

# **THE STATUS OF ORGANIC AGRICULTURE IN MINNESOTA**

**A REPORT TO THE LEGISLATURE  
APRIL 2001**

**PREPARED BY  
THE MINNESOTA DEPARTMENT OF AGRICULTURE**

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## **Legislation: MN Statutes 31.94 subd. (e)**

### **[Commissioner duties]**

(e) By November 15 of each even-numbered year the commissioner, in conjunction with the task force created in section 31.95, subdivision 3a, shall report on the status of organic agriculture in Minnesota to the legislative policy and finance committees and divisions with jurisdiction over agriculture. The report must include:

(1) a description of current state or federal programs directed toward organic agriculture, including significant results and experiences of those programs;

(2) a description of specific actions the department of agriculture is taking in the area of organic agriculture, including the proportion of the department's budget spent on organic agriculture;

(3) a description of current and future research needs at all levels in the area of organic agriculture; and

(4) suggestions for changes in existing programs or policies or enactment of new programs or policies that will affect organic agriculture.

# EXECUTIVE SUMMARY

## Purpose of Report

The Minnesota Department of Agriculture, in conjunction with its Organic Advisory Task Force, is directed to report to the Legislature on the status of organic agriculture in Minnesota on a biennial basis.

## Organic Industry in Minnesota

The organic food industry is growing with positive long-term potential though organic production still accounts for only a small portion of overall agricultural land – 0.1% in the United States. Certified organic production practices were estimated to be in use on 1.3 million acres in the U. S. in 1997.

Minnesota ranked seventh overall in certified organic acreage in the U. S., with 4.73% of the total U. S. acres, or about 64,000 acres in 1997. Approximately 0.2% of farmland in Minnesota was farmed organically in 1997. Minnesota ranked first in organic corn and buckwheat production, second in soybean and flax production and third in overall small grain production. In livestock, Minnesota ranked third in organic dairy cattle and eighth in layers. Farm gate prices for organic commodities in 1999 ranged from 35% to 141% above those for conventional commodities.

In a survey of Minnesota organic farmers in 2000, respondents representing from one-third to one-quarter of the organic producers in the state reported cropping an average of 214 certified organic acres. Respondents with transitional acres reported an average of 242 acres in transition to certification. About half of the respondents reported earning 25% or less of their income from organic production. Income from organic production ranged from \$500-\$100,000 per year with the majority reporting earning \$30,000 or less per year.

Organic food is the fastest growing segment in the U. S. food industry. U. S. domestic consumption of organic foods is expected to reach \$9.5 billion this year, continuing the annual overall growth in organic food sales of 20%. Growth in Minnesota sales of organic foods exceeds that national annual increase. Between 1995 and 1998, the number of stores in the Twin Cities with organic products doubled from 40 to 80 and the number of organic products offered increased from 345 to 1043. By 1998, sales of organic milk accounted for 1.8% of the total fluid milk market in the Twin Cities.

## State and Federal Programs Directed Toward Organic Agriculture

In 1986, Minnesota became the second state to develop an organic program. Minnesota's organic law allows the state to set standards, regulate organic certification, and take enforcement action against those who attempt to commit fraud and sell conventional products under an organic label. The Minnesota Department of Agriculture receives input on organic certification, policy and enforcement from an appointed Organic Advisory Task Force.

The Federal organic standards were announced in December 2000 and are expected to be fully implemented by October 21, 2002. Individual states like Minnesota that currently accredit certifiers and enforce state organic laws will relinquish accreditation authority to the federal organic program. They will retain enforcement authority if they choose to maintain state organic programs under the federal rules.

Information and other resources are available to Minnesota farmers from state agencies, the University of Minnesota, and federal programs. Minnesota was recently recognized for its excellent work in the areas of organic research and resources available to organic producers. Research done at the Southwest Research and Outreach Center at Lamberton and the information resources available at the Minnesota Department of Agriculture and at the University of Minnesota were specifically cited as examples.

- Minnesota Department of Agriculture (MDA)
  - The Energy and Sustainable Agriculture Program (ESAP) supports on-farm research through grants, provides production information, field days and low interest loans for equipment. It provides staff for the MDA Organic Advisory Task Force and manages the state Organic Certification Cost Share Program. The cost share program was the first program of its kind in the nation, providing partial reimbursement for certification and inspection costs.
  - The Agricultural Marketing Service Division provides organic and natural foods trade show coordination, direct marketing support, and a variety of other resources.
  - The Dairy and Food Inspection Division provides consumer protection by ensuring compliance to organic standards.
- University of Minnesota
  - The Southwest Research and Outreach Center at Lamberton conducts research on 120 certified organic acres, hosts educational events, operates an organic farmer mentorship program, and provides production support through an information hotline.
  - The University of Minnesota Extension Service in several counties organizes local field days and conferences for organic producers.
  - The Minnesota Institute for Sustainable Agriculture (MISA) at the University of Minnesota operates an on-line information exchange that connects producers to University faculty and publishes a guide to organic certification in Minnesota.
- United States Department of Agriculture (USDA)
  - The National Organic Program will implement the federal organic standards, accredit state and private certification programs and oversee enforcement of the federal standards.
  - The Sustainable Agriculture Research and Education Program provides funding for organic research, demonstration and education through a competitive grant program. Their information service produces information packets on organic agriculture practices.

## **Barriers to Growth and Research Needs**

Barriers to growth of the organic industry and research needs were identified by a recent survey of organic farmers in the upper Midwest, by a national organic farming survey, and by the MDA's Organic Advisory Task Force. These include:

- Knowledge about organic production among the farm population, and traditional support structures (banks, feed millers, etc.) are limited.
- More research is needed by land grant universities, particularly in the areas of non-chemical pest management, fertility management, methods for reducing risk especially during the transition period, and parasite and disease control in livestock.
- Organic certification cost may be a barrier to small operations.
- Organic processing is often done out of state or the distance between producer and processor is substantial. Farmers often do not have the economy of scale to develop profitable on-farm processing capacity and there is inadequate assistance to develop cooperatives and marketing associations.
- The potential for cross-pollination of organic crops by nearby genetically engineered crops creates

barriers in domestic and export markets.

- Technical support for organic production, particularly for the transition to organic farming, is limited.

## **Recommendations**

The MDA, with input from the Organic Advisory Task Force, recommends the following to increase the vitality of Minnesota's organic industry.

- **Education and Information:** Develop and distribute organic fact sheets on production and marketing; continue to support a farmer mentoring program; provide information on organic production, food processing and handling standards to all members of the food production and distribution chain; encourage education in organics through every level of formalized education.
- **Marketing and Promotion:** Develop an organics website that links producers, processors, buyers and consumers; expand representation of Minnesota organics in the MDA promotional material and at trade shows and the State Fair.
- **Business Development:** Utilize MDA's co-op development programs to aid organic farmers; develop a Minnesota Organic label to market organic products as a unit.
- **Regulatory Support:** Review Minnesota's organic laws and revise them to match federal regulations; evaluate the costs and benefits of continuing Minnesota's state organic program under the federal rules and act on those findings; continue enforcement of Minnesota's organic statute and labeling regulations; develop clear and accessible consumer and producer complaint processes.
- **Technical and Financial Assistance:** Provide financial assistance to farmers during the transition to certified organic production; provide education on organic methods to Extension agents, bankers, and others; support organic research, demonstration, and knowledgeable staff at MDA.
- **Policy and Program Support:** Encourage USDA to expand crop insurance eligibility to include organic farmers; survey to determine organic research needs.
- **Research:** Support the University's efforts in plant breeding efforts; encourage the inclusion of statistics on organic production in national and state Agricultural Statistics Service surveys; continue and expand organic research at state Research and Outreach Centers.

