

## **The Organic Myth; Pastoral ideals are getting trampled as organic food goes mass market**

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Next time you're in the supermarket, stop and take a look at Stonyfield Farm yogurt. With its contented cow and green fields, the yellow container evokes a bucolic existence, telegraphing what we've come to expect from organic food: pure, pesticide-free, locally produced ingredients grown on a small family farm.

So it may come as a surprise that Stonyfield's organic farm is long gone. Its main facility is a state-of-the-art industrial plant just off the airport strip in Londonderry, N.H., where it handles milk from other farms. And consider this: Sometime soon a portion of the milk used to make that organic yogurt may be taken from a chemical-free cow in New Zealand, powdered, and then shipped to the U.S. True, Stonyfield still cleaves to its organic heritage. For Chairman and CEO Gary Hirshberg, though, shipping milk powder 9,000 miles across the planet is the price you pay to conquer the supermarket dairy aisle. "It would be great to get all of our food within a 10-mile radius of our house," he says. "But once you're in organic, you have to source globally."

Hirshberg's dilemma is that of the entire organic food business. Just as mainstream consumers are growing hungry for untainted food that also nourishes their social conscience, it is getting harder and harder to find organic ingredients. There simply aren't enough organic cows in the U.S., never mind the organic grain to feed them, to go around. Nor are there sufficient organic strawberries, sugar, or apple pulp -- some of the other ingredients that go into the world's best-selling organic yogurt.

Now companies from Wal-Mart (**WMT**) to General Mills (**GIS**) to Kellogg (**K**) are wading into the organic game, attracted by fat margins that old-fashioned food purveyors can only dream of. What was once a cottage industry of family farms has become Big Business, with all that that implies, including pressure from Wall Street to scale up and boost profits. Hirshberg himself is under the gun because he has sold an 85% stake in Stonyfield to the French food giant Groupe Danone. To retain management control, he has to keep Stonyfield growing at double-digit rates. Yet faced with a supply crunch, he has drastically cut the percentage of organic products in his line. He also has scaled back annual sales growth, from almost 40% to 20%. "They're all mad at me," he says.

As food companies scramble to find enough organically grown ingredients, they are inevitably forsaking the pastoral ethos that has defined the organic lifestyle. For some companies, it means keeping thousands of organic cows on industrial-scale feedlots. For others, the scarcity of organic ingredients means looking as far afield as China, Sierra Leone, and Brazil -- places where standards may be hard to enforce, workers' wages and living conditions are a worry, and, say critics, increased farmland sometimes comes at a cost to the environment.

Everyone agrees on the basic definition of organic: food grown without the assistance of man-made chemicals. Four years ago, under pressure from critics fretting that the term "organic" was being misused, the U.S. Agriculture Dept. issued rules. To be certified as organic, companies must eschew most pesticides, hormones, antibiotics, synthetic fertilizers, bioengineering, and radiation. But for purists, the philosophy also requires farmers to treat their people and livestock with respect and, ideally, to sell small batches of what they produce locally so as to avoid burning fossil fuels to transport them. The USDA rules don't fully address these concerns.

Hence the organic paradox: The movement's adherents have succeeded beyond their wildest dreams, but success has imperiled their ideals. It simply isn't clear that organic food production can be replicated

on a mass scale. For Hirshberg, who set out to "change the way Kraft (**KFT**), Monsanto (**MON**), and everybody else does business," the movement is shedding its innocence. "Organic is growing up."

Certainly, life has changed since 1983, when Hirshberg teamed up with a back-to-the-land advocate named Samuel Kaymen to sell small batches of full-fat plain organic yogurt. Kaymen had founded Stonyfield Farm to feed his six kids and, as he puts it, "escape the dominant culture." Hirshberg, then 29, had been devoted to the environment for years, stung by memories of technicolor dyes streaming downriver from his father's New Hampshire shoe factories. He wrote a book on how to build water-pumping windmills and, between 1979 and 1983, ran the New Alchemy Institute, an alternative-living research center on Cape Cod. He was a believer.

