

Management & Marketing Notes. January 2005 (Revised 6/1/05)

Are There Organic Opportunities for North Carolina Dairy Farmers?

Geoff Benson, PhD
Department of Agricultural & Resource Economics
North Carolina State University

Take a look in any grocery store and you will see certified organic products prominently featured, including dairy products. Consumers are paying large premiums for organic dairy products and retail sales continue to grow, with no slow down in sight. Organic foods have gone from extreme to mainstream. Right now, sales are booming and suppliers are rationing the grocery stores because of a shortage. As a consequence, raw organic milk brings a hefty premium over commodity milk. There are potential buyers but no local supplies because we have no organic milk produced in the state.

However, many things must come together if this opportunity is to become a reality:

- Milk processors will want a certain minimum volume of milk to make processing it feasible, which means a number of dairy farmers must be involved
- Dairy farmers will want to know if organic production is feasible and profitable, given the strict rules governing organic production, higher costs of production and the costs incurred during the required transition period before a farm can be certified as organic. Challenges NC dairy farmers face include herd health and herd management under organic rules; the availability and cost of certified organic feeds and supplements; land management, crop production and pasture use; getting and keeping organic certification; and profitability and cash flow feasibility
- There must be a reliable source of organic feed ingredients and this provides an opportunity for feed suppliers to serve dairy farmers needs
- Producers will need technical information and support from industry and extension, including veterinary care, herd management, nutrition, agronomy, and business.

“Organic” has a specific legal meaning as it relates to farm products and organic products are regulated by the US Department of Agriculture. The requirements are complex and convoluted. These rules cover the materials and processes that are permitted to be used in the production of crop and livestock products that may be labeled “organic”. In general, commercial fertilizers are banned in favor of nutrients provided through manures and composts. A limited amount of additional nitrogen is permitted if it is from an approved source. There is a list of approved soil amendments. GMO varieties are banned, as are most pesticides.

For livestock there are additional regulations. All feed must be certified organic and animals must have unrestricted access to pasture. Most common medical treatments are prohibited including antibiotics and this often means that a sick animal must be removed from the herd after receiving treatment because it becomes ineligible. It takes three years of compliance with the organic rules before land and the crops grown thereon can be brought from a state

of non-compliance and be certified organic. During this time, products cannot be sold as organic and do not earn any price premiums. For dairy there is a 12-month transition feeding period for animals before milk can be sold as organic. During this time the animals must be fed organic feed. However, for most farmers the three year land transition is likely to be the determining factor. Farms must be certified by (non-governmental) accredited agents and there are record keeping requirements so farmers can document compliance during and after the transition. The certifier charges a fee for the service.

Farmers should consider several factors. Right now, raw organic milk is bringing hefty premium, with up to 50% over the commodity milk mailbox price reported in some areas. However, this premium must cover both the costs incurred during the transition period and the higher cost of production once organic certification is obtained. The number of organically certified dairy farms in the nation is growing, which provides some support for the idea that this is a practical and profitable type of dairy farming, at least for some.

The higher cost of feed ingredients is one major added cost but, in light of the price premiums for milk, these added costs are not expected to be high enough to cause a reduction in concentrate feeding. However, these higher feed costs, in combination with the pasture requirement and limitations on fertilization practices and weed control, may lead to changes in the underlying economics of the feeding program for the milking cows and other animals. Limitations on varieties, fertilization practices and weed control are likely to cause lower crop yields in general. In combination, these factors may create incentives to change the types of forage crops produced and the acreage devoted to each.

rBST use is not allowed, which may affect milk production levels. Sick animals must be treated and if approved treatments are ineffective then unapproved treatments will be needed to meet animal welfare considerations. These treated animals must then be removed from the herd in order to maintain organic status. The cost associated with these changes in herd health management will be affected by the ability to obtain a reasonable price from conventional dairy farmers for these treated cows. Some increase in culling may occur as a result and, if so, additional replacement animals would be required.

One final aspect of organic production to note is an increase in record keeping. Farmers must keep adequate records to be able to document that they are in compliance with the rules. The required records should be discussed with the certifier in order to judge the changes in the record keeping system that will be required.

One final issue for producers of commodity milk to consider is their comfort level with the underlying philosophy of organic production.

Additional Resources

USDA has a National Organic Program web site with all the rules and requirements and a great deal of information: <http://www.ams.usda.gov.nop/indexNet.htm>

Northeast Organic Dairy Producers Alliance: <http://www.nodpa.com/>

The Midwest Organic and Sustainable Education Service: <http://www.mosesorganic.org/>

If you have questions, please contact me at the above address, by 'phone at (919) 515-5184 or by e-mail at geoff_benson@ncsu.edu or contact your local dairy extension agent.