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An Assessment of Market Viability for Third-party Certification and Eco-label for California

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This report provides background for understanding the market viability and potential strategy for the introduction of a third-party certification system and eco-label for food produced in a socially and environmentally responsible manner in California. In order to gain insight into this question, I considered lessons learned from other eco-label/certification efforts around the world; explored different certification/labeling programs that are running in CA or are expected to move here; briefly looked at potential institutional markets for a new third-party certification for food production; and looked at the nexus between government policy and third-party certification programs. In considering a strategy and approach for the California market, I have incorporated many lessons from the experience of Food Alliance, an Oregon based third-party certification and eco-labeling organization that is interested in entering the California market. It is my hope that this research will provide critical input for the next stage of development of a certification and eco-labeling program in California. In gathering this data, I relied on web-based research and interviews. A list of people I interviewed is attached in Annex A.

Vivid Picture (VP) Goals Addressed by This Strategy:

- Increased use of socially and environmentally responsible management practices among California growers leading to better water conservation, reduced pesticide use, cleaner air, and increased biodiversity and wildlife habitat protection.
- Fair and respectful treatment of workers
- Increased awareness of where food comes from (traceability)
- Increased availability and demand for locally and California produced food
- Humane and healthy practices in animal care (no hormones)
- Increase access to markets and profitability for small and medium-sized producers

Summary of Findings and Key Elements of a Strategy

Based on this initial research, it is clear that California is ripe for a third-party certification system and eco-label that verifies and promotes good social and environmental management practices in food production. Given existing market trends and increased advocacy for sustainable food, there will be growing demand for certification from hospitals, universities, business campuses, conference centers, and other institutional entities, both in California and elsewhere. Demand for certified food is growing among large institutional food service providers such as Bon Appetit, Sodhexo, and Aramark. As their supplies of certified food grow, they will foster further demand by promoting these products among their current clients. In addition, socially and environmentally responsible large companies (such as Sysco, Unilever, Ahold) are increasing demand for traceability and higher environmental standards from their suppliers. Many more large companies and processing plants could be persuaded to adopt these higher standards.

Chain restaurants that are marketing their food as fresh and already have enlightened sourcing policies also represent a ripe market. Government institutions (especially prisons, public schools and health facilities) also represent a potential market—though it will need to be developed through the adoption of procurement policies and political advocacy over the longer term. While retail markets also offer significant long term opportunities, significant marketing, distribution and production challenges make market development in the retail sector, at least in the short term, more difficult.

One might ask why we need another label and certification system when we already have organic certification. Many will also be concerned about a new program's impact on the organic market.

Given that institutional markets operate within major budgetary constraints, the purchase of significant quantities of certified organic food is unlikely. While some organic food will enter this market, it will be important to offer mid-price certified products that can be purchased in large quantities. Furthermore, from the standpoint of social and environmental transformation of California's agricultural system, organic certification is out of reach of most California farmers, and will thus have limited overall impact. In order to provide incentives for a broader segment of the farming population to improve their practices, and to address issues not explicitly covered by organic certification (fair labor practices, wildlife conservation, biodiversity, water conservation, energy use, etc.), a broader, more integrated certification system is needed.

This kind of system could also act as a transitional system for farmers who are looking for higher premiums and seeking to achieve 100% organic certification. Even some organic farmers may want to make use of this kind of certification program in order to differentiate themselves from large industrial organic farms that many would not consider to be sustainable. Since the retail market will not be its number one target, there will be less direct competition with the organic sector.[1] It is also vital to consider how a new certification system, together with sustainable food system advocacy, can actually help to expand the institutional market for organic. This could be done by joining forces with organic advocates to influence institutional sourcing guidelines so that they include both organic and other socially and environmentally responsible purchasing targets.

The Food Alliance's (FA) certification system and marketing program closely match the kind of broader goals sought by the VP.[2] While there are certainly areas for improvement, especially in terms of standards strengthening (particularly on pesticides and labor), organizational financial sustainability, compliance mechanisms, and branding effectiveness at the retail level, there are numerous reasons to support FA's expansion into the California market. Food Alliance would bring: extensive experience and organizational viability, close proximity to California, vast marketing experience, savvy, and contacts—especially with institutional food providers (one of which has committed to purchasing extensive quantities of FA certified food in California). Furthermore, it has expressed a strong interest in working with stakeholders in California to strengthen its standards and is the only program that certifies social, as well as environmental criteria.

Protected Harvest (PH), a certification organization that has recently entered the California market, is also playing a crucial role in third-party certification in California. PH expertise however is more focused on environmental certification and standards development for very specific crops in specific regions, and does not bring the same kind of market development experience and contacts that FA has successfully cultivated in the

Northwest and Midwest—and that is vitally important to success in the California market. PH, however with its significant experience interacting with mainstream growers as well as broad policy expertise, will be an important ally in the transformation of California's agriculture towards greater sustainability.

Stakeholder Engagement

In order to further Food Alliance and other certification programs in California, a key first step will be to bring different stakeholders together into an alliance in order to give technical input into the standards, as well as to provide support for producer outreach, market development and policy work in California. This stakeholder alliance should comprise key grower, environmental, health, labor, consumer, student, business and academic representatives. A technical subgroup could review Food Alliance and other standards and make recommendations for improvements based on the needs of California's farmers, workers, health and environment community. This group also needs to look at how the standards could improve compliance with the state's regulatory framework and could assess whether a minimum level of reciprocity could be established between the Food Alliance and Protected Harvest standards. In the longer term, this newly formed alliance could provide an umbrella for policy advocacy as well as promotion of certified food purchasing among the state's universities, hospitals, schools, prisons, restaurants, processors, retail outlets and other actors in the supply chain.

As growers in numerous sectors begin to embrace third-party certification, a longer term goal could be the establishment of a public-private entity—the California Agricultural Stewardship Council—modeled somewhat after the Forest Stewardship Council. This entity would give its green thumb stamp of approval to various certification schemes in California and work towards creating a California gold (green) standard that would eventually be adopted by the majority of California producers. Similar to the Forest Stewardship Council, the entity would have several chambers made up of government representatives from key agencies (water board, air quality board, EPA, etc.), grower groups, environmental, labor and consumer organizations. Government participation on this board would help to ensure state leadership and investment in the initiative and would lead to a more supportive policy framework and greater cooperation on how to use certification to streamline paper work across agencies and provide regulatory relief to growers.

Market Development

Given that universities and hospitals represent the most promising markets, priority should be given to supporting students, health, and environmental groups to focus on these institutions. Working groups within this alliance should be supported to develop, advocate for and monitor implementation of sustainable food procurement policies among the UC campuses and leading hospital groups, especially Kaiser, Catholic Health Care West and Sutter Health. Model procurement policies and best practices need to be developed, shared and disseminated. Given the similar challenges and market players, synergies between these groups, as well as synergies on the producer distribution front, should be maximized. On the health front, Healthcare Without Harm, Prevention Institute, and Physicians for Social Responsibility are active on hospital procurement and are key allies for the sustainable agriculture community. On the student front, important allies include the UC-wide food system alliance (a subgroup within the UC Sustainability Coalition), and each of the food system groups that are being established on UC campuses throughout the state.

Another priority of this proposed alliance would be the promotion of more sustainable sourcing among other influential buyers including wholesale companies and processors, and chain restaurants (at first targeting more enlightened chains such as Chipotle, Subway, Cactus Taqueria, Fresh Choice). This same group could also engage top level retailers such as Costco and Trader Joes, and city and state government institutions, such as prisons and schools. Once the focus moves to the retail market, it will be important to develop alliances and joint labeling, marketing and education programs with groups that are spearheading Buy Local campaigns/labels in different regions in California.

As the single largest institutional market in the state, another key target is the public school system. Ideally, farm-to-school advocates working on promoting local food purchases could also advocate for third-party certified food. In the long term, more sustainable purchasing could ultimately be mandated through the adoption of federal procurement changes for the National School Lunch Program (NSLP), and School Breakfast Program. In the short term, however, efforts will be needed to build support on a case by case basis among parents, kids, school board members in the largest and most progressive school districts in the state. Another strategy would be to advocate directly with the largest distributor of food for the National School Lunch program in California: the Department of Defense. Currently, the Community Alliance with Family Farmers (CAFF) and the National Farm to School Program have been working to encourage them to buy from local farmers. One useful legislative approach would be to get language in the federal farm bill and the California Farm to School Bill encouraging school districts to purchase certified food.