But producing yogurt amid the rudimentary conditions of the original Stonyfield Farm was a recipe for nightmares, not nirvana. Meg, an organic farmer who married Hirshberg in 1986, remembers the farm as cold and crowded, with a road so perilous that suppliers often refused to come up. "I call it the bad old days," she says. Adds her mother, Doris Cadoux, who propped up the business for years: "Every time Gary would come to me for money, Meg would call to say 'Mama, don't do it.'"

Farming without insecticides, fertilizers, and other aids is tough. Laborers often weed the fields by hand. Farmers control pests with everything from sticky flypaper to aphid-munching ladybugs. Manure and soil fertility must be carefully managed. Sick animals may take longer to get well without a quick hit of antibiotics, although they're likely to be healthier in the first place. Moreover, the yield per acre or per animal often goes down, at least initially. Estimates for the decline from switching to organic corn range up to 20%.

Organic farmers say they can ultimately exceed the yields of conventional rivals through smarter soil management. But some believe organic farming, if it is to stay true to its principles, would require vastly more land and resources than is currently being used. Asks Alex Avery, a research director at the Hudson Institute think tank: "How much Bambi habitat do you want to plow down?"

### **IMPOSSIBLE STANDARD**

For a sense of why Big Business and organics often don't mix, it helps to visit Jack and Anne Lazor of Butterworks Farm. The duo have been producing organic yogurt in northeastern Vermont since 1975. Their 45 milking cows are raised from birth and have names like Peaches and Moonlight. All of the food for the cows -- and most of what the Lazors eat, too -- comes from the farm, and Anne keeps their charges healthy with a mix of homeopathic medicines and nutritional supplements. Butterworks produces a tiny 9,000 quarts of yogurt a week, and no one can pressure them to make more. Says Jack: "I'd be happiest to sell everything within 10 miles of here."

But the Lazors also embody an ideal that's almost impossible for other food producers to fulfill. For one thing, they have enough land to let their modest-sized herd graze for food. Many of the country's 9 million-plus dairy cows (of which fewer than 150,000 are organic) are on farms that will never have access to that kind of pasture. After all, a cow can only walk so far when it has to come back to be milked two or three times a day.

### **STEWARDS OF THE LAND**

When consumers shell out premiums of 50% or more to buy organic, they are voting for the Butterworks ethic. They believe humans should be prudent custodians not only of their own health but also of the land and animals that share it. They prefer food produced through fair wages and family farms, not poor workers and agribusiness. They are responding to tales of caged chickens and confined cows that never

touch a blade of grass; talk of men losing fertility and girls becoming women at age nine because of extra hormones in food. They read about pesticides seeping into the food supply and genetically modified crops creeping across the landscape.

For Big Food, consumers' love affair with everything organic has seemed like a gift from the gods. Food is generally a commoditized, sluggish business, especially in basic supermarket staples. Sales of organic groceries, on the other hand, have been surging by up to 20% in recent years. Organic milk is so profitable -- with wholesale prices more than double that of conventional milk -- that Lyle "Spud" Edwards of Westfield, Vt., was able to halve his herd, to 25 cows, this summer and still make a living, despite a 15% drop in yields since switching to organic four years ago. "There's a lot more paperwork, but it's worth it," says Edwards, who supplies milk to Stonyfield.

The food industry got a boost four years ago when the USDA issued its organic standards. The "USDA Organic" label now appears on scores of products, from chicken breasts to breakfast cereal. And you know a tipping point is at hand when Wal-Mart Stores Inc. enters the game. The retailer pledged this year to become a center of affordable "organics for everyone" and has started by doubling its organic offerings at 374 stores nationwide. "Everyone wants a piece of the pie," says George L. Siemon, CEO of Organic Valley, the country's largest organic farm co-operative. "Kraft and Wal-Mart are part of the community now, and we have to get used to it."

The corporate giants have turned a fringe food category into a \$14 billion business. They have brought wider distribution and marketing dollars. They have imposed better quality controls on a sector once associated with bug-infested, battered produce rotting in crates at hippie co-ops. Organic products now account for 2.5% of all grocery spending (if additive-free "natural" foods are included, the share jumps to about 10%). And demand could soar if prices come down.

