

The dawn of a new era in collective pricing, marketing and inventory by and for North America's organic farmers.

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OFARM's Target Prices Achieve Fair Market Value

By Oren Holle, OFARM president

You will find in the mid-section of this newsletter, OFARM's Target Price Lists for organic grains and livestock.

Establishing Target Price's was not a new idea on the part of OFARM. The Organic Farmers of Michigan, one of our founding marketing groups, had been using it successfully for some time. Randy Hampshire, an OFM board member at the time, gave a brief and very logical reason for using it, "At least we are going to the market together with a price in mind."

Farmers, in general, have long been at a disadvantage in having any role in the pricing of their products. Asking potential purchasers, "What's the market today?" "How much are you paying?" or more literally, "What will you give me?" is firmly entrenched in the agricultural market. It becomes a new challenge for producers to even consider a new paradigm where they may be able to have a voice in that process.

Providing an opportunity for viable producer input in establishing pricing parameters is really what the Target Price List concept within OFARM is all about.

The process is really quite simple. Several times a year, and more often if appropriate, organic producers, together with OFARM Marketers, gather around the table to come to consensus about what price levels should be and producers then make a decision to propose Target Price levels as a guideline for pricing parameters.

In that process the concept of parity has been discussed and may provide some insight to price levels compared to other factors in our economy and should well be considered. Cost of production plus a profit is another approach and is a necessary consideration. Getting your average price to the top end of the market range is another reasonable objective.

The obvious goal, of course, is to determine and achieve Target Prices that will provide a fair market value that is profitable and sustainable. The factors considered by producers are real production costs, return to labor and management, return to investment, and organic premiums. Farming practices which address environmental and social equity certainly have tangible value and should be compensated in the organic market.

The OFARM marketers who represent producers in the organic market every day bring their perspective of the market as it reacts to the many

"At least we're going to the market together with a price in mind."

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OFARM Mission and Objectives: Relevant to Today's Markets

By John Bobbe, OFARM executive director

"We recognize that, in order to maintain a sustainable management system of [organic] production, the raw food product must move into the food marketing system at a value and volume that is commensurate with the producer investments required to establish and maintain a viable production unit. Market price levels must include a reasonable return for labor, management and financial investment. We further recognize that this value must reflect the costs inherent in maintaining the social and environmental infrastructures of our total food production system for succeeding generations. Therefore, we resolve to unite and stand together for economic justice in the market place." *(Preamble to OFARM's bylaws.)*

OFARM's mission is to coordinate the efforts of producer marketing groups to benefit and sustain organic producers.

Maximizing Returns in the Market Place for Long-term Sustainability

Maximizing returns from each sale to benefit organic producers (both short-term and long-term) is the goal of networking and collectively sharing pricing and marketing information. Other benefits include:

- ◆ Developing reliable inventory information
- ◆ Remaining current on markets and market trends
- ◆ Strengthens your position in the market by eliminating one-on-one negotiations with buyers
- ◆ Developing and monitoring producer friendly contracts
- ◆ Developing and monitoring a list of sound, credit-worthy buyers for OFARM member groups
- ◆ Enhancing opportunities to add new crops and agronomic practices to farm rotations.

OFARM's History: Pricing and Collaboration for Organic Producers

In 1998, organic farm leaders gathered in Ames, Iowa, to discuss collaborating on the need to maintain organic food-grade soybean prices which were then about \$12 per bushel. As the discussions progressed, they began to formulate the idea of producer groups across the industry forming a marketing-agency-in-common to exchange market information for the benefit of farmers.

In February 2001, OFARM officially came into existence, with seven member organizations that had organic producers in 19 states.

The first OFARM newsletter in January 2003 noted, "Organic producers face many of the same challenges and pitfalls as conventional producers, including getting a price for what they sell to cover not just their costs, but returns for their labor, management and family living."

OFARM enables the marketers from each producer cooperative/farmer association to develop and share information over a broad area that is by and for organic producers, not developed by the industry to get you to sell your crop or

livestock.

Sharing Information

Twice a month (or more often as needed), marketers from each OFARM member organization meet via conference call to discuss prices and market trends, contract information, supplies, buyers, weather conditions and inventory management. It gives each member organization's marketer a broad perspective of what is happening in the markets on a day-to-day basis to help provide producers with the best possible information for decision-making on their farms.

The information shared includes strategies to achieve contracts that reflect prices on OFARM's Target Price List.

