

AGAINST THE GRAIN: PROTECTING ORGANIC SHOPPERS AGAINST IMPORT FRAUD AND FARMERS FROM UNFAIR COMPETITION



Buyer's Guides/Marketplace
Activism Spotlighting High-
Integrity Retail Brands and
Grain Sourcing for Livestock
Producers



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A REPORT BY THE CORNUCOPIA INSTITUTE | OCTOBER 2018



The Cornucopia Institute wishes to thank the foundations that support our research and the thousands of family farmers and organic advocates who fund this work with their generous donations.

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The Cornucopia Institute is chartered as a tax-exempt public charity focusing on research and education. Cornucopia aims to empower organic producers, consumers, and wholesale buyers to make discerning marketplace decisions, protecting the credibility of the organic food and farming movement and the value it delivers to society.

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All photos, except where noted: Adobe Stock

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INTRODUCTION

THROUGH ITS WEB-BASED buyer's guides, The Cornucopia Institute showcases some of the real heroes in organics. These are the feed operations and livestock producers that make or use high-integrity feed sourced exclusively from North American organic grain farmers.

These organic feed operations and producers do not market or use livestock feed that includes imported organic grain. Over the past few years, as imports of organic grains have soared, growing concerns over whether these grain imports are authentic have surfaced. From 2013 to 2016, imports of organic corn quadrupled from \$36.6 million to \$160.4 million. Imports of organic soybeans also increased dramatically, from \$41.8 million in 2011 to \$250.5 million in 2016.¹

Concerns about the authenticity of these imports were realized when massive shipments of fraudulent organic corn and soybeans were documented at U.S. ports in 2017.

We begin with an overview of the systemic issue of fraudulent imported organic grain, which has now been widely reported in prominent media outlets, including *The Washington Post*, and has shaken consumer confidence in organic food.

This companion report to the web-based guides provides organic producers and consumers with background information to understand how cheaper, fraudulently labeled imports of “organic” soybeans and “organic” corn have crossed U.S. borders.

We then showcase the heroes, identifying the organic feed operations and producers that only use North American-grown organic grain in producing feed or to feed the livestock they raise.

With this information, organic livestock producers, feed suppliers that service them, and consumers can exercise

their purchasing power in a way that stands for something—supporting reputable feed operations and producers and North American organic grain farmers.

Now more than ever, in light of a number of confirmed cases of import fraud, the choices made by organic industry stakeholders can be a powerful force in driving market change and ultimately in safeguarding organic integrity.



“Cornucopia is to be highly commended for development of this guide that educates consumers and producers about brands that use U.S. grown organic grains for livestock feed. These efforts are vitally important in shifting market share to domestic producers and away from global sourcing of imports having highly questionable organic integrity.”

— Oren Holle, OFARM president and board member of the Central Plains Organic Farmers Association

¹ Data Source: USDA Foreign Agricultural Service's Agricultural Trade System

IMPOSTOR IMPORTS AND STAGGERING ECONOMIC LOSSES

NORTH AMERICAN ORGANIC grain farmers have lost hundreds of millions of dollars over the past several years as they struggle to compete with imports of fraudulent organic grain. According to the largest organic grain farm cooperative, organic corn and organic soybean farmers in the United States lost an estimated \$400 million between 2015 and 2017 as the increase in dubious organic grain skyrocketed.²

Sham organic imports often make their way into the United States accompanied by altered paperwork that represents the corn or soy (and presumably other commodities) as organic when it is actually conventional. Domestic farmers suffer staggering economic damages when forced to compete with cheap imports that often are not organically produced.



Cornucopia has a long history of investigating import fraud. Over a decade ago we published *Behind the Bean*, a report that examined the exponential increase in dubious imported organic soybeans from China that were taking over the market.³

On June 18, 2018, Cornucopia released a comprehensive report chronicling how a small number of multibillion-dollar agribusinesses came to dominate the U.S. organic grain industry following systemic failures of the USDA's National Organic Program (USDA-NOP) to curb the infil-

According to the largest organic grain farm cooperative, organic corn and organic soybean farmers in the United States lost an estimated \$400 million between 2015 and 2017 as the increase in dubious organic grain skyrocketed.

tration of questionable organic imports. As our farmers watched prices for their organic grain fall dramatically, suspicious organic grain crossed United States borders, making its way from or through countries like Ukraine, Turkey, Russia, and other former Eastern Bloc countries.

