



To certify or not to certify? Separating the organic production and certification decisions



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ABSTRACT

This article separates the decision to be certified organic into the decision to use organic practices and the subsequent decision to certify those practices, using data from a survey of US fruit and vegetable producers. We document that many producers are using organic practices but choosing not to certify. Philosophical beliefs and perceived risk of losses due to disease, weeds, and insects have the largest impact on the decision to use organic practices. Producers who use organic practices and direct market are less likely to certify. Moreover, we find that the certification *process* discourages certification.

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1. Introduction

Most policymakers and researchers view the organic production and certification decision as a single decision. Legally, in both the United States (US) and European Union (EU), a producer must be certified organic to market their production as organic. However, nothing prevents a producer from using organic production practices and marketing their production as conventional. Thus, we can separate the decision to be certified organic into two parts, a production decision to use organic practices and a marketing decision to certify. These organic production and marketing decisions are interrelated but separate business decisions.

The decision to certify organic will vary by the legal regulations pertaining to certified organic production and marketing in each country. Lohr and Salomonsson (2000) provide a useful comparison of the policy approach in the US and EU. The EU approach has been to provide substantial financial assistance for farmers to be certified organic; while the US approach has been market driven with little to no financial assistance.

Focusing on the US context, this article contributes to the literature by separating the decision to use organic practices from the decision to certify those practices under the United States Department of Agriculture (USDA) National Organic Program (NOP). This article clearly documents that there is a substantial segment of US producers who are committed to using organic practices but have no intention to certify. For US producers who

use organic practices, the decision to certify or not to certify is based on their perception of the costs and benefits of organic certification. These producers perceive substantial costs associated with certification including the financial cost, dealing with a confusing process and interacting with the certifier. Notably, we find that producers who report that their most economically important market is a direct market have significantly less production under certification. One explanation is that the producer's relationship with his/her customer is a substitute for certification. A second explanation is that consumers who purchase directly from producers are willing to pay a premium for local that may be larger than the premium for certified organic products, i.e. "local is the new organic" (Darby et al., 2008; Greene et al., 2009; Low and Vogel, 2011; Onozaka and Thilmany McFadden, 2011).

2. Literature

We review the US and European literature to identify the factors that influence the farmer's decision to adopt certified organic production. With the exception of Sierra et al. (2008) and Strohlic and Sierra (2007) who focus on California producers' decisions to decertify, most of the literature does not separately identify the factors that influence the producer's decision to use organic practices from the decision to certify. Further, the literature on barriers to organic certification categorizes organic production challenges as a barrier to certification.

Many studies have found that conversion to organic farming reflected both the relative profitability of organic and conventional systems and the philosophical beliefs of producers (Burton et al.,

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1999; Darnhofer et al., 2005; Klonsky, 2000; L pple and Van Rensburg, 2011; Mzoughi, 2011; Padel, 2001; Schneeberger et al., 2002; Sierra et al., 2008; Strohlic and Sierra, 2007; Walz, 2004). Several studies have documented the importance of non-financial motivations, such as concern for the environment, in producers' decisions to adopt more environmentally-friendly practices (L pple and Van Rensburg, 2011; Mzoughi, 2011; Sheeder and Lynne, 2011) and even the willingness of producers to give-up some profits to achieve conservation goals (Chouinard et al., 2008). Sierra et al. (2008) found a strong relationship between farm size and the motivations behind using organic practices; roughly half of producers farming less than 50 acres were motivated primarily by their philosophical beliefs compared to none of those farming above 50 acres.

Previous research identified some demographic patterns among certified organic producers. Organic producers tended to be younger and had less experience than their conventional counterparts (Burton et al., 1999; D' Souza et al., 1993; Genius et al., 2006; Parra-Lopez et al., 2007). There were a larger proportion of females among organic producers than among conventional producers (Burton et al., 1999; Padel, 2001; Walz, 2004). The relationship between education and adoption of organic practices was less clear; some studies found a positive relationship (D' Souza et al., 1993; Genius et al., 2006), and some found no significant relationship (Burton et al., 1999).

The relationship between farm size and organic production is complex. Several researchers have found that partial adopters of certified organic production are larger than total adopters and non-adopters (Burton et al., 1999; Genius et al., 2006). Other research has shown that large farms tend to certify while small farms do not (Klonsky and Tourte, 1998). Sierra et al. (2008) found that almost half of the California producers who decertified reported less than \$5000 in total farm revenues, which means they were exempt from the NOP certification requirements.