Can Producers Expect to Keep High Prices or will it be Neighbor Against Neighbor?

Some producers these days expect the good times to roll on forever. This has never happened in conventional agriculture and there is no reason to believe it will in organic agriculture either. It is short-sightedness on the part of producers that has led to marketing price disasters repeatedly throughout history.

This is especially true if producers bring the same mindset to organic marketing that prevails in conventional. Efforts are now being made to tie some organic prices to the Chicago Board of Trade. When is the last time that benefited producers in the long-term?

Will producers work together cooperatively or go it alone?

Midwest Organic Farmers Coop member Dave Campbell in the first OFARM newsletter in 2003, summed up his experience this way when he pointed out that individual marketing is a "...Lone Ranger style of marketing. When you do it that way, some brokers are not so bad to deal with, others are not so good to deal with, you are very much at their mercy. It is very difficult at times. You are just out there, pitted against your friends and neighbors. For this to succeed, we certainly need a cooperative effort in our marketing."

Target Prices: A Logical Place to Start

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and varied influences.

These collective facts and observations serve as the basis for determination of Target Price levels which are used to keep organic producers on the same page as we develop and negotiate contract terms on behalf of our members.

As it was previously stated, "At least we are going to the market together with a price in mind." This just seems like a logical starting place for producers to establish their right to a place at the bargaining table when the price of the food they produce is being negotiated.

A Producer's Perspective

Kevin Englebert, Englebert Farms, Nichols, New York

Kevin and his wife farm with their three sons. Their farm consists of 1200 acres of crops and 120 dairy cows. They were certified organic in 1984.

I've read with a great deal of interest the announcements about meetings, conferences, work shops, etc. that are being held to help organic dairy farmers deal with the high cost of organic grain, as if there is something fundamentally wrong with the way we are farming.. When I first heard last August about organic shelled corn selling for \$500/ton, if you could even find any, I reacted the same way most people did. Namely, with disbelief, and that such a high price is no more sustainable than an extremely low price. After more thought, I eventually came to a different conclusion.

I realized that never before in my lifetime had any agricultural commodity sold for parity price, never. And yet, here I was bemoaning the fact that organic crop producers were indeed receiving parity price for their grains, or higher. I had a sense of disgust come over me, almost to the point of becoming a sense of guilt. Why? Because I., like so many other dairymen, have had it drummed into my head for so long that farmers didn't deserve any type of windfall, that I reacted in the fashion expected. I've always believed that receiving a fair price for your product was one of the tenets of organic agriculture, and instead of expressing gratitude that at least one group of organic farmers was doing so, I instinctively condemned the situation. Not any more.

A speaker at the NOFA-NY winter conference, John Bobbe, OFARM executive director, stated that in agriculture, low prices always bring down high prices. I hope that in organic agriculture a new set of expectations will arise, and high prices will bring up low prices. I think we have reached a turning point in all of agriculture, brought on mainly by the world reaching 'peak oil'. The perfect storm of high oil prices, a burgeoning world economy, the low value of the US dollar, and poor weather have all combined to change the pricing dynamics in all of agriculture, organic included. I don't see any of the variables returning to the old standards, ever. The land devoted to supplying ethanol plants with 'fuel' will continue to do so, even if the 'fuel' changes to crops other than corn. Those multi-million dollar plants weren't built to sit idle.

While everyone points to organic grain prices as the culprit, since they are an easy and visible target, the fact of the matter is, grain prices are a small part of the economic

squeeze facing organic dairymen. Here are conventional milk parity prices for a few key months over the last five years: Jan. '03 \$33.00; Jan. '04 \$34.10; Jan. '05 \$35.10; Jan. '06 \$37.90; Jan. '07 \$38.80; Aug. '07 \$40.50; Dec. '07 \$41.50; Jan. '08 \$43.80.

In five years, the parity price has gone up almost \$11/cwt., and in just one month, almost \$2.50/cwt. Organic grain prices have risen, but they are but a small part of the economic crunch facing organic dairymen, because the USDA parity prices for conventional milk do not take organic grain prices into account. If organic grain prices had any influence on the calculation, parity prices would be even higher. The situation on most organic dairy farms is far more serious than grain prices alone indicate. Parity price represents an unbiased, accurate basis for establishing an organic pay price. The USDA publishes parity prices at the end of every month, and they represent a level of worth that would allow farmers to live like first class citizens, rather than the second, or even third, class people we are now. A true measure of our worth to society should be reflected by us receiving a fair share what consumers spend on organic dairy products. The fact that organic dairy farmers receive a smaller percentage of the consumer dollar than conventional dairy farmers is simply disgraceful. Absolutely disgraceful.

