOP) within USDA to establish standards for producers and processors of organic foods, and permit such operations to label their products with a “USDA Organic” seal after being officially certified by USDA-accredited agents. The purpose of the program, which was implemented in October 2002, is to give consumers confidence in the legitimacy of products sold as organic, permit legal action against those who use the term fraudulently, increase the supply and variety of available organic products, and facilitate international trade in organic products.

Policy issues affecting the National Organic Program since implementation largely reflect the differences in interpretation among stakeholders of the language and intent of OFPA and the actual operation of the program under the final rule. The NOP was challenged in 2003 by a lawsuit claiming that many of the regulations were more lenient than the original statute permitted. Although the issues around the lawsuit were ultimately resolved, partly by court-ordered rulemaking and partly by an amendment to the OFPA that was attached to the FY2006 appropriations bill, new issues concerning program operation continue to arise.

One of these relates to USDA’s efforts to write a new regulation governing access to pasture for organic dairy cows (and other ruminants). Tight supplies of certain organic commodities, particularly dairy products, and the entry into the market of major grocery retailers wanting to sell organic foods are adding pressure to this debate. Critics charge that large organic dairy operations are not abiding by the intent of OFPA by feeding organic grain to cows in feedlots, and that the principle of grazing is central to consumers’ concept of organic milk. Supporters of existing regulations point to the need for flexibility in order to maintain an organic dairy sector that can meet growing demand.

The new omnibus law that will govern USDA programs and policies through FY2012 contains several provisions affecting organic agriculture and the NOP (H.R. 2419/P.L. 110-246; the Food, Conservation, and Energy Act of 2008). The law provides \$22 million in mandatory funds to continue a cost-share program to help farmers obtain organic certification; \$5 million in mandatory funds and \$25 million in authority for appropriated funds over five years to support the collection and analysis of organic production and marketing data; and \$78 million in mandatory funds over four years to support the organic agriculture research and extension initiative.

This report will be revised as events warrant.

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Organic Agriculture in the United States: Program and Policy Issues

Background

Organic farming, as defined in the final rule establishing the U.S. Department of Agriculture (USDA) National Organic Program (NOP), is “a production system that is managed in accordance with the [Organic Foods Production] Act and regulations ... to respond to site-specific conditions by integrating cultural, biological, and mechanical practices that foster cycling of resources, promote ecological balance, and conserve biodiversity.”¹ This definition indicates that organic agriculture is both an approach to food production based on biological methods that avoid the use of synthetic crop or livestock production inputs (spelled out in detail in the December 2000 rule), and a broadly defined philosophical approach to farming that puts value on resource efficiency and ecological harmony.

Interest in organic farming migrated from Europe to the United States in the early 1900s. Beginning in the 1950s, as the U.S. public became more concerned about the potential adverse environmental and public health effects of agricultural chemicals and so-called “factory farming” methods, private research organizations began to conduct scientific investigations into non-chemical and non-intensive farming techniques, and a small but slowly increasing number of farmers began to adopt organic production practices. Except for a brief period from about 1978 to 1981, USDA did not conduct any activities in support of organic agriculture until OFPA required the Department to begin rulemaking to establish the National Organic Program in 1990.

Organic Sector Statistics

The annual rate of market growth for organic foods and other products has remained around the 20% rate it achieved beginning in 1990, although analysts generally expect it to moderate over the next decade.² The Organic Trade Association’s (OTA’s) 2007 Manufacturer Survey determined that sales of organic food products were \$16.7 million in 2006, or 2.8% of total U.S. retail food sales.³ About 38% of organic foods are sold through conventional retailers, 44% through natural food stores, and 16% through farmers’ markets, mass merchandisers and club

¹ 7 CFR 205.2.

