

**Preliminary Market Analysis and Feasibility
Assessment for a Community Organic
Warehouse and Processing Facility in the
Bandon Woolen Mill Addition**

FINAL REPORT

**Prepared for:
Bandon Organic Growers**

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February 2006



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Executive Summary

This report presents a preliminary market analysis and feasibility assessment of a primary processing facility (a community organic warehouse) for organic produce in Bandon, Oregon.¹ It evaluates demand for organic products, documents the current status of the production of organic vegetables on the South Coast (Coos and Curry counties), and evaluates the feasibility of developing a primary processing facility on the Woolen Mill addition in Bandon. It also includes a discussion of implementing actions that the Bandon Organic Growers could take should they decide to pursue the project.

Facility concept

The community organic warehouse concept, as described by Bandon Organic Growers (BOG), is for a primary processing facility located on the Woolen Mill Addition near downtown Bandon. The facility would include space for processing activities and equipment, retail space, and truck access. As envisioned by BOG, land for the facility would be provided free of charge from the City as an economic development venture. The Woolen Mill District Overlay Zone (Bandon Code Chapter 17.52) would require the warehouse be located in the Employment subdistrict of the Woolen Mill Addition. Improvements on the site would be paid for through funds generated by the Port of Bandon.

Table S-1 shows a conceptual design program for the proposed community organic warehouse facility. CPW estimates that a facility of this type would, at a minimum, require a 15,000 square lot (e.g, 15,000 square feet of land to site the facility). This would provide enough room for the facility itself, parking, and truck access to the facility. Floor area would be between 3,000 and 5,000 square feet depending on the facility uses and configuration (whether the facility includes cold storage internally).

Table S-1. Conceptual organic processing facility characteristics

Facility Component	Approximate Size (sq. ft.)
Land	15,000
Building	
Processing area	2,500
Commerical store front and office space	500
Optional cold storage (freezers and coolers)	2,000
Building Total	3,000 - 5,000

Source: Community Planning Workshop, 2005

Note: The facility could be developed without cold storage facilities

¹ We use the term *preliminary* to indicate that the feasibility assessment does not include a detailed building design program.

BOG also indicated that a commercial storefront would be a component of the facility, perhaps for local farmers to vend their products, as a showcase for the organic agricultural industry, and as a base office for BOG. Similar to the former Bandon Cheese Factory, BOG envisions an area where tourists could tour the facility and watch organic agriculture processing in action as well as purchase locally produced agricultural goods. The facility concept includes 500 square feet for the store front and office space.

The actual size of the processing area needed will vary depending on the volume and type of crop being processed. However, CPW's research showed that relatively high volumes of crops can be processed in fairly small spaces. Additionally, it is prudent from a financial standpoint to start small and expand later if necessary. Moreover, Community Planning Workshop identified cold storage as a current need because there is limited cold storage capacity in the area. In addition to using it for the processing of crops BOG could potentially rent out the freezer space to local cranberry growers and use the cold storage and freezer capacities to generate additional revenue.

Findings

Following is a summary of key findings from CPW's research regarding the community organic warehouse.

- **High growth and increasing demand in the organic industry create opportunities in the region.** The organic industry is one of the fastest growing industries in the agricultural sector (about 20% annually in recent years) and demand often outstrips supply. Organic products generally command higher prices on the market than do conventional products; price premiums for organic products are generally between 30% and 100%. Moreover, the new Amy's Kitchen facility scheduled to begin production in 2006 will create demand for certain commodities that can be grown on the south coast—particularly leeks.
- **The facility, as proposed, will require significant capital and start-up costs.** Table S-2 summarizes estimated capital (land acquisition and development) and annual operating and maintenance costs for the proposed facility. CPW developed two capital cost scenarios: lease and purchase. Development costs for a lease option are significantly less; however, financing may be more difficult to obtain under a lease option. At the lowest cost level, BOG would enter into a no-cost lease with the City of Bandon effectively reducing land costs to zero.²

BOG's vision is that the capital costs be generated through a partnership with the Port of Bandon. At the time this report was written, no formal commitment had been made by the Port of Bandon. We present building cost estimates here for the sake of providing a complete estimate of capital

² This is not an entirely accurate portrayal of land costs from a public finance perspective. Under this scenario, land costs to BOG would go to zero; the City would be subsidizing BOG at the level of the real market value of the land. Thus, there is a real cost to the City—as well as an opportunity cost (e.g., other projects are possible on the site).

and operating costs and because of the uncertainties associated with developing external funding sources and partnerships. Under any scenario, BOG will need land and capital cost estimates to secure funding.

At the lowest level, CPW estimates that a community organic warehouse could be operated and maintained for between \$75,000 and \$90,000 annually.³ This assumes that BOG is successful in finding external funding sources for land and capital improvements.

CPW estimates capital costs for a 3,000 square foot facility to be between \$300,000 and \$1.44 million. The key variable is land. CPW had difficulty obtaining accurate land value estimates for the Woolen Mill site. A recent sale in downtown suggests that land values could be as high as \$50 per square foot. CPW developed two sets of cost estimates—a lease option and a purchase option. At the lowest level, we set the lease cost to \$0, reflecting a successful partnership between BOG and the City. At the upper end, land in a speculative market could cost as much as \$750,000.

CPW estimates the cost of developing the building at between \$225,000 and \$300,000. Direct building costs to BOG could potentially be \$0 if an external funding source is identified and successfully pursued.

Additional capital costs would be shouldered by BOG in the area of equipment. If BOG has to borrow money for land, facilities, and other costs, then it will pay debt service on that money. The debt service row in Table S-2 reflects debt service on total capital costs at 7% for 20 years.

³ The annual operating and maintenance costs are based on a staff of 4 full-time equivalent employees—including a program director.

Table S-2. Estimated capital and annual operating and maintenance costs for the proposed community organic warehouse.

Cost	Land Lease		Land Purchase	
	Low	High	Low	High
Capital Costs				
Land	\$0	\$0	\$300,000	\$750,000
Hard Costs				
Building	\$225,000	\$300,000	\$225,000	\$300,000
Equipment	\$10,000	\$100,000	\$10,000	\$100,000
Infrastructure Improvements	\$15,000	\$50,000	\$15,000	\$50,000
Soft Costs	\$50,000	\$90,000	\$110,000	\$240,000
Total Capital Costs	\$300,000	\$540,000	\$660,000	\$1,440,000
Annual Operating and Maintenance Costs				
Debt Service	\$28,318	\$50,972	\$62,299	\$ 135,926
Land Lease	\$0	\$6,000	na	na
Operating and Maintenance	\$14,948	\$18,346	\$20,045	\$31,089
Staff	\$60,160	\$60,160	\$60,160	\$60,160
Total O&M Costs	\$ 103,426	\$ 135,478	\$ 142,504	\$ 227,175

Source: Community Planning Workshop, 2005

- CPW identified some local interest in growing organic crops commercially.** A December 2005 informational meeting regarding organic growing opportunities in Bandon garnered over 60 attendees, with several attendees expressing interest in potentially growing an organic crop(s) commercially. Potential exists to build a grower base that could produce crops commercially in the area.
- The south coast region lacks developed local production capacity.** Agricultural production, whether organic or conventional, is currently quite small in both Coos and Curry Counties (about \$62 million in farm gate sales in 2004). Developing local production capacity to the point where production volumes would be sufficient to support a dedicated processing facility in the area could take years. In CPW's assessment, this is one of the most significant barriers to the development of an organic processing warehouse. Without a reliable and sufficiently large stream of products to process, maintaining a steady supply chain to purchasers will be extremely difficult. This capacity will have to be developed before a facility will be feasible.
- Both conventional and organic produce command low margins on processing.** Depending upon the product, processors either purchase the crop directly from the grower or a produce broker, or they process the good as a service to a grower. The profit margin for processing crops on behalf growers is extremely low, on the order of 1-3 cents per pound, according to data collected by CPW. Most processors CPW interviewed indicated that processing crops for other growers generally was not a profitable endeavor.

- **Higher start up costs associated with organic farming.** Input costs for organic farming can be higher than those for conventional farming. This is attributed to a variety of factors, including: longer crop rotation times, higher prices charged for organic seed propagation and plant stock and time required for soil amendment and preparation. Moreover, to produce organic crop yields comparable to those of conventional an organic farmer must have the knowledge and experience to maximize production without the assistance of chemical fertilizers or pesticides. Organic farming is also more labor intensive than conventional methods.
- **Organic farming is inherently risky.** This could be said of any agricultural operation, however, organic farming combines all the risk of conventional farming with challenges in pest management and fertilization. While returns may be larger, organic farming is generally more expensive. Data from a 2004 survey indicate that 63% of organic farmers require a secondary source of income to augment their earnings from farming or to cover capital expenses. Moreover, vegetables are generally sold as fresh market products within 100 miles of the primary farm location and the majority of growers do not have a forward contract with a purchaser for their product.

Conclusions

1. A community organic warehouse is not financially feasible at this time.

CPW's research did not lead us to the opinion that development of a dedicated organic warehouse on the Woolen Mill Addition will be a significant factor in growers' and landowners' decisions on whether to establish organic farming operations.

It is CPW's assessment that the proposed facility is not financially feasible at this time, primarily because of the lack of developed organic local production capacity and the lack of identified capital to construct the facility. Without a substantial established local production base a processing facility will be unable to generate sufficient revenue to support itself.

2. Local production capacity must be augmented before a dedicated facility is required.

Current production of organic agricultural goods on the South Coast is quite low (less than \$6 million in annual sales). The key products are cranberries, farm forest products, and cattle and dairy products. The local product capacity must be increased in advance in order to sustain a facility of this type.

3. Financing the community organic warehouse will be challenging.

The current conditions of the local market suggest securing capital for the project from conventional sources (e.g., banks, foundations, government agencies) will be difficult. CPW bases this conclusion on the fact that the organic agricultural economy for produce on the south coast is in its infancy. It will be difficult to develop a compelling need statement for the proposed facility until the region has a larger grower base and a longer track record.

Raising sufficient funds for capital costs, as well as to support the establishment of the potentially many new farms necessary to produce sufficient volumes of crops will be very difficult. While some grant funding may be available, there is considerable financial risk inherently involved in a facility of this type and in the agricultural industry as a whole. CPW interviews with financing experts indicated that the private market will be almost completely unwilling to capitalize a facility of the scale and type proposed.

BOG's vision of developing partnerships with the City and Port are potential strategies that can offset capital costs—and reduce financing requirements. These partnerships, however, are not guaranteed. BOG should work actively with both agencies to identify what activities will need to occur to obtain formal commitments.

4. A diversified purchasing base is critical to the development of a sustainable industry.

The location of an Amy's Organic Kitchen processing facility in Southern Oregon could potentially provide a purchasing source for local products, Amy's representatives have indicated that they generally only purchase 10-15% of a grower's total crop production and that they prefer to contract with buyers with a proven track record. This is standard in the wholesale agricultural purchasing market; establishing contracts between such organizations and local growers who have no or little previous growing experience will be difficult. Developing a diversified purchasing base is crucial to the support of a local organic agricultural base in the area.

Recommended actions

BOG should continue to work with local growers and regional purchasers to develop an organic agricultural economy in the region. A dedicated community organic warehouse is an ambitious vision—one that is going to require some concerted effort to realize. It is our opinion, however, that a more modest facility may be viable (e.g., a facility that uses existing built space and seeks ways to limit costs as it builds a market). CPW offers the following recommendations to BOG as it continues its efforts to promote organic agriculture on the south coast:

- **Be flexible.** Despite CPW's assessment that a facility of the scale and type initially proposed is not feasible at this time, the organic industry is growing at a rapid rate and there are many opportunities to capitalize on that growth. By being willing to reassess and change BOG's initial concept a more feasible proposal could be developed.
- **Start small.** It is CPW's assessment that at this time, a large facility (the initial program was 50,000 square feet; CPW scaled the concept to less than 10% of that size—3,000 to 5,000 square feet) is unwarranted given the current organic production capacity of the area. There are almost certainly existing buildings that could be leased at relatively low cost to establish a

facility.⁴ The facility could later be expanded or moved as the industry develops in the area. Early successes can demonstrate to less risk averse growers and landowners that organic farming is a viable option.

- **Continue to develop local production capacity.** The initial interest expressed by local residents at the grower meeting held in December by BOG is an encouraging beginning. CPW recommends that BOG continue developing the local production capacity and education of local residents about the opportunities offered by organic agricultural production.
- **Work with buyers.** BOG should continue to develop potential markets and expand its purchaser contacts, as well as to identified potential markets and opportunities in the industry.
- **Develop a diversified purchaser base.** Amy's Kitchen provides an outstanding opportunity, but is not in itself sufficient to establish an organic agricultural economy. A diversified purchaser base will be crucial to the support and maintenance of a local organic agricultural industry.
- **Develop a stronger support network for growers.** By networking with resources already established in the area, such as the OSU Extension Service, Oregon Tilth, the Oregon Cranberry Network and others BOG can develop support for organic growers just entering the market and take advantage of the existing local knowledge base.
- **Develop a local fresh market in addition to the processing market.** CPW's research shows that profit margins are generally higher for fresh market products than for wholesale markets. A more financially beneficial approach may be to capitalize on the local fresh market and develop direct to consumer markets through the establishment of Community Supported Agriculture and local purchasing venues.
- **Consider processing both conventional and organic products.** CPW recommends that the facility be established to process both organic and conventional crops in order to provide a greater financial base. As the organic industry in the area expands, the conventional processing component could eventually phased-out.
- **Consider value-added processing services.** CPW's research suggests that potential demand exists for a value-added service for the cranberry industry in area. A cold storage facility and value added service for local cranberry growers (both conventional and organic) could be an excellent opportunity to establish a facility while the organic production capacity is developed.

⁴ We recognize that BOG's concept is to have a facility in downtown Bandon. A cursory review of downtown suggests that few sites would be suitable for the concept. A detailed evaluation of other sites was not part of our work program.

- **Develop political support for the project.** BOG should work with the City of Bandon, Coos County, the Oregon Department of Agriculture, and other groups to build support for this project. Our observation is that projects that are done as partnerships often have better odds of success.