On our farm, we are dealing with high grain prices the same as everyone else; namely, we're feeding less.

Even though we grow our own grain, we still push a pencil and feed as if we had to purchase our supply. So, we feed only 2.5 lbs. of roasted soybeans, and no shelled corn, ear corn, or any other grain to our milking string. Due to the extremely dry weather last year, we had to hire some corn silage chopped to have enough forage, so we're feeding 20-25 lbs. per day to our animals. If parity prices were 'reversed', that is, if organic grain prices were only 50-60 percent of parity and organic milk was at parity or above, we would be feeding more grain, to try to maximize the return on our time and investment. Instead, rather than put grain through our cows, we recognize more profit by selling most of the supply we produced.

Much of the discussion I hear about how to deal with the situation revolves around changes farmers should make in their operations. I would urge everyone to give serious thought before making any major adjustments. While everyone should do their utmost to produce high quality pasture and forage crops, most farms in the Northeast don't have land that lends itself well to grain production, and to fight

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What's Your 2008 Cost of Production?

Mike Williams, PMC Inc., North Bend, Nebraska

I've recently seen the following quotes.

"Projected returns for 2008 are the best that I have seen in 17 years of preparing crop budgets." (Andrew Swenson, NDSU Farm Management Specialist)

"Even with the market at these high levels, you still need to be as efficient as you can be," said Mike Duffy, ISU Ag Economist.

As an independent agronomist working in Iowa, Nebraska, and South Dakota for several decades, I've noted the tools the best farmers use to insure they are in the top third of farms in income achieved yearly. Bigger tractors and faster combines can help, but data gathering and reviewing it is the major tool used by the top third of producers.

You have to figure out how to keep yourself in the top third! Organic farms with smaller acres need to be in the top one-third of producers.

Your costs are important to know when you market your grain and livestock! The old style "by the seat of your pants method," also known as wait till the end of the year and crunch the numbers at tax time is simply too late to get good prices in today's markets. The better way is to know what is happening on your farm as you move to the fields in spring. This is easily done with a little help from tax data analysis. Here in Nebraska, after decades of use, the best farm operations know their costs and use pre-planting contracts for grain and livestock sales before they undertake the effort to grow a crop or raise the livestock. How? The Nebraska Farm Business Inc. (NFBI) (www.nfbi.net) process of tax information analysis and the Minnesota Center for Farm Financial Management (www.cffm.umn.edu) are proven ways to know your cost of production. The 2007 data for Minnesota organic farms will be released shortly. Both programs enable you to compare and contrast your operation to similar producers. They will also help you make projections into 2008.

As an independent agronomist (selling no products and providing crop notes and farm reports weekly) PMC Agronomists has clients who use NFBI on the agronomic side of farming. These farmers make better decisions every time, with the NFBI service. Producers yearly sell at a good profit and often the market high. Producers adjust their livestock sales to maximize profits also.

Projections for the 2008 year shows significantly increased costs needed to grow all crops and livestock. Livestock costs and sales prices are mind numbing. Knowing what is a fair profit goal when you are considering a contract to market what you produce puts you in a position of knowledge. Information is power in the market place. Invariably, harvest time prices are low. Profits are seldom made up in holding grains till summer.

BUT you have to know the cost of production to insure a fair profit is being asked for from your buyer. For example, a goal price for corn in March 2007 was \$6.00+ per bushel. Some operations got \$7-8-9 or more per bushel on corn. What was a fair price? A greedy price? What should the price be in 2008, 2009 and beyond?

A side effect of skyrocketing grain prices for livestock and dairy producers in the feed they buy. The resulting surge in prices drastically reduced purchases by dairy and other livestock producers. Some dairies dramatically reduced feeding corn to less than half of what it was when corn was cheaper. This should be of concern to organic grain producers as to long-term impacts on demand for their grains.

Grain contracts vary widely. You have to know your cost of production. Producers need to be looking forward and to some type of a floor price to insure a profit and that allows them to take advantage of upward market movements.

