

Values-based food supply chains: Program participation and policy challenges

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This policy section relates to a series of case studies that examine values-based food supply chains—strategic business alliances formed between primarily mid-sized farms/ranches and their supply chain partners—to distribute significant volumes of high-quality, differentiated food products and share the rewards equitably. Farmers and ranchers function as strategic partners rather than easily replaced input suppliers. All participants in these business alliances recognize that creating maximum value for the product depends on significant interdependence, collaboration and mutual support.¹ These supply chains attach importance to both the values embedded in the production of the food products AND the values that characterize the business relationships. To see the case studies, visit www.agofthemiddle.org.


Introduction

Starting with the early development of the “disappearing middle” hypothesis in the 1980s, farm policy has been integral to the question of how to maintain the viability of midscale² agriculture. Marty Strange, a renowned advocate for family farms and rural communities, called the question of what to do with medium-sized farms *the* policy issue of the time (Strange, 1988). Most policy efforts in the 1980s focused on commodity support, but raising commodity prices for all producers does not protect mid-sized farms. Some experts at that time believed that targeted income supplements for medium-sized farms were the answer. This solution was never enacted.

Strange presciently wrote that the most important issue in addressing the problems of mid-sized farms is a “dynamic of fair competition, economic opportunity, growth and expansion, and the exercise of economic power” (Strange, 1988). This dynamic has (perhaps unwittingly) guided the Agriculture of the Middle (AOTM) Initiative and the enterprises presented here. It is manifest in the policies and programs that these supply chains utilize and in the policy changes adopted by federal, state, local and private interests in service of a more viable mid-sized agricultural sector in the U.S. This section details the case study respondents’ feedback on policy and describes a selected set of their policy challenges, four under-used programs and a short list of policy research recommendations. The information presented here supplements the policy notes in the case studies.



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¹Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle explains the terminology and general characteristics of values-based food supply chains: <www.agofthemiddle.org>.


²The terms ‘midsized,’ ‘midscale’ and ‘medium-sized’ are used interchangeably.

Description of interviews


A survey instrument was developed to acquire the desired policy information from the key respondent representing each enterprise (see Appendix A on page 13 for questionnaire). These respondents were the “drivers” of the supply chain: either an individual or a business entity that “makes it happen.” This is often the initial organizer who can be located in any part of the supply chain (Clancy and Ruhf, 2010). Hour-long phone interviews were scheduled with each person. The actual interviews lasted between 45 and 90 minutes. Responses were recorded and summarized in the policy notes included in each case study.

Program use

Table 1 (page 3) lists the usage of **federal** programs by the businesses; program usage by more than one or two people involved in these enterprises is noted. In most cases, the respondents (almost always the drivers) themselves utilized a program (e.g., a USDA Sustainable Agriculture Research and Education (SARE) grant received by Red Tomato). With one exception, we did not interview any of the other supply chain members, so this summary does not include information about program usage and policy concerns across the supply chain, except in a few instances when the driver reported that some of the other members of the chain utilized a program (e.g., Shepherd’s Grain producers receiving commodity subsidies or cost-share conservation payments). Read the policy note of each case study for details on each businesses’ use of these programs.



The use of state programs is fairly limited.



The use of **state** programs is fairly limited. In Washington State, conservation programs have had a strong positive impact on the adoption of no-till practices by Shepherd’s Grain growers. Full Circle is certified organic by the Washington State Department of Agriculture. Several years ago, Full Circle’s owner, Andrew Stout, was appointed to the state Future of Farming Committee, which sent recommendations to the governor. He has also participated in a flea beetle study with Western SARE for 10 years and a soil mapping project with Washington State University. Country Natural Beef has, at various times, worked with the Oregon Department of Agriculture. The state has strong circuit breaker legislation that has helped its ranchers lower their real property taxes. The same is true for the Connecticut farmers who are part of Red Tomato. In Massachusetts, most Red Tomato Farmers have used farmland preservation programs. In Wisconsin, Good Earth Farms has received a Department of Agriculture, Trade and Consumer Protection loan to build inventory.

