



June 8, 2010

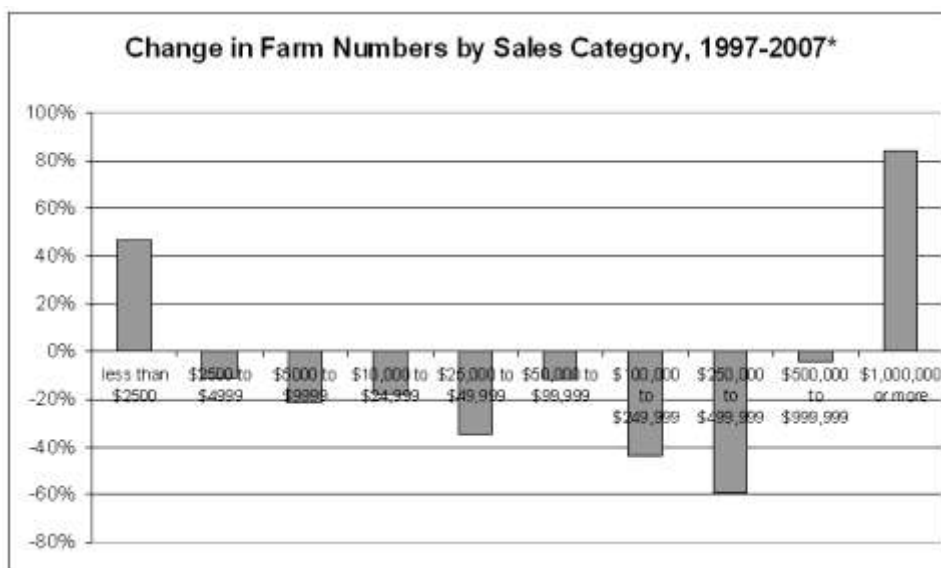
### Agriculture of the Middle:

### New Strategies to Support America's Mid-sized Family Farmers

## Background and Policy Recommendations

### The Challenge

In recent decades, mid-sized farms and ranches which rely on farming as a main source of income have been severely challenged. Often too small to compete easily in international agricultural commodity markets, they are nonetheless not always well-positioned to market directly to local consumers. While the number of very small and very large farms and ranches has increased, mid-sized family farms continue to disappear. Arguably the backbone of many of America's rural communities and a significant local economic engine, this loss of mid-sized family farms has a detrimental impact that extends well beyond the farm.



\*Source: USDA 2007 Census of Agriculture; adjusted for farm price inflation

### The Opportunity

At the same time, however, there is a growing demand for high-quality, differentiated food products which incorporate social, cultural, environmental, and health-related values. This demand is driven by consumers who are concerned with the freshness and nutritional content of their food, and who prefer to purchase food that has been grown on identifiable family-scale farms or ranches; by public health professionals who are speaking out about the need to address a spectrum of food and diet-related concerns from obesity to food-borne illness; by a growing domestic "fair trade" movement, which emphasizes social justice and environmental aspects of the farm and food system; and by progressive leaders in sizeable food corporations who are recognizing the confluence of their interests with the maintenance and regeneration of mid-sized family farms.



## Strategies

Mid-sized farmers and producers have the capacity and the flexibility to partner with each other and with other parties in the supply chain to respond to these expanding markets for significant volumes of high-quality, differentiated food products. Forward-thinking producers and agri-food entrepreneurs have already begun to capitalize on these opportunities to create new private sector models that are increasing returns to producers so that farmers can continue to farm and more often than not create new jobs and income.

One increasingly successful model is the **values-based supply chain**: strategic alliances between midsize farms/ranches and other supply chain partners that deal in significant volumes of high-quality differentiated food products and distribute rewards equitably across the supply chain. Farmers and ranchers are treated as strategic partners, not as interchangeable (and exploitable) input suppliers. All partners in these business alliances recognize that creating maximum value for the product depends on significant interdependence, collaboration, and mutual support.

In food value chains farmers/ranchers:

- Are able to negotiate prices based on acceptable profit margins above their production costs;
- Have fair contracts and agreements for appropriate time frames;
- Own and/or control their own brand identity as far up the supply chain as they choose; and
- Participate fully in the development and mechanisms to communicate concerns, resolve conflicts, and alter directions within the value chain.

## Policy Recommendations

There are also some immediate opportunities to affect legislation, funding, and program implementation that will support the development of new business models like values-based supply chains and have a significant effect on mid-size farmers and ranchers.

- Changes to the **Value-Added Producer Grant Program (VAPG)** in the 2008 Farm Bill hold much promise for farms in the middle. VAPG offers competitive grants to farmers and ranchers developing new farm and food-related businesses. The 2008 Farm Bill included a special emphasis on strengthening the profitability and competitiveness of medium sized family farmers marketing food as “locally produced.” The Farm Bill also set aside 10 percent of VAPG funding specifically for the development of mid-tier value chains. VAPG can provide the working capital to help mid-sized farms produce for and capture these new market opportunities. We are urging Congress to fund VAPG at \$30 million for fiscal year 2011. Every dollar committed will contribute to a boost in farm income, job creation, and an increase rural economic opportunity.
- The 2008 Farm Bill revised the USDA’s existing **Business and Industry Loan program** to explicitly make local and regional food enterprises eligible for B&I loans and loan guarantees. The Bill also reserves at least 5 percent of B&I funding each year for enterprises that process, distribute, and market foods produced either in-state or transported less than 400 miles from the farm where it was produced. The B&I loan guarantees present a tremendous opportunity for mid-sized farmers to build up necessary infrastructure for value-added production. If the program is to be effective, however, USDA must simplify the application process to make it accessible to farmers and farmer groups, do more outreach and education to promote the program, and work to educate lenders on the benefits of making these types of loans.