Grower Outreach

In the meantime, more sustainable food procurement will not happen anywhere in California unless farmers are certified; hence the need to move forward very quickly to recruit growers into the certification program and provide the necessary technical assistance to ensure supply once the demand picks up in California. In addition to progressive farmer organizations like CAFF, mainstream grower groups such as the Farm Bureau, Western Growers, and many of the specific industry grower groups need to be enlisted to promote the program and assist in identifying the more progressive growers within their industries.[3] Western Growers has already expressed significant interest in this kind of certification program. It will be critical to sell this as an opportunity to gain market access while also increasing compliance with state regulations and in the longer term having greater access to government funds for conservation and environmental protection. One could also argue that it is to their benefit to get ahead of the curve and be ready once larger companies like Wal-Mart get on board. Farmers already enrolled in the state's Conservation Security Program and IPM programs as well as growers who have recently been forced to make changes in their production to serve their larger customers like Sysco and Unilever would also be prime candidates for certification.

Links with Distribution Systems

At the same time as reaching out to growers and engaging new markets, immediate efforts will need to be made to develop new distribution systems and/or strengthen already existing ones like the Gold Coast Collaborative in Ventura, which can return a higher price to farmers. Sourcing and distribution has been identified as a critical need by various institutions. As institutional demand grows, so will the need for distribution systems and wholesale companies that specialize in sustainable food. While most institutional demand will still be channeled through large distributors, a certain percent (on average about 20%) can be sourced directly if distribution systems can be set up to deliver the goods in an efficient manner. While the standards themselves do not guarantee higher prices for producers, it will be important to analyze the ways in which a new certification system could improve prices for producers. For example, higher prices could be achieved by developing more efficient producer controlled distribution systems or designing and promoting procurement contracts that specify preferences for distributors who return a fair return for producers.

Policy Action

On the policy front, various actions are needed. Overall, government programs that reward good stewardship practices need to be dramatically expanded and linked explicitly to certification. This will help offset producer costs, reduce risks and create dual incentives for producer enrollment in certification programs. One example of this is working in Oregon where Food Alliance certified producers can readily apply for Federal payments under the Conservation Security Program. Programs like these need to be streamlined and adapted to complement existing certification programs. Tiers could be created, with a higher tier and more resources awarded to farmers that enroll in certification. Beyond that, key resource sectors such as water districts need to be approached to see how they could provide added incentives (payments) to farmers who enroll in the certification program and conserve water as a result. Tax incentives could be established for producers that utilize state endorsed third-party certification programs. Beyond incentive policies, technical assistance and economic, rural development, and marketing programs need to be identified, accessed and expanded to enable producers to get the support they need and maximize the economic benefits of certification.[4]

Government procurement policies are also needed that would give preference to suppliers that meet certain social and environmental standards. Just as it was a major driver of recycled paper products, the state could also be an important driver of a more sustainable food market. As a first step, the state of California, as well as other large cities, should be encouraged to develop strategies, baseline data and targets to increase the purchase of locally and sustainably produced and grown food by state institutions.[5] A longer term goal should be the adoption of procurement legislation at the state level that specifies preferences for food products that meet certain social and environmental criteria. Severe budget constraints, a powerful agribusiness lobby and the fact that few producers currently have independent certification are limitations in the short term. However, in the longer term, this kind of procurement legislation is quite feasible.

New alliances must be sought in order to build greater political support for certification. As more and more producers in the state sign on voluntarily, and as others are forced to adopt specific environmental and social standards by their buyers (such as Sysco and Unilever), the potential for new political allies among mainstream producers will grow. Already, powerful companies like Sysco would be inclined to support procurement legislation and other government policies since these would provide added incentive to its own suppliers/growers to change their practices. Other growers who are already enrolled in IPM and other government conservation programs would also be supportive. Alliances that are being formed with mainstream grower representatives around the 2007 Farm Bill (e.g. Farm Bureau, Western Growers Association) can be expanded. The well connected and progressively minded California Association of Winegrape Growers will also be an important ally. Over time, as the mainstream market for more sustainably grown food grows, and impacts are quantified on the ground, state officials will become more convinced of the multiple benefits. This will in turn give rise to many new opportunities for public involvement and support for third-party sustainability certification programs, along the lines of a California Agricultural Stewardship Council.

This Strategy Meets VP Criteria in That It:

- Is cross-sectoral/addresses interest of multiple constituency groups: works with small, medium and large growers; addresses concerns of health, social justice, environmental and some business sectors.
- Addresses multiple goals and problems: social, environmental and economic
- Is innovative and transformative: changes the way institutions think about food and role in local economy; expands consumer education; can effect change in mainstream agriculture and business.
- Fosters incentive and opportunity-based changes: offers positive incentives for producers by increasing access to markets; can be linked powerfully with government policy for even greater impact.
- Has political viability: market opportunities exist currently, greater impact through increased advocacy; many opportunities for multi-sectoral alliance building and advocacy.

A. Key Lessons from Eco-label/Certification Efforts in California and Around the World

Several years ago, the Greener Fields project was initiated to increase dialogue on labeling issues, evaluate programs and policies relating to eco-labels and develop capacity and leadership in this arena. The main organizations involved are: Rural Advancement Foundation (RAFI-USA), Mothers and Others for a Livable Planet, Southern Sustainable Agriculture Working Group, and the Food Alliance. Over two years, they established a business advisory committee, held numerous stakeholder forums, carried out consumer research and evaluated the eco-label landscape in the US and in Europe. Findings from this initiative are found in the publication *Greener Fields: Signposts for Successful Eco-labels* and summarized below.

There are some 150 labels promoting sustainable agriculture in the US. Most are focused on environmental protection/improved environmental performance; though a growing number are focused on supporting local farm economies, and the market for Fair Trade certified is growing rapidly. Eco-labels have proliferated in recent years as farmers are striving to differentiate their products in an increasingly globalized marketplace.

Of the environmental eco-labels, some are single issue such as Bird Friendly and Salmon Safe, while others are more comprehensive and cover issues that are not necessarily covered by the organic label, such as biodiversity conservation, locally-sourced, and fair labor practices. Given that organic certification is quite narrow and fails to address key issues of sustainability (biodiversity conservation, riparian buffer zones, fair labor practices, energy use, farm size, etc.), there is increased opportunity for labels that address broader sustainability issues.

Highlighted below are some key findings of this report to keep in mind as we consider the development of a sustainability eco-label for the California market. Interestingly, many of these findings/lessons are corroborated by Food Alliance's experience over the past 10 years.

Key Elements of Success:

- Consumer education is key
- Need strong buy in from retailers and processors and commitment to joint marketing
- Policy and market rewards need to work hand in hand. Coordinated combination of government incentives and marketplace incentives will be the fastest recipe for adoption of sustainable practices. It is also vitally important to increase government support for financing, research, extension and promotional support services, as well as market infrastructure as a way to support producers that get enrolled in eco-label programs
- Need for participatory multi-stakeholder process in development/evolution of standards
- Working through logistics of supply and distribution and investing in market distribution and access is a significant and necessary step to be successful and to get eco-labeled products to market

- Work to resolve issues of reciprocity between labels—in terms of accreditation, inspection, and certification
- In order for eco-label to return higher price to farmer, need to include farmer/worker premiums in standards

Consumer Lessons for Success

- Keep message simple and find ways to connect consumers to producers by telling the farmers' stories
- Promoting "taste," "place," and "face" (the farmer's story) is key. Labels that focus on combination of great taste, high quality, connection to the farmer and link to local region and culture will resonate with consumers
- It is much more effective to market a simple message, even if label covers multiple issues.
- While consumers will support environmental products, most are interested in products with labels that directly relate to personal health and safety

Key Challenges:

- Lack of adequate funding for eco-label marketing and certification programs
- Insufficient retail participation
- Difficulty in providing cost-efficient certification services to growers, especially small-scale growers
- Reluctance of consumers to pay premiums
- Market consolidation which makes access to markets harder for labels
- Only small percent of family farmers are able to participate in eco-labels
- Insufficient government incentives for farmer environmental stewardship practices that could complement eco-labels
- Trade rules with regard to eco-labels are still unresolved
- Hard to measure impact of programs due to lack of funds for effective monitoring and evaluation

General Broader Lessons:

- Price premiums for growers remain elusive. While programs provide increased market access or market share, they mostly failed to increase farmer price. Many do not seek premiums but even those that do, have not fared that well. Organic is the one label that consistently provides price premium to farmers
- Eco-labels could address many more issues such as biological diversity, health benefits, taste and quality, pesticide residue, freshness, and farm size
- Many in the organic community are unsupportive of eco-labels, concerned that they will take market share away from organics; others (about 50percent of those surveyed by Greener Fields) expressed general support of other eco-labels, recognizing that organic is not sufficiently inclusive of sustainability issues