Full Circle has been the most active user of **local** programs. Stout works with King County Extension on a variety of projects and

programs. Full Circle has done water quality studies for the King County Water Division, received cost-share money from the county that originated in the Washington State Department of Ecology and applied additional county funds to habitat restoration. Most of the other businesses have been less engaged at the local level. Exceptions include Idaho's Bounty, which received a donation from the Blair County Development Corporation, and the Hatfields of Country Natural Beef, who interacted with extension agents on diverse topics.

Some enterprises have benefitted from private funds and collaborations. Shepherd's Grain has engaged with a private firm on a carbon sequestration project and has worked with the Seattle Chefs Collaborative. Good Earth Farms has received grants from the Family Farm Foundation and the Rick Bayless Foundation. The Puget Consumer Cooperative Farmland Trust executes one of the covenants under which the Full Circle farmland is protected. Stout has also restored habitat with the nonprofit Stewardship Partners (the local arm of Salmon-Safe).



Photo credit: J. Moring

Full Circle has been an active user of local programs.

Table 1 – Usage of Federal Programs by Enterprise

Program	Participating enterprises
Commodity	All SG, several CNB, some OV, several GEF
Conservation	All SG, some OV, RT, FC, and GEF; FC—NRCS project
Nutrition	OV, FC
Credit	Most SG farmers, RT
Rural Development	SG, CNB, OV, RT, IB—mainly VAPG
Research	SG, RT, IB, FC—mainly SARE
Energy	SG, OV, RT
Horticulture and Organic	OV, RT, IB, FC
Crop Insurance	SG, CNB, OV, RT
Labels-USDA Approved	CNB, OV, RT
Food Safety	RT, FC—GAP; CPW—HACCP
Other	CNB—BLM; FC—Farm to School

CNB Country Natural Beef
 CPW Co-op Partners Warehouse
 FC Full Circle
 GEF Good Earth Farms
 HW Homegrown Wisconsin
 IB Idaho's Bounty
 OV Organic Valley
 RT Red Tomato
 SG Shepherd's Grain

BLM Bureau of Land Management
 GAP Good Agricultural Practices
 HACCP Hazard and Critical Control Point Program
 SARE Sustainable Agriculture Research and Education
 VAPG Value-added Producer Grants



Six of the nine businesses mentioned one or more government policies that have caused them problems.



Policies and issues that affect business operations

Respondents were asked several questions about the food and agricultural policies and issues that affect them. The first question was, “In the last five years, have any government policies/programs caused you any problems?” Six of the nine businesses mentioned one or more policies. USDA decisions on genetically modified organisms (GMOs) are problematic for Organic Valley, especially the 2011 deregulation of genetically modified alfalfa. This policy decision is likely to result in cross-pollination with non-GM alfalfa (USDA, 2011). If this occurs, production of organic forage crops will decrease, prices for organic feed will increase and the cost of producing organic milk will rise (GM Watch, 2010). Co-op Partners Warehouse points out that GMO regulations increase the likelihood of genetic contamination of organic crops and of milk.

Shepherd’s Grain farmers have been troubled by changes to Crop Revenue Coverage Insurance. In 2010 the USDA consolidated several crop insurance plans, including several revenue products, into a single crop insurance policy (Shields, 2012). This was expected to simplify the insurance process, but it is not known if these changes had a salutary effect on premium costs. Furthermore, because the Conservation Reserve Program (CRP) has taken so many acres out of production in the region where Shepherd’s Grain operates, founder Karl Kupers believes that input suppliers have moved away because of decreased markets. In 2011-2012, CRP included about 30 million acres of enrolled land across the country. This was 25 percent lower than in 2008, when the farm bill reduced the total acreage cap from 39 million acres to 32 million acres through 2012 (NSAC, 2008a). Some of this land has been put back into production, but probably not enough to entice suppliers to return.