# THE STATUS OF ORGANIC AGRICULTURE IN MINNESOTA 2001

## INTRODUCTION

As defined by the USDA National Organic Standards Board in 1992, organic agriculture is “an ecological production management system that promotes and enhances biodiversity, biological cycles and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony. The principal guidelines for organic production are to use materials and practices that enhance the ecological balance of natural systems and that integrate the parts of the farming system into an ecological whole. Organic agriculture practices cannot ensure that products are completely free of residues; however, methods are used to minimize pollution from air, soil and water. Organic food handlers, processors and retailers adhere to standards that maintain the integrity of organic agricultural products. The primary goal of organic agriculture is to optimize the health and productivity of interdependent communities of soil, life, plants, animals, and people.”

While many practices of organic agriculture have been the standard production method for agriculture over the past 10,000 years, the organic food industry in the United States began in the early 1970s in response to the increasing use of pesticides and other synthetic inputs in agricultural production. When Rodale Press’ Organic Gardening magazine encouraged their readers to form organic organizations to promote standards and create links between farmers and consumers, they responded enthusiastically and formed over 70 groups nationwide, including the Minnesota-based Organic Growers and Buyers Association. Over the past thirty years, these groups, in association with farmers, food business entrepreneurs and consumers, have expanded the U. S. domestic industry from a few hundred million dollars in revenue in 1980 to a projected \$9.5 billion in 2001 (USDA/FAS, 2000).

Today, the U. S. is the largest consumer and the second largest producer of organic food products after the European Union (EU). The overall growth rate of U. S. domestic organic food sales is 20% annually. U. S. domestic consumption is expected to reach \$9.5 billion in 2001 and increase to just over \$13 billion by 2003 (USDA/FAS, 2000). This is compared to an overall growth rate in all U. S. retail food spending of 4.9% from 1990 to 1999. Retail food expenditures in 1999 were \$413.9 billion (USDA/ERS, 2000a).

Two things make the organic market unique in the food industry. Unlike many conventional industries, organic foods have grown in response to increased consumer demand, not increased supply. Secondly, organic consumers judge the food not only by its taste, appearance and price, but by the social and environmental benefits it represents (Dimitri and Richman, 2000).

Certification of organic products is the certification of a production system, as opposed to the certification of a product. For a product to be sold as “organic,” all operators in the production and handling chain, including farmers, processors, manufacturers, exporters, and importers, must be certified organic. Due to the global reach of the organic industry and increasing prevalence of “multi-ingredient” retail products, it is common that different certifiers certify different operators in the production chain” (USDA/FAS, 2000). These certifiers currently are regulated by private accreditation bodies and some states including Minnesota (MN Statute 31.92 – 31.95). Beginning February 21, 2001, Federal standards will come into effect (Federal Register, December 21, 2000). All certifying agents will need to be accredited by the USDA by August 20, 2002, which is the date of full implementation for the Federal Organic Rule.

## **ORGANIC AGRICULTURE IN MINNESOTA**

### National and International Overview

The organic industry is best viewed as an overlay of the conventional food system, as nearly every agriculture product produced worldwide is now produced under an organic system and traded on the international market. The industry is made up of thousands of individual farmers, brokers, traders, processors and retailers. On top of the actual chain of product movement is the assurance of production and processing practices provided by organic certification agencies.

The U. S. is perhaps a decade or more behind Europe in both organic production and market development. According to recent reports by the USDA's Foreign Agricultural Service and Economic Research Service, global production of organic crops is increasing at 20% per year and has doubled in the past decade (USDA/FAS, 2000 and Dimitri and Richman, 2000). The average global rate of growth in organic consumption is 25 to 30% annually with global retail sales of organic food expected to reach well over \$20 billion in 2001 (USDA/FAS, 2000).

In 1997, the most recent source of information, the largest producers of organic crops in terms of certified acres are Australia with 15 million acres, the European Union with 6.7 million acres and the United States at 1.3 million acres (USDA/ERS, 2000b). Organic production in the EU countries is encouraged and supported by government payments and technical support, with the belief that organic farming provides environmental, social, economic and recreational benefits to the society more so than its conventional counterpart. Due to this support, organic farming now accounts for 10% or more of the production in several EU member states (Blobaum, 2000).

As mentioned in the introduction, the U. S. is the largest consumer and one of the top three producers of organic food products after the European Union (EU). The overall growth rate of U. S. domestic organic food sales is 20% annually. U. S. domestic consumption is expected to reach \$9.5 billion in 2001 and increase to just over \$13 billion by 2003 (USDA/FAS, 2000).

Due to the recent emergence of the organic industry as a market force and the still small market share, statistics on organic production are not gathered in state or national government agricultural surveys. The two sources of information that are available are the private biennial studies from the Organic Farming Research Foundation (OFRF) and the 1997 study by the USDA/ERS (USDA/ERS, 2000b).