- To ensure the highest credibility, eco-labels need independent, third-party certification, accreditation, and verification based on established standards and criteria
- Improved market accessibility is enhanced with support from progressive growers, a compelling message, high quality marketing materials and competitive product price, good quality and sufficient quantity
- US eco-labels tend to focus on environment, while European labels are able to incorporate multiple goals
- There is a need for single inspection services to provide multiple certifications for farmers, especially as eco-labels grow

B. Consumer Preferences in the California market

Extensive research into consumer attitudes and preferences is beyond the scope of this paper. A brief look at some recent studies, however, do reveal some important consumer tendencies that need to be taken into account, especially in the development of a retail and consumer marketing strategy. One of the most salient findings from several California based surveys, backed by surveys elsewhere in the country, is the growing interest and preference for locally grown products. In a survey conducted for the Buy California campaign, just over half of the respondents (mostly older then 35) indicated that they look to see where the products come from and over three quarters have a preference for buying locally grown agricultural products.[6] This finding speaks to the need to develop a sustainability eco-label that highlights the fact that it was locally produced (e.g. Food Alliance Certified-North Coast, or Food Alliance Certified, Central Valley). Interestingly the state's Hispanic population was significantly more inclined to believe that it was important to purchase agricultural products from California, than other ethnicities (55% of Hispanics compared to 36% of Caucasians).

National research has shown that given a choice consumers are more likely to purchase locally grown over organic foods produced in a distant region, even if local foods were produced using some pesticides.[7] Another national survey showed that a high percent of consumers (74%) did not want all of our food to be imported from other countries even if it was cheaper, and 71% were willing to pay more food grown locally (defined as 'near where I live"), 59% supported helping family farms even if it raised food prices, and 92% thought genetically engineered foods should be labeled. 81% agreed with the statement, "I would be willing to pay more for food grown on farms with good environmental practices."[8] In another survey conducted in Minnesota, the majority of consumers reported that they would be willing to pay between 10 and 30% more for selected sustainably produced foods.[9]

Contrary to the much-touted concern of "label fatigue," various studies have indeed shown that consumers do want more information about their food and that labels are considered an effective means to transmit that information. One recent study in the Central Coast region reflects this overall concern, finding that a large percent of survey respondents wanted more information about their food. Another study, conducted in Minnesota found that consumer groups identified protection of **"**natural resources**,"** consideration to **"**soil and water quality," and **"**fair compensation to farmers,**"** as the most important information they would like available regarding production of their food.[10] Interestingly, many consumers give very little thought to how food is produced (partially because of the lack of information). While this may be alarming, it also represents a real opportunity to change consumer consciousness by improving consumer access to information about how and where their food is grown and produced—and why and how this directly affects the health and well being of their families and communities.

In terms of specific attributes desired by consumers, studies varied considerably. Food and safety, however, figure near the top in many studies, followed by other factors such as freshness, nutritional value, cost and the absence of chemicals and pesticides.[11] In a recent survey in the Central California coastal region, consumers expressed the most interest in food safety, followed by nutrition, treatment of animals, environmental impacts, working conditions and wages.[12] When ranking standards' criteria (which excluded environmental factors), they indicated the strongest preference for humane, followed by locally grown, living wage, US grown, and small scale. This may speak to the value of highlighting the animal humaneness and fair wages as features of a sustainability eco-label.

C. Current Eco-labels in the California Market.

Despite what many are calling label fatigue, only a few major food eco-labels are operating in any significant way in the California market: Certified Organic and Fair Trade Certified. Other labels that promote locally purchased products, such as Buy Fresh, Buy Local, Capay Valley Grown, California Grown are growing as well. These are not considered eco-labels as they do not specify social or environmental criteria. Animal Cruelty Free labels are also present on supermarket shelves. A key question is whether existing certification/labeling programs in California meet the needs of the market and whether they can affect significant transformation of California's agricultural system. My sense from the research is that they do not.

Other sustainability eco-labels with third-party certification programs that are just entering or soon planning to come into the California market include Protected Harvest, Food Alliance (FA), Salmon Safe and Lodi Rules. Buy Fresh, Buy Local labels are also expanding in California. For the purposes of this mini-study, I include the most information about FA since it most closely approximates the kind of certification program that best suits Vivid Picture's goals. Below I give a brief overview of the main eco-labels currently in or about to enter the California market.

1. Organic Certification

is by far the most widespread eco-label/certification system, growing an average of 20% a year. Principal markets include natural food stores and coops, high end restaurants and supermarkets, with the latter making up the largest market for organics. Organic certification principally addresses the prohibition of use of synthetic fertilizers, ripening agents, fungicides, herbicides and pesticides in growing or packing food. It also prohibits the use of ionizing radiation and GMOs. While many certified organic farmers practice sustainable farming techniques (e.g., riparian buffer zones, water conservation, rotational cropping, good labor practices, biodiversity protection,, energy conservation), certification alone does not guarantee these practices. Because of this, some farmers are interested in looking at alternative or additional certifications that include broader sustainability criteria. Organic certification is the one eco-label in the market that consistently returns price premiums to farmers, though some report that their premiums are shrinking—particularly in the wholesale markets. This premium, as well as the growing market, is the primary incentive for growers to get certified.

2. Fair Trade Certified Products

are growing rapidly in the marketplace, with Fair Trade Certified coffee growing by an astounding 93% in 2003 and 76% in 2004. Fair Trade certification audits transactions between US companies offering Fair Trade Certified products and the international suppliers from whom they source, in order to guarantee that the farmers and farm workers behind Fair Trade Certified goods were paid a fair, above-market price. In addition, annual inspections ensure that strict socioeconomic development criteria are being met in the production process. In coffee alone over the past five years, Fair Trade has returned to producers more than $70 million above what they would have received from the conventional coffee market. Fair Trade currently covers coffee, tea, chocolate, bananas, mangos, grapes, sugar and rice, with new products coming out regularly. A large majority of Fair Trade products (75-80% of coffee, for example) are also certified organic. Fair Trade certification only applies to products grown in developing countries and thus has little impact on California's food system.

However, from a marketing standpoint, much can be learned from the experience of Fair Trade. In California, student Fair Trade campaigns have succeeded in getting Fair Trade coffee served at dozens of campuses around the state and recently were able to get a Fair Trade resolution passed by the San Francisco Board of Supervisors. Their positive, mostly industry friendly and industry savvy, "buycott" advocacy approaches (as opposed to boycott) have been very successful and represent a departure from the hardball negative campaigning so common among students. Future alliances can be built between Fair Trade and sustainable food system advocates, especially for institutional markets such as universities, business campuses and local and state agencies and chain restaurants. Other labeling initiatives can also learn from Fair Trade's business development and financing strategy. On the financial side, wholesalers who place the label on their products must pay a fee (ranging from $0.05 - $0.10 a pound in the case of coffee) for the use of that label. That money then goes towards certification fees and marketing expenses. In this way, the certification organization (TransFair USA) is able to be more self-reliant and doesn't need to depend on as much outside funding for its operations. In terms of business development, TransFair (TF) has a very friendly industry approach that has worked effectively to build alliances and markets with key industry players. Although this approach has alienated many Fair Trade activists and caused significant rupture in the Fair Trade community, the strategy has paid off in large volume commitments from major coffee companies and retail establishments.

3. Buy Local and Place of Origin Labels

Many labels that specify place and encourage local purchases, such as Buy Fresh, Buy Local, California Grown, Capay Valley Grown, Placer Country Grown, Lake County Grown labels are growing many more regional labels (North Coast/Central Valley) are expected in the future. While these are not necessarily eco-labels, as they do not specify social or environmental criteria, they do heavily promote sustainability in their marketing materials. Since local is a key component of sustainability, and an important attribute sought after by the market, these initiatives are an important complement to a sustainability label that would be launched in California.

a. CAFF's Buy Fresh, Buy Local

campaign and labeling initiative has been operating for several years in the Central Coast region and is just launching in the Sacramento region. The Central Coast Buy Local campaign is operating in five counties in the Central Coast region including Monterey, San Benito and Santa Cruz. It markets primarily through the five store chain of independent stores called the New Leaf Market and through the local farmers markets in the region. It also works with local school districts and ten restaurants primarily in Santa Cruz, though the restaurant market has been "a headache" for both sellers and buyers. Data indicate that about 20 of the farmers in the program have experienced a **25% boost** in local sales over the past year.