The Washington Post investigation in May 2017 also illustrated persistent and serious flaws in the organic certification program at the USDA, undermining confidence in the organic label and highlighting the harm domestic organic grain farmers have suffered at the hands of unscrupulous competitors in the international supply chain.⁴

Turkey has long been identified as a country of suspicious origin when it comes to organic grain imports. The USDA acknowledged the problem of Turkish imports in a 2016 report which concluded that “some Turkish companies have been involved in relabeling or repackaging products as organic and bringing the counterfeit products into the European Union, even though the products do not meet organic standards.”⁵

There are certain importers and certifiers that have been banned from organic commerce in the European Union, but the USDA has failed to take similar action. ETKO, a Turkish certifier of organic products, was de-accredited by Canada and the European Union, meaning that ETKO-certified products are no longer accepted as organic in those countries.

The USDA proposed suspending ETKO's accreditation, but, due to an appeal and intervention by legal counsel, decided to maintain its status as a certifier under the terms of a settlement agreement reached with the former director of the NOP, Miles McEvoy. ETKO agreed to take

2 Suspicious Organic Grain Shipment Intercepted at U.S. Port, Bobbe quote, available at: <https://www.cornucopia.org/2018/04/suspicious-organic-grain-shipment-intercepted-at-u-s-port/> (May 1, 2018).

3 The Cornucopia Institute, *Behind the Bean: The Heroes and Charlatans of the National and Organic Soy Foods Industry*, https://www.cornucopia.org/wp-content/uploads/2017/09/behindthebean_color_final.pdf

4 The Washington Post, “The labels said ‘organic.’ But these massive imports of corn and soybeans weren’t.” (May 12, 2017).

5 USDA, Global Agricultural Information Network, Turkish Organic Market Overview, GAIN Report Number TR 6005, Jan. 26, 2016.

TURKISH FREE TRADE ZONES



Questionable organic grain from former Soviet Bloc countries travels easily through several Turkish free trade zones.

corrective action and face additional scrutiny based on noncompliances identified by the USDA.⁶

Turkey continues to be a conduit for fraudulent organic grain. Companies often ship grain through Turkish free trade zones before exporting the grain to the U.S. Free trade zones are considered to lie outside of a country's customs borders and are not subject to many of the country's economic and financial regulations. Companies commonly, and legally, use free trade zones to capitalize on less onerous trade controls and exemptions from taxes and duties. These trade incentives also make free trade zones vulnerable to illicit activities.⁷

Inconsistent or non-existent organic acreage and yield data from countries like Turkey and Romania make it exceedingly difficult to determine whether certain countries are capable of producing organic commodities in the volumes the country is exporting. Reconciling a country's organic acreage, its production capacity, and the volume exported can be valuable in identifying areas prone to fraud. However, without consistent standards and metrics by which this data is collected and measured, the data reconciliation loses its utility.

Cornucopia undertook an analysis using publicly available information to show how acreage and export data can indicate fraud assuming consistent metrics, across



The Port of Stockton is a major deepwater port in California. The fraudulent shipments of corn and soybeans which were documented by the *Post* in May 2017 were offloaded here.

countries, are reported. This data indicates that for the year 2015, the U.S. imported over three times as much organic corn from Turkey as the country produced. Because

6 USDA, AMS, FOIA Reading Room, documents available at: <https://www.ams.usda.gov/sites/default/files/media/NOPETKOAAppeal-SettlementFinalRedacted.pdf> (last visited May 1, 2018).

7 Financial Action Task Force, "Money Laundering Vulnerabilities of Free Trade Zones," (March 2010) available at: <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf>

The influx of fraudulent organic grain into the United States has rattled consumer confidence in the USDA organic label, which consumers have come to identify as an indicator of a more healthful and environmentally responsible choice, backed by government oversight.

the standards applied to the data collection and reporting criteria cannot be verified across U.S. and European systems, we're left with more questions than answers. The U.S. should require certifiers to collect and report acreage and yield data to ensure consistent reporting standards.