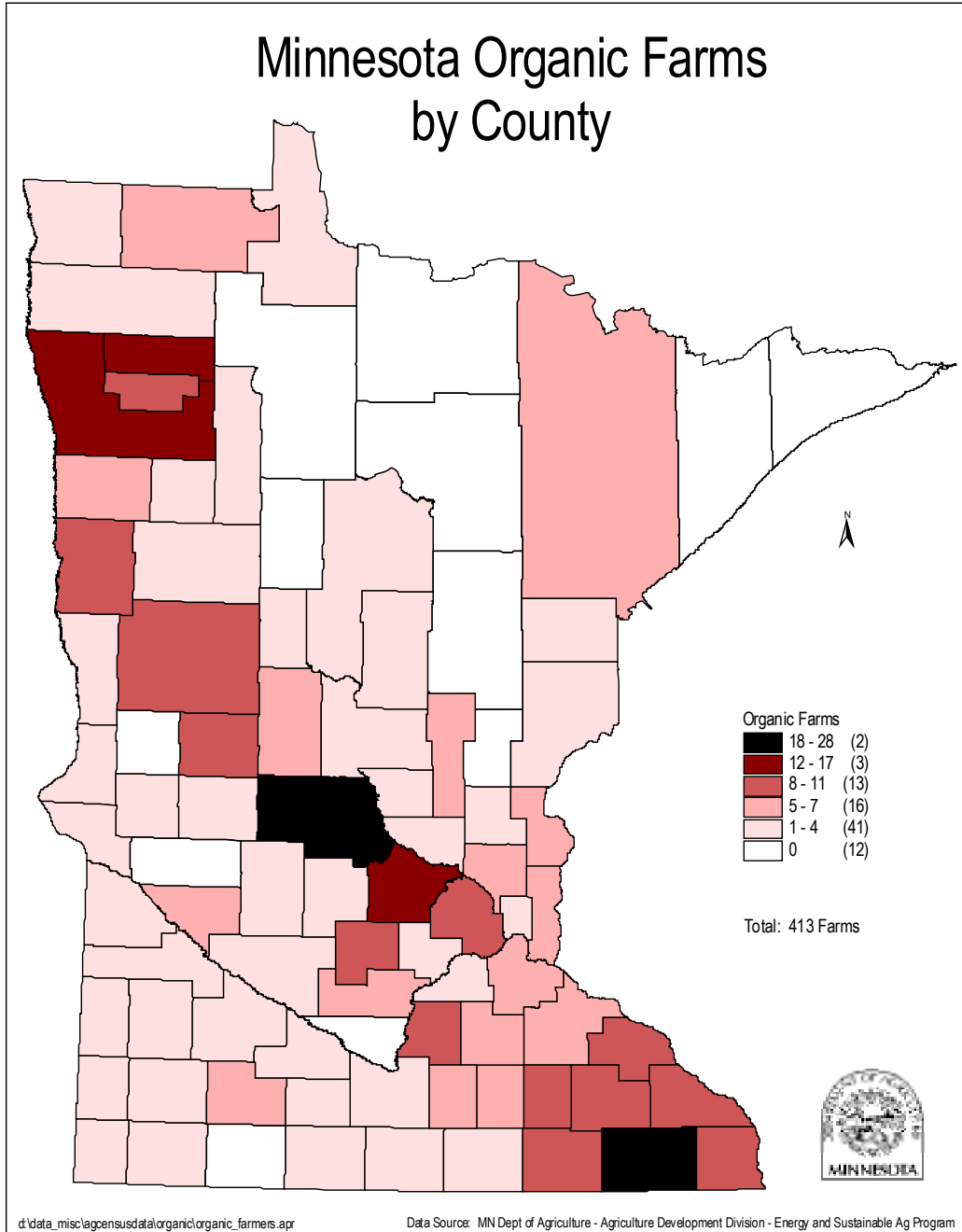
Certified organic production practices were estimated to be used on 1,346,558 acres of cropland and pasture in forty-nine states in 1997. Certified organic cropland more than doubled in the U.S. between 1992 and 1997, increasing from 403,400 acres to 850,173 acres, and was up 33% between 1995 and 1997. Certified organic cropland and pasture accounted for 0.2% of the U.S. total in 1997 with only 0.1% of the top U.S. field crops - corn and soybeans - grown under certification. However, organic management was used for at least 1% of the oat, spelt, millet, buckwheat, rye, flax and dry pea crops. In the livestock sector, there were 537,826 organic egg layers and 12,897 organic dairy cows in 1997.

### Production of Organic Commodities in Minnesota

Production of organic crops in Minnesota generally follows the same geographic distribution as conventional crop production based on topography, soils, climate, and infrastructure. According to the USDA/ERS report, in 1997, Minnesota ranked 7th overall in certified organic acreage, with 4.73% of the total national acres, or 63,685 acres. Minnesota ranked first in organic corn and buckwheat production, second in soybean and flax production and third in overall small grains. In livestock, Minnesota was



ranked third with 2,425 organic dairy cattle and eighth in layers with 8,006 birds (USDA/ERS, 2000c). Tables 1 and 2 provide more detail on national and Minnesota certified organic crop and livestock production in 1997. Figure 1 below shows the distribution of state organic acres.



**Table 1. Certified Organic Crop Production in Minnesota and the US, 1997 (USDA/ERS, 2000c)**

	MN Organic Acres	US Organic Acres	MN Percent of U. S. Total	MN Rank (States Reporting)
<b>Grains</b>				
Corn	10,002	42,703	23	1 (28)
Wheat	4,432	125,687	4	10 (28)
Oats	1,772	29,748	6	5 (25)
Barley	689	29,829	2	7 (17)
Sorghum	208	3,075	7	4 (11)
Rice	78	11,043	1	5 ( 5)
Spelt	80	1,704	5	5 ( 8)
Millet	804	12,285	7	5 (10)
Buckwheat	3,656	7,616	48	1 (17)
Rye	294	4,365	7	5 (16)
Other	414	22,957	2	13 (23)
<b>Total Grains</b>	22,429	291,012	8	3 (35)
<b>Beans</b>				
Soybeans	12,416	82,143	15	2 (28)
Dry beans	82	4,641	2	11 (18)
Dry peas/ lentils	11	5,187	0	11 (12)
Other	1,551	4,212	37	1 (12)
<b>Total Beans</b>	14,060	96,183	15	1 (34)
<b>Oilseeds</b>				
Flax	577	8,053	7	2 ( 6)
Sunflowers	875	10,894	8	4 (13)
<b>Total Oilseeds</b>	1,452	18,947	5	6 (18)
<b>Forages</b>				
Alfalfa hay	2,513	62,460	4	6 (29)
Haylage/silage	980	11,579	8	4 (15)
Miscellaneous	3,400	52,758	6	7 (33)
<b>Total Forages</b>	6,893	126,797	5	6 (39)
<b>Vegetables</b>				
Mixed veg (< 5 A)	24	2,699	1	16 (23)
Mixed veg (> 5 A)	144	14,131	1	11 (21)
Miscellaneous	1,515	18,550	8	2 (37)
<b>Total Vegetables</b>	1,683	35,380	3	6 (14)
<b>Fruit</b>				
Apples	202	8,846	2	6 (16)
Miscellaneous	158	10,261	2	9 (32)
<b>Total Fruits</b>	360	19,107	1	8 (34)
<b>Herbs</b>				
Cultivated	250	6,407	4	8 (32)
Cut flowers	107	288	37	2 (12)
Miscellaneous	30	631	5	4 (12)
<b>Total herbs</b>	387	7,326	<1	8 (36)
<b>Other Crops</b>				
Potatoes	127	4,335	3	8 (19)
Trees/ maple syrup	5,545	13,858	40	2 ( 5)
Fallow	678	31,798	2	8 (20)
Miscellaneous	2,664	46,310	6	6 (36)
<b>Total Other Crops</b>	9,014	96,301	8	5 (42)

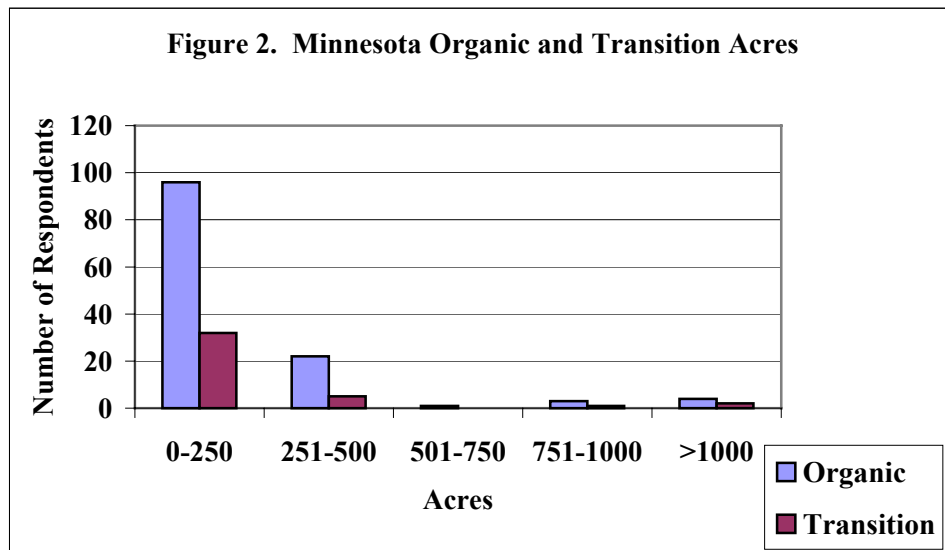
**Table 2. Certified Organic Livestock Production in Minnesota and the US, 1997 (USDA/ERS, 2000c)**