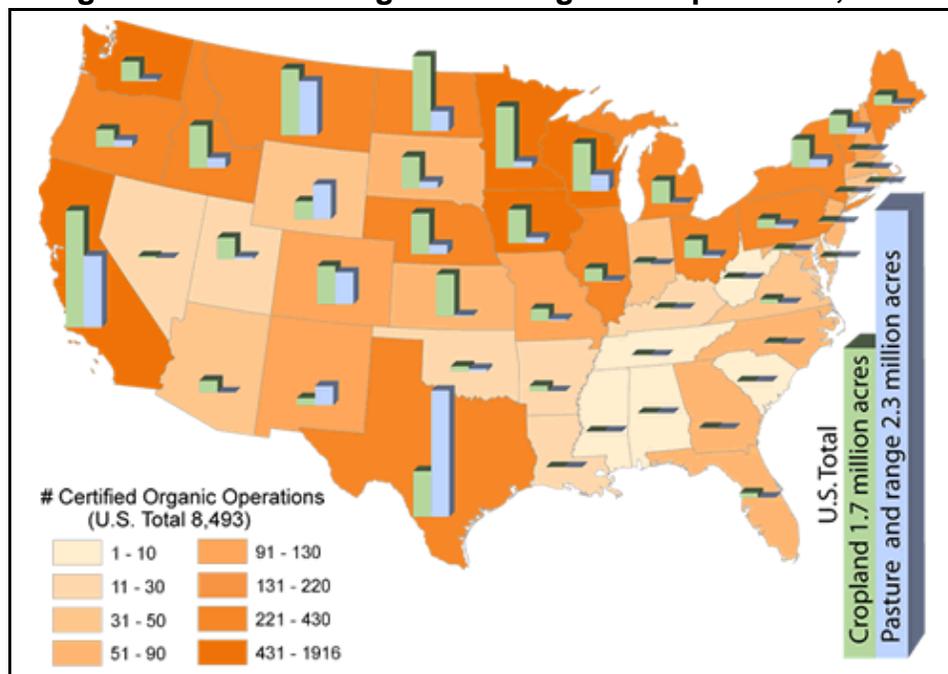
² USDA, Economic Research Service. *Recent Growth Patterns in the U.S. Organic Foods Market*. Report No. AIB777. September 2002. Available online at [<http://www.ers.usda.gov/publications/aib777/>].

³ Organic Trade Association 2007 Manufacturer Survey. Available online at [<http://www.ota.com/organic/mt/business.html>].

stores, restaurants, exports, and other marketing channels. Various sources of export data estimated U.S. exports of organic foods at between \$125 million and \$300 million in the 2000-2002 period.⁴ The biggest export market is Canada; other major markets are Japan, the European Union, and other countries in Asia. The OTA 2007 Manufacturer Survey reported that \$938 million in nonfood organic product sales occurred in 2006. The fastest-growing categories were organic supplements, personal care products, flowers, pet foods, and fibers.⁵

According to USDA's Economic Research Service (ERS), 2005 was the first year that all 50 states reported having some certified organic farmland. Nationwide, the number of acres of certified organic cropland and pasture/rangeland was 4 million in 2005. ERS estimated that in 2004 the number of certified operations that process and distribute organic products was just over 3,000.⁶

Figure 1. Certified Organic Acreage and Operations, 2005



Source: USDA, Economic Research Service.

Fresh produce is the largest sector of the organic industry, with California having the greatest number of acres devoted to organic fruit and vegetable production (see **Figure 1**). Other states leading in certified organic crop acreage are Washington, Oregon, North Dakota, Minnesota, Wisconsin, Montana, and Iowa. California,

⁴ USDA. Economic Research Service. Price premiums hold on as U.S. organic produce market expands. Report VGS-308-01. May 2005. Available online at [<http://www.ers.usda.gov/>].

⁵ The OTA 2007 manufacturer survey is available online at [<http://www.ota.com/index.html>] under "Organic Facts/Market Trends."

⁶ USDA/ERS. Organic Production Data Sets. Available online at [<http://www.ers.usda.gov/Data/Organic/>].