The Harmonized Tariff Schedule offers valuable information on organic import and export data, which is an important component in the data reconciliation process. Many countries use the Harmonized Commodity Description and Coding System (HS) for purposes of tariffs, collecting trade statistics, internal taxes, and monitoring controlled goods. There has been speculation that underhanded importers use conventional HS codes for organic products to avoid the heightened scrutiny that an organic HS code could invite. Requiring importers to use organic HS codes is key to monitoring international trade in organic commodities.

In April 2018, Cornucopia broke news about a questionable shipment of 25,000 metric tons of organic corn that an importer shipped from Turkey on the vessel Mountpark. In this case, it was not organic inspectors who intercepted the dubious shipment, but U.S. Customs that targeted the shipment for physical examination. Customs officials contacted the Animal and Plant Health Inspection Service (APHIS), a division of the USDA, to inquire about the country of origin of the corn.⁸

With information it requested and received from the National Organic Program, APHIS determined the corn shipment was illegal under federal regulations. Importing whole corn seed from certain countries, including Russia, Moldova, and Kazakhstan, violates USDA regulations because of concerns that contamination by pests and pathogens could place domestic producers at risk.

Through organic certification documents, APHIS determined that the corn was grown in Russia, Moldova,

and Kazakhstan. Had organic tracking systems been in place and worked effectively, the shipment would have been flagged at the outset by the NOP as originating from a suspect region based on its "organic" designation alone. Instead, the NOP learned of the shipment through interaction with U.S. Customs and APHIS as they carried out their inspection duties.

The influx of fraudulent organic grain into the United States has rattled consumer confidence in the USDA organic label, which consumers have come to identify as an indicator of a more healthful and environmentally responsible choice, backed by government oversight.⁹ The USDA reports that organics is a \$47 billion industry with over 19,000 certified operations in the United States.¹⁰

Recognizing the systemic threat to organics posed by fraudulent organic grain imports, The Cornucopia Institute filed a formal Citizen's Petition in July 2017, demanding regulatory reform and holding the USDA accountable to its enforcement obligations. The Petition requests that the USDA address a major loophole in the regulatory framework that leaves some importers, distributors, and brokers exempt from certification.

The urgent need for regulatory reform was confirmed by a September 2017 report issued by the USDA's Office of the Inspector General (OIG), following a thirteen-month audit of the National Organic Program. The Inspector General found that lax controls at U.S. ports were failing to prevent fraudulently labeled products from entering the U.S. market while creating an "unfair economic environment for U.S. organic producers."¹¹

The NOP accepted the Inspector General's recommendations and now has a plan to improve oversight of imports by increasing collaboration with federal agencies, APHIS and U.S. Customs.

In its report responding to the recommendations of the USDA's OIG, the NOP acknowledged that its "inability to swiftly enforce Cease and Desist Notices and civil penalty collections, as well as the existing lengthy enforcement and appeals process, is not a strong deterrent for those wishing to engage in fraudulent activities."

The NOP indicated the ultimate goal is to develop technologies that would require certifiers to approve transactions along the organic supply chain in real time. The system envisioned by the NOP would allow it to audit

8 The Cornucopia Institute, "Suspicious Organic Grain Shipment Intercepted at U.S. Port," (April 23, 2018), available at: <https://www.cornucopia.org/2018/04/suspicious-organic-grain-shipment-intercepted-at-u-s-port/>

9 The Washington Post, "Bogus 'organic' foods reach the US because of lax enforcement at ports, inspectors say" (Sept. 18, 2017).