It has not sought out markets in the mainstream supermarkets, but initial conversations with Safeway led them to believe that the store does not do back door direct deals and all purchases need to be done through its centralized purchasing department. The quantities needed and distribution issues make that avenue difficult. Nugget Markets, a regional food store chain, has expressed some interest in carrying locally produced/labeled food through its Northern California distributor-NORCAL. CAFF's perception is that smaller, local regional stores are the best market given their interest in distinguishing themselves from the larger national chains.

One major limitation for the program's ability to reach larger markets is the lack of an adequate distribution system and the willingness of farmers to sell in wholesale markets. Mid-size farmers who have more products to sell than they can sell in direct markets are the best candidates. Some of the larger food service buyers also require $5 million worth of liability insurance; while most farmers have just $1-2 million coverage. Building on success of Gold Coast Collaborative, CAFF is working to develop a distribution system in the Central Coast region that will make it easier for farmers to access the large markets.

Linking with a Sustainability Label

One could easily imagine how a sustainability label in the marketplace could combine with these labels to have an even greater marketing impact. (e.g. Food Alliance Certified North Coast; or Food Alliance Certified Central Coast). CAFF thought there would be interest among buy local advocates for certifiable sustainability criteria since they are already making these claims in their marketing materials. And they noted that if the two labels were linked somehow, there would be a built in constituency in different regions that could build market demand and do public education and advocacy around both labels. Asked whether the farmers enrolled in the program would be interested in participating in a social and environmental certification program, CAFF thought there would be a lot of interest. 90% of farmers in the Central Coast campaign are certified organic, though in other regions (especially Gold Coast) many CAFF members are "sustainable" and use some pesticides. Farmers coming out of the bio program, especially almond and walnut producers are looking for additional marketing tools.

For more detailed information see: **Buy Fresh, Buy Local Campaign Evaluation (Annex 2).**

b. California Grown

is a private public partnership aimed at increasing sales of California grown products through the use of the California grown label in supermarkets throughout the state. It previously received significant public funds through the Specialty Crop Block Grant and currently relies mostly on funds from its private members (while it awaits news as to whether more funding will be forthcoming this year). Its membership is comprised of more than two dozen agricultural commissions, representing virtually every sector of California's agricultural economy. While this group is solely focused on marketing the buy California message, some of its members may be interested in linking a sustainability eco-label with a California grown label as a way to further differentiate their product. Growers who have recently been forced to make changes in their production to serve their larger clients like Sysco would be prime candidates to adopt this kind of approach. Over time, as acceptance increases for third-party certification, one could envision that this kind of program could require adherence to minimum social and environmental criteria.

D. Labels That are Just Entering or About to Enter the California Market

1. Salmon Safe

Salmon Safe (SS) is a certification system and regional eco-label that certifies fish-friendly farms in Oregon and Washington. Its focus is to restore agricultural and urban watersheds so that salmon can spawn and thrive. SS aims to improve water quality and biodiversity protection on lands impacting these watersheds through more effective land management and conservation practices such as: planting trees along riparian areas, reducing harmful pesticide use, improving irrigation systems, and practicing erosion control. It is similar to Food Alliance's standards in every area except pesticide use. SS prohibits (or strictly limits) the use of pesticides that have specific aquatic impacts; whereas FA may allow some of these. It also has strict limits around use of pesticides in riparian buffers. They do not have good impact data, but are in the process of collecting it in a pilot program with World Wildlife Fund in five sites in the Klamath-Siskou region.

Salmon Safe has certified more than 30,000 acres of farmland. They work with about 140 growers; mostly small-scale, and more than half of these are winegrape growers. Most growers do not have to pay for certification; they are able to secure funds through this from local foundations and government salmon recovery programs. Dairies are the most costly and funds are sought from government programs. SS is seeking to generate more revenue from fee based programs in urban areas that help large campuses to implement salmon safe management practices.

Its primary markets are supermarkets and natural food stores (more than 200); they do not have institutional accounts. Sales have grown over the years but they do not have good data. When they do month-long marketing and education campaigns they have seen sales increase an average of 20%, but tend to go back down once the campaign ends. Interestingly, the market branding that they do is also in conjunction with the local watershed base since this is appealing to its customer base—for example, Klamath Salmon Safe, or Rogue River Salmon Safe. They market a simple message around protecting watersheds for salmon that is easy to sell in the market place. Retailers like the simple message. Landowners like it as well.

Many years ago they had worked in California but they are only now reentering the California market with a pilot project with Marin Organic. Previously they found it difficult to support the marketing and landowner outreach in California from Oregon. They would like to find a statewide partner to work with in the state.

On the policy side, they have worked with statewide (and EPA) salmon recovery programs and see more opportunities for getting the state involved since non-regulatory approaches to the problem are of interest to many parties.

2. Protected Harvest

Until recently Protected Harvest (PH) certification and eco-label was focused on soil, water, and pesticide standards, solely for potatoes, grown on to more than 10,000 acres in Wisconsin. Over the past year, Protected Harvest has been working to develop new standards, certification and technical assistance programs for stone fruit, winegrapes, tomatoes, citrus and strawberries produced in California. They are working with local growers to add new environmental performance areas to their standards, including wildlife habitat, ecosystem health, air quality standards and biointensive IPM, The focus on water and air quality is specifically geared towards helping producers comply with new air and water regulations.

Clients include grower groups, companies and processing plants. One driver of this certification is Sysco, which is requiring all of its processing plants and their suppliers to abide by new IPM standards. PH is also certifying producers connected to a European parent company. They are also working with the Lodi-Woodbridge Grape Association to certify grape growers' compliance with a new certification and marketing program called

Lodi Rules (see below). They expect to expand certification to include dairy, almonds and a variety of fresh produce; their website states 20 new crops.

The primary market for PH certified product are companies like Sysco and its suppliers who have no plans to label the food. However in the future PH hopes that it will be marketed to supermarkets in California. PH currently lacks the resources for extensive market development, and instead relies primarily on its market partners to build the brand and market for the product. In terms of target market, they are focused on mid-level consumers who want high quality, and who care about how food was grown.

Whether farmers get a premium depends a lot on the market and on producers' ability to negotiate better prices based on product differentiation. Regulatory and buyer requirements are the main incentive for producers, not price premiums.

The new certification program in California illustrates how government policy, certification and even business interests can come together in a powerful, mutually reinforcing way. Protected Harvest and these growers are receiving support from the government's EQIP program (PH got over $1 million from USDA). PH is seeking more funds to assist dairies especially in Northern California. They are also trying to get funds through USDA/NRCS' Conservation Security Program (CSP) The agency has expressed interest in using PH's standards to develop a program checklist. PH may get involved in trying to influence the rewriting of California EQIP priorities currently in process, which is happening at the state technical committee level. As one policy option, Brickey suggested a tax cut credit for farmers that are certified by scientific third-party certification programs. She thinks there is opportunity to secure more resources through the farm bill, but a challenge to get growers to develop a positive outlook about government support.

3. Lodi Rules

Lodi Rules (LR) is a new certification and marketing program developed by the Lodi-Woodbridge Wine Commission (and its members). It is based on previous sustainability guidelines and has six full farm management components: Ecosystem management, water management, soil management, vineyard establishment and education, training and team building for employees. They are implementing a pesticide impact model that requires minimal pesticide impact (not a difficult area for most members to comply with). The most difficult standard for growers to meet will be in the soil management area (keeping the floor in cover crops) and labor standards. PH is acting as their third-party certifier. This is the first year and they are certifying 10 growers, and expect this to increase considerably over the next year. The main incentive for growers is the marketing incentive. It will cost $1200 for small growers (less than 100 acres) and $2500 (for large growers). They hope it will be cheaper as they bring more growers on board. They explain to growers that this is good for business since good practices help them produce the best grapes.

LR is primarily a marketing endeavor to differentiate themselves from Napa and Sonoma counties by promoting the connection of place (Lodi) with social and environmental criteria. After several years of focus groups and extensive market research, the program is will launch publicly in November. Lodi-Wine County will lead the marketing efforts; targeted initially to wineries, then to distributors and retail/consumers.

Like other grape interests in the state, The Lodi-Woodbridge Co. has received significant government funds over the years for their programs from the Water Board, EPA and other federal sources. They are optimistic about and interested in working to get more funds from the Farm Bill for these kinds of programs.