Texas, Alaska, and Montana have the most acreage of organic pasture for livestock. In the Northeast, Southeast, and Upper Midwest, small-scale growers of organic fruits, vegetables, herbs, and flowers are a significant component of individual states' agriculture industries.⁷

The high growth rate in sales of organic products can be attributed in part to the higher prices that organic producers and processors receive for their products, according to ERS. Agency economists speculate that part of the price premium may be due to higher production costs and to higher demand relative to supply. For the 2000-2004 period (the most recent data available), the annual average farmgate price premiums for fresh organic broccoli and carrots fluctuated from 75% to 133% above the prices of conventionally grown broccoli and carrots, according to ERS. Price premiums for the two vegetables at the wholesale level never went below 125% in the same period.⁸ The ERS study goes on to say that:

Laws of supply and demand, however, make it unlikely that price premiums contributing to higher profits and market growth can coexist over the long run: as long as higher profits exist, new suppliers will enter the market, and once market supply increases faster than demand, price premiums and the commensurate level of higher profits are likely to decline.... Many organic industry participants and observers believe that the price premiums ... need to decrease if organic foods are to penetrate much beyond the 2- to 3-percent level into the mainstream.⁹

The consumer studies that ERS reviewed did not permit any clear estimate of future demand for organic products. The studies showed that price, size, packaging, appearance, and concerns about health and nutrition, taste, food safety, and the environment all play varying roles in consumer decisions to buy organic food. Surveys on race, ethnicity, and income levels showed significant diversity.¹⁰

The Organic Foods Production Act of 1990

Congress passed the Organic Foods Production Act (OFPA) of 1990 (Title 21 of P.L. 101-624, the Food, Agriculture, Conservation, and Trade Act of 1990; the 1990 farm bill) with widespread support from organic industry groups, the National Association of State Departments of Agriculture, and other farm and consumer groups. The organic industry petitioned Congress to draft the act in the late 1980s, after it had been frustrated in its attempts to come to an internal consensus on production and certification standards. The industry maintained that federal standards would reduce consumer confusion over the many different state and private

⁷ For a detailed graphic representation of the distribution of organic crop and pasture acreage and number of operations per state, see [<http://www.ers.usda.gov/Amberwaves/Feb03/pdf/indicators.pdf>].

⁸ USDA. Economic Research Service. Price premiums hold on as U.S. organic produce market expands. Report VGS-308-01. May 2005. Available online at [<http://www.ers.usda.gov>].

⁹ Ibid.

¹⁰ Ibid.

standards then in use, and would promote confidence in the integrity of organic products over the long term. Manufacturers of multi-ingredient organic food products stated that uniform standards would facilitate labeling. Others held that regulations would help the organic industry expand product lines and increase marketing opportunities. Industry analysts asserted that a consistent U.S. organic standard would facilitate access to a potentially lucrative international organic market.

The Organic Foods Production Act of 1990 authorized a National Organic Program to be administered by USDA's Agricultural Marketing Service (AMS). The act established a 15-member National Organic Standards Board (NOSB) to "assist in the development of standards for substances to be used in organic production" (referred to as the "National List") and to "provide recommendations to the Secretary regarding implementation."

Under the program, producers, processors and handlers who wish to market their products as organic are required to follow production practices as spelled out in detail in regulations (7 CFR 205). USDA accredits private and state certification agents, who visit producers, processors, and handlers to certify that their operations abide by the standards; they conduct annual reviews to verify continued compliance. It is illegal for anyone to use the word "organic" on a product if it does not meet the standards set in the law and regulations.¹¹ The presence of the "USDA Organic" seal on a product means it is 95% or more organic. Labels on products having 70% to 95% organic content can say "made with organic (specified ingredients or food groups)," but cannot carry the seal. Foreign organic producers and handlers wishing to export products to the United States may be certified by a USDA-accredited certification agent in their own country, if there is one; or USDA may accept certification by agents accredited by a foreign government; or, USDA may negotiate an equivalency agreement with another nation's organic program.¹²

The regulations under the OFPA are intended to set uniform *minimum* standards for organic production. States may adopt additional requirements after review and approval by USDA. Furthermore, private organic organizations are permitted to affix their own labels in addition to the USDA label, indicating that the product meets their standards as well as the national ones. The private label may indicate only that the organization's standards are in addition to (but not superior to) the national standards. AMS reviews certification agents for re-accreditation every five years. AMS has the

¹¹ Farms and handling operations that sell less than \$5,000 a year in organic agricultural products are exempt from certification; however, these producers and handlers must abide by the national standards for organic products and may label their products as organic.