A number of Red Tomato farmers have been hurt by reduced state and federal financial support for Integrated Pest Management (IPM) research and implementation. The National Institute of Food and Agriculture (USDA-NIFA) maintains 10 different pest management programs that support research, grower education, diagnostic labs and other activities (USDA NIFA News, 2012). Of particular importance to farmers in the Northeast, where Red Tomato is located, are the regional IPM centers and grant programs. In their proposed 2012 Farm Bill, the USDA did not include funding for a national coordinator or maintaining the IPM centers. However, both the House and the Senate have maintained funding for most IPM-related items in their budgets.

Some Country Natural Beef ranchers and its packing house have been negatively affected by the Environmental Protection Agency (EPA) Confined Animal Feeding Operation (CAFO) rules. The EPA, which regulates under the Clean Water Act, proposed regulations in 2010 that would require CAFOs to report specific information about their operations to the agency. According to sustainable agriculture activists, the proposed rule, despite producers' complaints, did not require critical information and therefore left huge gaps in the ability of EPA and the states to regulate waste from CAFOs (NSAC, 2011). The rules were issued in early 2012, but in November the agency sought further comments on the nature of the complaints received, the complexity of the rules, and whether there is a continued need for the rules (NSAC 2012).

New or changed policies

When asked about policies they would like to see enacted or changed, six respondents made suggestions. All six said they would like to find a way to reduce the negative effects of the new National Leafy Greens Marketing Agreement on small producers; Idaho's Bounty and Co-op Partners Warehouse said in different ways that the Agreement will hurt smaller producers' businesses and pose a severe financial burden to them. In January 2013, the FDA released two draft rules that mandate produce safety standards required by the Food Safety Modernization Act of 2010 (FDA 2013). After a comment period which ends in July 2013, FDA will release final regulations that may or may not fully implement Congress's desire for exemptions for small producers.


With regard to other policies, Shepherd's Grain believes that the food safety regulations for Farm to School should be eased to increase the likelihood of farmers participating. They also said that regional food systems should have higher priority at USDA. Country Natural Beef reported that changes at the Grain Inspection, Packers and Stockyards Administration (GIPSA) will be difficult for them and would like an exemption written into the legislation to protect their enterprise and others like them. Organic Valley voiced that conventional milk marketing orders don't work well for them and should be changed. Red Tomato would like to see more support for specialty crop innovation and research (for example, stink bug prevention) and, like Shepherd's Grain, feels that more support for regional food systems is warranted. Good Earth Farms and Co-op Partners Warehouse would like more support for small-scale farmers reflected in regulations on the state inspection of meat.

Despite the desire for changes that would benefit them, few of these enterprises engage in policy change efforts; this group offered a continuum of philosophies on the topic. Shepherd's Grain wants market—not government—driven grain markets, but many of




Photo credit: D. Stalford

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Given the wide array of government and private programs available to the nine enterprises ... we judge their program usage and policy engagement to be quite limited.



its members utilize programs that are available to them, and as a whole they use more federal programs than any other business. Red Tomato does not engage in policy efforts because of a lack of time and because it does not think such efforts are efficacious. Organic Valley chooses to work on some Farm Bill issues, mainly with outside coalitions, and Idaho's Bounty is peripherally engaged in policy advocacy efforts with other groups. Co-op Partners Warehouse engages in some issues that affect cooperatives, as well as organics and Resource Conservation and Development Associations (RC&Ds).

Given the wide array of government and private programs available to the nine enterprises at the federal, state, and local levels, we judge their program usage and policy engagement to be quite limited. In some cases this is a planned choice. At the other end of the spectrum is Full Circle, which has taken advantage of multiple programs at all levels. We know that programs aren't used, or policies not challenged, for many reasons. People don't know about them; they think that application forms or rules and regulations are too difficult to fill out or understand; or they tried once to change a policy and weren't successful so they gave up and won't try again. In a 2010 survey of values-based supply chains in the Northeast, approximately a third of the interviewees reported that they had no policy or regulatory problems. Seven interviewees reported that policy issues were "nothing they couldn't or didn't handle" or expected in the course of doing business. Among the possible explanations for this are that: a) they really do not face any regulatory or other policy challenges; b) they don't perceive problems or opportunities as policy-based; c) they have not encountered a particular barrier—yet; d) they deal with policy/regulatory matters but do not perceive/report them as problematic; or e) they don't have time to place what they consider "policy work" on their radar screens (Clancy and Ruhf 2010).