Summary

A modified facility concept, that could provide value-added and, potentially, cold storage services to the existing cranberry industry, and that could process both conventional and organic products (in addition to cranberries) could be feasible if certain conditions are met.

Based on CPW's research and quantification of existing organic production capacity in Coos and Curry Counties, there does not appear to be sufficient production of organic, and arguably conventional, crops to sustain a primary processing facility in Bandon. *The fact that one does not currently exist in the region is strong evidence that the market is insufficient to support such a facility.* CPW's interviews suggest that there is substantial demand for organic products, but insufficient organic production in the region to sustain a dedicated processing facility.

CPW's research did not lead us to the opinion that development of a dedicated organic warehouse on the Woolen Mill Addition will be a significant factor in growers and landowners decisions on whether to establish organic farming operations. In short, it is our opinion that a speculative development venture is almost certain to fail because of insufficient revenue streams.

Chapter 1: Introduction

This report presents a preliminary market analysis and feasibility assessment of a primary processing facility (a community organic warehouse) for organic produce in Bandon, Oregon.⁵ It evaluates demand for organic products, documents the current status of the production of organic agricultural products on the South Coast (Coos and Curry counties), and evaluates the feasibility of developing a primary processing facility on the Woolen Mill addition in Bandon. It also includes a discussion of implementing actions that the Bandon Organic Growers could take should they decide to pursue the project.

Background

Agriculture is one of Oregon's largest industries. In 2004, Oregon produced \$4.1 billion in agricultural products. Moreover, agriculture in Oregon is rapidly growing—total revenue increased from \$3.45 billion in 2000 to \$4.1 billion in 2004. The South Coast (Coos and Curry counties) accounts for a relatively small share (\$62.6 million in 2004 or 1.5% of the statewide total) of the state's agricultural economy. Key products include dairy and cranberries.

Organic produce is becoming increasingly popular with consumers. Both supply and demand of organic goods have increased over the last several years; however, organic products still constitute a fraction (less than 2%) of Oregon's total agricultural base.⁶ Of approximately 40,000 farms in Oregon, 515, or 1.3%, are certified organic producers. The sales value of Oregon's organically produced commodities is \$33.75 million in 2004, which is about 0.8% of the State's total agricultural production value of \$4.1 billion.⁷ Oregon Tilth, however, has documented an increase statewide in total organically certified acres, from 11,984 in 1998 to 27,500 acres in 2004—an increase of 130% in six years.

Purpose

Bandon Organic Growers (BOG) is a nonprofit community based organization that advocates for organic farming on the South Coast.⁸ BOG received a U.S.D.A. grant to conduct a feasibility study to research Bandon Organic Growers' concept

⁵ We use the term *preliminary* to indicate that the feasibility assessment does not include a detailed building design program.

⁶ Maben, Scott. *Organic Farmers Cultivating a Growing Agricultural Industry*. The Register Guard, April 20, 2005.

⁷ http://organic.tfrec.wsu.edu/OrganicStats/OR_OrgStats04.pdf

⁸ BOG itself is not a grower's cooperative; rather it was formed to advocate for organic growers in the region.

of a community organic warehouse complex facility at the City of Bandon's Woolen Mill Addition site. The site appears to meet all federal, state and county health and safety requirements for a food processing facility and has easy access to transportation and other critical infrastructure.

In August, 2005, BOG contracted with the University of Oregon's Community Planning Workshop (CPW) to prepare a preliminary market analysis and feasibility assessment for a community organic warehouse on the Woolen Mill Addition site. This report presents the results of that analysis.

The community organic warehouse concept, as described by Bandon Organic Growers (BOG), is for a primary processing facility located on the Woolen Mill Addition near downtown Bandon. The facility would include space for processing activities and equipment, retail space, and truck access. As envisioned by BOG, land for the facility would be provided free of charge from the City as an economic development venture. The Woolen Mill District Overlay Zone (Bandon Code Chapter 17.52) would require the warehouse be located in the Employment subdistrict of the Woolen Mill Addition. Improvements on the site would be paid for through funds generated by the Port of Bandon.

A broader purpose of the study is to examine the viability of the organic industry as a rural economic development opportunity and the benefits of developing a food handling facility to the city of Bandon, its citizens and the surrounding communities of Coos and Curry counties. A secondary purpose is to address the value of the BOG community warehouse concept as a pilot project for other rural communities.

More specifically, the study addresses a number of concerns identified by the City of Bandon:⁹

- **Demand for space.** Based on CPW's evaluation of the market and comparable food processing facilities, the study estimates the size and amount of land required at the Woolen Mill site for the warehouse complex.
- **Community benefits.** The study describes in general terms what types of jobs the project would create for the community. This evaluation includes an estimate the number of new jobs that may be created if the project is completed, as well as the average wages and benefits for potential workers at the warehouse.
- **Development issues.** The study includes a description of the process *any* developer would have to go through to develop on the Woolen Mill site—including land use entitlements and infrastructure. It also evaluates two potential land ownership scenarios: purchase of land from the City of Bandon, and a long-term lease arrangement with the City.

⁹ This study addresses a subset of the issues identified by the City and included the Request for Proposals for this project. Additional issues include grower and buyer interest, conceptual facility designs, funding strategies, and a development program.

BOG presents a general concept and vision for the community organic warehouse. That concept and vision, however, does not address any specifics about the facility such as:

- **What types of products will be processed.** The facility concept developed by BOG does not specify what products will be processed at the facility. CPW's research suggests that specialized equipment is needed for different types of produce.
- **How much space will be required.** This determination depends on two complex variables: *supply* (e.g., how much and what type of organic products are being locally grown and processed through the facility) and *demand* (e.g., how much demand exists for various types of products).
- **What is the ideal capacity of the facility.** This is a difficult question to answer because it depends on both supply and demand factors. Moreover, the processing capacity of the facility has a number of additional implications regarding water and sewer capacity, transportation, and other issues that will affect development costs.

Based on our understanding of the community warehouse concept, as well as conversations with various stakeholders, CPW makes the following assumptions regarding development of the warehouse:

- The facility will be designed such that it could accommodate a wide range of products;
- The facility would include both processing equipment as well as cold storage;
- The facility must be connected to City water, and probably City sewer systems;
- The facility would require truck access;
- The facility must be developed in a manner consistent with the Woolen Mill overlay zone;¹⁰
- The facility would be dedicated to organic produce (e.g., no conventional produce would be processed);
- BOG will probably be the organization that develops, operates, and maintains the facility;
- The facility would include a retail storefront; and
- The facility will be self-supporting.

¹⁰ Chapter 17.54 of the City of Bandon Municipal Code, Title 17. page 39

This presents a significant challenge in terms of determining the feasibility of such a facility. This study focuses primarily on economic factors: demand for organic products, and the costs associated with developing a community organic warehouse on the site. **CPW notes that there are many other important considerations that pertain to infrastructure, political support, potential for establishing local markets, and others, that we do not address in any detail in this study.**

Moreover, any development on the Woolen Mill Addition would require, at a minimum, working with City staff and a vote of the Bandon City Council. Any incentives of subsidies provided by the City would also require a vote of the City Council.

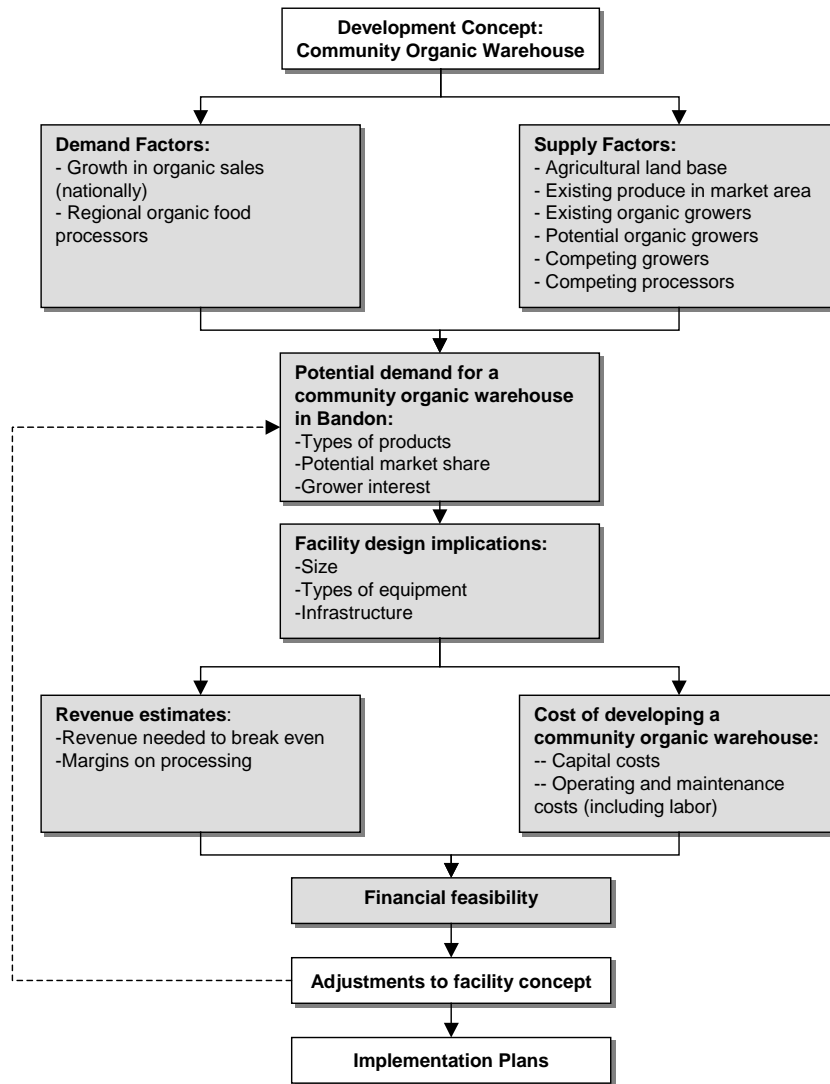
Specifically, this report presents:

- **An analysis of existing market conditions.** This study evaluates the existing market for organic goods, on the national, state and regional levels. It also provides a general analysis of supply and demand trends that will impact the viability of a community organic warehouse.
- **A description of the organic food industry on the South Coast.** CPW gathered information on sales of organic produce as well as the local agricultural infrastructure. This provides the foundation for the feasibility assessment.
- **An analysis of agriculture processing facilities.** CPW did not identify any facilities comparable to the proposed community organic warehouse in Oregon.¹¹ CPW contacted several processing facilities to better understand the facilities—how much space is required, the types of equipment, and issues related to operating such a facility.
- **An estimate of issues related to developing a facility on the Woolen Mill site.** This includes a preliminary evaluation of costs of construction and operations. CPW also describes the local review and entitlement process any development will be required to complete to develop on the Woolen Mill site.

Figure 1-1 shows the steps in the preliminary market analysis and feasibility assessment process. The boxes that are shaded with gray represent the steps that CPW addresses in this report. Market and feasibility analyses must consider both *demand* factors and *supply* factors that affect the proposed facility. CPW's work program addressed these relationships as well as identifying issues that relate to the facility's design.

¹¹ The fact that such facilities do not exist is not by itself evidence that BOG's concept is not feasible, but it does suggest that the concept may be inherently difficult to implement, particularly in light of the fact that other regions of the state have much more developed organic economies.

Figure 1-1. Steps in the preliminary market analysis and feasibility assessment



We call this a *preliminary* feasibility assessment because it is based on a set of assumptions related to the facility’s purpose, design, and location. Changes to any of these assumptions (listed above) would impact the cost and revenue structure of the facility.

It is common practice among professionals who conduct these types of studies to evaluate financial feasibility of a *specific facility in a specific location*. The facility concept is clear about the location, but is very general about the facility. Different equipment is required to process different crops. Moreover, some crops are extremely labor intensive, while others can be processed mechanically. CPW addresses this issue in our discussion of the local agricultural economy and through testing the sensitivity of different variables on the cost and revenue estimates.

It is also common practice to evaluate the market and feasibility of a proposed facility given *current* and *future* supply and demand. In short, both these factors must be present for the facility to be deemed viable. In this instance that means (1) there must be enough volume supplied by local organic growers to support the facility, and (2) there must be enough demand for the volume of products. Either of these factors can affect the feasibility assessment because this report is evaluating a specific facility on a specific site.

The next steps are standard in market analysis and feasibility studies. Based on the design program and facility focus, we evaluate demand factors (e.g., the size of the market of potential buyers) and supply factors (e.g., comparable growers and processing facilities that will compete with the BOG facility). That analysis leads to use estimates that have implications for management and staffing and allow estimates of both costs and revenues.¹² The cost and revenue analysis allows determination of the financial feasibility of the facility.¹³ Figure 1-1 also illustrates that the result of the financial feasibility assessment may lead to changes to the facility design.

To analyze the market and feasibility for the proposed community organic warehouse, CPW gathered a variety of information. CPW took the following steps to conduct the assessment:

- **Document and data review.** CPW initiated the project by reviewing key documents—the Woolen Mill Site Plan, as well as a wide range of documents and data on organic crops and demand for organic products.
- **Grower interviews.** CPW contacted 11 local growers to better understand the local agricultural economy and existing production.
- **Processor interviews.** CPW contacted 13 processors to better understand how such facilities work.
- **Expert interviews.** CPW contacted officials with the U.S. Department of Agriculture, the Oregon Department of Agriculture, the Oregon State University Extension Service, the Organic Trade Association, as well as expert growers and farm owners.

This research program allowed CPW to understand the dynamics of the market for organic products, the local agricultural economy, and issues related to development of a community organic warehouse.

¹² The revenue side of the feasibility analysis is very difficult to estimate in this instance—without a clear idea of what crops and the volume of materials, CPW could not develop precise revenue estimates. Moreover, the processing facilities CPW contacted were unable to provide detailed information on processing margins (e.g., what they charge for processing) other than they are very low.

¹³ CPW's approach to dealing with the uncertainty on the revenue side was to develop capital, operating and maintenance cost estimates that provide some indication of the volume that will be required for the facility to break even.