While they expect other regions to follow suit and could imagine a California-wide certification based on these standards, they are not actively pushing this at this time. Other groups like the Central Coast Vineyard team are also developing standards, and they have expressed interest in collaborating with LR. The California Sustainable Winegrowing Alliance and Wine Institute also has a current code of sustainable winegrowing that it has been promoting among California winegrowers. It is conceivable that over time, this group will shift from internal voluntary self-assessment to a more market focused certification system. While LR in interested in sharing their standards and experience with others, they are primarily focused at this time on building the market for Lodi producers.

4. Food Alliance

Food Alliance's dramatic expansion over the past few years sheds light on what is possible for the California market. Food Alliance is one of the few (if only) certification and eco-labeling initiatives that certifies both social and environmental sustainability criteria. Food Alliance certified farmers meet standards in the areas of pesticide reduction, soil and water conservation, wildlife habitat conservation, humane animal treatment and safe and fair working conditions. They have certified over 150 farms and ranches in the Northwest and Hawaii and 65 farms in the Midwest, covering over 3.3 million acres.

The main incentive for farmers to get certified is access to markets. Food Alliance has helped to broker many trading relationships over the years and has opened up important retail and large institutional accounts for FA certified growers. They also provide marketing and sales assistance to growers. While the hope for a premium may offer some incentive, FA is careful not to guarantee a premium to farmers, explaining that it takes entrepreneurship and marketing savvy to get good prices.[13] Buck says that more important than price premium has been the value of farmers being able to set a price, and ease out of commodity production. Oregon County Beef and Shepherds Grain, the FA certified wheat growers in the Northwest, for example, have been able to set a price based on cost of production and return on investment. According to a recent survey of FA certified producers, about half reported an average premium of 8%. In the same survey, farmers reported other values for the certification: quality control for environmental or management risks, marketing benefits; supporting or strengthening a brand, increased customer loyalty, access to new markets, increased sales, and increased market share.

Another major incentive are companies and grower co-ops in Oregon that are requiring certification of its members or grower-suppliers. The largest companies that FA certifies (Stahlbush Island Farms, Oregon County Beef) source from smaller farms and ranches and require FA certification for all of their members or suppliers. Similarly NORPAC, a large grower cooperative and processor of premium quality vegetables and fruits, requires all of its producers to get screened by Food Alliance. Interestingly in some of these cases, the Food Alliance label is not necessarily used in the market place. Food Alliance's screening is seen as a proactive quality control measure. Also in the case of

NORPAC, they do sell some of their product to Sysco, which is now requiring its suppliers to adhere to FA or IPM standards.

Growth is rapid, with sales increasing by 55% a year and the number of farms certified growing by 33%. In the Midwest, dairy and meat are growing most dramatically. Institutional markets (and companies like Oregon Country Beef) are driving FA's growth in the Northwest. FA works with Sodhexo, Aramark and Bon Appétit and currently has over 42 university accounts. These accounts were initially created by growing demand from students which lobbied for bidding requirements that specified local and sustainable food.[14] They also have healthcare and corporate campus accounts. Sodexo has recently added 20 more accounts in health care. FA has had many requests for expanding supply in the Midwest and Northeast. They also expect demand to rise in the hospital sector, the second largest institutional food purchaser after educational institutions. Distribution challenges with large food service providers remain-one major issue is that they want suppliers to have $2-5 million in liability when most farmers have closer to $1 million.

Another growing market are chain restaurants like Big Town Hero and Burgerville, both of which have signed large contracts with wheat growers and beef producers respectively. Initially Food Alliance targeted retail markets but encountered many challenges that have led them to focus on institutional accounts at this time. Retailers expect extensive marketing support that FA couldn't effectively manage. Slotting fees, large volumes and product diversity requirements were also impediments. The short growing season in Oregon was another problem. Building consumer demand, a critical piece of an effective supermarket strategy, was also challenging (time, money and message). Their strategy now is to grow incrementally with food service, allowing them to have better distribution and supply for retail accounts further down the line.

In response to concerns about competition with organics, FA believes a more diverse labeling ecosystem is better since it creates more opportunity for farmers to niche their products, and more opportunity for consumers to express preferences. With the new federal standards, and the increasing mega corporate scale of organics, smaller farms in Oregon are looking for ways to differentiate themselves. Food Alliance addresses other issues that organic doesn't address: worker rights, wildlife conservation, humane treatment—that organic doesn't address. They also see Food Alliance working in synergy with local labels since they see a need for local labels combined with social and environmental standards. They already support place banners on Food Alliance products (e.g. Food Alliance Midwest, Food Alliance Northwest Grown) and they could envision a Food Alliance California Grown for export markets and a Food Alliance North Coast Grown for more local markets.

Food Alliance generates about 40% of its income from certification and other fee for service and consulting. work. The rest of its budget comes from foundation sources. Cost of certification for growers costs an average of $810 for each certification; $1200 for 3 years. So far, unlike Fair Trade certification, they have not been able to generate any funds from the market side. However, market-partners—who are active buyers of certified product—support the organization with donations, event sponsorships, etc. They would also like to be able to generate more funds to help producers with initial capital investment needed during transition or value added production activities. Capital for business expansion is a serious problem for producers.

Food Alliance is increasingly looking at government agriculture and economic development programs/policy as a way to offset producer costs, reduce risks and create dual incentives for participation in the program. The Conservation Security Program (CSP) is one example. The CSP rewards private landowners for environmental stewardship, with payments as high as $40,000 a year over 5–10 year periods. The Oregon office of the Natural Resources Conservation Service (USDA-NRCS) has reviewed Food Alliance's certification standards and issued an opinion that Food Alliance certified farms and ranches are "very likely" to qualify for CSP payments. The alignment between the standards for CSP and Food Alliance certification makes it possible for federal incentives and market incentives to work together. In Oregon the NRCS is offering Food Alliance farms and ranches an expedited application process which enables staff to translate Food Alliance certification records directly into the CSP application (no small benefit). They also offer a $250 'enhancement payment' to Food Alliance certified producers who qualify for CSP.

FA has also been successful in getting NRCS to include Food Alliance certification as a priority guideline for farmer participation in the CSP, offering an extra $250.00 to farmers that are certified. There are also opportunities though the Oregon economic development department which is providing support to industry clusters around natural foods. There are other state government programs, such as water quality standards and conservation easements which provide added incentives for farmer participation in the FA program.

FA has expressed interest in entering the California market, though their first priority is getting farmers enrolled in order to meet growing markets in the Northwest-focusing on products that are out of season in Oregon as well as more processed (washed and bagged) food. They have just developed a partnership with International Certification Services to administer certification inspections nation-wide. In the California market, they will be looking for partners and allies who can help do outreach with growers and markets. They especially need help with market development. They see huge potential among the institutional markets, especially universities, hospitals, and business campuses. They already have a commitment from Bon Appétit for turning all of its accounts in California. They are open to modifying their standards to meet California stakeholder and farmer concerns.

E. Market Opportunities for Socially and Environmentally Responsibly Grown Food

1. Universities

Universities across the country represent a huge still untapped market for sustainable food. The University of Wisconsin's Center for Integrated Agricultural Systems (CIAS) completed a survey of schools in 1998 and identified a handful that had policies mandating purchasing of locally grown and/or organic food. Just as students are demanding Fair Trade certified coffee at more than 400 campuses across the country, activist student groups are a major driver of sustainable food purchasing at these schools. The CIAS study found that, in general, institutional food buyers were more interested in buying locally produced foods which benefited their community than they were in buying certified organic foods.

The more than 600 colleges and universities in the state of California represent the largest institutional food market in the state. It is impossible to know the exact size of the market without extensive research. However, if one estimates an average expenditure of $3 to 5 million on food per campus, which adds up to nearly $2–3 billion a year. We can also estimate that fresh fruit and vegetables probably make up about 10% of that, or $300 million a year. Building this market will take some time, though great strides have been made in the past few years with the emergence of a very strong local food group advocate at UC Santa Cruz. (See Annex 3 for a summary of UC Santa Cruz Food group activities.)

After successfully lobbying its food service to purchase 15% of its produce from organic and local sources, the UC Campus Food System working group is now spearheading a UC-wide sustainable food purchasing campaign. They are now working with students at all 9 UC campuses under the auspices of the California Students Sustainability Coalition to coordinate actions across campuses and set up Food Systems working groups on each of the campuses. In September, they will submit purchasing guidelines to the Board of Regents and the Chancellor with hopes that they will then be sent out as a directive to all nine of the UC campuses. Tim Galerneau, the main student organizer, is gathering data regarding market size and food operations of these campuses over the summer. After they have succeeded with the UC system, they have plans to expand their campaign to the more than 20 community colleges throughout the state. While the focus of the student campaign has been on local, organic and socially just food, the main organizer thinks that the group would be open to adding additional preferences and targets for sustainably grown food that may not be certified organic.