¹² A July 2005 audit by the USDA Office of Inspector General (OIG) states that USDA had 41 accredited certification agents in foreign countries. The report also found that as of August 2004, AMS had negotiated only one equivalency agreement with a foreign country (Japan). The OIG recommends implementation of internal operating procedures "to assure that the NOP is achieving its intended objectives to ensure that organic products meet consistent, uniform standards." The audit report is available online by going to [<http://www.usda.gov/oig/audits.htm>] and following the links from "View Audit Reports and News Releases," to the listing by "Agency Subject of Report." It is under the Agricultural Marketing Service, July 2005.

authority to revoke or suspend a producer's certification or an agent's accreditation if a satisfactory solution to a program violation cannot be found.

The NOP final rule became effective on February 21, 2001; the program itself became fully operational on October 21, 2002. In the first step toward implementation, USDA accredited private and state certification agents, who in turn began to certify organic producers and handlers according to the standards found in 7 CFR 205. After October 21, 2002, all products sold as organic had to be in compliance with the regulations and carry the "USDA Organic" seal.

USDA Regulatory Activity

Access to Pasture Controversy. In January 2005 a newspaper article about a Colorado organic dairy operation shed light on a major controversy within the organic industry and certain consumer groups.¹³ The article focused on a 5,300-cow organic farm where the animals were fed almost exclusively on grain and allowed outdoors into a feedlot for air and exercise.

The NOP regulation at the core of the dispute is 7 CFR 205.239(a)(1-2): "The producer of an organic livestock operation must establish and maintain livestock living conditions which accommodate the health and natural behavior of animals, including (1) Access to the outdoors, shade, shelter, exercise areas, fresh air, and direct sunlight suitable to the species, its stage of production, the climate, and the environment; (2) Access to pasture for ruminants[.]"

The news article cited organic dairy producers who argued that the regulation means that organic cattle must get some of their nutrition, as well as fresh air and exercise, from grazing on pasture. The Colorado operator maintained that his animals have outdoor access, but that in an arid state like Colorado, providing sufficient pasturage for all his cows to graze would be an insurmountable requirement.

This issue illustrates an underlying tension within the organic industry. The existence of regulatory standards for organic production and processing has allowed more conventional food companies to create organic product lines and enter the market. Some of the older (and generally smaller) companies in the industry hold that organic farming *practices* are an integral part of the meaning of the term "organic," particularly with respect to standards for the treatment and feeding of livestock. These stakeholders maintain that if the pasturage in certain parts of the nation can support only small dairy or beef cattle herds, or none at all, then such farms should be small or nonexistent in those areas. Others, notably some of the newer entrants into the organic market, are concerned lest the regulations become so prescriptive that they deprive producers and processors of the opportunity to benefit from the expanding market for organic products. The recent entry into the organic

¹³ "Organic Milk Debate; Dairies dispute 'organic' values; Ex-hippie farmers contest practices of big producers," *Chicago Tribune*, January 10, 2005. See [<http://www.organicconsumers.org/organic/milk011105.cfm>].

market of some large supermarket chains is putting pressure on the industry to meet demand, particularly for organic dairy products.