	Number of MN Organic Animals	Number of US Organic Animals	MN Percent of U. S. Total	MN Rank
<b>Livestock</b>				
Beef Cows	39	4,429	1	12 (13)
Milk cows	2,425	12,897	19	3 (13)
<b>Total Livestock</b>	2,464	17,326	13	3 (15)
<b>Poultry</b>				
Layer hens	8,006	537,826	1	8 (14)
Broilers	1,000	38,285	3	5 ( 6)
Miscellaneous	85	221,389	<1	4 ( 4)
<b>Total Poultry</b>	9,091	797, 050	1	10 (17)
<b>Other animals</b>	91	3,966	2	2 ( 7)

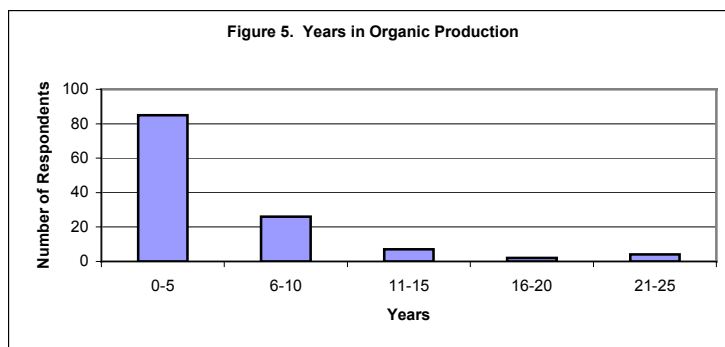
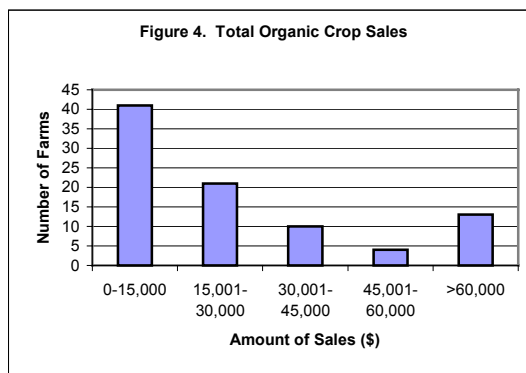
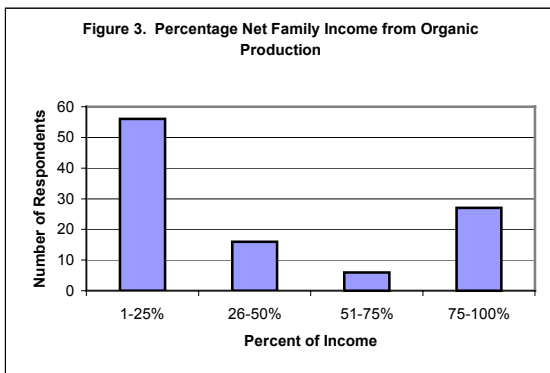
Minnesota Department of Agriculture Survey of Organic Producers

The MDA modified the OFRF survey format and sent it to 404 Minnesota organic farmers in November 2000. Prior to this effort, there had not been a comprehensive survey done on the state level. Surveys were sent to producers who applied to the state organic cost share program. Additional farmers downloaded the survey from the MDA website or had it provided to them by certification agencies who were recruited to publicize the cost share program. As of February 5, 2001, 139 surveys were returned. It is estimated that this represents one-third to one-quarter of the certified organic producers in the state. The total survey results were not tabulated in time for this report. Partial results are presented below.

Data were compiled on organic and transition acres reported, income from organic production, producer satisfaction with existing information, and producer demographics. The organic acres reported by the 139 survey respondents for cropping year 2000 were 27,120 acres; transition acres reported were 9,666 acres. The average numbers of organic acres and transition acres were 214 acres and 242 acres, respectively, with most respondents reporting 250 acres or less in production (Figure 2).



Almost half of the respondents reported that 25% or less of their family income came from organic production. Another quarter reported that 75% to 100% of their family income came from organic production in 2000 (Figure 3). The majority of respondents reported earning \$30,000 or less per year from organic production with a range from \$500 to well over \$100,000 (Figure 4). Income from organic livestock as reported by 18 respondents ranged from \$1,000 to \$80,000, with 75% reporting income under \$12,500 (Figure 5).



Most producer respondents ranked their satisfaction with existing organic production information resources as fair to good (an average score of 6 on a scale of 1-10 where 1 is very poor and 10 is excellent). The average age of the respondents to the survey was 49 and the average respondent had been farming organically for less than 10 years.

### Organic Certification - Overview

In the organic market, third party certification is central to assuring consumer confidence of the integrity of the production and handling process. Independent third party inspections and well-documented audit trails are key components of the certification process. In the absence of federal laws, state oversight has been important in providing domestic consumers with assurance of organic integrity, and has been important in gaining access for Minnesota products to overseas markets. Organic production, processing, labeling and certification standards are also regulated by international and private entities that have standards that overlap with state and the new federal standards. The organic industry has developed a basic set of core standards that are 97% equivalent among all organic certification programs worldwide. Fine details continue to be hammered out in international conferences and provide a continuously improved structure for the industry.

The Codex Alimentarius Commission has developed internationally agreed upon organic guidelines (Codex, 1999). This Commission was created by the Food and Agricultural Organization (FAO) and the World Health Organization (WHO) of the United Nations as the major international mechanism for encouraging fair international trade in food. For the U. S., Codex activities are coordinated from the USDA, the Food and Drug Administration and the U. S. EPA.

The International Federation of Organic Agriculture Movements (IFOAM) represents the organic community during meetings. IFOAM has established basic international standards for organic production and processing. The International Organic Accreditation Services (IOAS) operates the IFOAM accreditation service that ensures the equivalency of certification programs worldwide. IFOAM accreditation is internationally recognized. Four IFOAM accredited certifying organizations operate in Minnesota (IFOAM, 2000).

In the U. S., the Organic Foods Production Act of 1990 was the beginning of federal involvement in setting a national standard for organic food production and labeling. After a decade of work and two proposed rules that attracted over 300,000 comments from the public, the USDA National Organic Program announced its final rule on December 21, 2000. The rule will go into effect 60 days from its announcement. Full implementation is expected in 18 months. One of the effects of this implementation is that USDA will accredit organic certifiers. Individual states like Minnesota that currently require state approval of certifiers, will relinquish this to the National Organic Program (NOP). The federal standards provide clear guidelines for farmers and confidence for consumers of organic foods.