In addition to UC Davis, UCSC, and UC Santa Barbara, many other private campuses, such as Stanford, have a local/organic purchasing program, which they even actively market to new students in campus-wide promotional materials (they see this as part of their competitiveness strategy to attract new students). In the case of Stanford, it adds up to about $50,000 a year, though this is increasing over time.

2. Food Service Operators

Sodhexo and Aramark, two of the largest food service operators for college campuses in California are also already working with Food Alliance in the Northwest and Midwest. While interviews were not conducted with these two companies, it is clear that they are also positioning themselves in this market and expanding their lines of sustainable and organic food.

Roughly 30 universities throughout the state are already sourcing local and more sustainably grown food through their main food service, Bon Appétit.[15] With over $300 million in sales nationally, and roughly $100 million in sales in California, Bon Appétit food service represents a significant market for third-party certified food. Bon Appétit services business campuses and universities, with the market for local and more sustainable foods growing most rapidly among universities. Bon Appétit maintains a set of sustainability, health and nutrition principles for food purchasing and preparation.[16] Among these is the sourcing of locally grown, sustainable and/or organic foods that are in season. Poultry and meats are free of hormones or antibiotics. Many Bon Appétit chefs have direct relationships with farmers; which has helped to keep costs down while returning more money back to producers. Since purchasing is done on a decentralized basis (all chefs do their own buying), distribution can sometimes be challenging. The have particularly appreciated the service of Americas Fresh and Gold Coast collaborative, two progressive distribution companies that return higher prices back to farmers.

Bon Appétit already has a very close fruitful relationship with Food Alliance in the Northwest and would be eager to have them certify California producers. Most importantly, FA has helped them to identify producers that meet their guidelines. They also appreciate having the FA label on the foods they sell and have incorporated FA logo and information into their display and educational materials, which they find is important for educating customers. They indicated that they would work closely with FA if they came to California and would be open to considering some kind of financial support (through licensing fees) to help FA cover its costs in California.

3. Hospitals

Hospitals are the second largest institutional market after college campuses. Two recent studies document the growing hospital market nationally for local and more sustainably grown food.[17] The Bay Area's chapter of Physicians for Social Responsibility and HealthCare Without Harm have been actively and successfully promoting sustainable food policies among California health care institutions. They have identified as promising partners three of the largest health care systems in the US, all with major facilities in California, Two of these, Kaiser Permanente and Catholic Healthcare West have shown a great deal of interest, with Kaiser adopting an extremely enlightened Draft Food Policy in November 2004. This policy states that they "will become a model for the industry and the nation by promoting healthy food choices in its in patient food services, cafeterias, vending machines, food carts and catered meals." It further states that they "will work with local farmers and community based organizations to maximize the availability of locally-sourced food" and that they "will be proactive in the creation of local food systems that promote sustainable agriculture and biodiversity." It also states that they will "work with food suppliers to influence their practices around food sourcing and transportation and will encourage vendors to supply food that is among other attributes free of pesticides and unnecessary antibiotics". Finally they "will promote an agricultural system that protects the health of farm workers and the communities they live in, and that treats farm workers fairly and justly."

Much still needs to be done to operationalize this unprecedented policy, including the development of purchasing guidelines for Food Service Directors/Managers, ongoing education and advocacy with food service managers, and the development of effective and fair distribution systems that can take advantage of the 20% direct purchasing that is allowed in most hospitals. Suggestions are now needed for exact bidding language in defining what kind of food is sustainable and how much they should aim to purchase.

In terms of the actual size of this market, exact numbers are difficult to come by. Kaiser maintains 30 medical centers throughout California (18 in Northern California; 11 in Southern California). Based on a rough average of 200 beds per hospital (6000 total) and a rough average of $3–4000 per bed for food purchases, one could estimate a total food purchasing budget between $18 and $24 million.[18] With 38 hospitals in California, roughly 8000 beds, Catholic Healthcare West (CHW) represents an even bigger market, somewhere between $24 and $32 million.[19] In CHW, 40% goes for patient food and 60% for cafeteria and catering. We need to further estimate what percent is fresh vs. frozen; dairy, meats, etc. One would imagine that hormone and animal cruelty free dairy and meat would be very popular. Based on these numbers, the most likely initial target market represents about $42–56 million.

Adding Sutter, with 26 facilities in Northern California, and an estimated (low) annual food expenditures of $11–14 million, the market for these three hospitals grows to $51–70 million. Even if these institutions purchase only 30% of food from more sustainable sources (and one expects in the case of Kaiser that it would be much higher), that still represents a significant $21 million market for California producers. Equally important, is the long term transformative ripple effect this will have on its distributors and suppliers, and eventually the rest of the institutional food market. For example in the case of CHW, they maintain 154 committed manufacturer agreements with companies like Tyson and Kellogg.[20] If they were to request hormone free chicken, it would force many different companies to either deliver or lose the contract. Ultimately, this kind of values driven institutional buying will have strong downward pressure on companies to change their sourcing practices, which will in turn provide important incentives for producers and increased demand for certification services.

In each of these hospitals food service managers usually have discretion to spend 15–20% of their budget on locally/independently-sourced food, outside of their main multi-year contract.[21] This could create important opportunities for producers to establish more direct trading relationships through new cooperative distribution ventures and/or partnerships with locally owned distribution companies. However since most food is still channeled through their existing distributors like, Sysco (KP) and US Food Service (CHW and Sutter), these companies will be looking for new producers to source this food. Eventually, as supply builds, these food service companies will begin to make third-party certified food more readily available in many of its other markets (including schools) and will seek to gain competitive advantage by offering more sustainable food. (This has already happened in Oregon.) For more information on the different hospitals suppliers, see the Physicians for Social Responsibility Roadmap cited below.
Even if just a few health care companies adopt socially and environmentally responsible food purchasing policies, it could have a ripple effect on the rest of the California hospital food market, many of which have are served by the same food service companies (Sodhexo, US Food Service, Aramark). With 570 hospitals, 74 of these public, total hospital expenditures on food range range from $330 million to $441 million.[22] With roughly 15,000 beds (1999 data), state health institutions spend between 45 and 60 million on food.[23] Thus a state procurement policy that gives preference to sustainable food could help move that market more quickly (see below).

4. Public Agencies and Procurement

a. State

State run agencies, especially the California public school system could represent an important market for third-party certified food, over the longer term. However, significant changes would need to be made in current procurement policy at the state and federal level.

Food procurement for state agencies is carried out principally by the Department of General Services (DGN). They purchase food for the California Department of Corrections (CDC), Department of Youth Authority as well as state hospitals and other health facilities. The total budget for food procurement for these agencies was unavailable from the June Okada, Director of the Division that manages food procurement for the state. All information regarding procurement data can be solicited through a formal public records request directed to Gary Rains.

The state currently contracts food both through a prime vendor, US Food Service (incidentally the same company that serves Catholic Healthcare West), as well as through small business contracts. The actual breakdown between the small business contracts and the prime vendor was also unavailable. According to Ken Meter's data submitted to VP, the CDC spends roughly $145 million on food. Other state agencies that independently buy significant quantities of food include the California Conservation Corps and the Department of Forestry and Fire Protection. The California Public School system makes the largest food purchases. More information on that is below.

State food procurement is governed by existing procurement legislation, which currently states that all things being equal, preference shall be given to California produced food.[24] However, speaking with specialists in the procurement department, it is clear that this legislation is not practical in that bids never come in at exactly the same price or exactly equivalent in terms of quality. Even if a bid was lower by one dollar, the lowest out of state bid would prevail. Other procurement legislation, however, which specifies a 5% preference given to bids that come from small businesses in California could be of great benefit for small and medium sized farms and food companies and/or distributors in California. However, these vendors could never compete with a prime vendor contract; thus additional legislation is in fact needed to give 5% or more preference to prime vendor contracts that ensure California-sourced food.