At a February 2005 meeting of the National Organic Standards Board, members discussed and recommended new language for 7 CFR 205.239, which they forwarded to National Organic Program officials for approval.¹⁴ The emphasis in the revised language was on allowing cows at the appropriate “stage of life” to graze pasture “during the pasture’s normal growing season.” At the August 2005 board meeting, NOP staff rejected the recommendation, saying it lacked a “clear and concise regulatory objective,” and asked the board to rework it.¹⁵

On April 13, 2006, AMS published an advanced notice of proposed rulemaking asking stakeholders to respond to a number of questions concerning access to pasture, including questions concerning whether consumers consider pasturing to be essential to organic milk production, and whether there is science-based information on ruminant animal nutrition and minimum pasture requirements, among other things.¹⁶ The proposed rule has not yet been published. Critics of the NOP are expressing their concern that as more time passes without a final rule, additional large feedlot dairy operations are being certified organic in possible violation of the OFPA.¹⁷

Major Organic Provisions in the 2002 Farm Bill

Cost-Sharing Start-Up Costs. Although the OFPA requires the cost of the National Organic Program to be fully supported by user fees collected for USDA accreditation and certification services, Congress has appropriated funds on several occasions to help the program in its initial stages. The FY2001 USDA appropriations act (P.L. 106-387) contained \$639,000 to cover accreditation costs. In FY2002, under the Agricultural Management Assistance Program authorized by the Federal Crop Insurance Act (P.L. 106-224), Congress made \$1 million available to state agriculture departments in 15 designated states to help defray the costs of certification for small-scale producers and processors.

The 2002 farm bill (P.L. 107-171, the Farm Security and Rural Investment Act), which was enacted in May 2002, also provided additional funds to support program start-up. Title X of the farm act gave USDA authority to continue to defray the costs of producers and handlers seeking organic certification through FY2007, and authorized a one-time, mandatory transfer of \$5 million from the Commodity Credit Corporation (CCC) to establish a national organic certification cost-share program under the NOP. Federal funds may not cover more than 75% (\$500 maximum) of

¹⁴ Minutes of February 28-March 3, 2005, NOSB meeting available online at [<http://www.ams.usda.gov/nosb/meetings/meetings.html>].

¹⁵ Minutes of August 15-17, 2005, NOSB meeting available online at [<http://www.ams.usda.gov/nosb/meetings/meetings.html>].

¹⁶ 71 FR 19131.

¹⁷ Center for Food Safety. National Organic Coalition. *Pasture Fact Sheet*.

a producer's or handler's costs for becoming certified. The transfer occurred in FY2002 and remained available until fully expended, which was in fall 2006.¹⁸

Research. The research title of the 2002 farm bill renewed expiring authority for a competitive grant program to support research and extension activities on organic production, processing, and international marketing. The conference report also added language calling for an emphasis on classical and advanced research on genetics to improve organic crops; research to identify the marketing and policy constraints on the organic industry; and expanded on-farm research. The act authorized \$3 million to be transferred annually from the U.S. Treasury to USDA in FY2003-FY2007 to support this research.¹⁹ Other provisions in the research title (1) require ERS to gather and maintain segregated data on the production and marketing of organic agriculture; and (2) require ERS and the National Agricultural Library to make it easier for U.S. organic producers, researchers, and extension professionals to obtain the results of organic research conducted in foreign countries.²⁰

Concerning the availability of production and marketing data on organic agriculture, a look at ERS's online economic analyses of the sector indicates that the agency still is relying on external data sources for much of its information. As of September 2006, a comprehensive USDA survey of the entire organic sector, authorized in the 2002 farm bill, has not been conducted. USDA's Agricultural Marketing Service has not yet begun to provide market news on the organic sector, which would permit up-to-date price discovery. Separate export and import data for organic products are not being collected at the borders. These deficiencies hamper business planning and expansion, and complicate crop insurance premium-setting and loss payments, among other issues, according to organic sector stakeholders.

Organic Agriculture in the 2008 Farm Bill

Title X of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill) is the Horticulture and Organic Production title of the farm bill — the first such title in a farm bill. The provisions related to organic agriculture focus

¹⁸ The CCC is a wholly owned government financing institution for USDA agencies that administer mandatory programs, such as the farm commodity price and income support programs for wheat, cotton, rice, and certain other crops; agricultural export subsidies; and certain conservation and trade programs. CCC funds are considered mandatory funds that must be made available for the purposes authorized. In practice, however, appropriators sometimes prohibit or place restrictions on funding for mandatory programs in the annual appropriations bill.