Over half the states in the U.S. have laws or rules regulating the production and marketing of organically grown food and fiber. Many of the state regulations require third-party certification to assure that farmers adhere to organic production standards, and many organic brokers and wholesalers require certification as well. Forty organic certification organizations in the U.S.- 12 state and 28 private - conducted third-party certification of organic production in 1997 (USDA/ERS, 2000).

#### General Certification Requirements

A certified organic crop must be raised on land where no synthetic chemical inputs (fertilizers, herbicides, insecticides, fungicides, sewage sludge, or genetically engineered organisms) have been applied for 36 months prior to its harvest and sale. Allowed inputs for production and processing operations include naturally occurring materials and a very limited range of synthetic inputs. All synthetic inputs must be listed on the NOP's National List. All inputs and treatments must be noted in production records. Farms are required to have a crop rotation plan (e.g. no more than four out of six years in row crops, and the same row crop cannot be grown in consecutive years on the same land). Legumes must be rotated with row crops to provide nitrogen and ensure a healthy system.

Split production farms with conventional and organic fields under the same management are allowed but the production of the same type of crop (i. e. clear hilum soybeans) by both methods is excluded. Producers must take steps to protect their organic crops from outside contaminants, such as by establishing a border of 30 feet between organic and conventional fields to minimize the risk of pesticide drift. Further prohibitions include genetically engineered crops, biosolids or sewage sludge, and irradiated products.

As in all identity preserved marketing systems, a detailed record keeping system is required of the producer and processor and must include details of all inputs. This audit trail is an integral part of all organic certification programs and is similar to the audit requirements for government regulated financial institutions.

Organic livestock must be fed 100% organic feed with the exception of some minor feed additives and supplements. Approved feed supplements and additives must appear on the National List. Health management strategies include provision of low-stress housing and handling, access to outdoors for all species and access to pasture for ruminants, access to clean drinking water, and the use of vaccines, botanical and homeopathic remedies. As indicated, ruminants must have access to pasture in the appropriate seasons in order to be certified organic. Prohibited materials include synthetic hormones, antibiotics and parasiticides.

### Organic Certification in Minnesota

In 1986, Minnesota became the second state to develop an organic program. To avoid duplicating existing private services, the state recognized the value of existing industry certification agencies and provided oversight on the standards and procedures of these agencies to insure compliance with state law. The Minnesota Department of Agriculture (MDA) receives input from an Organic Advisory Task Force (OATF) that is appointed by the Commissioner (Appendix 1). The Task Force, which meets at least twice each year, is comprised of eleven members. Representatives include three farmers, two at-large members, a food retailer or distributor, a representative from an organic food certification agency, an organic food processor, one University of Minnesota Extension Service representative, a representative from an environmental non-profit organization, and a representative from the Agricultural Utilization and Research Institute. A legislative history of Minnesota's organic laws, rules and appropriations can be found in Appendix 2.

The OATF reviews the standards and procedures of organizations that wish to be designated as organic certifiers (DCO) in Minnesota. DCO standards and procedures are evaluated using state law (31.95) and administrative rules (1555.0005-0010 and 1556.0200-0227). The OATF then makes recommendations to the Commissioner regarding designation of certifiers. Organizations that certify products to be sold in the state, but that do not operate directly within state, must make a similar application. These are called Approved Certification Organizations (ACO's). As of February 2001, there were seven DCO's and four ACO's approved by MDA (Appendix 3). Implementation of the federal National Organic Program by USDA over the next 18 months will make this state approval unnecessary.

In addition to regulating organic certification, Minnesota's organic law authorizes the state to take enforcement action against those who attempt to commit fraud and sell conventional products under an organic label. The MDA Food Inspection Division has successfully prosecuted organic fraud cases.

### Marketing Certified Organic Commodities

For much of the past decade, international trade in organic commodities originating in Minnesota was confined to bulk commodities, particularly soybeans, wheat, sunflowers and buckwheat. With increasing growth in the industry, this is rapidly changing and expanding to include every commodity produced and marketed worldwide. Competition has increased with this growth as countries such as China, Brazil and countries in Eastern Europe seek to be low cost producers and exporters of organic commodities to the hot market areas in Europe, Japan and the U. S. These three areas are the world's biggest markets for organic products with a market volume of 13 billion US dollars in 1998 and a forecast of 20 billion US dollars in 2001. According to a study by the World Trade Organization (WTO), the worldwide market share for organic products will reach ten percent in the next few years (WTO, 2000).

With the growth in organic market share, more and larger companies are entering the organic marketplace as commodity traders, processors, and retailers. The 1999 Organic Trade Association's Organic Export Directory listed over seventy import/export businesses, with about six of these businesses specializing in organic grain trade (OTA, 2000).

The market for organic livestock products has tended to lag behind that of other sectors, due largely to the fact that the USDA prohibited use of the word “organic” on meat products until February 1999. This prohibition suppressed growth of organic meat markets and the infrastructure needed to support the organic livestock industry. In countries where organic food has become widely accepted, demand and production of organic livestock products have also grown. Markets reflecting this trend include the United States and the European Union and, to a lesser extent, Argentina and Brazil. Demand for organic dairy and eggs has been strongest, followed by poultry, beef, and pork, respectively (USDA/FAS, 2000).

Recent U.S. organic market value data obtained from the Organic Trade Association and U.S. industry analysis group, Datamonitor, indicate an annual overall growth rate of domestic organic food sales of 20%. Total organic food sales, valued at \$5.4 billion in 1998, are expected to reach \$7.7 billion in 2000 and forecast to reach just over \$13 billion by 2003. Organic dairy sales are the fifth fastest growing commodity group with sales increasing an average of 37 % annually. Total sales are forecast to reach \$2 billion by 2003. Organic meat and meat products, including poultry, are the sixth fastest growing commodity group with total sales forecast to reach \$617 million by 2003. Organic dairy and meat products are expected to capture 15 and 5% of total domestic organic food sales, respectively, by 2003 (USDA/FAS, 2000).

At the outset, it is important to understand that Minnesota organic farmers are part of the global organic food system and that a majority of the organic commodities produced in the state flow into national and international markets. Most sales data on organic food sales are gathered at the national level, making it difficult to breakout statewide data. Between 1995 and 1998, a non-profit organization called the Midwest Organic Alliance (now called the Organic Alliance based in St. Paul, MN) gathered data on growth in the Twin Cities organic food market. During their study period of 1995 to 1998, the number of stores in the Twin Cities with organic products doubled from 40 to 80. The number of organic products offered per store increased from 345 to 1043, with the variety of organic produce (fruits and vegetables) increasing from 5 to 42 per store. Sales of organic milk during this period increased from 1.5 to 1.8% of the total fluid market in the Twin Cities (Dobbs, Feuz and Shane, 1999).

Based on an MDA list, as of December 2000, over 81 companies are buying organic commodities from organic producers in Minnesota and surrounding states ([www.mda.state.mn.us/esap/organic/orgbuyers](http://www.mda.state.mn.us/esap/organic/orgbuyers)). While most of these buyers are based in the Midwest, the bulk of their purchases are sold to primary organic markets on the east or west coasts or overseas.