Organization of Report

The remainder of this report is organized as follows:

- **Chapter 1: Introduction and Background** provides an overview of the study, the purpose and the organization of this report as well as an overview of the study framework and methodology.
- **Chapter 2: Overview of the Organic Foods Industry** presents a description of key trends both nationally and statewide, describes the organic certification process for growers and facilities and provides an overview of the structure of the organic agriculture industry.
- **Chapter 3: Market Assessment of Organic/Conventional Products in Oregon and on the South Coast** summarizes the existing market for organic products at the state and regional levels, including existing production capacity and crops currently being produced in Coos and Curry counties.
- **Chapter 4: Opportunities and Constraints** presents CPW's assessment of the opportunities and constraints associated with the community organic warehouse concept and draws CPW's preliminary conclusions based on the results of this assessment.
- **Chapter 5: Evaluation of the Community Organic Warehouse Concept in Bandon** presents a summary of CPW's cost and revenue estimates for the proposed facility. This section also describes the local land use entitlement process.
- **Chapter 6. Conclusions and Action Plan** presents a summary of CPW's research including a discussion of the potential community and economic benefits of a community organic warehouse. It concludes with a list of action steps CPW suggests BOG implement.

Chapter 2: Overview of the Organic Foods Industry

This chapter provides an overview of the organic foods industry. It describes key trends in the industry nationally, emerging markets, as well as certification processes.

Organic foods: a growing market

As concerns about the negative health and environmental effects of pesticide and chemical use have risen among the public over the past several decades, demand for organically produced goods has increased significantly. Organic goods are defined as goods grown and processed without the use of pesticides or chemicals. According to the United State's Department of Agriculture (USDA) the organic market became one of the fastest growing segments of U.S. agriculture during the 1990's:

“U.S. producers are turning to certified organic farming systems as a potential way to lower input costs, decrease reliance on nonrenewable resources, capture high-value markets and premium prices, and boost farm income.”¹⁴

This industry growth is attributed to a variety of factors, including increased consumer demand and higher profit margins in the organic industry. “Over the last decade, price premiums for organic products (or the price difference between organic and comparable conventional products) have contributed to growth in certified organic farmland and, ultimately, market expansion in an industry that was formerly supply constrained.”¹⁵

Over the last 30 years, organic food production has emerged as one of the fastest growing sectors of the agricultural industry, with average annual growth of around 20%, compared with about 2% growth for the rest of the agricultural industry.¹⁶

Figure 2-1 shows consumer sales and growth rates of organic foods between 1997 and 2003. Organic sales have grown an average of 20% per year since 1997 and are projected to continue this growth rate into the future. Organic sales nationwide

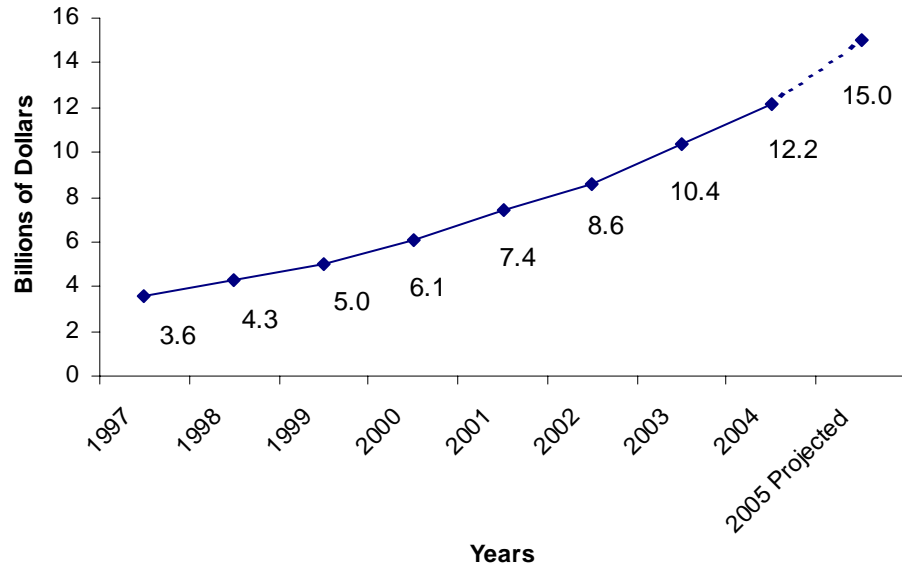
¹⁴ Economic Research Service, U.S. Department of Agriculture.
<http://www.ers.usda.gov/briefing/Organic/>

¹⁵ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. <http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

¹⁶ Nutrition Business Journal and The Organic Trade Association

have increased from \$3.6 billion in 1997 to \$12.2 billion in 2004, and are projected to reach a record \$15 billion in 2005.

Figure 2-1. Growth Rates of Organic Foods, U.S. 1997-2005



Source: Nutrition Business Journal, 2004 and Organic Trade Association, 2005

The organic consumer

There are a variety of reasons that consumers cite for purchasing organic goods, including better taste, environmental impacts of conventional farming, health concerns, food quality and support for local farmers.¹⁷ Studies have found that regular consumers of organic produce span racial and socioeconomic lines and that a consumer’s “age, sex and education level has little effect on his or her decision to buy organic.”¹⁸ The number of consumers who regularly purchase organic produce varies by region, but generally compose a very small percentage of the overall food products market. Less than 3% of consumers were classified as either frequent (\$50 per month) or heavy (\$200 per month) consumers of organic food.¹⁹

¹⁷ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01.*

<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

¹⁸ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01.* May 2005. pg. 8

<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

¹⁹ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01.*

<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

Fresh produce: driver of the organic industry

The most frequently purchased organic products are fruits and vegetables, which accounted for almost 45% of the total organic sales distribution in 2004 (Table 2-1). Dairy products followed with nearly 15% of the market and organic beverages, which comprised almost 12% of the total organic sales distribution. Meat, fish and poultry were the fastest growing sectors of the organic industry, with an average annual growth rate of 77.8% between 2002 and 2003.²⁰

Table 2-1. Organic sales distribution, U.S., 2004

Fruits and Vegetables	44.8%
Dairy Products	14.5%
Beverages	11.5%
Grain-based Foods	8.5%
Prepared and Packaged Foods	7.3%
Snacks and Desserts	6.4%
Meat and Poultry	2.3%
Other Foods	4.7%
Total	100%

Source: Organic Trade Association

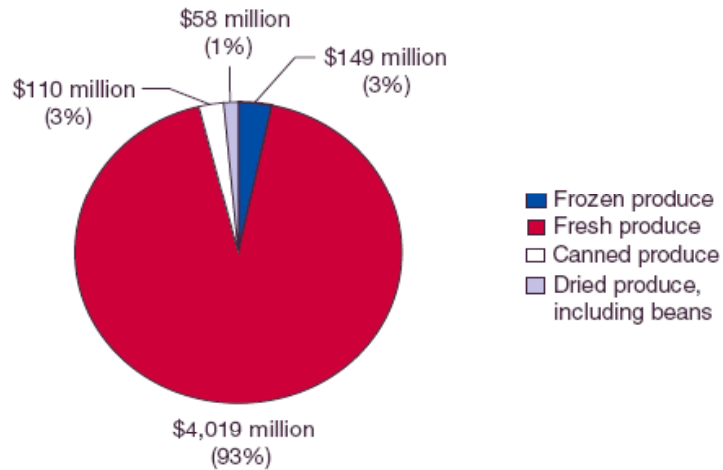
The eight most purchased fresh, organic fruits and vegetables in 2002 were: tomatoes, carrots, peaches, squash, leafy vegetables, apples, potatoes and bananas.²¹ Figure 2-2 shows that fresh produce accounted for 93% of organic product sales in 2003. Frozen produce and canned produce account for 3% of total organic produce sales, respectively, and dried produce accounts for the remaining 1%.

²⁰ Midwest Organic and Sustainable Education Service. *Growing Retail Sales of Organic Produce Creates Significant Opportunities for Midwest Farmers*. February 2005.

²¹ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*.
<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

Figure 2-2. Sales and shares of U.S. organic produce by category, 2003

Sales and shares of U.S. organic produce by category, 2003



Source: *Nutrition Business Journal*, 2004.

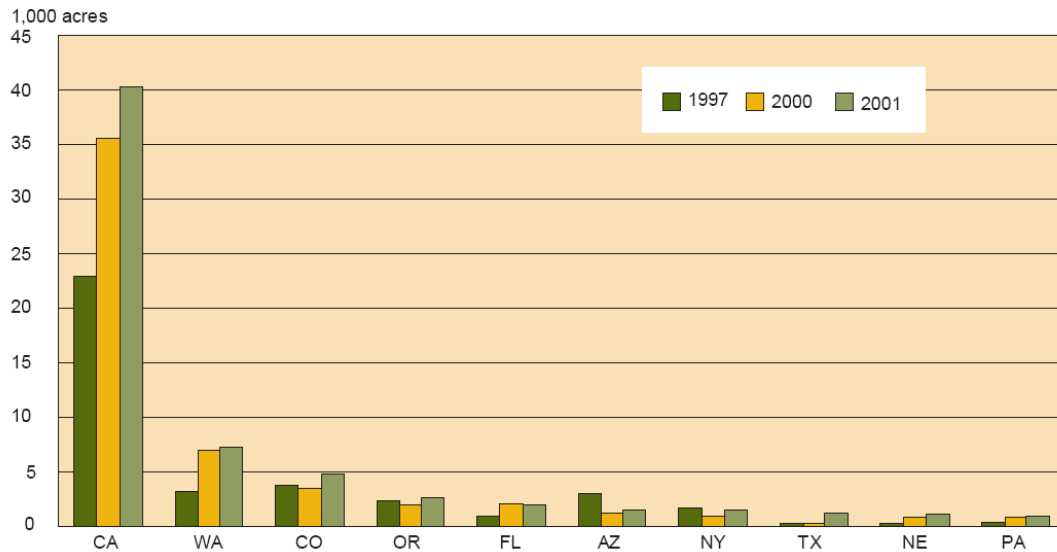
This illustrates that fresh fruits and vegetables, as shown by Figure 2-2 and Table 2-1, dominate the organic market. Logically, farmers are producing what there is greatest demand for in the market place, fresh fruits and vegetables. However, the last several years has seen substantial growth in the organic dairy and meat sectors.

Top organic producers in the U.S.

The State of California was, and is, the largest producer of both conventional and organic vegetables in the U.S. In 2001, California had 40,632 acres of certified organic vegetables in production and accounted for 41% of U.S. certified organic vegetable acreage. Washington and Colorado followed with 7,174 and 4,889 acres respectively in 2001. Oregon was the fourth largest producer of organic vegetables with 2,585 acres. In 2001, the United States had a total of 71,667 acres in certified organic vegetable crops. The main crops produced were lettuce, tomatoes and carrots, the rest was other mixed vegetable acreage, other vegetable crops, and vegetable acreage that could not be classified.²²

²² Greene, Catherine and Amy Kremin. U.S. Department of Agriculture. Economic Research Service, Resource Economics Division. *U.S. Organic Farming in 2000-2001: Adoption of Certified Systems/AIB-780*.

Figure 2-2. Certified organic vegetable acreage, top 10 states 1997, 2000 and 2001



Source: Economic Research Service, USDA

Vegetable and fruits are sold to a variety of purchasers, which vary dependent upon the crop. Table 2-2 shows how most organic vegetables are sold. For the majority of vegetables, over 75% of them were sold as fresh market produce. In fact, only snap peas, cucumbers, edamame and radishes had over 90% of the crop sold to processors. One hundred percent of organic beets, cauliflower, chard, eggplant, kale, leeks, melons, pumpkin, rhubarb, shallots, turnips and rutabagas were sold as fresh market products. Interestingly, many of these crops are cooler weather crops that would grow well on the Oregon coast. The average percentage of vegetables that were sold as fresh market products was 74%, with 3% were sold as value added products and 19% were sold to processors.

Table 2-3 shows that, while the majority of fruit is sold as fresh market products, for a higher percentage of crops, more are sold to processors. Ninety-two percent of strawberries were sold as fresh market products and 61% of raspberries. The average percent of fruit, nut and tree crops was 55% sold as fresh market products, 19% as value-added products²³ and finally, 26% to processors. These data provide important information regarding to whom the majority of organic crops were sold and illustrate key differences between vegetables and fruits.

²³ Value added means that there was additional processing of the crop or product that raised its value, thus the term, value-added.

Table 2-2. Organic vegetables produced and the form in which they were sold in 2001

Vegetable crops	No. of producers	No. of acres	Sold as fresh market product	Sold as value-added product	Sold to processor	Sold as seed or propagation stock
Mixed vegetables	257	615	97%	1%	1%	1%
Asparagus	28	59	99%	1%	0%	0%
Beans, snap	41	264	34%	3%	62%	1%
Beets	27	42	100%	0%	0%	0%
Broccoli	34	713	99%	1%	0%	0%
Cabbage	8	40	77%	0%	23%	0%
Carrots	27	23	91%	0%	9%	0%
Cauliflower	14	164	100%	0%	0%	0%
Chard	13	33	100%	0%	0%	0%
Cucumbers	8	107	35%	0%	65%	0%
Edamame	4	72.7	3%	0%	96%	1%
Eggplant	1	2	100%	0%	0%	0%
Garlic	46	39	73%	11%	1%	15%
Kale	21	28	100%	0%	0%	0%
Leeks	1	0.9	100%	0%	0%	0%
Lettuces	49	740	94%	5%	0%	1%
Melons	28	87	100%	0%	0%	0%
Mixed salad or braising greens	36	309	31%	57%	12%	0%
Okra	2	0.9	56%	0%	0%	44%
Onions, bulbs	32	188	84%	0%	15%	1%
Peas	21	498	9%	0%	50%	41%
Peppers	26	52	98%	1%	0%	1%
Potatoes	78	358	53%	6%	40%	1%
Pumpkins	8	16.4	100%	0%	0%	0%
Radish	2	76	1%	0%	99%	0%
Rhubarb	2	1.25	100%	0%	0%	0%
Shallots	1	0.1	100%	0%	0%	0%
Spinach	22	1,043	82%	7%	11%	0%
Squash, summer	43	467	99%	0%	0%	1%
Squash, winter	61	616	98%	1%	0%	1%
Sweet corn	68	767	16%	1%	82%	1%
Tomatoes	79	340	28%	1%	70%	1%
Turnips, rutabagas	12	6	100%	0%	0%	0%
Average of percent sold in each form			74%	3%	19%	3%

Source: Organic Farming Research Foundation. Santa Cruz, California. 2003.