Federal program potentials for midsize operations

Based on a thorough review of the Code of Federal Regulations for USDA (CFR 7) and conversations with several USDA personnel with knowledge of AOTM, I believe that there are many programs that could bolster midsize farms, processors, and distributors. Some key resources are listed in Appendix B on page 14. Below are brief descriptions of four such programs.

The **Business and Industry (B&I) Guaranteed Loan Program**, administered by the Rural Development, Business and Cooperative programs in the USDA Rural Development agency, is one example of a program that provides financing support for businesses as well as non-profit and community organizations in rural areas. B&I loans must be utilized for projects that meet certain criteria, such as

improving economic or environmental conditions in the community, or increasing use of renewable energy (Hand and Clancy, 2014). B&I loans may fit well with food enterprises that emphasize locally or regionally produced food as part of a sustainable agriculture initiative. The program is unique in that it specifically defines the concept of “local or regional foods” for the purpose of providing financing to local and regional food projects, and sets aside five percent of funds for enterprises that are engaged in local food supply chains.³ Loan recipients who sell through retail and institutional outlets are required (through agreements with the retail and institutional buyers) to inform customers that the food is locally or regionally produced. This unique clause essentially mandates, for the purpose of a portion of loan funding, that the products are distributed in local or regional food supply chains where information about product origin is conveyed to consumers.

A key characteristic of the B&I loan program is that it is primarily designed to support enterprises in rural areas. It is possible to fund a B&I loan in a low-income, underserved urban community that has limited access to healthy food as long as the beneficiaries are rural co-ops or farmers. In February 2012, USDA announced a reduced guarantee fee on loans to any business that supports value-added agriculture and benefits farmers financially, but not more than 12 percent of apportioned guarantee authority is subject to reduced fee guarantees (Federal Register, 2012).

The case studies presented in this report and those published by King et al. (2010) provide evidence that both rural- and urban-based businesses in local or regional food supply chains can succeed. Several of the enterprises in the supply chain case studies are located in rural areas and would likely satisfy both the “rural” and “local” definitions in the B&I loan program. Yet urban linkages may also be a key success factor. All of the supply chain cases presented here and in King et al. have significant economic linkages to enterprises based in urban areas and rely on access to larger urban markets.

A second program deserving of more attention is the **Specialty Crops Block Grant (SCBG) Program** managed by the USDA Agricultural Marketing Service (AMS). State departments of agriculture can apply annually for grants supporting projects that enhance the competitiveness of the specialty crop industry (fruits, vegetables, tree nuts, dried fruits, and horticulture and nursery crops). In 2012 the total amount available was \$55 million divided among all states



Photo credit: Organic Valley

The Business and Industry Guaranteed Loan Program provides financing support for businesses, and non-profit and community organizations in rural areas.

³See 7 U.S.C. 1932(g) (9): “The term ‘locally or regionally produced agricultural food product’ means any agricultural food product that is raised, produced, and distributed in, (I) the locality or region in which the final product is marketed, so that the total distance that the product is transported is less than 400 miles from the origin of the product; or (II) the State in which the product is produced.” The program also gives priority to enterprises serving underserved communities with low access to fresh fruits and vegetables and high rates of food insecurity.

and U.S. territories. The grants support many types of initiatives that meet industry needs such as increased consumption, improved efficiencies in distribution systems and establishment of local and regional fresh food systems. For example, from 2006 to 2011 New York State distributed almost \$3.6 million in Specialty Crop Block Grants: 57 percent for research, grower education, and production related issues, 32 percent for marketing and promotion and 11 percent for food safety (NSAC 2008b; USDA 2012).

A third opportunity lies in the **Agricultural Marketing Service (AMS) commodity procurement policy** for school lunch and other food and nutrition assistance programs. Under this policy, certain food categories are designated as set-asides for small businesses (which are defined by the Small Business Administration as having fewer than 500 or 1,000 employees, depending on the food product). Most ground beef, fruits and vegetables, as well as some poultry and egg products, are purchased through these set-asides. There are multiple requirements for an enterprise to establish itself as an approved vendor, but this policy potentially creates a market for midsized farms' larger production volumes (USDA AMS, 2012).