The requirement that each grower, handler and processor be certified creates logistical difficulties that are unique to the organic and other identity preserved (IP) niche markets. Rather than haul their production to the nearest elevator or arrange for a pickup from the nearest creamery, organic farm products must often be hauled long distances to certified processors. In addition, grain and oilseed crops are rarely delivered at harvest but are frequently marketed throughout the year, requiring producers to have good quality long-term storage.

As in all parts of agriculture, the use of contracting between producers and buyers is an increasingly large part of the commercial relationship. Up to this point most organic commodities have been sold for food grade use rather than as animal feed, and the end customers (manufacturers) often have specific varietal or performance requirements. Most of the product handling in the organic industry is done under contract with one party having legal ownership and another co-packer taking physical delivery and providing cleaning or other services. This separation of ownership and handling also often results in a delay between the delivery of the product and payment to the producer.

According to a recent study conducted in the upper Midwest, farm gate prices for organic commodities range from 35% to 141% above those for conventional commodities. While organic prices have continued at fairly high ratios above conventional for several years, there has been great variability based on availability, quality and foreign competition. In addition, some crops, like soybeans, are easy to sell due to the volume of the market while others, like buckwheat, have smaller, primarily Asian markets that are easily saturated (Dobbs and Pourier, 1999).

## **STATE AND FEDERAL PROGRAMS DIRECTED TOWARD ORGANIC AGRICULTURE**

Minnesota was recently recognized in a publication of the Organic Farming Research Foundation for excellent work in the areas of organic research and resources available to organic producers. Research done at the Southwest Research and Outreach Center at Lamberton and the information resources available at the Minnesota Department of Agriculture and at the University of Minnesota were specifically cited as examples (Sooby, 2001).

### Minnesota State Agencies

#### *Minnesota Department of Agriculture - Organic Cost Share Program*

Funds for the Organic Certification Cost Share Program were appropriated to the Minnesota Department of Agriculture by the 1999 Legislature for fiscal years 2000 and 2001. The first program of its type in the nation, it was funded with \$50,000 per year, with \$15,000 for production and marketing program administration and \$35,000 for reimbursement of two-thirds of annual certification and inspection costs incurred by certified organic farmers up to \$200 per farm per year, with five years of eligibility per farm. In 1999, the first year of the program, 175 organic farmers participated, receiving an average of \$175 per participant for a total of \$31,000. In 2000, 183 farmers received an average of \$185 per participant totaling \$almost \$34,000. Farmers must provide proof of certification for the current crop year and proof of payment. The application and instructions are available on the MDA website ([www.mda.state.mn.us/ESAP/Organic/2000OrganicCostShare.pdf](http://www.mda.state.mn.us/ESAP/Organic/2000OrganicCostShare.pdf)).

This program has received national attention with over 35 requests for information on the program from federal, state, and provincial authorities. Modeled on the Minnesota program, the USDA announced a similar cost share program for organic farmers in fifteen states at a press conference on December 20, 2000.

#### *Minnesota Department of Agriculture - Energy and Sustainable Agriculture Program (ESAP)*

MDA has supported farmer-initiated research since 1988 through its on-farm demonstration grant program. Approximately 10% of the grants have dealt directly or substantially with organic production issues, ranging from conversion to organic crop production to alternative livestock health management. Many of the grants have provided organic farmers with information on weed management, livestock production systems, fertility management, and cover crop and cropping systems information. ESAP staff also serve as information resources, responding to farmer questions on weed and insect management, cropping systems, soil building, tillage, nutrient management and livestock production.

In addition to the on-farm production research supporting sustainable and organic production practices, MDA has sponsored, provided speakers and exhibited at state and regional organic conferences. ESAP staff has also provided planning assistance and speakers for additional conferences and meetings with organic content such as the annual Minnesota Fruit and Vegetable Growers Conference.



In 2000, the two major state and regional organic conferences had combined attendance of 1850 producers. The Minnesota Organic Conference is an annual two-day event that has grown in attendance from 50 in 1997 to 350 attendees in 2000. Founded in 1997, the Upper Midwest Organic Farming Conference is now the largest organic farming conference in North America. This three-day event attracted 1400 attendees and exhibitors from the region and nationwide in 2000.

ESAP also provides staffing for the agency's Organic Advisory Task Force. With review and recommendations from the Task Force, MDA supports independent third-party inspections by reviewing and accrediting organizations seeking to certify in Minnesota.

#### *Minnesota Department of Agriculture – Agriculture Marketing Service*

The Minnesota Department of Agriculture has provided market development support to the organic industry for many years. Over the past decade, these activities have included:

- Domestic trade show coordination for processed food manufacturers: For the past six years, MDA staff have coordinated pavilions of Minnesota natural and organic food processors at the Natural Products Expo East (Baltimore) and West (Anaheim). The MDA pre-books exhibit spaces for 6-8 companies per show, arranges shipping of samples, and provides graphics to unify the pavilion image. Companies purchase the exhibit space when signing up for the show, and pay for their own travel. This activity has been very successful in building a positive image of Minnesota companies, helping processors build national and international distribution for their products, and allowing them to cultivate relationships with their retail customers.
- Direct marketing support for farmers: Farmers, including organic producers, who sell products directly to consumers through farmers' markets, community supported agriculture (CSA's), or farm direct meat sales all benefit from programs offered through the Minnesota Grown program. Producers participate in the Farmer to Consumer Directory, the Specialty Meats Directory, and the electronic directories maintained by the program.
- Cooperative business formation assistance: Organic producer groups have taken advantage of funding from the Co-op Development Grant program. Of a total of about 30 grant projects, three strictly organic producer groups and two other groups with conventional and organic products, have received funding for market research, product development, and business plan development. Assistance from AURI and USDA is coordinated and provided through this program as well.
- Ag Diversification funds have been directed to an organic information hotline managed by the University of Minnesota's Southwest Research and Outreach Center and to the Minnesota Wheat Growers Association for research on organic wheat production in northwest Minnesota.
- Organic meat/livestock development: MDA served as the fiscal agent for a five state \$70,000 organic meat livestock development grant identifying barriers and opportunities to organic meat marketing in the Upper Midwest. Considerations included assessments of consumer demand, grocery meat infrastructure, organic livestock production practices, and processing infrastructure. Regional support resources were identified.
- Consumer education: In 1999, MDA wrote and served as fiscal agent for a \$45,000 federal grant to develop and print materials for use in school tour programs, and a consumer video to be used by retailers explaining organic production practices. MDA contracted with the Organic Alliance to complete the work. State funds were also provided to support these efforts.
- International trade shows and seminars: Similar to the domestic trade show efforts, MDA has encouraged and supported the Minnesota Trade Office in developing Minnesota pavilions at shows that attract foreign organic buyers. Efforts in 1995, 1997 and 1998 focused on the Japanese market, with several hundred buyers attending seminars and trade shows in Tokyo and Osaka featuring US organic products. Subsequent efforts in Japan were maintained, but new efforts in Europe were also initiated. Companies are able to access federal funds for foreign

market promotion, as well as take advantage of market research and distributor development services. Organic producers will exhibit at the BioFach Trade Show in Germany in 2001 with support from MDA.

- Certification support: In 1993, MDA served as fiscal agent for a \$45,000 federal grant to develop protocols, standards, and training for independent organic inspectors.