Table 2-3. Fruit, nut and tree crops produced and the form in which they were sold, 2001

Fruit, nut or tree crops	No. of producers	No. of acres	Sold as fresh market product	Sold as value-added product	Sold to processor	Sold as seed or propagation stock
Almonds	5	164	76%	0%	24%	0%
Apples	100	1,229	72%	5%	23%	0%
Apricots	22	20	55%	5%	40%	0%
Avocados	13	66	94%	3%	2%	1%
Bananas	3	5	20%	80%	0%	0%
Blackberries	35	103	15%	5%	80%	0%
Blueberries	41	96	65%	0%	34%	1%
Cherimoya	1	0.1	100%	0%	0%	0%
Cherries	36	104	75%	1%	24%	0%
Chestnuts	2	3	100%	0%	0%	0%
Coffee	6	24	2%	83%	13%	2%
Cranberries	3	3.5	94%	5%	1%	0%
Currants	1	0.25	100%	0%	0%	0%
Dates	2	12	100%	0%	0%	0%
Figs	6	445	40%	0%	60%	0%
Filberts	1	80	50%	0%	50%	0%
Grapefruit	9	42	74%	0%	26%	0%
Grapes, raisin	4	165	0%	0%	100%	0%
Grapes, table	21	106	11%	14%	74%	1%
Grapes, wine	29	1,653	4%	57%	39%	0%
Guava	1	0.3	0%	0%	100%	0%
Huckleberries	1	14	100%	0%	0%	0%
Kiwi	11	117	81%	0%	19%	0%
Lemons, limes	6	3.8	87%	13%	0%	0%
Loquats	1	1	100%	0%	0%	0%
Macadamia nuts	2	20.5	2%	98%	0%	0%
Maple syrup	11	337	25%	70%	5%	0%
Noni	2	33	18%	82%	0%	0%
Oranges	17	259	99%	0%	1%	0%
Papaya	1	0.125	100%	0%	0%	0%
Peaches, Nectarines	42	97	94%	1%	5%	0%
Pears	53	302	62%	6%	32%	0%
Pecans	6	122	1%	1%	98%	0%
Persimmons	4	11	91%	0%	9%	0%
Pineapple	1	1	75%	25%	0%	0%
Pistachios	1	14	0%	100%	0%	0%
Plums	35	264	13%	52%	35%	0%
Pomegranate	1	0.2	0%	0%	100%	0%
Raspberries	55	36	64%	14%	22%	0%
Strawberries	62	443	92%	1%	7%	0%
Walnuts	23	646	8%	42%	50%	0%
Average of percent sold in each form			55%	19%	26%	0%

Source: Organic Farming Research Foundation. Santa Cruz, California. 2003.

Organic production: a different approach to agriculture

Organic agricultural production varies in significant ways from that of conventional. Primarily, organic agriculture is conducted without the use of chemical fertilizers, pesticides or herbicides. Organic farming systems use the fundamental components and natural processes of ecosystems—such as soil organism activities, nutrient cycling, and species distribution and competition—as farm management techniques.²⁴

More and more growers are entering the organic market for a variety of reasons; chief among them concern for the health of the environment and themselves and the opportunity for increased profitability due to growing market demand.

Up to now, the organic industry has been fairly regional in nature and farmers used means such as farmer's markets, health food stores and small-scale distributors to deliver their products to the market. In light of the industry's brisk growth, the face of the organic industry is changing rapidly. What was once a market dominated by small producers and distributors is changing into a market where an increasing share is held by corporations and distribution is done through more traditional means, such as supermarkets. Additionally, forces such as globalization have increased pressure on the U.S. agricultural industry due to low labor costs and less restrictive standards in other parts of the world. Many large food distributors and processors are increasingly purchasing products from outside of the U.S. All of these factors are exerting downward pressure on wages and earnings in the agricultural sector in the United States and have important implications for people considering entering the market.

While the environmental and health benefits of organic agricultural production are well documented, there are substantial challenges involved in growing organic as well. Crop yields can be lower with organic, though are not necessarily so. For example, average organic crop yields for cranberries in Coos County range between 50 and 150 barrels per acre per year, while average yields for conventional cranberries is 165 barrels or higher per year. However, a national study conducted by the Organic Farming Research Foundation found that, based on 154 seasons' worth of crop data, organic crops yielded 95% of crops grown under conventional, high-input conditions. These yields were produced using "organic farming methods developed and refined by years of grower experience".²⁵ Production costs can also be higher than in conventional farming systems:

"Costs of production can be higher in organic production systems because of a number of factors, including the relatively intensive use of labor; use of specialized equipment and other substitutes for synthetic chemicals; and high

²⁴ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*.
<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

²⁵ Organic Farming Research Foundation, *Frequently Asked Questions About Organic Farming*.
http://www.ofrf.org/general/about_organic/index.html

prices charged for organic seeds and other inputs. Another major factor is the use of longer crop rotations for pest and disease suppression in organic production systems. Cumulative net returns can be lower over time because high-value crops are included less frequently in organic systems than conventional systems.”²⁶

Organic farming methods, by nature, are more labor intensive than conventional methods. Because chemical weed and pest controls are not used, beds must be weeded by hand, which adds to labor costs and can narrow the profit margin for organic products. Conventional farmers, after transitioning to organic farming methods, often experience declines in crop yields for the first two to three years while the soil reestablishes its natural balance. Crop yields generally return to pre-organic yield levels after a period of time.

Organic products still command a premium on the market, although this premium is lower on the wholesale market than the retail market. Additionally, the price premiums are heavily dependant upon market forces such as supply and demand of a particular crop and can vary widely from season to season. However, many organic farmers find that higher production costs are offset by the price premium associated with producing organically.

The organic certification process

In 2002, the USDA implemented national organic standards on organic production and processing to provide uniform standards for organic production. Organic certification is also done by a variety of state and nonprofit entities around the country. The amount of time required for certification varies by the status of the land, and the certifying agency. On previously unfarmed land, the organic certification process can be fairly rapid, ranging from between eight to 18 weeks. The owner of the land must be able to document that no prohibited substances, such as chemical pesticides, herbicides or fertilizers have been applied to the land for the last three years. However, if a grower is changing from conventional to organic farming methods, there is a mandatory three-year transition period, before the grower can label his or her products certified organic.²⁷

In addition to abstaining from using chemical agents and fertilizers in farming, the organic certification process requires substantial paperwork and documentation of farming methods. There are also certification fees associated with the process, which vary depending upon the certifying agency. Growers must resubmit paperwork and apply for re-certification on an annual basis.

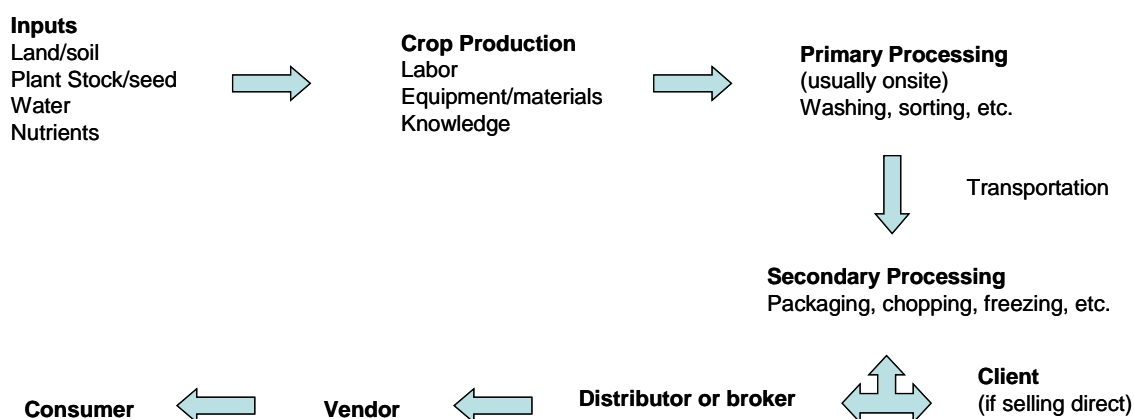
²⁶ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. May 2005. pg. 6
<http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

²⁷ Oregon Tilth

The organic market

Figure 2-3 illustrates the existing organic agricultural production process and outlines how crops are delivered to market. A variety of inputs are necessary to produce a crop; obviously things such as land, plant stock or seeds and access to water are all necessary to begin production of a crop. For organic production, soil preparation is also necessary. Each crop has unique requirements for nutrients and acidity in soils and amendments may be necessary to prepare the soil. Once the soil is prepared actual crop production can begin. In addition to equipment and labor, knowledge of organic farming practices is important. Since chemicals cannot be used, in the case of an insect infestation or blight, farmers must be able to take corrective action based on their knowledge of organic farming practices. In addition, there are myriad impacts on crop productivity that can affect yields; a few include: crop variety and type, weather, access to water, disease, pests, age of plants and soil condition.

Figure 2-3. Steps in the organic agriculture production process



Source: BOG Preliminary Market Analysis and Feasibility Assessment, CPW, 2005

Theoretically, production of a crop could be underway and certified within one growing season, depending on the crop. Crops such as blueberries do not produce substantial harvests for at least 3 years, while lettuce can be ready to harvest within a matter of weeks. Each crop requires a different amount of time until peak productivity and has different needs regarding nutrients, climate, etc.

Once a crop is harvested, it is usually washed, sorted and then containerized for transport to a secondary processing facility. Secondary processing can encompass a broad range of activities, from basic washing and sorting to quick freezing and bagging to combination with other ingredients to make products such as pie fillings or jams. In Oregon, these facilities range from less than 1,000 to 50,000 square foot warehouses.²⁸

When processing organic products, both the primary and secondary facilities must be certified to handle organic products. Handlers must prevent the commingling of

²⁸ CPW Processor Interviews

organic and non-organic products and protect organic products from contact with prohibited substances.²⁹ The majority of processors interviewed by CPW indicated that they process both conventional and organic products within the same facility. The major differences between handling organic versus conventional products are the cleaning agents used and methods of equipment maintenance. Additionally, there is substantial paperwork and documentation involved in the certification process. Processors must reapply for organic certification annually.

From the secondary processing facility, products are either delivered directly to the client in the specified form or are sent on to a distributor or broker for distribution to vendors such as grocery stores. Finally, the product reaches the consumer.

Marketing channels for organic produce

In 2004, the Organic Farming Research Foundation (OFRF) released a report on organic farming in the United States using data from 2001. The study was a survey of 1,200 organic farmers across the United States. According to the survey, 43% of the farmers surveyed produced organic vegetables. The farmers sold 74% of their organic vegetables as fresh market products, 19% as products to be processed, 3% as value added products and 3% as seed or propagation stock. The top four vegetable crops produced by the growers surveyed were spinach, sweet corn, lettuce and broccoli.

The picture for fruit was slightly different, 55% of growers sold their products fresh, 26% as products for processing and 19% as value added products and less than 1% sold their crop as seed propagation or stock.³⁰ The top three crops produced in 2001 by surveyed acreage were wine grapes, apples and strawberries.

Producers of organic goods use a variety of means to market their products. Table 2-3 illustrates that the majority of growers—86% of organic vegetable producers and 61% of fruit, nut and tree products producers do not know how much they will receive for their product until the time of sale—while 11% of vegetable growers and 14% of fruit, nut and tree products producers had a short term forward contract (which means that the grower contracted with the buyer at the beginning of the growing season or one year ahead).

²⁹ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. <http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

³⁰ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. <http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

Table 2-3. Time of price determination for organic fruit and vegetables in 2001

	Estimated volume based on acres produced	
	Vegetables	Fruits, Nuts and Tree Products
Spot market (no contract) Price determined at time of sale/delivery	86%	61%
Short term forward contract (weeks) a few weeks or months prior to delivery	2%	9%
Short term forward contract (season/year) at beginning of growing season or 1 year ahead	11%	14%
Long term forward contract more than one year or several years ahead	1%	16%
Total	100%	100%

Notes: Vegetable percentages based on 27,789 acres of production. Fruits, nuts and tree products percentages based on 6,348 acres.

Source: Organic Farming Research Foundation. Santa Cruz, California. 2003.

Producers of organic vegetables tend to sell their products closer to the area of production; 79% of the survey respondents sold their products within 100 miles of the primary farm location, 5% sold their products within 100 to 500 miles of the primary farm location, and 15% sold their products outside of the region (greater than 500 miles). Only 1% of producers exported their products outside of the United States.³¹ Fruit, nut and tree products had a different distribution profile. Forty-three percent of producers sold their products within 100 miles of the primary farm location, 19% sold their products locally,³² 32% sold their products regionally and 6% exported their crops outside of the U.S.³³

According to the data presented in the Fourth National Organic Farmers' Survey, the distribution of vegetables and fruit products varies from each other in important ways. Vegetables are generally sold as fresh market products within 100 miles of the primary farm location and the majority of growers do not have a forward contract with a purchaser for their product. The fruit and nut market however varied in other ways; while the majority of products were sold as fresh market

³¹ Walz, Erika. *Final Results of the Fourth National Organic Farmers' Survey: Sustaining Organic Farms in a Changing Organic Marketplace*. Organic Farming Research Foundation. Santa Cruz, California. 2003.

³² See above for a description of definitions of locally, regionally and outside of region.

³³ Walz, Erika. *Final Results of the Fourth National Organic Farmers' Survey: Sustaining Organic Farms in a Changing Organic Marketplace*. Organic Farming Research Foundation. Santa Cruz, California. 2003.

products (55%) a much higher percentage (26%) of producers sold their products to processors. Additionally, the distribution patterns are more evenly divided between local and regional areas, 43% and 32% respectively, and more growers received a short-term forward contract (14%) compared to 11% of vegetable growers, however spot pricing was still the norm, 61% of fruit producers' price determined at the time of sale (Table 2-3).