There were multiple barriers to organic certification including the three year transition period, the financial and time cost of certification, and paperwork (Burton et al., 1999; Sierra et al., 2008; Strohlic and Sierra, 2007). Organic certification requires producers to manage the land using organic practices for three years and during this transition period producers cannot obtain certified organic price premiums though they may be able charge a higher price for being "transitional" (Oberholtzer et al., 2005). Other reasons included marketing strategies that did not involve certification, lack of access to organic markets or handlers, and a belief that the benefits of certifying did not outweigh the costs (Dimitri and Oberholtzer, 2008). Finally, Burton et al. (1999) also found that some producers preferred to be free of certification requirements.

The NOP requires certified organic producers to have longer rotations and more crop diversity. Organic producers rely on these longer rotations and crop diversity to provide soil fertility and to mitigate production risks from disease, insects and weeds (Hanson et al., 2004; Oberholtzer et al., 2005). As a result, producers may need to include crops in the rotation that receive little or no premium, while other crops in the rotation gain a large premium (Klonsky, 2000; Oberholtzer et al., 2005).

Organic producers tend to have higher operating costs than conventional producers. Due to the fast-paced growth of the organic industry, organic producers may face a shortage of organic seed, pesticides and other inputs or may face higher prices for these inputs (Greene et al., 2009; Hanson et al., 2004). Organic producers also have high production costs because of relatively intense use of labor, specialized equipment and other substitutes for synthetic chemicals (Oberholtzer et al., 2005).

Small farms tend to use different marketing techniques than larger farms. According to Dimitri and Greene (2002), 60% of farms

with fewer than 10 acres used direct marketing compared to only 12% of farms with more than 10 acres. The producer can earn a higher share of the consumers' dollar by selling directly and not through a broker (Dimitri and Greene, 2002). Direct marketing enables the producer to gain price premiums and consumer trust for his/her product without the paperwork and financial cost of certification (Kremen et al., 2004; Park and Lohr, 2006). Larger farms were more likely to use multiple marketing channels and farms with multiple marketing channels tended to earn more than farms using only one marketing channel (Park and Lohr, 2006; Park, 2009).

Farm location has been shown to influence the decision to be certified organic, for both production and marketing reasons. Kremen et al. (2004) found that producers who rely on direct marketing may choose to certify depending on their location and the local consumer perception of certified organic products; markets at an early stage of awareness may have negative perceptions of organic products and/or organic product pricing. Parra-Lopez et al. (2007) found that location was an important predictor of timing of organic certification for organic olive groves in southern Spain.

US organic policy is primarily market driven. There is some financial support for organic certification; US producers are eligible to receive an organic certification cost share reimbursement of up to 75% but not to exceed \$750 per year. By contrast, for European producers, the costs and benefits of organic certification differ substantially from the US context where there is either no or limited financial assistance. Under the European Common Agricultural Policy (CAP) certified organic producers receive subsidies or compensatory payments which have a substantial influence on their decision to adopt certified organic production. For instance, Lohr and Salomonsson (2000) found that a subsidy for conversion to organic agriculture in Sweden was influential for 27% of organic farmers in their sample. Pietola and Lansink (2001) found that direct subsidies were a significant factor in the decision of farmers in Finland to switch to organic production. L pple (2010) used duration analysis to examine the decision of Irish drystock farmers to enter and exit organic production. L pple (2010) found that subsidies were important to the decision to adopt organic production and that producers disadopted organic when their five-year subsidy contract expired and when they had improved off-farm income opportunities. L pple and Van Rensburg (2011) examined the differences between early and late adopters of organic drystock production in Ireland. They found that later adopters, who adopted organic production after the CAP subsidies for organic production were introduced, were strongly motivated by profits. In contrast, while all organic adopters were motivated by environmental attitudes, early adopters were less motivated by profit. In some cases, the compensatory payments may become a barrier to adoption of certified organic production. Schneeberger et al. (2002) found that cash-crop producers in Austria cite concern about dependence on compensatory payments as a barrier to adoption of organic production.

3. Data

The population for this survey was obtained from a list of fruit and vegetable producers in 16 states who are registered in Food Industry MarketMaker. The list contained 4312 addresses of which 3015 also had an email address. Registered members of Food Industry MarketMaker tend to be small and medium-sized farms that intend to direct market food products to consumers. A total of 1559 producers responded to the survey and the overall response rate was 36.15%. Our sample is a convenience sample of fruit and vegetable farmers in 16 states from the MarketMaker

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