10 2017 President's Budget, Agricultural Marketing Service, 21-20, available at: <https://www.obpa.usda.gov/21ams2017notes.pdf>

11 Office of Inspector General, Audit Report 1601-0001-21, National Organic Program—International Trade Arrangements and Agreements (Sept. 2017) available at: <https://www.usda.gov/oig/webdocs/O1601-0001-21.pdf>

across the supply chain and trace an organic product from farm to market and back.¹²

Also in September 2017, a bipartisan bill, The Organic Farmer and Consumer Protection Act, was introduced in Congress. The bill doubles the USDA's budget for the organic program over the next five years and provides incremental increases in funding. The additional funding reaches \$24 million in 2023.¹³

Increased funding supports investment in technology and access to data to improve tracking of international organic trade and allows organic certifiers to share investigative information throughout the supply chain. The bill also requires USDA officials to file an annual report to Congress detailing their organic investigations.

The effectiveness of legislative efforts will depend on the strength of any regulatory amendments the USDA ultimately adopts to broaden oversight of the international supply chain. After significant public outcry about the harm to domestic producers, the National Organic Standards Board (NOSB) turned attention to import fraud in its spring 2018 meeting. The board received comments on 75 questions related to problems and solutions surrounding fraudulent imports. Cornucopia commented extensively on these topics, with calls for certification of all entities throughout the supply chain, increased testing of imports, and requirements that the NOP report organic acreage and yield data.¹⁴

Cornucopia Advocates for Necessary Reforms:

- Currently excluded entities such as ports, brokers, and importers must be certified.
- Certifiers must be required to report organic acreage and yield data on an annual basis.
- Uniform, standardized transaction certificates which identify the farm where the grain was harvested must accompany every shipment through the supply chain.

After the NOSB's spring meeting, the NOP announced its plans to introduce a proposed rule by March 2019 which would modify several organic regulations. The rule would require brokers, traders, marketers, and distributors to be certified if they arrange the sale of, represent, or label organic products. The rule would also require unannounced inspections of organic farms and businesses.¹⁵

Although the problem of fraudulently imported grain has finally harnessed USDA and Congressional attention, the fight is not over. The effectiveness of USDA oversight and federal legislation remains to be seen and could be years in the making. Investigating and exposing import fraud and fighting for stringent regulatory enforcement and change are critical in protecting the integrity of organics. In the meantime, additional shiploads of imported commodities continue to move through U.S. ports.

CHOICES AND CONSEQUENCES

FAKE ORGANIC FEED=FAKE ORGANIC FOOD

WHEN IT COMES TO ORGANIC livestock production, *what you feed is what you get.*

USDA organic regulations require that for eggs, poultry, milk, and other dairy products to be certified USDA organic, the chickens and cows must consume 100% certified organic feed. If the livestock feed the animal consumes is not truly organic, then the eggs, milk, and

chicken products are not organic either, no matter what the label says.

The three massive fraudulent shipments uncovered by *The Washington Post* constitute an astonishing 7% of 2017 organic corn imports and 4% of organic soybean imports. The *Post* reported that a significant portion of this fraudulent grain was imported for livestock feed.¹⁶

12 Organic Import Oversight: Collaboration Opportunities and Technology Needs Assessment (July 2018); available at: <https://www.ams.usda.gov/reports/organic-import-oversight-collaboration-opportunities-and-technology-needs-assessment>.

13 HR 3871—Organic Farmer and Consumer Protection Act of 2017, available at: <https://www.congress.gov/bill/115th-congress/house-bill/3871/text?format=txt>

14 The Cornucopia Institute, Imports Oversight—Discussion Document, available at: <https://www.cornucopia.org/wp-content/uploads/2018/04/Cornucopia-Organic-Imports-Comments-Spring-2018.pdf>

15 Sustainable Food News, "USDA cracks down on 'middlemen' in organic supply chains," (July 7, 2018).

16 The Washington Post, "The labels said 'organic.' But these massive imports of corn and soybeans weren't" (May 12, 2017).

Animal feed for poultry and other livestock production has been a primary contributor to the escalating trend of imported organic soybeans and organic corn.



Aurora Dairy owns this “organic” feedlot in Texas.

These astounding percentages from investigations into just a few shipments strongly suggest the organic integrity of livestock feed in the U.S. has been compromised. At the time of this publication and until effective import control procedures are implemented, we recommend consumers purchase brands of beef that are both certified organic and “100% grass-fed,” in addition to using our scorecard to identify high-integrity brands of poultry, eggs and dairy products.