But success has brought home the problems of trying to feed the masses in an industry where supplies can be volatile. Everyone from Wal-Mart to Costco Wholesale Corp. (**COST**) is feeling the pinch. Earlier this year, Earthbound Farm, a California producer of organic salads, fruit, and vegetables owned by Natural Selection Foods, cut off its sliced-apple product to Costco because supply dried up -- even though Earthbound looked as far afield as New Zealand. "The concept of running out of apples is foreign to these people," says Earthbound co-founder Myra Goodman, whose company recalled bagged spinach in the wake of the recent *E. coli* outbreak. "When you're sourcing conventional produce, it's a matter of the best product at the best price."

Inconsistency is a hallmark of organic food. Variations in animal diet, local conditions, and preparation make food taste different from batch to batch. But that's anathema to a modern food giant. Heinz, for one, had a lot of trouble locating herbs and spices for its organic ketchup. "We're a global company that has to deliver consistent standards," says Kristen Clark, a group vice-president for marketing. The volatile supply also forced Heinz to put dried or fresh organic herbs in its organic Classico pasta sauce because it wasn't able to find the more convenient quick-frozen variety. Even Wal-Mart, master of the modern food supply chain, is humbled by the realities of going organic. As spokesperson Gail Lavielle says: "You can't negotiate prices in a market like that."

While Americans may love the idea of natural food, they have come to rely on the perks of agribusiness. Since the widespread use of synthetic pesticides began, around the time of World War II, food producers have reaped remarkable gains. Apples stay red and juicy for weeks. The average harvested acre of farmland yields 200% more wheat than it did 70 years ago. Over the past two decades chickens have grown 25% bigger in less time and on less food. At the same time, the average cow produces 60% more

milk, thanks to innovations in breeding, nutrition, and synthetic hormones.

It's also worth remembering how inexpensive food is these days. Americans shell out about 10% of their disposable income on food, about half what they spent in the first part of the 20th century. Producing a budget-priced cornucopia of organic food won't be easy.

Exhibit A: Gary Hirshberg's quest for organic milk. Dairy producers estimate that demand for organic milk is at least twice the current available supply. To quench this thirst, the U.S. would have to more than double the number of organic cows -- those that eat only organic food -- to 280,000 over the next five years. That's a challenge, since the number of dairy farms has shrunk to 60,000, from 334,000 in 1980, according to the National Milk Producers Federation. And almost half the milk produced in the U.S. comes from farms with more than 500 cows, something organic advocates rarely support.

What to do? If you're Hirshberg, you weigh the pros and cons of importing organic milk powder from New Zealand. Stonyfield already gets strawberries from China, apple puree from Turkey, blueberries from Canada, and bananas from Ecuador. It's the only way to keep the business growing. Besides, Hirshberg argues, supporting a family farmer in Madagascar or reducing chemical use in Costa Rica is just as important as doing the same at home.

Perhaps, but doing so risks a consumer backlash, especially when the organic food is from China. So far there is little evidence that crops from there are tainted or fraudulently labeled. Any food that bears the USDA Organic label has to be accredited by an independent certifier. But tests are few and far between. Moreover, many consumers don't trust food from a country that continues to manufacture DDT and tolerates fakes in other industries. Similar questions are being asked about much of the developing world. Ronnie Cummins, national director of the nonprofit Organic Consumers Assn., claims organic farms may contribute to the destruction of the Amazon rain forest, although conventional farming remains the proven culprit.

Imported organics are a constant concern for food companies and supermarkets. It's certainly on Steve Pimentel's mind. "Someone is going to do something wrong," says Costco's assistant general merchandise manager. "We want to make sure it's not us." To avoid nasty surprises, Costco makes sure its own certifiers check that standards are met in China for the organic peanuts and produce it imports. Over at Stonyfield, Hirshberg's sister, Nancy, who is vice-president of natural resources, was so worried about buying strawberries in northeastern China that she ordered a social audit to check worker conditions. "If I didn't have to buy from there," she says, "I wouldn't."