Everyone knows the cost of inputs has increased this past winter. Using those increased input costs with an

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Tying Organic Prices to World Markets

Many organic producers started down the path to organics as a way to step off the conventional treadmill. Now it appears that some of them have stepped back on by contracting their grain on the basis of prices tied to the Chicago Board of Trade (CBOT).

In a column titled, "Shouting into the hurricane," Alan Guebert recently wrote, "If that sticky, sappy feeling hasn't spilled over you yet, here's an item that may help you gain the glow: On March 17 the CME Group, the now-combined Chicago Mercantile Exchange and Chicago Board of Trade, announce its purchase of NYMEX Holdings, formerly known as the New York Mercantile Exchange."

"That means today's barely functioning cash grain and

livestock markets will soon be getting their price signals from the world's largest for-profit, around-the-clock money, grain, meat and metals futures trading operation."

He goes on to write, "In short, the antitrust, regulatory fix is in, so don't be a sap and inquire if this massive marriage of market-makers is good for actual producers-hedgers—or if this is all about speculators' hot pursuit of cold cash."

Some of these organic producers will now have taken organics to a new low to be at the whims of the world market and speculators.

Guebert writes a weekly column, Farm and Food File which is published by more than 75 newspapers in North America. He lives in Delevan, Ill. Quoted with permission.

OFARM Grain Target Price List

The historical levels represent prices received through ORGANIC COOPERATIVES and ASSOCIATIONS. The target prices represent the levels necessary to sustain a fair return for organic farmers. Because of the continued increased in consumer confidence in organic foods, these prices also reflect the growing need to more effectively move additional acres into organic production. Price ranges reflect carrying charges as well as regional markets.