Organic farmers

This section is intended to provide a snapshot of organic farmers' sources of income. Table 2-4 shows that almost half (48%) of survey respondents indicated no off-farm employment. Twenty-two percent worked off-farm as a secondary income source and 21% worked off-farm as a primary income source. A full 20% more indicated that a second source of income was necessary in order to subsidize their farm and capital investments. *The data indicate that 63% of organic farmers require a secondary source of income to augment their earnings from farming or to cover capital expenses.*

Table 2-4. Off-farm employment and reason, if employed off-farm

Response category	f	%
No off-farm employment	472	48%
As a secondary income source	217	22%
As a primary income source	206	21%
To subsidize farm & capital investments	198	20%
For health insurance or other benefits	125	13%
For personal interest	133	13%
As primary career	95	10%
Other	33	3%
Retired	17	2%
Nonresponses = 47		

Source: Organic Farming Research Foundation. Santa Cruz, California. 2003.

Table 2-5 shows that 65% of respondents derive less than half of their household income from organic farm production. The implications of these data are that most farmers do not earn sufficient income to support themselves solely through organic agricultural production, and that most organic farmers derive less than half of their income from organic crop production.

Table 2-5. Respondents' net percentage of household income from organic farm production

Percentage of household income	f	%
1-25%	454	46%
26-50%	193	19%
51-75%	134	14%
76-100%	211	21%
Total	992	100%
Nonresponses = 42		

Source: Organic Farming Research Foundation. Santa Cruz, California. 2003.

An Industry in Transition

In response to increased market demand, the face of the organic industry is changing. The organic agricultural industry is quite different than that of the conventional agricultural industry. Farms, on average, are much smaller and organic distribution areas tend to be more regional than their conventional counterparts, particularly for fresh fruits and vegetables. While the industry is still generally dominated by small farms and local markets, large corporations and supermarkets are rapidly gaining entry. In 2000, the organic food industry crossed an important threshold; more organic food was purchased in conventional supermarkets than any other outlet.³⁴ In 2003, 47% of organic foods were sold through conventional supermarkets, 44% through natural food stores and 9% was sold through direct marketing means (farmer's markets, restaurants and exports).³⁵

As with any burgeoning industry in a free market, as the market expands new competitors move in, increasing supply and driving down costs due to increased competition. Up to now, limited supply and rising demand, as well as higher production costs, have lead to retail price premiums of between 30% to 200% for organically produced goods. Premiums are highest for fresh vegetables and fruit and hover around the 100% rate.³⁶ While these premiums are projected to hold for the near future, increasing competition in the market is expected to begin to narrow the profit margin for organically produced goods within the next 10 to 15 years, particularly as larger corporations move into the market and increased competition exerts downward pressure on prices.

³⁴ Economic Research Service, USDA. *Recent Growth Patterns in the U.S. Organic Foods Market/AIB-777*.

³⁵ Organic Trade Association

³⁶ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. <http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

These trends are generally positive for the consumer because they mean lower prices and an increased supply of organic goods; but, they have important implications for small to medium-sized producers. The organic market as a whole is becoming increasingly competitive and smaller producers are finding it difficult to make a profit and remain competitive in an increasingly global market for agricultural goods. The implications of this finding are that competition will be an issue in establishing and maintaining an organic agricultural economy on the South Coast.

Summary

Opportunities for organic growers are increasing consistent with increases in demand for organic products. Organic agriculture, however, is an inherently risky industry. Many factors affect profitability; some of the most important, such as climatic conditions, are outside growers' control.

The industry historically has been dominated by small, grassroots growers and local sellers. As the popularity of organic products increases, larger retailers (e.g., Wal-Mart and Costco) have moved into the market and are now among the largest sellers of organic products. Consistent with retail trends, we expect the industry to transition from smaller, local growers, to larger corporate growers, which has important implications for small and medium sized producers.

Chapter 3: Agricultural Production in Oregon and on the South Coast

This chapter describes the agricultural economy in Oregon and on the South Coast (Coos and Curry counties). Using data from the U.S. Census of Agriculture and the Oregon State University Extension Service, it describes the types of farms and products that exist in the region. It also describes the scale of organic production in the region. Finally, it describes the existing infrastructure available to support the agricultural economy in Coos and Curry Counties.

Background

Agricultural production has long been a fundamental part of the Oregon economy. The State's total agricultural production value in 2004 was \$4.1 billion. The State's varied terrain, temperate climate and abundant rainfall all contribute to a thriving and diverse agricultural base, producing everything from Christmas trees to berries to nuts. The State of Oregon was the nation's number one producer of blackberries, hazelnuts, loganberries, black raspberries, boysenberries, youngberries, Christmas trees and dried herbs in 2004.³⁷

Both supply and demand of organic goods have increased over the last several years; however, organic products still constitute a fraction (less than 2%) of Oregon's total agricultural base.³⁸ Of approximately 40,000 farms, 515, or 1.3%, are certified organic producers. The sales value of Oregon's organically produced commodities is \$33.75 million, which is about 0.8% of the State's total agricultural production value of \$4.1 billion.³⁹ Oregon Tilth has documented an increase of 130% in total organically certified acres over a six-year period; from 11,984 in 1998 to 27,500 acres in 2004.

Coos and Curry County Agricultural Profiles

Coos and Curry counties both have modest agricultural economies that are primarily based on farm and forest products, livestock and related dairy production. Coos County ranked 24th of 36 Oregon counties in the state with gross farm and ranch sales of \$46.6 million in 2004; Curry County ranked 33rd with sales of \$23 million. Coos and Curry Counties' gross farm and ranch sales combined

³⁷ Oregon Department of Agriculture. *Oregon Agriculture: Facts and Figures*. 2004.

³⁸ Maben, Scott. *Organic Farmers Cultivating a Growing Agricultural Industry*. The Register Guard, April 20, 2005.

³⁹ http://organic.tfrec.wsu.edu/OrganicStats/OR_OrgStats04.pdf

account for approximately 1.7% of Oregon’s total agricultural value of \$4.1 billion.⁴⁰

Data from the OSU Extension Service indicate that the top five crops in Coos County accounted for about \$44.7 million of the \$46.6 million in total agricultural sales in 2004. Table 3-1 shows that Farm Forest Products account for the largest percentage of the County’s agricultural commodities with \$18.0 million dollars in sales in 2004. Farm Forest Products are defined as “the production of logs and firewood from acreage that is controlled by farms and ranches.” It is not large-scale timber production by timber companies, but rather an additional product from a primarily farming or ranching operation.⁴¹

Cranberries are the second largest commodity, accounting for \$11.5 million in sales, followed by cattle, dairy and miscellaneous specialty crops. In 2004, the miscellaneous specialty crops produced in Coos County, according to the Oregon State University Extension Service, were wreathes, cascara bark and cut greens.

Table 3-1. Top five agricultural commodities, Coos County, 2004

Rank	Commodity	Sales
1	Farm Forest Products	\$17,980,000
2	Cranberries	\$11,500,500
3	Cattle	\$6,345,000
4	Dairy Products	\$5,880,000
5	Misc. Specialty Crops	\$3,000,000

Source: Oregon State University Extension Service, 2004

The top five agricultural commodities of Curry County in 2004 were similar to those produced in Coos County (Table 3-2). Farm and forest products account for \$8.8 million dollars in sales. The second and third largest commodities produced were not disclosed to avoid publishing data that could be traced back to individual growers. Finally, Cattle and Miscellaneous specialty crops accounted for \$2.2 million in dollars in sales each. These data indicate that there is little agricultural production of fruits or vegetables in either Coos or Curry Counties, with the exception of cranberries.

Table 3-2. Top five agricultural commodities, Curry County, 2004

Rank	Commodity	Sales
1	Farm Forest Products	\$ 8,800,000
2	Not Disclosed	Not Disclosed
3	Not Disclosed	Not Disclosed
4	Cattle	\$ 2,200,000
5	Misc. Specialty Crops	\$ 2,000,000

Source: Oregon State University Extension Service, 2004

⁴⁰ Oregon Department of Agriculture. *Oregon Agriculture: Facts and Figures*. 2004.

⁴¹ OSU Extension Service.

Despite the relatively small contribution of the South Coast to Oregon's agricultural economy, the region has some areas of specialization: Coos County was first in cranberry production, ninth in dairy, and fourth in sheep production, even though it has less than 18% of its land in agriculture.

The Oregon Employment Department estimates that agricultural employment in Coos County averaged 500 workers and about 140 in Curry County.⁴² One trend is the decline in both actual acreage and number of farms in both counties between 1997 and 2002. On the state level, the number of farms decreased while the amount of land being farmed increased.⁴³ This is indicative of a greater national trend of fewer, larger farms. Table 3-3 illustrates the number of farms in Coos and Curry Counties compared to Oregon. Coos and Curry combined account for approximately 2.3% of the total number of farms in the state. In actual acreage, Coos and Curry Counties account for 1.4% of the state's total acreage being farmed.

Table 3-3. Number and acreage of farms in Oregon and Coos and Curry Counties, 1997 and 2002

Place	Farm Acreage		Number of Farms	
	1997	2002	1997	2002
Oregon	17,658,213	17,080,422	39,975	40,033
Coos County	166,082	144,077	780	748
Curry County	90,090	70,459	195	207

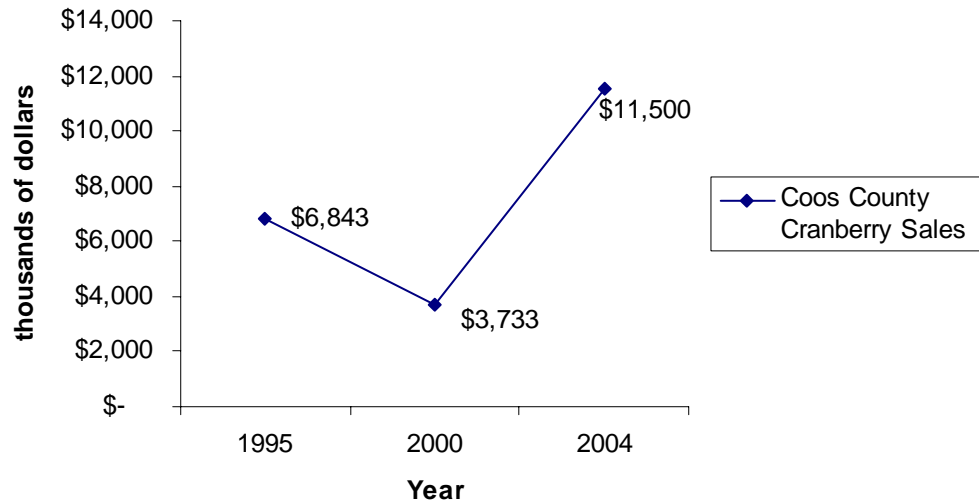
Source: United States Department of Agriculture, Agricultural Census, 2002

In certain crop sectors Coos County has seen significant growth between 1995 and 2004 (Figure 3-1). Cranberry sales, for example, increased by 208% between 2000 and 2004, after decreasing by 45% between 1995 and 2000.

⁴² Found at: <http://extension.oregonstate.edu/coos/about/demographics.html>. Accessed, September 2005.

⁴³ USDA, National Agricultural Statistics Service, 2002 *Census of Agriculture*. <http://www.nass.usda.gov/census/census02/volume1/or/index1.htm>

Figure 3-1. Coos County cranberry sales growth, 1995-2004



Source: USDA, Census of Agriculture.

Potential crop sectors

The most logical place to begin looking for what grows well in an area is what is currently being grown there. However, in addition to the crops that are currently being grown commercially in the area, namely, cattle, farm forest products and cranberries, a variety of crops grow well on the Southern Oregon Coast. These include: strawberries, blueberries, cranberries, caneberries (blackberries etc.) and cool weather crops such as kale, chard, squash, cabbage, lettuce, green peas and artichokes.⁴⁴ Due to the temperate climate the growing season in the area tends to be longer than that of the Willamette Valley; which could provide a comparative advantage in the production of certain crops. For example the southern Oregon coast could potentially provide harvests after the growing season is over in the valley. Weather conditions (particularly wind and cloud cover) in some coastal areas could also have a negative affect on crop yields.

Organic production in Coos and Curry Counties

Statistics on organic production in Coos and Curry counties are extremely difficulty to find. CPW did not identify any standard data source on the volume of crops grown in the two counties. Based on data from Oregon Tilth, there were approximately 3,800 acres in organic production in both Coos and Curry Counties in 2004.⁴⁵ However, only about 100 acres of that were in crops such as cranberries, blueberries, huckleberries and garlic. The majority of organic production in the two counties is pasture and animal feed, as well as meat and dairy products.

⁴⁴ Coos County Extension Service

⁴⁵ Oregon Tilth

In summary, current production of organic crops such as berries and vegetables in Coos and Curry counties is quite low. Organic farms that grow berries and vegetables range between 0.5 and 23 acres, with an average farm size of approximately 10 acres.⁴⁶

Summary

Agriculture is and will continue to be an important part of Oregon's economy. The agricultural economies of Coos and Curry Counties are quite small compared to other counties in the State, but they are leaders in certain crop sectors, such as cranberries. Organic crop production in the area is fairly limited and centers on feed crops and organic meat and dairy production.

⁴⁶ Oregon Tilth, 2004

Chapter 4:

Opportunities and Constraints

The basis of the community organic warehouse concept is that through the provision of necessary infrastructure and the linkage of potential growers with processors, a local organic agricultural economy will develop. In short, the assumption is that local farmers are not growing organic products and local landowners are not converting land to organic production because the lack of a processing facility is a primary barrier. The data presented in the previous sections suggest that the agricultural infrastructure is only one potential factor affecting the local agricultural economy.

The Bandon Organic Grower's processing facility concept has both opportunities and constraints that are described in the following section. It is CPW's assessment that while BOG's facility concept has substantial merit and capitalizes on local opportunities, there are considerable barriers that could pose significant challenges to the development of an organic processing warehouse in Bandon at this time.