For many companies, the preferred option is staying home and adopting the industrial scale of agribusiness. Naturally, giant factory farms make purists recoil. Is an organic label appropriate for eggs produced in sheds housing more than 100,000 hens that rarely see the light of day? Can a chicken that's debeaked or allowed minimal access to the outdoors be deemed organic? Would consumers be willing to pay twice as much for organic milk if they thought the cows producing it spent most of their outdoor lives in confined dirt lots?

### **ETHICAL CHALLENGES?**

Absolutely not, say critics such as Mark Kastel, director of the Organic Integrity Project at the Cornucopia Institute, an advocacy group promoting small family farms. "Organic consumers think they're supporting a different kind of ethic," says Kastel, who last spring released a high-profile report card labeling 11 producers as ethically challenged.

Kastel's report card included Horizon Organic Dairy, the No. 1 organic milk brand in the U.S. , and Aurora Organic Dairy, which makes private-label products for the likes of Costco and Safeway Inc. Both dairies deny they are ethically challenged. But the two do operate massive corporate farms. Horizon has 8,000 cows in the Idaho desert. There, the animals consume such feed as corn, barley, hay, and soybeans, as well as some grass from pastureland. The company is currently reconfiguring its facility to allow more grazing opportunities. And none of this breaks USDA rules. The agency simply says animals must have "access to pasture." How much is not spelled out. "It doesn't say [livestock] have to be out there, happy and feeding, 18 hours a day," says Barbara C. Robinson, who oversees the USDA's National Organic Program.

But what gets people like Kastel fuming is the fact that big dairy farms produce tons of pollution in the form of manure and methane, carbon dioxide, and nitrous oxide -- gases blamed for warming the planet. Referring to Horizon's Idaho farm, he adds: "This area is in perpetual drought. You need to pump water constantly to grow pasture. That's not organic."

Aurora and Horizon argue their operations are true to the organic spirit and that big farms help bring organic food to the masses. Joe E. Scalzo, president and CEO of Horizon's owner, WhiteWave, which is owned by Dean Foods Co., says: "You need the 12-cow farms in Vermont -- and the 4,000 milking cows in Idaho ." Adds Clark Driftmier, a spokesman for Aurora , which manages 8,400 dairy cows on two farms in Colorado and Texas : "We're in a contentious period with organics right now."

At the USDA, Robinson is grappling with the same imponderables. In her mind the controversy is more about scale than animal treatment. "The real issue is a fear of large corporations," she says. Robinson expects the USDA to tighten pasture rules in the coming months in hopes of moving closer to the spirit of the organic philosophy. "As programs go," she says, "this is just a toddler. New issues keep coming up."

Few people seem more hemmed in by the contradictions than Gary Hirshberg. Perhaps more than anyone, he has acted as the industry's philosopher king, lobbying governments, proselytizing consumers, helping farmers switch to organic, and giving 10% of profits to environmental causes. Yet he sold most of Stonyfield Farm to a \$17 billion French corporation.

He did so partly to let his original investors cash out, partly to bring organic food to the masses. But inevitably, as Stonyfield has morphed from local outfit to national brand, some of the original tenets have fallen by the wayside. Once Danone bought a stake, Stonyfield founder Samuel Kaymen moved on. "I never felt comfortable with the scale or dealing with people so far away," he recalls, although he says Hirshberg has so far managed to uphold the company's original principles.

The hard part may be continuing to do so with Danone looking over his shoulder. Hirshberg retains board control but says his "autonomy and independence and employment are contingent on delivering minimum growth and profitability." Danone Chairman and CEO Franck Riboud expresses admiration for the man he considers to be Danone's organic guru, but adds: " Gary respects that I have to answer to shareholders."

The compromises that Hirshberg is willing to make say a lot about where the organic business is headed. "Our kids don't have time for us to sit on our high horses and say we're not going to do this because it's not ecologically perfect," says Hirshberg. "The only way to influence the powerful forces in this industry is to become a powerful force." And he's willing to do that, even if it means playing by a new set of rules.