OFARM February 2008		2006-Crop	2007-Crop	2008-Crop	2009-Crop*	2010-Crop*
Grain	Description	Historical Price	Historical Price	Target Price	Target Price	Target Price
Corn- Food Grd	#1 Yellow	\$5.75 - \$7.25	\$6.79 - \$12.00	\$10.20 - \$12.75	\$10.91 - \$13.64	\$11.68-\$14.60
Feed Grade	#2 Yellow	\$5.50 - \$14.00	\$6.40 - \$12.00	\$9.79 - \$12.24	\$10.48 - \$13.10	\$11.21-\$14.01
Grain Sorghum (Milo)	56# bushel	-	\$6.85 - \$7.80	\$8.68 - \$10.85	\$9.29 - \$11.61	\$9.94-\$12.42
Soybeans -Food Grd	Vinton 81, HP204	\$17.00 - \$19.50	\$19.00 - \$27.00	\$22.85 - \$28.56	\$24.45 - \$30.56	\$26.16 - \$32.70
Food Grade	Iowa Types	\$16.00 - \$17.00	\$17.00 - \$25.50	\$22.03 - \$27.54	\$23.57 - \$29.47	\$25.22 - \$31.53
Food Grade	Clear Hylum	\$15.30 - \$16.80	\$16.00 - \$25.00	\$21.22 - \$26.52	\$22.70 - \$28.38	\$24.29 - \$30.36
Feed Grade	#2 or Screenings	\$12.00 - \$15.00	\$14.50 - \$22.00	\$19.58 - \$24.48	\$20.95 - \$26.19	\$22.42 - \$28.03
Barley-Milling Grd	48# Bushel	\$4.73 - \$5.25	\$6.50 - \$8.00	\$7.60 - \$9.50	\$8.13 - \$10.17	\$8.70 - \$10.88
Feed Grade		\$4.20 - \$5.65	\$6.10 - \$7.85	\$7.60 - \$9.50	\$8.13 - \$10.17	\$8.70 - \$10.88
Wheat-HR Winter	#2 12% Protein	\$6.00 - \$8.00	\$7.50 - \$21.00	\$12.24 - \$15.30	\$13.10 - \$16.37	\$14.01 - \$17.52
SR Winter	#2	\$5.78 - \$6.83	\$7.25 - \$16.00	\$12.24 - \$15.30	\$13.10 - \$16.37	\$14.01 - \$17.52
SW Winter	#2	\$6.50 - \$7.25	\$7.25 - \$16.00	\$12.24 - \$15.30	\$13.10 - \$16.37	\$14.01 - \$17.52
HW Winter	#2 12% Protein	\$8.00 - \$11.25	\$8.00 - \$18.00	\$13.06 - \$16.32	\$13.97 - \$17.46	\$14.95 - \$18.68
HR Spring	#2 14% Protein	\$7.35 - \$9.00	\$8.50 - \$21.00	\$13.87 - \$17.34	\$14.84 - \$18.55	\$15.88 - \$19.85
Low Protein	11% and below	\$5.50 - \$6.00	\$9.00 --\$12.50	\$9.79 - \$12.24	\$10.48 - \$13.10	\$11.21 - \$14.01
Buckwheat	48# Bushel	\$0.15 - \$0.20	\$0.18 - \$0.30	\$0.21 - \$0.31	\$0.23 - \$0.28	\$0.24 - \$0.30
Golden Flax-Food Grd	56# Bushel	\$0.25 - \$0.35	\$0.32 - \$1.20	\$0.82 - \$1.02	\$0.87 - \$1.09	\$0.93 - \$1.17
Brown Flax-Food Grd	56# Bushel	\$0.25 - \$0.35	\$0.26 - \$0.60	\$0.65 - \$0.82	\$0.70 - \$0.87	\$0.75 - \$0.93
Flax Screenings	90% flax	\$0.16 - \$0.22	\$0.17 - \$0.43	\$0.29 - \$0.36	\$0.31 - \$0.38	\$0.33 - \$0.41
Navy Beans	per pound	\$0.42 - \$0.46	\$0.48 - \$0.50	\$0.53 - \$0.66	\$0.57 - \$0.71	\$0.60 - \$0.76
Black Turtle Beans	per pound	\$0.44 - \$0.46	\$0.48 - \$0.52	\$0.53 - \$0.66	\$0.57 - \$0.71	\$0.61 - \$0.76
Pinto Beans	per pound	\$0.45 - \$0.47	\$0.49 - \$0.51	\$0.53 - \$0.66	\$0.57 - \$0.71	\$0.61 - \$0.76
Dk Red Kidney Beans	per pound	\$0.64 - \$0.75	\$0.72 - \$0.83	\$0.73 - \$0.92	\$0.79 - \$0.98	\$0.84 - \$1.05
Spelt-Food Grade	11% Protein	\$0.14 - \$0.20	\$0.16 - \$0.20	\$0.24 - \$0.31	\$0.26 - \$0.33	\$0.28 - \$0.35
Oats-Feed Grade	32# Bushel	\$2.80 - \$3.75	\$3.75 - \$5.25	\$4.08 - \$5.10	\$4.37 - \$5.46	\$4.67 - \$5.84
Oats-Food Grade	38# Bushel	\$3.68 - \$3.94	\$4.00 - \$5.75	\$4.41 - \$5.51	\$4.71 - \$5.90	\$5.05 - \$6.31
Oats-Hulless	45# Bushel	\$0.13 - \$0.15	\$0.19 - \$0.26	\$0.23 - \$0.35	\$0.24 - \$0.37	\$0.26 - \$0.40
Popcorn-Yellow	66# Bushel	\$0.22 - \$0.26	\$0.28 - \$0.35	\$0.37 - \$0.46	\$0.39 - \$0.49	\$0.42 - 0.53
Blue Corn	56# Bushel	\$8.23 - \$10.64	\$8.75 - \$10.25	\$14.69 - \$18.36	\$15.72 - \$19.65	\$16.84 - \$21.02
White Corn	56# Bushel	\$6.16 - \$8.40	\$7.00 - \$10.25	\$10.61 - \$13.26	\$11.35 - \$14.19	\$12.15 - \$15.18
Hay	Per point RFV	\$0.75 - \$1.10	\$0.95 - \$1.28	\$0.98 - \$1.22	\$1.04 - \$1.31	\$1.12 - \$1.40
Field Peas (Feed)	60# Bushel	\$7.00 - \$9.00	\$8.00 - \$10.80	\$11.20 - \$14.00	\$11.98 - \$14.98	\$12.82 - \$16.03

** 2009 and 2010 Target Price ranges were determined by using a conservative 7% production cost increase multiplier.

OFARM Target Prices:

1. The full recovery of all actual production inputs including those unique to the production, storage, handling and marketing of organically grown products.
2. A return to labor and management that provides family income at levels that allow for the full involvement and adequate compensation of all members of this partnership in the operation of an organic production unit. This compensation must extend to education, training and transition to a future generation of organic farmers.
3. Return to investment that provides for the opportunity for the acquisition and ownership of the land and related infrastructure required for organic food production.
4. Income enhancement to provide support for the social and economic viability of the community.
5. Organic premium for production of healthy, wholesome food in an environmentally responsible manner.