Several attempts over the years have been made to establish a preference for California produced food. The most recent bill, AB 801, dubbed the Choose California Act, was approved overwhelmingly by the State Assembly and Senate in 2001, but vetoed by the governor. This bill would have required state run institutions to purchase agricultural products grown in California provided the prices for California grown products do not exceed the lowest price of products grown outside California by more than 5%. The bill's lead proponents were the California Bean Shippers Association and the California Seed Association; many other mainstream agricultural groups also signed on in support. In vetoing the bill, the governor cited legal issues as well as an increased cost to the state, which at the time was estimated at $1 million. A thorough economic analysis, however, that looked at benefits as well as costs, was never done.

On the legal front, several Buy California bills have apparently been opposed by the governor based on an attorney general's ruling issued in February of 1970 that found that California's preference law found in Sections 4330 through 4305 of California Code, is unconstitutional because it constitutes "an unconstitutional intrusion into an exclusive federal domain," referring here to federally regulated interstate commerce. The General Services Administration still abides by this opinion. Nevertheless, at least 10 states have procurement preferences including Alaska and Louisiana with 7% and 10% preferences respectively. [25] More research is needed to see if any cases have been brought against these states for violating interstate commerce laws. Since this California opinion is more than 30 years old, it would be important to seek another ruling on the matter.

Nevertheless, it is not clear that Buy California legislation would be the best option. While it would be relatively easy to build a broad based coalition in support of this legislation, it is unlikely that this would have a transformative impact on the production of sustainable food. It could be the necessary first step in a two-part strategy to get additional language specifying preference for California third-party certified food. However, given the legal challenges, it may make sense to skip the first stage and go straight for the more substantive social and environmental procurement legislation.

It is important to keep in mind that the legal challenges faced by Buy California type legislation would not be the same for procurement legislation that stipulated social and environmental criteria as the basis for preferences in procurement. From a legal standpoint, procurement legislation based on preferences for products that meet certain social and environmental criteria is in fact less problematic since it would not discriminate based on place. All states and/or countries could compete effectively for these bids. Politically, however, it is far more challenging. Severe budget constraints facing government agencies and the potential for powerful agribusinesses to perceive such policies to be threatening are two short-term challenges. The fact that few producers currently have independent certification also make such a proposal difficult in the short term.

However, in the longer term, this kind of procurement legislation is quite feasible. The state has a compelling interest to create incentives for producers to enhance air and water quality, and to promote soil, water and biodiversity conservation. And current lawmakers (and farmers groups) are especially interested in incentive based, non regulatory measures. Independent certification services are growing, and as more and more producers in the state are forced to adopt specific environmental and social standards by their buyers (such as Sysco, Sodexho, etc.), the potential for new political allies among mainstream producers who are looking for more markets will grow. Already, companies like Sysco (and perhaps their suppliers) would be inclined to support this kind of procurement legislation since it would provide added incentive to its own suppliers to change their practices. Many questions remain: "What kinds of standards would we want to propose for such legislation? How much more do we expect third-party certified food would cost? Could legislation establish small targets initially (5–10% of all procurement) so that fiscal impact could be minimized?" The success of federal and state procurement legislation giving preference to recycled goods demonstrates that it can be done and may provide some good guidance for effective political strategy.

At the very least, similar to what was proposed in Oregon, the state of California should be encouraged develop strategies, baseline data and targets to increase the purchase of locally and more sustainably produced and grown food, groceries and produce by state institutions. [26]

b. California Public Schools

The California Public Schools represent the largest institutional food market in the state. $1.05 billion federal dollars are received for school nutrition programs; another $70 million state dollars are received for school nutrition programs.[27] A key question is whether it would be politically feasible and legally possible to stipulate that food purchased by these programs meet certain sustainability criteria.

Federal Procurement legislation governs all programs receiving federal money. Since the biggest chunk of the California state food budget (over $1 billion) comes from the federal government, a change in federal procurement legislation would be needed in order to mandate any specific criteria in the kind of food purchased with federal dollars. The upcoming farm bill could be targeted which specific legislation aimed at changing the procurement requirements for the National School Lunch (NSLP), School Breakfast and Special Milk Programs that are operated under the auspices of the Department of Agriculture, Food and Nutrition Service. New procurement requirements are currently under review.[28]

Similar to the challenges of securing new state procurement legislation, there would be even more political, economic and operational hurdles at the federal level. However, the impact could be extraordinary and there is indeed a precedent for procurement Preferences in the 2002 Federal Farm Bill, which created the Federal Biobased Products Preferred Procurement Program.[29]

Groups may also want to consider an intermediary step of getting language inserted into the farm bill encouraging school districts to purchase locally and more sustainably certified food. Current language in the 2002 farm bill encouraged local food purchases and even authorized a modest start up budget of $400,000 to support local purchasing activities. Similarly at the state-level, Farm to School legislation (SB 826) is pending which stipulates that "it is the policy of the state to encourage and take all feasible steps to increase the direct purchase of locally grown and California grown farm products by public schools and to assist school districts and farmers in establishing and maintaining successful Farm to School programs." At the very least, groups should advocate language that also encourages more sustainably certified food. However, given that the local food advocates faced resistance by the Western Growers Association to even just getting local food included in this bill's language, adding "sustainably certified" will certainly take some time.

Short of getting federal and state procurement legislation changed (at best, a long term prospect), school districts do have broad discretionary powers with respect to the quality and characteristics of the food they choose to buy (with both federal and state dollars). While it would be a slower process, advocacy and public education campaigns could be launched in the largest (and most politically progressive) school districts in the state to convince parents, kids, school board members and food managers of the merits of adopting sustainability criteria in their food purchasing decisions. Any effort to incorporate sustainability standards would, of course, need to be done hand in hand with the many groups active on farm to school programs. Several local food advocates interviewed for this research were supportive of this goal but stressed that it would be a long term process to gain acceptance from the various decision makers in the school system.

Another strategy would be to advocate directly with the largest distributor of food for the National School Lunch Program: the Department of Defense (DOD). Currently the DOD purchases most of its produce from the California terminal market. CAFF and the National Farm to School Program have been working to encourage them to buy from local farmers. This dialogue could be expanded to include sustainably certified food. The main obstacle cited by DOD (as well as Farm to School programs in general) for getting more local produce is distribution. Thus any certification program would have to make sure that effective distribution services were availably for sustainably certified product.

c. Cities and Counties

City and Counties throughout the state represent another potentially important market for sustainably grown food. San Francisco just passed a resolution encouraging the purchase of organic food. While it was just a first step in that it had no specific preferences or requirements, the environment department is not gathering data on food purchasing throughout the city to see where it would be most feasible to increase organic purchasing. More data is needed on the overall food purchases made by the city to determine if the development and implementation of a procurement policy strategy at the city level makes sense. Nursing Homes, elderly centers and hospitals would constitute the largest market. As is the case with numerous Fair Trade resolutions passed around the country, the benefits of such a strategy may be more in the public education and marketing realm—to give public visibility and generate market demand for products that carry the sustainability eco-label. The city is in the process of drafting a local preference ordinance that would give a 5% preference to local business and a 10% preference to microbusiness. While budgetary considerations may be a limiting factor, there is no reason why a similar ordinance could not be introduced giving those same preferences for sustainably certified food. Other cities that are in agricultural counties should look to this new local preference ordinance as a model.

5. Business Campuses, Museums and Conference Centers

Bon Appétit (BA) currently services nearly 30 different business campuses, museums and conference centers including Silicon valley conference center, Palm, Oracle, Monterey Bay Aquarium, Getty, De young and the Legion of Honor museums. According to BA, museums are increasingly interested in purchasing local and more sustainably grown food, while some of the business campuses need more education. High-end conference and/or retreat centers represent another possible market. Asilomar currently sources a significant amount of organic food from Alba Organics.

6. Food Supply Companies, Restaurants and Retail Stores

A growing number of companies are incorporating sustainability principles into their business planning. While corporate social responsibility policies do not necessarily involve applying social and environmental standards in sourcing, companies are under increased pressure to address these issues. Businesses for Social Responsibility has identified several factors that are driving companies to adopt sustainability practices: 1) growing consumer demand for natural food; 2) campaigns from advocacy groups; and 3) investor interest.[30]

In California and elsewhere, large wholesale distribution companies like Sysco could have the fastest, most dramatic effect on the production of sustainably certified food.