- **Farm Service Agency lending programs** need to broaden their outreach and lending portfolio to include more mid size farms producing for local and regional markets, for the organic market, and for a wide variety of value-added, differentiated product markets. More often than not, public and private lenders, accustomed to traditional commodity markets, balk at lending to the producers whose focus is on new markets. Lending decisions need to reflect the real world price and income opportunities available to these producers. Farms in the middle, in particular, can produce at a scale which is attractive to institutional and wholesale markets and value based supply chains. To better serve these farms FSA staff, from the federal level to staff on the ground, need a better understanding of these new value-added products and markets. In addition, USDA should act aggressively to develop crop insurance and disaster programs that compensate farmers at their documented price, reflecting the specialty markets that farmers produce for and customers demand.
- The **Sustainable Agriculture Research and Education program (SARE)** has provided crucial support to farms in the middle. SARE grants have supported the development of new and value added products, new crop varieties, new marketing systems, and other strategies to make midsized farmers more profitable. SARE research has led to the creation of a host of new market opportunities that can help farms in the middle compete and thrive. SARE funds are always oversubscribed. It's time to fund SARE at a level of \$30 million for 2011 and continue to build toward its full \$60 million authorization over the following two years. Always on the cutting edge, SARE integrated research and extension projects will create the farming systems of the future – farms that are resilient, resource conscious and profitable.
- The **Prosperity of Small and Medium-Sized Farms and Rural Communities** program within the Agriculture and Food Research Initiative (AFRI) is directed in part to new research to examine the entire production, processing, and marketing systems to enhance the long-term viability, competitiveness, and efficiency of small and medium-sized farms and to increase the value of agricultural products sold per farm by small and medium-sized farms through local and regional partnerships, entrepreneurial networks, value-added processing, and environmental sustainability. Despite a very significant increase in overall AFRI funding in 2010, the funding level for this program remained constant. We urge the Administration to boost funding starting with the next cycle.
- The **Environmental Quality Incentives Program** has offered a number of important assists to farms in the middle. The *Hoop House pilot project* available to growers in 42 states in 2010 provides cost share for seasonal high tunnels. High tunnels support conservation while allowing growers to extend the production season for local foods, simultaneously boosting farm income and the availability of fresh and healthy food for consumers. The EQIP *Organic Initiative* provides assistance for organic transition and conservation systems for organic production. The **Conservation Stewardship Program** provides annual, ongoing support for comprehensive conservation to address local priority resource concerns through active management of both existing and newly adopted conservation activities. While relevant to all types of farms, CSP is particularly important for mid-scale farms marketing their environmental values. Unfortunately, the Obama Administration proposes to cut nearly \$1 billion from farm bill conservation programs, including EQIP and CSP, in 2011. NSAC is urging Congress to reject these proposed cuts.



- Midsized farms are well positioned to capture the expanding institutional food service market interested in local and regional procurement. **Child Nutrition Act reauthorization** should include \$50 million in mandatory funding for the **Farm to School Program**. If funded, the program would offer competitive grants to schools, producer groups, or non-profit organizations to develop purchasing relationships with local farmers, plan seasonal menus, start school gardens, develop hands-on nutrition education, and provide solutions to infrastructure problems including storage, transportation, food preparation, and technical training.

While there is mounting demand and pressure on school districts to purchase local food, currently there's a lack of technical expertise and appropriate equipment to get product from the farm to the school efficiently. USDA's **Farm to School tactical teams** should be looking not only at the end points of producers and schools, but also at the missing piece in the middle -- the aggregation, processing, and distribution infrastructure.

- **Food safety legislation** currently winding its way through Congress is likely to impact farms that even minimally process their crops and sell them to restaurants, food coops, groceries, schools and wholesalers. Food safety regulation reform, while long overdue, must not erect unnecessary or disproportionately burdensome barriers to these important new markets for mid-sized farms. Regulation should be risk-based and focused on processing activities that present a high risk of causing food borne pathogens. The legislation should authorize a USDA competitive grants program to support food safety training programs for farmers and small local processors, with an appropriation to follow for next fiscal year.

## References and Resources

- Background information from G.W. Stevenson, University of Wisconsin, Madison, prepared originally for USDA webinar on Agriculture of the Middle, March 25, 2010, see: [www.nifa.usda.gov/nea/ag\\_systems/in\\_focus/smallfarms\\_if\\_family\\_farm\\_forum.html](http://www.nifa.usda.gov/nea/ag_systems/in_focus/smallfarms_if_family_farm_forum.html)
- For comparative case studies of four successful direct-to-wholesale food value chains (Country Natural Beef, Shepherd's Grain, Organic Valley, and Red Tomato), see: [www.agofthemiddle.org](http://www.agofthemiddle.org).
- For a fully-referenced analysis of mid-scale, values-based food supply chains, see G. Stevenson & R. Pirog. 2008. Chapter Seven in T. Lyson, G. Stevenson, and R. Welsh, eds., *Food and the Mid-Level Farm: Renewing an Agriculture-of-the-Middle*. MIT Press, Cambridge MA: 119-143.
- For an overview of opportunities to scale up local and regional food systems, see Martinez, Steve, et al. *Local Food Systems: Concepts, Impacts, and Issues*, ERR 97, U.S. Department of Agriculture, Economic Research Service, May 2010. <http://www.ers.usda.gov/Publications/ERR97/ERR97.pdf>
- NSAC Guide to USDA Funding for Local and Regional Food Systems, April 2010, see: <http://sustainableagriculture.net/publications/>