OFARM Livestock Target Price List

The historical levels represent prices received for organic livestock. The target prices represent *upward movement* to levels necessary to sustain a fair return for organic farmers. Because of continued increased confidence in organic foods, these prices also reflect the growing need to more effectively increase supplies of organic livestock produced. Price ranges reflect farm gate prices with regional differentials, genetic variations, weights and grades.

Species	Weight in Pounds	Current price/# (2)	September 2008	February 2009	September 2009
Grassfed beef (1)	1,000-1,200	\$1.40 –\$1.65 LW	\$1.65 - \$1.70 LW	\$1.85 - \$1.90 LW	\$2.10-\$2.15 LW
Grain fed beef	1,150-1,300	\$1.22-\$1.80 LW	\$1.55 - \$1.80 LW	\$1.75 - \$1.80 LW	\$2.00 - \$2.05 LW
Feeders	500	\$1.46-\$1.50	\$1.65-\$1.70	\$1.85-\$1.90	\$2.30-\$2.35
Feeders	700	\$1.40-\$1.50	\$1.50 - \$1.65	\$1.70-\$1.85	\$1.95-\$2.10
Market hogs	250-260 72.5% yield	\$1.05-\$1.12 HW \$75-80 cwt. LW	\$1.35 - \$1.40 HW \$98-101 cwt. LW	\$1.50 - \$1.55 HW \$109-112 cwt. LW	\$1.75 - \$1.80 HW \$127-130 cwt. LW
Lambs		To be added later			
Dairy culls	1,200-1,400+ 50% yield	\$1.10-1.15/# HW 50-55 cents LW	\$1.25-1.30/# HW 60-65 cents LW	\$1.45-1.50/# HW 70-75 cents LW	\$1.65-170/# HW 95 cents - \$1 LW
Beef culls	1,050-1,250+ 52% yield	\$1.30-1.40/# HW 65-70 cents LW	\$1.50-1.55/# HW 75-80 cents LW	1.70-\$175/# HW 85-90 cents LW	\$1.95-2/# HW 95 cents - \$1 LW
Dairy Steers	1,050-1,300 57% yield	\$1.24-1.35/# HW 80-90 cents LW	\$1.45-1.50/# HW 80-85 cents LW	\$1.65-170/# HW 80-85 cents LW	\$1.85-1.90/# HW \$1.05- 1.10 LW

LW=Live weight HW=Hot Weight

(1) Grass-fed beef requires 100% beef genetics, *a goal to finish* at 20-24 months and assumes no difference between steers and heifers and fed zero coarse grain. Animals above 1,350# are discouraged.

(2) Assumes deliverable load lots to the nearest certified scale, zero shrink.

OFARM Target Prices include:

1. The full recovery of all actual production inputs including those unique to the production, handling, and marketing of organic livestock.
2. A return to labor and management that provides family income at levels that allow for the full involvement and adequate compensation of all members of this partnership in the operation of an organic production unit. This compensation must extend to the education, training and transition to a future generation of organic farmers.
3. Return to investment that provides for the acquisition and ownership of the land and related infrastructure required for organic food production.
4. Income enhancement to provide for support for the social and economic viability of the community.
5. Organic premium for production of healthy, wholesome food in an environmentally responsible manner.

Cost of Production '08: Profitability Analysis is Key

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analysis of last year's cost of production provides very accurate information to use when considering a contract. The example below of corn production costs in Nebraska projected for 2008 is based on input cost increases and normal cost escalators.

Producers have enjoyed parity plus prices this past summer thru now. Grain prices are now trending level or slightly lower. Projections of poor weather, cold spring and drought stresses this summer are on the coffee table talk circuit. But the markets could also head south, if producers don't take steps to help themselves through proven cooperative marketing programs.

Doing a profitability analysis with your data makes a huge difference in what can be done to insure profits to put you in the top third of all producers.

Take the time to analyze developments with your farm advisor or OFARM marketer, and then make the effort to apply this on your farm. Not all farmers are detail oriented. Transforming a bottom third or marginal profit farming operation to be a profitable operation takes skills and planning, especially market planning. Organic farmers are highly trained to know what is happening in their fields. The

decision to use the best advisors to make better choices when it comes to analysis will make you more profitable especially when it comes to marketing decisions. Making the paper data perform for you in marketing the crop happens with the use of tracking 2008's inputs combined with last year's information. You can become a top third leader but it takes planning. As Zig Zigler say's: I'll see you at the top.