The final program is the **Small Business Innovation Research (SBIR)** grant program, which is part of the USDA National Institute of Food and Agriculture (NIFA) suite of grants. In 2012 \$19 million were available, with individual awards capped at \$100,000. The SBIR program seeks to help small businesses explore and commercialize innovative technologies. Grant applications are accepted on multiple topics including small and midsized farms. However, most of the applications have come from biofuel researchers. Because funds are awarded on a proportional basis to the number of applications within a topic area, few grants have been made to small businesses within food supply chains (USDA NIFA, 2012).

USDA offers several other useful programs. One is the **Community Facility Grants** that assist in the development of essential community facilities in small rural towns (up to 20,000 people). Funds can be used to construct, enlarge or improve community facilities for health care, public safety and community and public services, including food-related enterprises (USDA Rural Development, 2012). A second is the **Sustainable Communities Regional Planning Grants**, a program of Housing and Urban Development in partnership with the Department of Transportation, EPA and USDA. These substantial grants support metropolitan and multijurisdictional systems planning efforts that address economic competition, social equity, energy and climate change, and public health. They place a priority on nontraditional partnerships, including those with groups doing food systems work (US HUD, 2012).

Policy research agenda

A 2010 report on priority research areas in agriculture of the middle (Clancy and Lehrer, 2010) included 18 high priority ideas (winnowed from 125) from 50 food and agriculture researchers around the country. The high-priority list includes five policy-oriented ideas:

- Study factors, such as policy and values, influencing the ecosystem services for mid-sized farms
- Examine how federal and state policy can encourage the transition of more mid-sized farms to organic production
- Assess policies that influence the profitability of different size farms producing different commodities
- Determine how existing policies can be aggregated in a way to support values-based supply chain development
- Conduct a national study on the differences in county permitting/licensing processes that affect small and mid-scale production and processing

This list is a small sample of policy-focused research that could benefit supply chain participants, supporters of mid-sized farms and values-based supply chains, and policymakers. Some other research ideas include:

- Study the types of new markets in which mid-sized farms are having the most success and factors, including policy, that are contributing to this success
- Examine the financial mechanisms presently used to support values-based food supply chains, and how to enhance federal, state, and private financial resources that are available to them
- Identify the most useful differentiators for AOTM producers and products, and relevant certification mechanisms

The USDA-NIFA Agriculture and Food Research Initiative (AFRI) and USDA SARE programs represent important sources of research funding. Although AFRI funds overall have been increased through appropriations, certain AFRI programs are losing funding due to other cuts in USDA budgets. SARE funding for FY 2013 is almost eight percent lower than it was in 2012 (NSAC, 2013).



**The USDA-NIFA
Agriculture and
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funding.**





Photo credit: Shepherd's Grain

Efforts by values-based food supply chain entrepreneurs and their advocates have increased economic growth and opportunities for midscale farms. New policies and programs can benefit these farms as well.

Conclusion

Midscale farms continue to disappear, but strong efforts have been made by values-based food supply chain entrepreneurs and their advocates to increase economic growth and opportunities for these farms while enhancing equity within these chains. New policies and programs at USDA have benefited many enterprises, including the ones described in this report. Some of the many other policy activities that could aid in the growth of values-based food supply chains include a review of policy options for technical, financial and other assistance. Similarly, a national assessment of policies that effectively influence the profitability of farms of different sizes producing various commodities would also contribute to this effort. There is a clear need to expand resources to train the new farmers who will produce within these values-based food supply chains. There is also need for a review of risk management instruments used by farms of the middle and recommendations regarding additional options that will improve their resilience. Finally, it would be useful to include language in all relevant Rural Development programs allowing rural areas to be linked with urban markets.

Of course, the case studies of a small number of midscale businesses presented here are not representative of all. The enterprises studied here provide examples of different farm sectors, and are eligible for and utilize a variety of different programs. It does seem that use of the four programs described here, and many others, would be advantageous to all these businesses.