Opportunities

There are numerous opportunities associated with the potential development of an organic processing facility in Bandon that CPW identified during the development of this report. Key opportunities include:

- **High growth and increasing demand in the organic industry.** The organic industry is one of the fastest growing industries in the agricultural sector and demand often outstrips supply. Growers can capitalize on this demand through the provision of organic products.
- **Price premiums associated with organic production.** Organic products command generally higher prices on the market than do conventional products; price premiums (e.g., profit margins) for organic products are generally between 30% and 100%. This is partially due to constrained supply relative to demand and partially due to the fact that input costs are higher in organic farming systems.⁴⁷ While these premiums are expected to diminish as more producers enter the market, they are projected to continue for several more years.
- **The coastal region's growing season.** The Oregon coast has a slightly longer growing season than the Willamette Valley, one of the largest production regions of agricultural goods in Oregon. This could provide a competitive advantage because growers could position themselves to

⁴⁷ Economic Research Service, USDA. *Price Premiums Hold on as U.S. Organic Produce Market Expands/VGS-308-01*. <http://www.ers.usda.gov/Publications/vgs/may05/VGS30801/>

supply the market for fresh products (such as berries) after the season in the Willamette Valley has ended.

- **Development of an Amy's Kitchen production facility in White City.** This facility will produce pizza and soup products and will employ about 250 workers. Tom Mello, a manager with Amy's the company suggests leeks are a potential grower opportunity on the South Coast. Amy's anticipates needing about 500,000 pounds annually and typically purchases in minimum lots of 40,000 pounds (a truckload). According to Mello, Amy's usually selects its growers utilizing the following criteria: (a) certified organic grower (b) ability to meet Amy's Kitchen quality, volume, and timing considerations, and (c) price considerations.

In selecting growers, Amy's leans towards organic growers that have experience in the organic marketplace, or new growers that are willing to meet Amy's Kitchen quality standards preferably with some experience with a specific commodity. Integrity, honesty, and sincerity are important attributes.

Finally, Amy's utilizes forward contracts with growers, negotiating contracts anywhere from 3 months to 16 months in advance of harvest. Amy's, however, prefers to purchase only a fraction of any given growers output.⁴⁸ All of these factors present opportunities for the South Coast area; however, CPW did not identify any organic growers that produce leeks at the time this study was completed.

- **The existing cranberry industry on the Southern Oregon Coast.** The cranberry industry currently is the second largest agricultural commodity produced in Coos County (dairy is the first).⁴⁹ CPW's research revealed demand for both cold-storage facilities and potentially, demand for a value-added processing facility. This industry could provide an important link for a burgeoning agricultural community in the form of contacts and a local knowledge base, as well as a potential source of revenue for a processing facility.
- **Local interest in growing organic crops commercially.** A recent informational meeting regarding organic growing opportunities in Bandon garnered over 60 attendees, with several attendees expressing interest in potentially growing an organic crop(s) commercially. Potential exists to build a grower base that could produce crops commercially in the area.
- **Potential diversification of local economy.** In light of the changing economy of the Southern Oregon Coast and the reduction of timber harvests, the development of additional industries such as organic agriculture could add important diversification to the region's economy.

⁴⁸ Amy's representatives indicated that they typically limit purchases to 10% to 15% of a given growers output in a December 6, 2005 grower meeting held in Bandon.

⁴⁹ OSU Agricultural Extension Service

Moreover, an organic agricultural economic would potentially support the region's growing tourism economy.

- **Preservation and protection of the environment.** Organic agriculture is generally considered to be a sustainable form of economic development and has substantially less negative impacts on the natural environment than conventional farming practices.⁵⁰ In sensitive ecosystems such as the coast, protection of water and soil quality is especially valuable.
- **Protection of a historical form of employment.** Agriculture has long been an important component of Oregon's economy and many families in Coos and Curry Counties have farmed for generations. By expanding the infrastructure available to farmers in the region, a valuable cultural and historical tradition can be preserved and expanded.
- **Development of independent employment opportunities.** While it is not anticipated that the facility itself will employ a large number of people, particularly in the formative stages, if markets can be developed, organic farming can provide a livelihood for families.

Constraints

In addition to the opportunities discussed above, CPW identified a number of constraints to the development of an organic processing facility:

- **Lack of developed local production capacity.** Agricultural production, whether organic or conventional, is quite small in both Coos and Curry Counties. Developing local production capacity to the point where production volumes would be sufficient to support a processing facility in the area could take years. In CPW's assessment, this is one of the most significant barriers to the development of an organic processing warehouse. Without a reliable and sufficiently large stream of products to process, maintaining a steady supply chain to purchasers will be extremely difficult. This capacity will have to be developed before a facility will be feasible.
- **The nature of wholesale agricultural markets.** The way agricultural markets currently work, purchasers rarely contract with growers for products and in almost all instances, the price producers receive is established at the time of sale.⁵¹ Even with a contract, the purchaser always has the option to not purchase the product if it does not meet their specifications or quality standards. In an area with limited access to markets (such as Bandon) this can mean that a grower is unable to sell his or her crop at the end of the season if the original purchaser chooses not to buy from him or her. Additionally, CPW's research indicates that

⁵⁰ See Chapter 2 for further discussion of the benefits of organic farming versus conventional.

⁵¹ See Chapter 2, Marketing Channels for organic goods for a more detailed discussion of pricing mechanisms.

purchasers are often reluctant to contract with new growers, looking instead for growers with a proven track record. Thus, it is important for growers to have a diversified selling strategy.

- **Low processing margins.** Depending upon the product being produced, processors either purchase the crop directly from the grower or a produce broker to put into their product, or they process the good as a service to a grower. The profit margin for processing crops on behalf growers is extremely low, on the order of 1-3 cents per pound, according to interviews conducted by CPW. This number varies significantly based on the type of crop, volume of good being processed, the location of the facility, the type of processing, etc. and is intended to be a rough estimate only. Most processors CPW interviewed indicated that processing crops for other growers generally was not a profitable endeavor.
- **Lower wholesale prices for agricultural goods.** Most small, organic farmers choose to direct market their products to clients through farmer's markets or community supported agriculture programs because the price premiums are much higher through these venues. By necessity, price per pound for goods destined for the wholesale markets are much lower, though prices for organic products on the wholesale market are still generally higher than for conventional products. Given the constrained profit margins involved in agricultural production, the price difference between direct marketing and wholesale provision can be significant. Unless a grower can produce a crop in very large volumes (thousands of pounds), it will be difficult for them to make a decent profit selling to the wholesale market.
- **Problems with a dedicated organic facility.** Most processors interviewed indicated that there was currently insufficient volume in the organic market to warrant a dedicated organic processing facility and that the requirements for processing of organic products were fairly easy to incorporate into an existing conventional processing facility. Furthermore, many processors sought certification at the prompting of their clients or because they identified a market opportunity. CPW's research indicated that organic volumes, as of yet, are insufficient to support a dedicated organic facility, particularly in the South Coast area where organic crop production makes up a fraction of overall agricultural production. Moreover, a dedicated organic processing facility would have to compete with all of the existing facilities.
- **Access and transportation.** Because profit margins are so tight in the agricultural industry, additional costs, such as transportation costs, can mean the difference between profit on a crop or not. Interviews CPW conducted with local cranberry growers indicate that transportation and shipping costs poses a substantial barrier to the transport of their products to market and that, during peak harvest time, shortages of trucks creates delivery problems with the limited agricultural activity that exists in the region currently.

- **Higher start up costs associated with organic farming.** Input costs for organic farming can be higher than those for conventional farming. This is attributed to a variety of factors, including: longer crop rotation times, higher prices charged for organic seed propagation and plant stock and time required for soil amendment and preparation. The implications of high start-up costs are that it could take several years before growers make a profit.⁵²
- **Challenges of organic farming.** In order to produce organic crop yields comparable to those of conventional an organic farmer must have the knowledge and experience to maximize production without the assistance of chemical fertilizers or pesticides. In addition to the usual difficulties of agricultural production, such as weather, pest and disease can pose a greater threat to organic crops.
- **Potentially lower crop yields in organic farming.** While crop yields can be comparable to those of conventional using organic farming methods, it takes an experienced and savvy grower to achieve higher crop yields. Organic yields are often lower than conventional yields.⁵³
- **Labor intensity of organic farming.** Because pest and weed control cannot be done through the use of chemical or synthetic herbicides and pesticides in organic farming systems, growers must rely on hand weeding and other manual means of controlling weeds and pests. This can place additional pressure on already constrained profit margins.
- **Rising land values.** The Southern Oregon Coast is developing at a rapid rate and as a result land prices have increased considerably in the Bandon area over the last 20 years. CPW's research indicated that existing farmland is threatened by the encroachment of residential and commercial real estate development. While it is recognized that farming can be a valuable vehicle for the protection and preservation of open space and farmland, the increasing cost of land could pose a substantial barrier to the expansion of the agricultural industry in the area as more lucrative land uses emerge.
- **The coastal climate.** While the coast has a temperate climate and a relatively longer growing season (which is also identified as an opportunity), when compared to potential competitor areas, such as the Willamette Valley, it does not provide a competitive advantage in terms of growing climate. Several individuals CPW interviewed suggested that coastal clouds and fog may have a negative impact on the growing season. Inland areas of Coos and Curry counties are not impacted by these climatic conditions as much as coastal areas. However, crops that require a cooler

⁵² The Coquille Tribe's cranberry operation provides a good example. It took the Tribes nine years before they had a profitable cranberry harvest.

⁵³ CPW grower interviews

growing climate, such as berries, squash, greens, etc. do well on the coast and could be a potential source of specialization.

- **Difficulty finding (and retaining) organic growers.** Recruiting and training a sufficient number of growers willing to grow an organic crop(s) commercially and to produce enough volume to sustain a processing facility could take a substantial amount of time. Additionally, higher initial input costs for organic production and lower yields, as well as the additional labor requirements of organic agricultural production could discourage the establishment or impede the continuance of new growers in the area.
- **Seasonality of crop production and labor demand.** Due to the nature of agricultural production, there are fluctuations in the demand for labor input throughout the year. Demand for labor is generally fairly high at the beginning and end of each growing season, and can be difficult to obtain when it is necessary. Generally the number of full time, year round jobs provided by agriculture tends to be fairly small, although the number of jobs during harvest time can be quite high.
- **No identified source of capital for construction and operation of the facility.** BOG has not indicated a source of funding for the construction of the organic processing facility or a source of capital to cover start-up and operation costs. CPW estimates that a facility could cost up to, or over, \$1,000,000 dollars to build and up to \$200,000 per year to operate and maintain.⁵⁴
- **Difficulty obtaining financing.** CPW's sources indicated that capitalizing a project owned by a nonprofit on leased land will be extremely difficult. Lenders generally do not like to capitalize projects on leased land and will likely require personal guarantees from some of the principals involved in the project. A project of this type and with this great a measure of risk will likely require financing from a government entity, because the private lending market will be extremely reluctant to finance a project of this type.

Implications for the community organic warehouse concept

The market for organic products is expanding at a rapid rate, and is projected to continue doing so for the foreseeable future. Demand currently outstrips supply in most markets, leading to price premiums and strong support for a burgeoning industry. Finding the most profitable way to capitalize on that market growth, particularly for the South Coast, is key to the development of a local organic production base. However, any farming, be it conventional or organic, is a challenging way to make a living. As one local grower stated, "It [commercial

⁵⁴ These figures vary greatly depending on the volume and type of crops, as well as the size and scale of the facility. See Chapter 5 for a more detailed discussion of start up and maintenance costs.

agricultural production] is not for the faint of heart.”⁵⁵ Producing a commercial agriculture crop organically is literally, a tough row to hoe.

For example, the Coquille Indian Tribe has been growing organic cranberries on the South Coast for the last 10 years. The year 2004, was the first year that the Tribe made a profit on their cranberry crop. The profit was substantial, \$1.20 per pound compared to \$0.34 cents per pound for conventional cranberries the same year.⁵⁶ However, there are few growers who will be able to sustain nine years of losses to make a profit on their crop. This is not to say that a grower cannot potentially make a profit on a crop their first season of production, but organic farming requires experience, know-how and dedication (and potentially, capital to sustain the operation through lean years). An organic agricultural economy in the Bandon Region could be developed, but based on our research, CPW’s concludes that developing that organic agricultural economy will take time, education and capital to develop.

Moreover, CPW’s assessment is that without an established local grower base the development of full scale processing facility is premature. We make this conclusion in light of basic principles of real estate development—lenders will require a market study and business plan before then will lend money, or will require collateral. In the absence of capital, a processing facility could easily be initiated on a smaller scale for less money and less risk.

⁵⁵ CPW Grower Interviews, 2005

⁵⁶ CPW Grower Interviews, 2005 and OSU Extension Service, 2004

Chapter 5: Evaluation of the Community Organic Warehouse Concept in Bandon

Chapter 5 presents an evaluation of the financial and related implications of developing an organic processing facility located in the Woolen Mill Addition in Bandon. It begins by describing the facility concept, then presents estimated costs of the proposed facility. It also discusses the development process that will be required if the facility is sited in the Woolen Mill Addition. Finally, it presents a cursory discussion of potential benefits to Bandon – employment and payroll, community development, and other benefits.

Facility characteristics

The community organic warehouse concept, as described by Bandon Organic Growers (BOG), is for a primary processing facility located on the Woolen Mill Addition near downtown Bandon. The facility would include space for processing activities and equipment, retail space, and truck access. As envisioned by BOG, land for the facility would be provided free of charge from the City as an economic development venture. The Woolen Mill District Overlay Zone (Bandon Code Chapter 17.52) would require the warehouse be located in the Employment subdistrict of the Woolen Mill Addition. Improvements on the site would be paid for through funds generated by the Port of Bandon.

While BOG hopes that a public-private partnership would be a possible source of support and funding, CPW prepared this analysis to include a full project cost estimate recognizing the possibility that the facility will need be self-supporting and be treated as any other development project.⁵⁷ Moreover, such cost estimates will probably be required of any funding organization that BOG approaches for the project. Given these factors, the facility characteristics outlined in this section present a facility concept that is phased in over time and begins from a small scale, with opportunities for expansion in the future. All figures presented in this analysis are intended to be estimates only and are highly variable depending on a wide variety of factors.

Table 5-1 shows a conceptual design program for the proposed community organic warehouse facility. CPW estimates that a facility of this type would, at a minimum, require a 15,000 square lot (e.g, 15,000 square feet of land to site the facility). This

⁵⁷ We use this as a baseline development scenario. BOG will probably seek grant funding and other public support for the project to try to reduce capital costs.

would provide enough room for the facility itself, parking, and truck access to the facility. Floor area would be between 3,000 and 5,000 square feet depending on the facility uses and configuration (whether the facility includes cold storage internally).