The 2008 estimate of cost of production of a bushel on a dry land acre producing 100 bushels of corn is between \$7.45 and \$8.37. This price range varies across six locations in Nebraska. This cost of production is an average based on 2007 actual costs and 2008 estimated increased costs. If you add in necessary returns for family living which is shown to be \$54,000-\$60,000 per household, the actual cost of production comes within the ranges of the OFARM Target prices in this newsletter.

Participation in a cost analysis for your farm along with a marketing plan will help to insure maintaining organic profitability in 2008 and beyond. On the back page of this newsletter are the contacts for the OFARM member organizations to assist you in developing a marketing plan or call the PMC offices at 866-550-7629 to find a local advisor.

OFARM: The difference in your marketing game plan

OFARM is dedicated to provide the network that gives group marketing, collective bargaining, and fair price negotiation the opportunity to be successful. Producers have a choice. They can sit on the sidelines and watch things happen to their market or they can chose to become involved and be a part of making things happen.

OFARM and its member marketing groups offer organic producers the opportunity to take control of their own destinies when it comes to dealing with the issues of globalization and corporate influence in the organic

market.

Organic producers should not feel the need to apologize for profitable prices levels for producing healthy and wholesome feed and food. Much of what is wrong with the food production system of the conventional world is the result of skewed economic principles and failed band aid type programs which did little or nothing to protect the economic viability of our food production system. Surely we want a better approach in the organic market.

The Target Price Document: OFARM's Approach to Parity Commerce

By Carmen Ferholz, OFARM vice president

All raw materials, through their price structure, and volume, determine the amount of reciprocal markets within the annual production cycle, the price and value of all finished goods and services, the price of skilled labor, and ultimately the nation's standard of living.

– *THE NATURE OF WEALTH*, by Fred Lundgren and Jerome Friemel, 1994

With the growing perception that organic grain prices have now become a matter of greed rather than rationality, it is perhaps time to weigh in on the discussion and present some perspectives that never seem to make it onto the agendas at the local café or other social gatherings of farmers, processors, retailers or consumers.

As farmers, the ends of our driveways tend to be as far as we relate in terms of how the wealth we generate impacts or touches others. I think the generic phrase is “cost of production.” These balance sheet calculations generally include variable and fixed input costs; depreciation on equipment, buildings, and land improvements; and some return on labor and management. They may or may not include cost of living items like health care, family living and education because many farmers and/or their spouses have jobs off the farm to provide these living expenses; in fact, in many instances, needing this outside income to survive.

Beyond providing wholesome food to a consuming public, it continues to become ever more apparent that once farmers and economists resolve the usual cost of production managerial decisions, many appear to forsake a broader attentiveness to the economic system in which our society exists and functions; a system of roads and transportation, a health and education system, a public safety system, a parks and recreation system, a church, mosque and synagogue system for freedom to worship.

The income generated from the labor and production of our farms, however, carries with it responsibilities well beyond keeping our tractors running, our land costs covered, or our equipment in operating condition. If we think of cost of production only in terms of output productivity we are resigning ourselves to eventual extinction. Cost of production is about creating opportunities for new and additional participants in agriculture, about protection and enhancement of the environment, about maintaining and growing an infrastructure of commerce.

In discussing cost of production as it relates to a market price for grains, livestock and dairy, we need to remind ourselves that in a free-enterprise commerce there is no homeostasis. A state of equilibrium is nonexistent in today's agriculture economy. Major repositionings, displacements, transformations, and qualitative changes in market demands initiated by weather impacts, global politics and corporate mergers assure us of an incessant kaleidoscopic instability across the economic topography. Prices for goods and services be they raw, processed or manufactured products will move according to the psychological, environmental or economic pressure exerted on them. The price will move up or down. It will never remain static.

Furthermore, in any business, when margin is squeezed input cost line items of labor, materials or equipment become restricted. In the process of reducing or eliminating any of these items more often than not environmental impacts, social programs, educational budgets, physical infrastructures, or health care become the costs relegated to a ledger outside the purview of economic efficiency. The fall out of such actions either harmful or beneficial, are often

times borne by those directly engaged in the cross fire of production costs and market share.