#### *Minnesota Department of Agriculture – Dairy and Food Inspection Division*

MDA's Dairy and Food Division has been instrumental in enforcing organic labeling laws and pursuing cases of mislabeling and fraud. All food inspectors have been trained to do random spot checks of organic document audit trails to ensure compliance, again providing consumer protection and supporting the efforts of legitimate organic industry members.

Under the new federal organic rule, states that have organic programs will be responsible for enforcement. It is anticipated that MDA's Dairy and Food Inspection Division will continue to play an active role in the enforcement of state and federal organic statutes.

#### University of Minnesota

##### *Southwest Research and Outreach Center - Organic Conversion Project*

The Organic Conversion Project, funded by the Legislative Commission for Minnesota Resources and the USDA Sustainable Agriculture Research and Education Program, is based at the Southwest Outreach and Research Center (SWORC) at Lamberton. Elizabeth Dyck, an agronomist working out of the center, is heading the multi-year project that involves research, education and production support. The SWORC has dedicated 120 acres of the Elwell Agroecology Farm at the Center to certified organic plot research. Sixteen farmers are involved in on-farm organic research, 60 farmers are involved in assisted transition to organic production, and the project has a mailing list of 400 area farmers who have participated in field days or workshops. Educational efforts have included farm field days, winter seminars, and an annual organic field day that drew 270 people in 2000. Project information is available at [http://swroc.coafes.umn.edu/Ocp/main\\_page.html](http://swroc.coafes.umn.edu/Ocp/main_page.html) The Organic Rotation Plots (ORP) were established in 1990 to study the effect of both fertility and crop rotation on corn production under organic management.

Production support is provided by staff agronomists and seven experienced organic farmers who are serving as mentors via phone to the 60 farmers in transition. With additional funding from MDA, this transition support will be expanded to 12 mentors and offered to farmers statewide in 2001 (Sooby, 2001).

##### *University of Minnesota Extension*

In addition to the Lamberton Organic Project, individual extension educators have provided educational opportunities for organic producers by holding field days and conferences in their areas of the state. Activities in northwest Minnesota led by Jim Stordahl (Clay County Extension) in Moorhead and Hans Kandel (Red Lake County Extension) in Crookston are noteworthy. The Extension Service has encouraged and supported county educators to participate in state organic conferences and field days.

##### *Minnesota Institute for Sustainable Agriculture (MISA)*

The Minnesota Institute for Sustainable Agriculture primary support for organic agriculture has been through its Information Exchange. The Information Exchange published the Organic Certification of Field Crops in Minnesota handbook, which is now in its second printing. The MISA website also serves to connect producers with University faculty with interest in organic and sustainable production and marketing ([www.misa.umn.edu/](http://www.misa.umn.edu/)).

### Federal Programs

Federal government efforts to facilitate organic production have focused primarily on developing national certification standards to assure consumers that organic commodities meet consistent standards and to expedite interstate commerce in organically grown agricultural products. Congress passed the Organic Foods Production Act of 1990 in order to establish national standards for organically produced commodities. This legislation requires that all except the smallest organic growers (less than \$5,000 in annual sales) will have to be certified by a state or private agency accredited by the USDA.

#### *USDA/Agricultural Marketing Service, National Organic Program*

The role of the National Organic Program (NOP) within the Agricultural Marketing Service of the USDA is to implement the organic standards announced on December 20, 2000. NOP will accredit state agencies and private certification organizations and oversee the enforcement of the federal standards. The NOP is also piloting a cost-share program in 15 states that will help small organic producers receive the certification required under the new standards. This new initiative will pay 70% of a producer's certification costs, or \$500, whichever is higher. Minnesota is not one of the 15 pilot states. This cost-share program was modeled after Minnesota's program.

#### *USDA/Sustainable Agriculture Research and Education Program*

The Sustainable Agriculture Research and Education Program (SARE) at the USDA provides funding for sustainable and organic agriculture research, demonstration and education. In addition to grants for research, SARE provides funds specifically for education and training of agricultural service providers such as state Extension staff. ATTRA (Appropriate Technology Transfer for Rural Areas) is an information service, funded in large part by USDA/SARE, which provides organic and sustainable agriculture information to farmers. A sampling of the ATTRA information packets on organic agriculture include:

- Suppliers of Organic, Non G-E, or Heirloom (O-P) Vegetable Seed
- Overview of Organic Fruit Production Horticulture Systems Guide
- Resources for Organic Marketing & Business Guide
- Organic Blueberry Production Horticulture Production Guide
- Organic Sweet Corn Production Horticulture Production Guide

## **BARRIERS TO GROWTH AND RESEARCH NEEDS**

Barriers to the growth of the organic industry were identified from a number of sources. A recent study, "Expanding the Organic Food and Agriculture System in the U. S.'s Upper Midwest: Strategies and Lessons of a Pilot Project," listed several barriers. The study found that organic farmers were not organized in ways that allowed them to gain economies of size in marketing their products. There were insufficient processors and distributors for organic food and many organic farmers had limited access to capital (Dobbs, Feuz and Shane, 1999).

Many of these barriers were echoed by farmers surveyed in 1997 by the Organic Farming Research Foundation (OFRF, 1997). Farmers nationally identified lack of information on organic methods, distance between producer and processor or market and lack of organic marketing networks as constraints to organic production. In addition, survey participants identified sourcing and finding allowable inputs and transporting them long distances as problems.

A working group convened by the Organic Alliance in 1999 listed the following barriers (Woods, 1999):

- Knowledge about organic production among the farm population is still minimal. The "early adapters" have already converted their farms. New organic farmers will need information and transition support not just for production but for marketing and business planning.
- Organic farmers rely on various organizations for support – bankers, feed millers, livestock plant inspectors, extension educators, seed houses, crop associations and regulatory officials. In general, these individuals are not accustomed to organics and do not understand the standards or operation of an organic farm and may not understand the viability of organic systems.
- Organic methods have been developed primarily by the practitioners themselves. Additional research is needed from land grant universities.
- Organic certification costs may be a barrier to small organic operations.
- Processing of organic products is often done outside the state and individual farmers usually do not have the economy of scale to develop a profitable on-farm processing capacity. Additional value-added processing is needed in the state as well as assistance for farmers who want to organize into value-added cooperatives and marketing associations.

For organic livestock producers, start-up costs, conversion requirements, insufficient organic grain supplies, and the U.S. organic livestock producer's inability to label products as "organic" until 1999, have dampened growth in organic livestock production relative to organic crop production (USDA/FAS, 2000; OFRF, 1997). Producers also indicated that they needed more certified processing facilities.

MDA's Organic Advisory Task Force, at their meeting on April 7, 2000, listed the following barriers to growth in the organic industry in Minnesota:

- There is inadequate information on production and marketing strategies for organic farmers and those interested in transitioning to organic farming.
- Making the transition to certified organic production is risky and dependent on consistent technical support. That support is generally not available.
- There is a lack of farmer-owned processing and farmer co-operative marketing efforts. Related to that is the poorly developed distribution and marketing infrastructure for organic products.
- Organic farming is still perceived as a niche market.
- The potential for contamination of organic crops from genetically engineered crops grown nearby creates problems in export markets.
- There is inadequate research on organic production techniques and non-chemical pest management.