Table 5-1. Conceptual organic processing facility characteristics

Facility Component	Approximate Size (sq. ft.)
Land	15,000
Building	
Processing area	2,500
Commerical store front and office space	500
Optional cold storage (freezers and coolers)	2,000
Building Total	3,000 - 5,000

Source: Community Planning Workshop, 2005

Note: The facility could be developed without cold storage facilities

BOG also indicated that a commercial storefront would be a component of the facility, perhaps for local farmers to vend their products, as a showcase for the organic agricultural industry, and as a base office for BOG. Similar to the former Bandon Cheese Factory, BOG envisions an area where tourists could tour the facility and watch organic agriculture processing in action as well as purchase locally produced agricultural goods. The facility concept includes 500 square feet for the store front and office space.

The actual size of the processing area needed will vary depending on the volume and type of crop being processed. However, CPW’s research showed that relatively high volumes of crops can be processed in fairly small spaces. Additionally, it is prudent from a financial standpoint to start small and expand later if necessary. Moreover, Community Planning Workshop identified cold storage as a current need because there is limited cold storage capacity in the area. In addition to using it for the processing of crops BOG could potentially rent out the freezer space to local cranberry growers and use the cold storage and freezer capacities to generate additional revenue.

The Woolen Mill Overlay Zone requires that all new development be oriented towards the street, with a maximum setback of 5 feet.⁵⁸ Additionally, all new structures are required to provide at least 50% of the ground floor façade along the street as transparent windows and that at least one main building entrance face the street. The storefront will meet these requirements and provide a buffer between the street and the more intensive processing uses in the rest of the facility. Finally, facades facing the street are required to “provide interest and avoid a flat appearance.”⁵⁹ This can be satisfied through the use of cornices, masonry and other

⁵⁸ Chapter 17.54 of the Bandon Municipal Code, Title 17

⁵⁹ Chapter 17.54.070.B of the Bandon Municipal Code, Title 17

architectural detailing. This is an important standard because it will require additional capital to meet this requirement.

The actual size of the processing area needed will depend on the volume and type of crop being processed. However, CPW's research showed that relatively high volumes of crops can be processed in fairly small spaces. Additionally, it is prudent from a financial standpoint to start small and expand later if necessary.

Estimated development costs

The development costs for the conceptual community organic warehouse will vary depending on the size of the proposed facility. CPW developed preliminary cost estimates based on the facility characteristics shown in Table 5-1. CPW developed range of estimates, including a purchase and lease option scenarios for the land.⁶⁰ These figures are not intended to be iron clad, but rather to provide BOG with a starting place when evaluating the financial feasibility of developing a community organic warehouse.

Table 5-2 illustrates the estimated start-up costs with leased land for the proposed facility. Under the BOG concept of external funding for land and the building, capital costs could be as low as the cost of equipment (which CPW estimates could be between \$10,000 and \$100,000. If BOG has to cover capital costs, CPW estimates start-up costs for the proposed facility to be between \$300,000 and \$540,000 under a land lease scenario. It should be noted that the land lease cost estimate is based on downtown, market rate lease rates on the high end and a subsidized lease rate from the City on the low end. The building cost estimates are slightly higher than they would otherwise be for a facility of this type due to the standards outlined in Bandon's Woolen Mill Addition Overlay Code. Building costs could potentially be reduced by leasing an existing space or changing the proposed location of the facility.

⁶⁰ The City of Bandon has expressed a strong desire to retain ownership of the land. Real estate professionals CPW interviewed suggested that it is difficult to obtain financing for buildings on leased land.

Table 5-2. Estimated start-up costs with leased land for conceptual organic processing facility

Cost Category	Units	Cost per Unit	Sample Cost Estimate	
			Low	High
Start Up Costs				
Lease Option (annual O&M cost)	15,000 sq. ft.	\$0-\$0.40	\$0	\$0
Hard Costs				
Building	3,000 sq. ft.	\$75.00-\$100.00	\$225,000	\$300,000
Equipment*			\$10,000	\$100,000
Infrastructure Improvements			\$15,000	\$50,000
Soft Costs** (@ 20% of hard costs)			\$50,000	\$90,000
Total Start Up Costs-Lease Land			\$300,000	\$540,000

*This figure is highly variable dependent upon the type and volume of crops being processed and whether or not the equipment purchased is new or used

**Soft costs include, but are not limited to: systems development charges, entitlement charges, permits, insurance and legal costs

Source: BOG Preliminary Market Study and Feasibility Assessment , CPW, 2005.

Table 5-3 presents estimated start up costs with purchased land for the conceptual organic processing facility. Again, land purchase prices are based on the market rate price in downtown Bandon. Land could potentially be obtained for much less if the facility is located in another part of town. Under the BOG concept of external funding for land and the building, capital costs could be as low as the cost of equipment (which CPW estimates could be between \$10,000 and \$100,000. If BOG has to cover capital costs, CPW estimates capital costs at \$660,000 on the low end to \$1,44 million on the high end. These figures are the estimated costs in order to locate the facility and build the building.

Table 5-3. Estimated start up costs with purchased land for conceptual organic processing facility

Cost Category	Units	Cost per Unit	Sample Cost Estimate	
			Low	High
Start Up Costs				
Purchase Price	15,000 sq. ft.	\$20.00-\$50.00	\$300,000	\$750,000
Hard Costs				
Building	3,000 sq. ft.	\$75.00-\$100.00	\$225,000	\$300,000
Equipment*			\$10,000	\$100,000
Infrastructure Improvements			\$15,000	\$50,000
Soft Costs** (@ 20% of hard costs)			\$110,000	\$240,000
Total Start Up Costs-Purchase Land			\$660,000	\$1,440,000

*This figure is highly variable dependent upon the type and volume of crops being processed and whether or not the equipment purchased is new or used

**Soft costs include, but are not limited to: systems development charges, entitlement charges, permits, insurance and legal costs

Source: BOG Preliminary Market Study and Feasibility Assessment, CPW, 2005.

CPW also developed estimated annual operating cost estimates for the proposed facility. Table 5-4 presents the estimated net annual operating costs with purchased land. Operating costs were estimated at 15% of the debt service, but could be much higher (or potentially lower) depending on the type of equipment, amount of cold

storage, volume of crops being processed, operational schedule and number of staff.

This estimate includes one full time facility director who would be responsible for the day-to-day operation, marketing, and bookkeeping for the facility. Staffing requirements are dependant on volume, but are probably underestimated at three full time equivalency positions. The warehouse staff would include at least one person working in the retail portion of the facility and two people to work in the processing portion of the facility. Seasonal labor costs could be substantially higher depending on the type and volume of crops being processed in the facility. The staffing figures presented here are estimated to be the minimum number of people necessary to staff the warehouse adequately. The warehouse staff cost figures were estimated for three, year-round, full-time positions at \$7.50 an hour, without benefits. At the lowest level, operations and maintenance costs could include just staff and whatever facility and equipment maintenance was necessary. Under this scenario, annual operating and maintenance costs would be between \$80,000 and \$90,000. If BOG had to pay debt service, CPW estimates annual operations and maintenance costs would be between \$142,504 dollars and \$227,175.

Table 5-4. Estimated net annual operating costs with purchased land

	Units	Sample Cost Estimate	
		Low	High
Debt Service (@7%)	20 years	\$62,299	\$135,926
Operating costs (@15% of debt service)*	annual	\$9,345	\$20,389
Maintenance (@ \$2.14/sq. ft.)**	5000 sq. ft.	\$10,700	\$10,700
Staff			
Facility Director (salary&benefits)	1 FTE	\$40,000	\$40,000
Warehouse Staff (salary, no benefits)***	1.5 FTE*	\$20,160	\$20,160
Total estimated costs		\$142,504	\$227,175

* Operating costs include utilities, insurance and other costs associated with a facility of this type

**Cost estimate from Whitestone Building Maintenance and Repair Cost Reference, 2002

***To accommodate seasonal labor. This position could be split between several people and is highly variable depending on the volume of crops and type of processing

Source: BOG Preliminary Market Study and Feasibility Assessment, CPW, 2005.

Table 5-5 presents CPW's estimated net annual operating costs with leased land. The debt service figure is for the building alone, because the lease is paid monthly and does not need to be capitalized at the beginning of the process. At the lowest level, operations and maintenance costs could include just staff and whatever facility and equipment maintenance was necessary. Under this scenario, annual operating and maintenance costs would be between \$75,000 and \$90,000. If BOG had to pay debt service, With leased land, CPW estimates annual operating costs to be between \$103,426 and \$135,478 dollars.

Table 5-5. Estimated net annual operating costs with leased land

	Units	Sample Cost Estimate	
		Low	High
Land Lease	\$0-\$0.40/sq ft/yr	\$0	\$6,000
Debt Service (@7%)	15 years	\$28,318	\$50,972
Operating costs (@15% of debt service)*	annual	\$4,248	\$7,646
Maintenance (@ \$2.14/sq. ft.)**	5000 sq. ft.	\$10,700	\$10,700
Staff			
Facility Director (salary&benefits)	1 FTE	\$40,000	\$40,000
Warehouse Staff (salary, no benefits)***	1.5 FTE*	\$20,160	\$20,160
Total estimated costs		\$103,426	\$135,478

* Operating costs include utilities, insurance and other costs associated with a facility of this type

**Cost estimate from Whitestone Building Maintenance and Repair Cost Reference, 2002

***To accommodate seasonal labor. This position could be split between several people and his highly variable dependent upon the volume of crops and type of processing

Source: BOG Preliminary Market Study and Feasibility Assessment, CPW, 2005.

Development process

Any new construction within the City of Bandon will require building permits. Depending on the location, the facility may also require land use review. Such facilities are allowed outright in Bandon’s Light Industrial (LI) zone, and as a conditional use in the General Commercial (C-2) zone.

The remainder of this section provides a more detailed discussion of the land use entitlement process that the proposed community organic warehouse would have to go through if it were located in the Woolen Mill Addition.

Entitlement Process

The facility concept, as articulated by BOG, is for the facility to locate on the Woolen Mill Addition.⁶¹ According to City staff, any industrial development (be it a community organic warehouse or something else) on the Woolen Mill Addition would be required to complete a two-step process. The first step would be to work with the City to obtain permission to develop on the Woolen Mill Addition; the second is the standard land use entitlement process.

According to the Woolen Mill Addition Master Plan, the City plans to redevelop the 25-acre site to provide opportunities for the promotion of economic development, housing and open space. The City of Bandon currently owns the entire site and is overseeing its redevelopment.

⁶¹ The Woolen Mill Addition is not the only potential location for such a facility. There are conceivably many potential sites in Coos County that are serviced by municipal water where such a facility could be developed. Moreover, according to City staff, a produce processing facility would be an allowable use in any industrial zone in the City.

According to City staff, land could either be purchased outright or leased from the City. However, the City has indicated that it is interested in retaining ownership of the site as a long-term investment strategy and thus has a preference for long-term leasing arrangements. In addition to the standards outlined in the zoning code (discussed below) the City also considers several other criteria when evaluating whether or not to enter into a lease contract with a business or organization. The list below includes the questions considered by the City Manager's office and City Council when evaluating a proposal.⁶² CPW has provided answers to the questions to the degree possible.

1. *How much is being offered for the lease?* Unknown at this time.
2. *How long is the lease?* Presumably long-term (20 or more years). The proposed community organic warehouse is envisioned as a long-term community and economic development strategy and a potential tourist attraction.
3. *How much space is being requested?* CPW's preliminary estimates are that a modest 3,000 to 5,000 square foot facility would require 10,000 to 15,000 square feet of land in total.
4. *Is the use consistent with the City's long-term vision as outlined in the Woolen Mill Addition Refinement Plan?* The Woolen Mill Addition Refinement Plan envisions an area that will have a mix of residential, commercial and light industrial uses. A small-scale community organic warehouse is consistent with the plan's vision.
5. *How many new jobs will be created?* The initial analysis suggests one full-time position and three additional full time equivalency positions that could be distributed between seasonal and year round employment. Potential exists for many seasonal positions depending on the types and volumes of crops being processed in the facility.
6. *What types of jobs will be created? Full or part time? Benefited?* The jobs will be in agricultural marketing and processing. CPW's initial analysis suggests that a full-time, benefited director level position would be required, and that several un-benefited, seasonal positions would exist.
7. *What is the design of the facility? How does it interface with the Woolen Mill Design Guidelines and the Woolen Mill Refinement Plan?* CPW's work addressed the market and financial aspects of the facility; no conceptual design was available at the time we conducted this study. We assume that any design would be consistent with the design guidelines and refinement plan.
8. *What is the source and commitment of funds for the construction portion of the project?* At the time this report was completed, no funding sources had been identified or committed.

⁶² These questions were included in the original RFP for this project and were verified by CPW in subsequent discussions with City staff.

9. *Is there assurance of funds for start-up and operational costs?* At the time this report was completed, CPW was unaware of any assurance of funds for startup and operational costs.
10. *Are there contracts or agreements in place with suppliers and purchasers?* CPW did not identify any contracts or agreements with suppliers or purchasers at the time this study was completed. BOG, however, is actively working with food processors to identify opportunities to develop contracts or agreements with local growers.
11. *What are the utility requirements of the proposed use?* The proposed facility will require truck access, parking, water, wastewater, electricity, and telecommunications facilities.
12. *How much water will the facility use?* Insufficient information exists to answer this question based on our preliminary assessment.
13. *What are the wastewater impacts?* Insufficient information exists to answer this question based on our preliminary assessment.
14. *What are the tax implications for the City?* This depends on who owns and manages the facility. If it is a nonprofit organization like BOG, then the City would potentially receive no property tax from the development.

The Woolen Mill Addition is seen as a key City asset and the city is interested in achieving the maximum public good from the site. The City will carefully evaluate all proposals to assure that the highest and best use of the site is being achieved.