A recent study by The Access Projects defines a case and point. According to a report released by The Access Project, a nonprofit resource center based in Boston, Massachusetts:

Not only is health insurance failing to protect farm and ranch families from financial risk, but it's directly contributing to their financial problems, The individual/private market is not providing the basic benefits that health insurance is supposed to, and the premium costs impose a hardship even when families are healthy.

– *Jeffrey Prottas, a Brandeis University professor and co-author of How Farmers and Ranchers Get Health Insurance and What They Spend.*

Cheryl Tevis, Successful Farming Magazine farm issues editor, 12/19/2007

In agriculture these externalities also play out in the form of the aging farmer, mounting economic entry hurdles for new farmers, loss of or consolidation of schools, shrinking rural populations and the exit of nonfarm businesses from rural counties and communities.

The simple fact is that if farmers as integral participants in a sustainable society concede to other entities in their society the responsibility of adequately valuing and pricing agricultural production, these farmers render themselves increasingly dependent on others to determine their destinies and their futures as well as the destinies and futures of many others in their society who are impacted by quality of life issues and environmental degradation, pared social programs, reduced educational budgets and ever more unaffordable health care costs.

In reality then, farmers, through inaction, allow other commerce entities to define costs of production by not expanding understanding, appreciation and implementation of what is meant by a more responsible approach to cost of production. This inaction allows the concentration of power and wealth into fewer and fewer hands. Through inaction farmers default to those who will thus determine their futures and the power of a democracy even as they determine freedoms as defined by power in the market place.

Ultimately, we are speaking about a values shift when we expand our concept and definition of cost of production. It may appear that we are rationalizing at the expense of others. In reality, consenting to and understanding a more inclusive meaning of cost of production is the first in a series of actions required to level the playing field across the economic spectrum of a sustainably functioning society.

Producer Perspective: Fair Price is Still the Solution

Continued from page 3

to grow crops where they aren't suited usually leads to trouble. Growing grains requires a lot of time, investment in machinery, many purchased inputs, enough storage facilities to hold a year round supply, and detailed planning, even for small grains. Most farmers who concentrate on their cows will suffer if they start expending a lot of effort to grow grain. Milking times will become more shuffled, herd health may not be tended to as well as in the past, family activities will lessen, and stress levels will rise. There are many factors to growing grain that are easy to overlook and hard to put into an equation. Breeding animals that require less grain takes time, and may result in a reduced cash flow situation, unless more are milked. In short, growing grain may make many family farms unsustainable in terms of finances, soils, and / or family life, which usually plays a large role in determining whether the next generation takes over the family farm.

The problem then comes back to the same old story - dairy farmers are not receiving enough money for their efforts. The best, long term solution remains receiving a fair price for our organic milk. The price wars going on are a result of the milk companies still not understanding the organic consumer. Some are losing market share, and in the conventional world the standby answer to that problem has always been to lower prices. Most consumers of conventional dairy are looking for the lowest cost products, and don't have a great deal of brand loyalty. As a general rule, organic consumers do not follow that mindset, especially as they learn more about organic agriculture. The truth continues to spread about companies who 'talk-the-talk', but do

not 'walk-the-walk', and when organic consumers learn the truth, they switch brands and do not return, no matter how low the price. In fact, lowering the retail price during times such as these actually may have the opposite effect. Organic consumers begin to wonder why such a huge difference in selling price, and when they find out they've been 'had', they change brands, permanently. So, even though lowering the retail price may bring on customers new to organics, they will eventually leave that brand. If they feel too betrayed, they may even go back to conventional milk, or an 'all natural' brand.

So, what the present situation all boils down to has been stated before: the organic milk market cannot develop properly when fraudulent, illegal milk is allowed to be marketed as organic. The corruption at the upper levels of the USDA has resulted directly in hardship for organic dairy farmers who follow the letter, and the intent, of the Rule. If the courts take the correct action, "organic" feedlot operations will be closed down, and the organic milk supply can once again develop in the proper fashion. If the courts are also corrupt, and thereby fail to protect the citizens, then in all likelihood, we will begin making plans to exit the business of commercial organic milk production. Organic agriculture, to fulfill its promise to all who have placed their trust in its ideals, must follow a different model than conventional agriculture, not only in how food is produced, but also in how farmers are compensated for their time, effort, and investment.

Editor's Note: These comments were written as an organic dairy farmer, not as a member of the NOSB. Nothing should be construed to represent the NOSB, the NOP, nor the USDA in any way, shape, form, or manner.

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