Farmers responding to the National Organic Farmers' Survey in 1997 identified a number of research needs (OFRF, 1997). Research on weed management topped the list. Pest control, fertility management, soil quality improvement techniques and methods for reducing the risk during the transition to organic production were also listed. Livestock producers needed more research on controlling parasites and disease.

## RECOMMENDATIONS

The MDA proposes the following set of recommendations, with input from the agency's Organic Advisory Task Force, for increasing the vitality of Minnesota's organic industry, including production, processing and marketing.

### **Education and Information**

- The MDA, MISA, and U of MN Extension should develop and distribute fact sheets on organic production and marketing to assist those Minnesota farmers wanting information on organic methods and transition.
- Farmer-mentoring programs for new organic producers should continue to be developed and implemented.
- Extension educators and crop consultants should be provided with organic production information so that they can provide timely information to producers.
- Organic producers, processors, wholesalers and retailers, food regulators and food inspectors should be provided with information on organic production, food handling and processing standards so that all parties can be accountable in developing a credible organic food system.
- Educational materials on organic production such as the Organic Alliance's Organic Factivity book and "Agriculture in the Classroom" should be provided at every level of formalized education (K-12, undergraduate, 4H, Master Gardeners, and through the Extension Service).
- News media should be provided with information and articles about organics in order to promote organic agriculture across Minnesota.

### **Marketing and Promotion**

- An organic food website should be created to provide information and links for organic producers, processors, wholesalers, retailers, educators, and consumers in Minnesota.
- A newspaper insert similar to the "Minnesota Showcase" should be developed for organic food; Minnesota's organic sector representation at food trade shows and the State Fair should continue to expand; and, an Extension educators' conference on organic research needs and opportunities should be sponsored.
- The Agricultural Utilization Research Institute should be encouraged to continue to work with organic producers and processors.

### **Business Development**

- The MDA's co-op development program should continue to support and develop business plans for organic producers and producer-owned marketing co-operatives and value added co-operatives. At the same time, the development of local food systems, community supported agriculture (CSA's), farmers' markets, and buying clubs should be encouraged.
- A "Minnesota Grown Organic" label should be developed to allow all Minnesota products to have a common identifier and to be marketed as a unit.

### **Regulatory Support**

- Minnesota's organic statute and rules should be reviewed and revised to match federal regulations. The costs and benefits of continuing Minnesota's state organic program under the federal rules should be evaluated and action taken based on those findings.
- The MDA should continue to enforce Minnesota's organic statute and labeling regulations including developing a clear and accessible consumer and producer complaint process for compliance with organic standards and labeling law.

### **Technical and Financial Assistance**

- Financial assistance should be provided to assist producers through the transitional phase and into a certified organic system.
- Technical and financial assistance such as low interest loans should be continued for certified organic producers.
- The USDA's Sustainable Agriculture Research and Education program and other federal programs should be used to obtain funds to train Extension agents, agricultural professionals, bankers, etc., on organic methods and opportunities.
- Organic and sustainable research and demonstration should be expanded through MDA sustainable agriculture demonstration grants, maintenance of adequate MDA staff who are knowledgeable on organic methods, and through the Agricultural Utilization Research Institute's "Pesticide Reduction Options" grant program.

### **Policy and Program Support**

- The USDA's Risk Management Agency should be encouraged to provide expanded crop insurance to organic producers. MDA's risk management staff should become engaged in the organic sector.
- Minnesota organic producers should be surveyed to determine their research needs. A survey would provide information on what organic research needs in Minnesota are perceived as the most important and aid researchers in setting research priorities. Statistics on organic production should be included in national and state Agricultural Statistics Service surveys.

### **Research**

- University of Minnesota's efforts in conventional breeding of seed for non-genetically modified crops should be expanded.
- The Organic Conversion Project at the University of Minnesota's Southwest Research and Outreach Center near Lamberton should be supported and the reproduction of this effort at other Research and Outreach Centers should be encouraged.

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## **LIST OF MATERIALS IN APPENDICES**

- Appendix 1      Members of the Minnesota Department of Agriculture’s Organic Advisory Task Force
- Appendix 2      Minnesota Organic Legislative History
- Appendix 3      Designated Certification Organizations and Approved Certification Organizations  
                         Conducting Farm Certifications in Minnesota, February 2000

Appendix 1

**Minnesota Department of Agriculture - Organic Advisory Task Force Members (Feb. 2001)**

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Vacant  
Environmental Non Profit Organization

### Minnesota Organic Legislative History (Feb. 2001)

**1985 Chapter 237 §§ 3 – 6**

- Defines organic food
- Defines requirements for growth, composition and storage of organic food.
- Authorizes the commissioner of the Department of Agriculture to enforce labeling, sale and advertising of organic food
- Allows the commissioner to adopt rules to further clarify organic food standards and marketing practices
- Chapter becomes effective April 1, 1986

**1987 Minnesota Rules Chapter 1555.0005 – 1555.0012**

- Defines state organic food and marketing standards

**1988 Chapter 688 article 8 § 1, article 21 § 3**

- Authorizes the commissioner to designate organizations located in the state to certify organic products in the state
- Authorizes the commissioner to set certification fees charged to organic producers
- Requires certification organization to provide certification to a person whose production meets certification standards and who has paid membership dues and certification fees
- Allows certification organizations to draft rules for implementation of the organic certification program for submission to the commissioner
- Appropriates \$100,000 for a grant to a certification organization for start-up and initial administrative costs
- Appropriates \$50,000 to the Department to administer and enforce the organic food law

**1989 Chapter 350 article 20 § 14**

- Appropriates \$100,000 for a grant to a certification organization to continue the certification process authorized above

**1990 Chapter 547 §§ 3-4**

- Allows the commissioner to designate certification organizations outside Minnesota to certify organic products in the state
- Removes the commissioner's authority to set certification fees
- Removes the requirement to pay membership dues as a certification requirement
- Requires that Minnesota grown organic products must be certified by a designated certification organization in order to be labeled "certified"
- Requires that certified organic products sold in the state must be certified by a designated certification organization or by a certification organization approved by the commissioner
- Establishes the Minnesota organic advisory task force
- Requires the commissioner to seek evaluation and recommendation of the task force before approving certification organizations

**1990 Minnesota Rules Chapter 1556.0200 – 1556.0227**

- Provides the requirements for certification of products produced, processed and distributed under Minnesota organic standards

## Appendix 2

### **1999 Chapter 231 §§ 11, 26-27, 56-57**

- Appropriates \$50,000 per year to the Department for annual organic certification cost share payments to farmers and for organic market and program development
- Adds two organic farmers to both the sustainable agriculture grant review panel and the shared savings loan review panel
- Expands the duties of the commissioner to promote opportunities for organic agriculture by surveying producers to assess research and information needs, demonstrate organic practices, coordinate department organic activities with other state agencies and the University, and report on the status of organic agriculture on a biennial basis
- Specifies membership categories for the commissioner's organic advisory task force and extends the task force expiration date to June 30, 2003

Appendix 3

**Designated Certification Organizations (DCO) and Approved Certification Organizations (ACO)  
Conducting Farm Certifications in Minnesota (February 7, 2001)**

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ACO

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