In addition to meeting the criteria outlined above, any proposed use will have to conform to the Woolen Mill Overlay Zone standards (chapter 17.54 of the City of Bandon Development Code). Light industrial uses, such as an agricultural processing plant, are permitted outright in the Woolen Mill Overlay Zone, as long as they comply with the standards set forth in Overlay Zone. Finally, any project proposed, regardless of its location, will be required to go through the City's standard review and permitting process, which can take several months.

Potential benefits of a community organic warehouse

If the project is successful, there could be substantial benefits for the South Coast community. The magnitude of these impacts will vary depending on the scale of the facility and the size of the local market that is developed. Following is a discussion of some of the potential community benefits:

- **Development of a sustainable, local industry.** While the impact of the warehouse itself would be fairly minimal in terms of jobs and economic benefit to the City of Bandon, a developed organic agricultural base could have many benefits for the greater community. It would provide a diversified income source for local growers, provide seasonal job opportunities, preserve valuable land and protect the environment.

- **New economic development initiative.** The proposed community organic warehouse and associated local production capacity would aid in diversifying the local economy.
- **New jobs and wages.** CPW's research indicates that a high number of seasonal jobs could potentially be developed through the increased agricultural activity in the area and through the processing activities at the warehouse facility. However, these jobs will generally be low-skill, low-wage jobs.
- **Potential tourist attraction.** BOG envisions a facility where tourists could come and watch the processing activities in the facility, purchase locally produced products and learn about the organic industry in the area.

Chapter 6: Conclusions and Recommended Actions

This chapter presents CPW's conclusions with respect to the financial feasibility of a community organic warehouse located in the Bandon Woolen Mill Addition. It also presents a set of recommended actions that Bandon Organic Growers can pursue to facilitate the development of an organic agricultural economic on the South Coast.

Conclusions

1. The community organic warehouse as described in the design program is not financially feasible at this time.

CPW's research did not lead us to the opinion that development of a dedicated organic warehouse on the Woolen Mill Addition will be a significant factor in growers' and landowners' decisions on whether to establish organic farming operations.

It is CPW's assessment that the proposed facility as described in the facility program (Chapter 5) is not financially feasible at this time, primarily because of the lack of developed organic local production capacity and identified capital to construct the facility. Without a substantial established local production base a processing facility will be unable to generate sufficient revenue to support itself. CPW's research showed that margins on strictly processing and storing agricultural commodities are extremely thin. A facility of this type would have to process millions of pounds of product in order to cover its operating and staffing expenses, which are estimated at between \$75,000 and \$227,000 dollars a year.⁶³

For example, using mid-range processing and expenses estimates; at three cents per pound for processing services and assuming \$150,000 dollars a year in expenses, the facility would have to process 5.0 million pounds of agricultural products in order to break even. CPW estimates that the entire South Coast's current production of organic cranberries is on the order of just over half of a million pounds.⁶⁴ Developing a grower base that can produce, and access markets with demand for such high volumes of products will take time, capital and education. The existing organic production in the area is extremely small, and will need to be substantially expanded before a processing facility is needed.

⁶³ See chapter 5 for CPW's cost estimates.

⁶⁴ CPW Grower Interviews, 2005 and Oregon Tilth, 2005

The following example provides an illustration of the amount of crop production and the capital requirements to build that capacity using organic strawberries that would be needed for a facility of this type to cover its annual operating costs:

We begin by assuming a range of between 6,000 and 9,000 pounds yield per acre for organic strawberries.⁶⁵ The processing facility would need 5.0 million pounds of strawberries to process for the proposed facility to break even—assuming a processing margin of three cents per pound and annual facility operating costs of \$150,000. Thus, 833 acres of organic strawberries would need to be put into strawberry production at 6,000 pounds per acre and 555 acres at 9,000 pounds per acre.⁶⁶

The average organic farm is around 40 acres, which means that between 13 and 21 new 40-acre farms would have to be established in order to produce enough product to support a facility of this scale.

The initial capital required to establish cropland for production of organic strawberries ranges from \$4,533 per acre from a matted row system and up to \$26,600 for a plasticulture system.⁶⁷ Given these capital costs, the establishment of 833 acres of organic strawberry fields would require a capital investment of between \$2.5 to \$3.8 million dollars for a matted row system and between \$14.8 to \$22.2 million dollars for a plasticulture system. Larger yields would require fewer acres and therefore less initial investment.

Obviously strawberries would not be the only crop being produced or processed in the facility, but this example illustrates an important point, in an area with minimal existing agricultural production capacity, the establishment of over 2,000 acres of farmland would take a tremendous amount of capital, time, labor and commitment.

2. Local production capacity must be augmented before a dedicated facility is required.

Current production of agricultural goods on the South Coast is quite low, with the exception of cranberries, farm forest products and cattle and dairy products. In fact, CPW identified less than 100 acres in organic vegetable production in Coos County. The local product capacity must be increased in advance in order to sustain a facility of this type.

⁶⁵ Gliessman et al. 1994 page 40 through, ATTRA- National Sustainable Agriculture Information System. Strawberries, Organic and IPM Options. <http://attra.ncat.org/attra-pub/strawberry.html#39>.

⁶⁶ In light of the extremely variable nature of organic agricultural production and yields, a range of possible yields are presented here. This is in no way to say that higher, or lower, yields could not occur, but are merely presented as a starting point for the purposes of this analysis. This illustration is intended to provide a general idea about what would be necessary to support a facility of the type proposed; it is an **estimate** only.

⁶⁷ Pritts, Marvin and David Handley (eds.) The Strawberry Production Guide for the Northeast, Midwest, and Eastern Canada, NRAES-88. NRAES, Ithaca, NY. Note: 1994 dollars adjusted to 2005 dollars for inflation using the U.S. Department of Labor, Bureau of Labor Statistics inflation calculator.

3. Wholesale crops command lower price premiums.

While the potential exists for the development of a commercial agriculture base, and the larger markets are in place, trends in the organic industry indicate that BOG's concept may not be the most effective way to capitalize on that market growth. For example, data show that the highest price premiums for organic products (vegetables in particular) are for products that are delivered as fresh market products, not for products being sold to processors or wholesales. Specific data on the differences in price premium were not identified, but CPW's interviews with processors, growers and industry experts indicated that the price is generally lower for products being sold to processors or wholesalers. According to the National Sustainable Agriculture Information System, "Wholesale marketing is subject to price fluctuations and is not usually very profitable, compared to direct marketing."⁶⁸ This is intuitive because delivery to a processor adds another margin to the price of the good. Growers receive the best price for their product through direct-to-consumer marketing.

4. Financing this project will be challenging.

The current conditions of the local market suggest securing capital for the project from conventional sources (e.g., banks, foundations, government agencies) will be difficult. CPW bases this conclusion on the fact that the organic agricultural economy on the south coast is in its infancy. It will be difficult to develop a compelling need statement for the proposed facility until the region has a larger grower base.

An additional concern is the City's desire to lease rather than sell land in the Woolen Mill Addition. According to real state experts CPW interviewed, traditional (private) lenders are very reluctant to finance construction projects on leased land and will require a source of collateral. Obtaining financing as a non-profit is also a challenge.

5. A diversified purchasing base is critical to the development of a sustainable industry.

The location of an Amy's Organic Kitchen processing facility in Southern Oregon could potentially provide a purchasing source for local products, Amy's representatives have indicated that they generally only purchase 10% to 15% of a grower's total crop production and that they prefer to contract with buyers with a proven track record. This is fairly standard in the wholesale agricultural purchasing market; establishing contracts between such organizations and local growers who have no or little previous growing experience will be difficult. Developing a diversified purchasing base is crucial to the support of a local organic agricultural base in the area.

6. Vegetable production is not the only approach.

CPW's research has shown that the fastest growth and highest profit margins in the organic industry are currently found in the dairy and meat production industries.

⁶⁸ ATTRA- National Sustainable Agriculture Information System. Strawberries, Organic and IPM Options. <http://attra.ncat.org/attra-pub/strawberry.html#39>

Vegetable and fruit production, particularly for the wholesale and processing markets, is generally less profitable than direct to consumer marketing techniques.

Summary

A modified facility concept, that could provide value-added and cold storage services to the existing cranberry industry, and that could process both conventional and organic products (in addition to cranberries) could be feasible.

Based on CPW's research and quantification of existing organic production capacity in Coos and Curry Counties, there does not appear to be sufficient production of organic, and arguably conventional, crops to sustain a processing facility in Bandon. CPW's interviews suggest that there is substantial demand for organic products, but insufficient organic production in the region to sustain a dedicated processing facility. CPW's research did not lead us to the opinion that development of a dedicated organic warehouse on the Woolen Mill Addition will be a significant factor in growers and landowners decisions on whether to establish organic farming operations. In short, it is our opinion that a speculative development venture is almost certain to fail because of insufficient revenue streams.

Additionally, due to Bandon's location and limited accessibility, importing organic products from other parts of the state for processing would be economically infeasible because of high transportation costs. However, CPW identified potential demand for a facility that could specialize in value-added processing of conventional and organic cranberries, but potential competition from other facilities could be a barrier.

Cranberries currently comprise a significant portion of the area's agricultural production and interviews with local growers indicated a potential need for a value-added processing facility as well as cold storage. The cranberry industry could provide a source of revenue for a processing facility while the existing agricultural production capacity in the region is diversified and expanded. The facility could initially be established to provide a value-added processing service to local cranberry growers that could include halving, drying and sweetening cranberries, as well as individual quick freezing or cold storage provision. CPW recommends that the facility be established to process both organic and conventional crops in order to provide a greater potential financial base. As the organic industry in the area expands, the conventional processing component could eventually be phased-out.

Coos and Curry counties' production capacity could be increased through an aggressive marketing campaign, but it is CPW's assessment that it is more logical to build that capacity and develop the support infrastructure, such as a processing facility, once the production capacity is in place. Given the time commitment involved in pursuing organic certification, time to substantial yields from planting and the lower production yields generally associated with organic agriculture, as well as the increasingly global nature of the agricultural industry, substantial time and monetary investment would be required to build enough production capacity to sustain a processing facility. Once the production capacity of Coos and Curry counties is established, which is estimated to take between three to five years, it

will make sense to revisit the possibility of a processing facility and warehouse in Bandon.

Recommended Actions

While our assessment is that a processing facility would not be feasible at this time, BOG should continue to work with local growers and regional purchasers to develop an organic agricultural economy in the region. A dedicated community organic warehouse is an ambitious vision—one that is going to require some concerted effort to realize. It is our opinion, however, that a more modest facility may be viable.

CPW offers the following recommendations to BOG as it continues its efforts to promote organic agriculture on the south coast:

- **Be flexible.** Despite CPW's assessment that a facility of the scale and type initially proposed is not feasible at this time, the organic industry is growing at a rapid rate and there are many opportunities to capitalize on that growth. By being willing to reassess and change BOG's initial concept a more feasible proposal could be developed.
- **Start small.** It is CPW's assessment that at this time, a large facility is unwarranted given the current organic production capacity of the area. If the concern is that the infrastructure, such as the proposed facility, is necessary for the establishment of an organic industry in the region, a very small facility could be established in a different area of the City with considerably less risk and capital needed. There are almost certainly existing buildings that could be leased at relatively low cost to establish a facility. The facility could later be expanded or moved as the industry develops in the area. Early successes can be contagious and can demonstrate to less risk averse growers and landowners that organic farming is a viable option.
- **Continue to develop local production capacity.** The initial interest expressed by local residents at the grower meeting held in December by BOG is an encouraging beginning. CPW recommends that BOG continue developing the local production capacity and education of local residents about the opportunities offered by organic agricultural production.

Tom Mello from Amy's Kitchen provides the following advice for potential growers: "concentrate on quality and consistency. Start to experiment with numerous crops, and ask the old time growers and farm advisors which crops do best in this area, and what challenges would there be in growing these crops, especially in an organic context. Combining or consolidating efforts of many growers to channel commodities thru a centralized distribution point would help marketability of said crop."

- **Continue to work with buyers.** BOG should continue to develop potential markets and expand its purchaser contacts, as well as to identified potential markets and opportunities in the industry.

- **Look for a diversified purchaser base.** Putting all of BOG's proverbial eggs in one basket is not a sustainable development strategy. A diversified purchaser base will be crucial to the support and maintenance of a local organic agricultural industry.
- **Develop stronger support network for growers.** By networking with resources already established in the area, such as the OSU Extension Service, Oregon Tilth, the Oregon Cranberry Network and others BOG can develop support for organic growers just entering the market and take advantage of the existing local knowledge base.
- **Establish a local fresh market in addition to a processing market.** CPW's research has show that profit margins are generally higher for fresh market products than for wholesale markets. A more financially beneficial approach may be to capitalize on the local fresh market and develop direct to consumer markets through the establishment of Community Supported Agriculture and local purchasing venues.
- **Consider processing both conventional and organic products.** CPW recommends that the facility be established to process both organic and conventional crops in order to provide a greater financial base. As the organic industry in the area expands, the conventional processing component could eventually phased-out.
- **Start with what works: cranberries.** Millions of pounds of cranberries are produced in the region, the majority of which are sold to wholesalers for fruit juice concentrate. The way the market is currently structured, growers do not know how much they will receive for their crop until after they have produced and shipped it to the purchaser. CPW's interviews with local cranberry growers revealed that potential demand exists for the development of a value-added facility, as well as cold storage.
- **Consider value-added processing services.** CPW's research has shown that potential demand exists for a value-added service for the cranberry industry in area. A cold storage facility and value added service for local cranberry growers (both conventional and organic) could be an excellent opportunity to establish a facility while the organic production capacity is developed. The following section addresses in more detail the opportunities presented by the existing cranberry industry.
- **Develop political support for the project.** BOG should work with the City of Bandon, Coos County, the Oregon Department of Agriculture, and other groups to build support for this project. Our observation is that projects that are done as partnerships often have better odds of success.

Summary

The organic market is expanding rapidly and opportunities exist for organizations to capitalize on that expansion, but they have to think strategically about it. It is CPW's assessment that, although the facility concept proposed by BOG is not financially feasible at this time, potential exists for the development of a local organic agriculture base in Coos and Curry Counties. Bandon Organic Growers

should continue to develop contacts with local growers and buyers and start with a substantially scaled back facility to begin with. As local production capacity develops and markets are established, the scale and size of the facility can be expanded as needed.