The “100% grass-fed” label means the animal was fed *and finished* on fresh pasture during the grazing season and ate stored forage during the non-grazing season. Corn, soybeans and other grain are not a permitted feed for beef or lamb labeled 100% grass-fed.

Consumers should be aware that choosing products that are simply labeled “grass-fed,” does not guarantee the cattle were not fed grain. Because the Food and Drug Administration does not regulate the “grass-fed” label, some products that claim to be “grass-fed” were actually supplemented by grain. Marketing language can be intentionally misleading.

Cornucopia’s recently released dairy report, *The Industrialization of Organic Dairy: Giant Livestock Factories and Family Farms Sharing the Same Organic Label*, details the differences in dairy labels.¹⁷

When it comes to livestock that have been fed grain, buying products raised exclusively on North American organic grain carries stronger assurances that the organic chicken, egg, and dairy products are truly organic.

INCREASED DOMESTIC DEMAND = INCREASED DOMESTIC PRODUCTION

According to USDA trade statistics, the United States imports far more organic products than it exports. Imports of organic products have grown at over 35% per year since 2012, from \$496.3 million to \$1.67 billion in 2016. In 2016, the U.S. organic products trade deficit hit nearly \$1.2 billion, its highest level ever.

Animal feed for poultry and other livestock production has been a primary contributor to the escalating trend of imported organic soybeans and organic corn. Since 2012, imports of organic soybeans have grown at an average rate of 29.1% per year, while imports of corn have grown 63.6% per year.

The increase in imported organic corn and soybeans led to losses for North American farmers, removing the incentive to convert more conventional land to organic production and creating unstable markets. From 2015 to 2016, organic corn imports accounted for nearly half of the U.S. organic corn supply. In 2016, the U.S. imported roughly 80% of organic soybeans.¹⁸

Despite the huge percentages of imported organic grain, recently released trade statistics revealed some encouraging news. U.S. imports of organic soybeans from Turkey were down 17% over the first 11 months of 2016, likely due to increased scrutiny at U.S. ports. Imported organic corn from Turkey was down 31%.¹⁹

As percentages of imported organic grain decrease, the downward pressure on domestic organic prices should start to lift and encourage more North American production.

When domestic livestock producers buy North American-grown grain, demand for domestically grown organic grain should motivate conventional grain producers to transition to organic. Risk reduction and the associated

17 The Cornucopia Institute, *The Industrialization of Organic Dairy: Giant Livestock Factories and Family Farms Sharing the Same Organic Label*, available at: <https://www.cornucopia.org/wp-content/uploads/2018/08/DairyReport2018-full-report.pdf>.

18 Data Source: USDA, ERS available at: <https://www.ers.usda.gov/topics/natural-resources-environment/organic-agriculture/organic-trade/>

19 Sustainable Food News, U.S. organic livestock feed imports plunge (March 14, 2018).

financial viability which often accompanies increased consumer demand ensures domestic organic grain farmers have a market for their products.

Consumer demand also helps incentivize more family-scale farmers to enter organic grain production, which has the added benefit of fostering local food systems. Large organic manufacturers often rely on factory farms and imports to maximize profits, resulting in diverting consumer dollars away from struggling local and rural economies.

The large-scale industrial food system in the U.S. is an environmental catastrophe and is not sustainable. It depletes natural resources, promotes antibiotic resistance,

and contaminates the food, air, and soil with dangerous chemicals. Shifting to locally produced organic foods is the best alternative to eliminate the enormous human, economic, and social costs inflicted by industrial-scale food systems.

High-yield organic grain farms are far more environmentally responsible than their conventional counterparts. The crop rotation required of organic farmers promotes biodiversity. Organic farms are prohibited from using toxic chemicals and GMOs. Additionally, petroleum-based fertilizers are prohibited in organic farming, reducing the likelihood of nitrate run-off which contaminates water supplies.