¹⁹ Information on Integrated Organic Program research grants are available on the Cooperative State Research, Education, and Extension Service website at [<http://www.csrees.usda.gov/fo/funding.cfm>].

²⁰ ERS published a paper in August 2005 entitled, "Market-Led Growth vs. Government-Facilitated Growth: Development of the U.S. and EU Organic Agriculture Sectors." Available online at [<http://www.ers.usda.gov/Briefing/Organic/>]. Congress has not appropriated funds to date for a National Agricultural Library International Organic Research Collaboration.

primarily on reauthorizing some of the key programs from the 2002 farm bill and providing mandatory funds to carry them out.

Certification Cost-Sharing. The 2008 farm bill reauthorizes the National Organic Certification Cost-share Program and provides a one-time transfer of \$22 million in mandatory funds to support it. The amount a producer or handler can receive is raised from \$500 to \$750, and the maximum amount of certification costs that federal assistance is allowed to cover is 75%. In addition, Section 2801 of the conservation title designates \$1.5 million in mandatory funds under the Agricultural Management Assistance Program specifically for providing certification cost-share assistance to organic producers in Connecticut, Delaware, Hawaii, Maryland, Massachusetts, Maine, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

Organic Conversion Cost-Sharing. The 2008 farm bill includes a provision from the Senate version of H.R. 2419 that makes grants under the Environmental Quality Incentives Program (EQIP; in Title II — Conservation) to help farmers convert from conventional to organic production. The House version of H.R. 2419 would have authorized \$50 million in appropriations over five years for a separate program providing technical assistance and cost-sharing grants for organic conversion.

Research. P.L. 110-246 extends the authority for the organic research and extension initiative that was established in the 1990 farm bill. The bill provides a total of \$78 million in mandatory funds for the initiative in FY2009-FY2012, and also authorizes \$25 million annually in appropriations. Both the House and Senate versions of H.R. 2419 contained provisions expressing the sense of Congress that the level of funding for organic research conducted by USDA's intramural science agency, the Agricultural Research Service (ARS), should be at least commensurate with the percentage that organic products represent of the U.S. food market — at least 2%. The enacted bill does not contain this provision.

Data Collection and Analysis. The 2008 farm bill contains a provision to help USDA fulfill a requirement in the 2002 farm bill to collect segregated data on organic production and marketing and provide timely market information. The bill provides a one-time transfer of \$5 million in mandatory funds for this purpose, and requires USDA to report to Congress on the progress it is making on organic data collection six months after passage of the farm bill.

Crop Insurance. Organic producers have long expressed dissatisfaction with coverage for their crops under the federal crop insurance program. Organic farmers generally must pay higher premiums to participate because the private companies that offer the insurance are not as familiar with the risks of organic production as they are with those of conventional production. In addition, the insurance companies generally pay out organic farmers' claims based on the value of conventionally grown crops, not on the higher value that organic crops carry.

Section 12023 in the crop insurance and disaster assistance title of the 2008 farm bill calls for a review of the underwriting, risk and loss experience of organic versus conventional crops. Based on the review, the Federal Crop Insurance Corporation will

work to reduce or eliminate premium surcharges on policies for organic producers “unless the review ... documents the existence of significant, consistent, and systemic variations in loss history between organic and nonorganic crops, with collectively or on an individual crop basis....” In addition, organic producers will have an option in their policies to choose if they want to be reimbursed for losses based on the actual prices they receive.

Support for NOP Administration. Congress has appropriated roughly \$2 million annually in recent years to administer the National Organic Program. Critics argue that this level of funding has led to insufficient attention to oversight and compliance activities. The 2008 farm bill sets the annual authorization level for the NOP at \$6.5 million for FY2009, rising to \$11 million in FY2012. House and Senate appropriators will determine the actual funding available.

Other Provisions. The conservation, credit, and trade titles of the House and Senate farm bills also contain various provisions increasing the organic sector’s access to programs in those areas. (See CRS Report RL34228, *Comparison of the 2008 Farm Bill Conference Agreement with the House and Senate Farm Bills*, for additional information.)