With $28 billion in annual sales, Sysco is the world's largest food service supplier, offering many of its own branded products to the $425 billion food service industry. Natural and organic foods are growing in the food service market at a rate of 45% a year and are expected to reach $2 billion by 2007. [31]

Sysco, a major trend setter, has recently adopted its own IPM and environmental standards policy. In the fall, they will be moving to third-party audits using these standards on all canned and frozen suppliers around the world. Food Alliance is one of three Sysco-approved auditors. In California, this will affect hundreds of tomato and peach producers, other producers, and the companies they supply: Pacific Coast Producers, Signature, Wiwona, Dole, and Morning Star, among other processing companies. Protected Harvest is already working with these producers and processing plants and expect many more to come under their program in the future. The IPM (and environmental standards) policy, which is still not public, includes energy conservation, recycling, water conservation standards along with pesticide reduction targets. Sysco recognizes Food Alliance standards as equivalent to their policy; thus any producer who has been certified by FA is automatically recognized by the program.

At the moment, they are not looking to put an eco-label on these certified products and are not actively promoting the program until they have baseline data and can show measured improvements, especially in reduction of pesticides and air quality. Even though no label will be affixed to their products, demand for services from third-party certifiers will grow.

Producers have had both positive and negative reactions to the program and need to be convinced that over time, they can save money by using fewer pesticides and adopting these management practices. Sysco is not offering growers any financial incentives for compliance.

Sysco and its suppliers could be a new powerful ally for California sustainable food advocates. Sysco is very interested in identifying, supporting, and advocating for government programs that can offer assistance to its growers for adopting more environmentally friendly farming and processing practices.

Shane Sampels, who manages the sustainability audits program for Sysco, could not speak to the motivation behind adopting these standards and instead directed me to Craig Watson, VP for Quality Assurance and Sustainable Agriculture. Beyond having a visionary leader in the CEO who strongly believes in environmental stewardship, it seems clear that Sysco is also seeking to get ahead of the curve and position itself in a global market place (including Europe) that is increasingly asking for higher quality and environmentally safe food.

The widespread implementation of these standards by Sysco affiliates could move the entire industry, especially as more demand emerges from Sodhexo, Aramark, Bon Appétit and other principal food service providers that cater to hospitals, universities and corporate campuses. Several other large companies, such as Ahold and Unilever already have standards in place and other companies including Del Monte and Pillsbury, have borrowed the standards and are presumably looking at the possibility of implementing these practices as well.

Demand for a sustainability certification will almost certainly grow in the business community, especially among chain restaurants and supermarkets that label many of their own foods. The extent of this demand is far beyond the scope of this research. However it is clear that chain restaurants like Chipotle, Cactus Taqueria, (small local chain) and Subway that already have enlightened sourcing practices in place would be prime candidates for sourcing sustainably certified food. Other kinds of chain restaurants that offer large quanties of fresh vegetables, like Fresh Choice (with more than 20 restaurants throughout California) would also be interested. At the supermarket level, Trader Joes, a long time supporter of organics and Fair Trade, would be a likely candidate. Costco is another good prospect. Rumors are also circulating that Wal-Mart is interested in sourcing sustainably grown food. It will be critical to ensure that these large retailers use independent third-party certifiers, rather than develop their own in-house brands and labeling schemes. It will also be vital to explore in greater depth how to ensure that retailers pay a higher premium for products grown under sustainability standards.

Endnotes

[1] According to Food Alliance (FA), FA certified food has taken more market share away from conventional rather than organic. Its aim is to replace and compete with conventional food, not organic.

[2] Vivid Picture has commissioned a detailed comparison for Vivid Picture of a number of certification programs, including Food Alliance.

[3] One strategy would be to work through the grower groups that are already associated with California grown label as they may see the sustainability certification as a way to further differentiate their product. http://www.californiagrown.org/content/members_signatory.asp

[4] Some current sources of government funds could include: USDA IPM Centers, USDA Sustainable Ag Research and Education (SARE), USDA-Natural Resources Conservation Service Conservation Innovation Grants Program, USDA Natural Resources Conservation Service Environmental Quality Incentive Program and EPA Strategic Ag Initiative.

[5]This approach is being used in Oregon.

[6] For more detailed information, see Rose Research (r2), Wave III, Advertising Tracking Study Report, prepared for Buy California Marketing Agreement, September 2004

[7]Eco-label Value Assessment-Phase II Consumer Perceptions of Local Foods, May 2004

[8] Ronald C. Wimberley, Food from Our Changing World: The Globalization of Food and How Americans Feel About It, North Carolina State University, 2003 http://sasw.chass.ncsu.edu/global-food

[9] Robinson, R., C. Smith, et al. (2002). "Promotion of sustainably produced foods: Customer response in Minnesota grocery stores." American Journal of Alternative Agriculture 17(2): 96-104.

[10] Land Stewardship Project. 2002. “Understanding Local Foods and Community: Pride of the Prairie Consumer Survey 2001” Available: http://www.foodroutes.org/doclib/117/Consumer+Survey+Exec+Summary+1-14-02.doc

[11] For a summary of the findings from many different consumer studies, see: Phil Howard, Annotated bibliography of consumer surveys related to organic, local, fair trade and sustainably produced food, November, 2003

[12] Phil Howard, “What do People Want to Know about their Food? Measuring Central Coast Consumers’ Interest in Food Systems Issues,” The Center for Agroecology and Sustainable Food Systems, Winter 2005.

[13] Buck also said that the way to get a premium for the farmer is to include language in the RFPs that distributors have to demonstrate that they are share greater equity with growers.

[14] Interestingly, in one case Aramark and Sodexho were competing for a bid that Aramark lost due to significant commitments from Sodhexo including sourcing 100% of dairy from local sources, 100% Monterey Bay Aquarium approved seafood; 30% Food Alliance certified pule 2-3% increase over time.

[15] Based on an interview with Marc Zammit, Director, Culinary Support and Development, Bon Appetit

[16] For a complete list of principles, see: http://www.bamco.com/website/kitchen.html

[17] see Mark Villianatos and Moira Beery, Farm to Hospital: Providing Health and Supporting Local Agriculture, Center for Food and Justice, Urban and Environment Policy Institute, Occidental College, November 2004 and Marie Kulick
Healthy Food, Healthy Hospitals, Healthy Communities: Stories of Healthcare Leaders Bringing Fresher, Healthier Food Choices to their Patients, Staff and Communities, Institute for Agriculture and Trade Policy, May 2005

[18] The total bed number estimates are based on bed data averages gathered from 20 Kaiser hospitals; the $3-4000,00 rough estimate per bed comes from 2002 food purchasing data for nine California hospitals, averaged out on a pre bed basis. The average per bed came to $3724.

Campuses with large cafeterias such as Stanford and UCLA had above average expenditures per bed of $4,482 and $5,998 respectively. Data on hospital food purchases is at: http://www.fsdmag.com/foodservicedirector/reports_analysis/index.jsp

[19] Total bed number estimates are based on data averages gathered above. These are very rough estimates and need to be further verified

[20] Lucia Sayre, San Francisco Bay Area Chapter of Physicians for Social Responsibility, A Roadmap of Food Procurement Practices Within Healthcare, a report prepared for Health Care Without Harm.

[21] Ibid.

[22] this figure is arrived at by multiplying the number of beds in California in 1999 (115,000) by $3,000 and $4,000

[23] California numbers of hospitals and beds are from http://www.oshpd.cahwnet.gov/HID/hospital/util/faqshosputil.htm; the food purchasing estimate is based on number of beds by $3-4,000 each.

[24] Government code 4331 statestates that price, fitness and quality being equal, any body, officer or other person charged with the purchase, or permitted or authorized to purchase supplies for the use of the sate, or any of its institutions or offices, or for the use of any county or city shall always prefer supplies grown, manufactured, or produced in the StateState and shall nex prefer supplies partially manufactured, grown or produced in the StateState

[25] for information on different statestates' procurement preferences, see http://www.doa.statestate.nc.us/PandC/rplaw.htm

[26] Oregon Department of Agriculture, Certifying Agricultural Sustainability, A report to the Oregon Sustainability Board, March 15, 2004

[27] Ken Meter, Farm and Food Economy Profiles for Selected Regions of California, compiled for Vivid Picture Project, December 31, 2004

[28] The NSLP regulations are available at Food and Nutrition Service's website: http://www.fns.usda.gov/cnd/Governance/regulations/05-7_CFR_Part_210.pdf

[29] The Federal Biobased Products Preferred Procurement Program is authorized under Section 9002 of the Farm Security and Rural Investment Act of 2002.

[30] Business for Social Responsibility, Supplier Environmental Management Report, October 2003

[31] 2004 Natural and Organic Foodservice Report, the Hale Group and SPINS. January 20, 2004 Press Release. This report examines the penetration of natural and organic foods into food service. This citation comes from an internal brief prepared for Food Alliance called Factors Promoting Sustainability as a Trend in Industry.