Agricultural policies are more likely to be expanded and improved if supply chain members engage in the policy process and voice their needs to Congress, state legislatures and town councils. The present situation in Congress of draconian cuts to some of the programs that most benefit midsized farmers and their supply chain partners is making the process more frustrating, and calls for farmers to place even more pressure on their representatives to support these programs.

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Appendix A: Policy questions for AOTM case study principals

1. Please describe the members of your supply chain starting with farmers and ranchers and going through retail
2. I'm going to read a list of a number of federal farm and food program categories (Farm Bill titles) and ask you to tell me if you have utilized any of them (list is below). Probe on individual program use
3. Are there state programs you have used? Categories include things like farmland protection, agricultural development grants, tax relief, and state purchase preference
4. Are there local programs you have used? Similar to categories under state programs
- 5a. Are there programs offered by the private sector in your area? By wholesalers or retailers?
- 5b. Have any of the other entities in your supply chain utilized any of these programs?
6. In the last five years are there government policies that have caused you any problems? Been a barrier to something you wanted to do?
7. Have you or organizations you belong to engaged in any policy change efforts at any level? What was the outcome?
8. Are there policies that you would like to see enacted or changed? What are they and why should they be?
9. Other comments

List of federal programs

Commodity (direct, countercyclical, MAP, ACRE)

Conservation (CRP, CREP, WRP, GRP, FPP) and (EQIP, CSP, AMA, WHIP)

Nutrition (fruits and vegetables to schools, WIC and Senior FMPs)

Credit (direct owner operator loans, land loans, conservation loan guarantee, beginning)

Rural development (VAPG, RMAP, B and I loans, RBOG, ATTRA)

Research (participation in SARE or competitive grants like AFRI)

Energy (bioenergy, bio-based products)

Horticulture and organic (specialty crop block grants, pest prevention, FMPP, DOD fruit and vegetable purchase, organic cost share)

Livestock (meat inspection)

Crop insurance (regular, AGR, NAP, SURE, disaster assistance)

Labeling (USDA preapproval)

Food Safety

Other than USDA (transportation, tax, Department of Commerce)

Appendix B: Key resources

National Ag Library portal to training, financing, technical assistance and other support services specifically for beginning farmers and ranchers: <www.nal.usda.gov/afsic/pubs/agnic/susagfunding.shtml> and also: <afsic.nal.usda.gov/farms-and-community/beginningnew-farmers>

NSAC Guide to USDA Funding for Local and Regional Food Systems: <sustainableagriculture.net/wp-content/uploads/2010/05/NSAC_FoodSystemsFundingGuide_FirstEdition_4_2010.pdf>

NSAC Grassroots Guide to the 2008 Farm Bill, Building Sustainable Farms, Ranches and Communities: <sustainableagriculture.net/publications/grassrootsguide>

Building Sustainable Farms, Ranches and Communities: <attra.ncat.org/guide>

USDA Programs and Services: <www.usda.gov/wps/portal/usda/usdahome?navid=PROGRAM_AND_SERVICE>

USDA Food and Nutrition Service Resource Library: <teamnutrition.usda.gov/resources/foodbuyingguide.html>

Center for Rural Affairs Guides to Government Programs for Farmers and Ranchers: <www.cfra.org/renewrural/governmentprograms>

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Organizations involved with this report:

The National Initiative on Agriculture of the Middle is concerned with a disappearing sector of midscale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www.agofthemiddle.org. The initiative has three areas of emphasis: new business and marketing strategies; public policy changes; and research and education support.

The Center for Integrated Agricultural Systems (CIAS) is a research center for sustainable agriculture in the College of Agricultural and Life Sciences, University of Wisconsin-Madison. CIAS fosters multidisciplinary inquiry and supports a range of research, curriculum and program development projects. It brings together university faculty, farmers, policy makers and others to study relationships between farming practices, farm profitability, the environment and rural vitality. For more information, visit www.cias.wisc.edu or call 608-262-5200.

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