ORGANIC MARKETPLACE PARTICIPANTS— OUT AHEAD OF THE CURVE

TO CREATE THIS BUYER'S GUIDE, The Cornucopia Institute asked feed processors and marketers that sell organic livestock feed about their sourcing practices. We were interested in identifying organic feed processors and marketers that exclusively purchase grain grown in North America.

We also asked egg, dairy, and broiler producers if they grow their own feed or exclusively purchase feed grown in North America. We further asked how they negotiate with suppliers to verify that the grain is domestically produced and whether a corporate representative substantiates the representations.

Our Buyer's Guide helps consumers, wholesale buyers, and livestock farmers find producers and marketers reporting that they source organic grain exclusively from North American farmers.

If you are a shopper purchasing organic eggs, dairy, and chicken products, please seek out the brands listed in the Cornucopia Buyer's Guide. If these name brands are not available to you, ask your grocery retailers to carry them. Alternatively, you can contact the organic brands available in your market and tell them the sourcing of all-do-

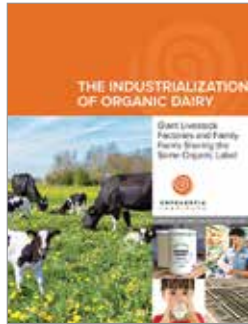


Image courtesy of World's Best Eggs

mestic feed is an important purchasing criterion for you.

Consumers create the requisite marketplace pressure to swing the pendulum back to domestically produced organic food—trustworthy sourcing that will pay dividends to society.

ALSO PUBLISHED BY THE CORNUCOPIA INSTITUTE:



The Industrialization of Organic Dairy: Giant Livestock Factories and Family Farms Sharing the Same Organic Label



Raising the Bar: Choosing Healthy Snack Bars versus Gimmicky Junk Food



Behind the Dazzling Smile: Toxic Ingredients in Your Toothpaste?



Protecting Children's Health: Choosing Organic Food to Avoid GMOs and Agricultural Chemicals.



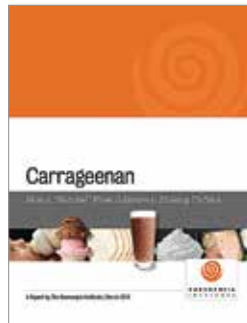
Scrambled Eggs: Separating Factory Farm Egg Production from Authentic Organic Agriculture, 2nd edition.



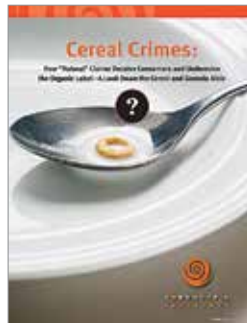
Decoding Pet Food: Adulteration, Toxic Ingredients, and the Best Choices for Your Companion Animals



Culture Wars: How the Food Giants Turned Yogurt, a Health Food, into Junk Food



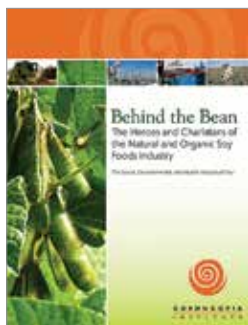
Carrageenan: How a "Natural" Food Additive is Making Us Sick



Cereal Crimes: How "Natural" Claims Deceive Consumers and Undermine the Organic Label—A Look Down the Cereal and Granola Aisle



Replacing Mother—Imitating Human Breast Milk in the Laboratory. Novel oils in infant formula and organic foods: Safe and valuable functional food or risky marketing gimmick?



Behind the Bean. The Heroes and Charlatans of the Natural and Organic Soy Foods Industry



Do It Yourself Organic Certification Guide and Video: Helps shoppers navigate their local markets when a certified organic farm vendor is not available



The Organic Hydroponics Dichotomy: Can a Soil-less Growing System be "Organic"?



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THE CORNUCOPIA INSTITUTE is engaged in research and educational activities supporting the ecological principles and economic wisdom underlying sustainable and organic agriculture. Through research and investigations on agricultural and food issues, The Cornucopia Institute provides needed information to family farmers, consumers, stakeholders involved in the good food movement, and the media.

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