

Hidden Valley Organic Dairy Farms: A Case Study on Organic Dairying

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Overview

Hidden Valley Dairy Farms owner Perry Van Tassell came to organic farming through a different set of circumstances than most organic farmers. Van Tassell's parents moved from Utah to the farm's present location in Idaho in 1975. Initially the 1,800-acre farm was a typical diversified operation that raised hay, grain, corn and row crops such as potatoes, as well as 500 acres of sugar beets. Additionally, a small dairy operation was always part of the farm. Hidden Valley Farms is located in south Lincoln County, well away from most other farms and bordered by public lands managed by the Bureau of Land Management (BLM).

In 2000, Hidden Valley Farms experienced an event that would forever change the way the farm operated. In the fall of that year the BLM, in an effort to control noxious weeds, used a chemical spray called OUST®* to treat their public lands. OUST® is used to control several types of grasses, broadleaf weeds and certain hardwoods and vines in non-crop sites. Spray drifted onto a number of southern Idaho farms that bordered the BLM land, including Hidden Valley Farms, and the contamination had long-term effects. One such impact was that Hidden Valley Farms could no longer raise row crops, leaving them with hay, grains, corn and the 230 cow dairy. By 2003, Van Tassell had made the decision to move to organic production to capture the higher prices consumers were willing to pay for organics, in addition to his desire to phase out chemicals altogether. The farm and dairy were certified organic in 2006, and have since increased in size to 2,200 acres on the farm side and 350 cows on the dairy side.

Strengths of the Business

A major strength of Hidden Valley is the self sufficiency of the farm. More than enough feed is raised on-farm to support the dairy, while the remainder is sold into the organic market. Approximately 70% of the farm's hay crop is utilized on-farm, and the rest of the crop is sold both locally and to more distant markets, including Texas and Colorado. Similarly, about 85% of the barley crop is used in the dairy and the rest is marketed. Being almost completely surrounded by BLM, Perry also doesn't have to be concerned with chemical drift from conventional farming neighbors.

Threats to the Business

In Idaho, like many other states in the arid West, access to water is a necessity for agriculture. Hidden Valley relies on ground water, sourced from deep wells drilled in the 1970s. Due to a multi-year drought, water shortages have raised a dispute between surface water users and ground water users. With Idaho's water law based on "first in time, first in right," users with

* OUST® is a product of DuPont Corporation.



later (more recent) water rights, which are mainly ground water users, may face curtailment or a total loss of their water. The situation has been going through a public hearing and court decision process for several years with no resolution in sight and it is possible that Hidden Valley's wells could be part of a curtailment order in the future.

A second concern is the potential loss of organic premiums in the market place. Organic products were long the province of health food stores and specialty outlets; however, the strong premiums commanded by organic products have not gone unnoticed by mainstream retailers, who have started to offer more organic items. If organic products eventually become "commoditized" by such large-scale mass retailers as Wal-Mart and Safeway (both of whom have launched organic campaigns in the past few years), the premiums may weaken to the point that profitability is seriously affected. Prices for organic dairy began declining 2007 and further discussion is outlined in the Managing Risk section.

Business Sustainability

While one indication of business sustainability is the financial condition of the operation, an important indicator of sustainability is the general "health" of the resources: soils, animals, people, etc. The most important consideration for Hidden Valley is a good rotation for crops. Hay is critical to that sequence, and Hidden Valley averages a six-ton per-acre yield on organic hay, similar to the area average. Van Tassell typically fall seeds new crop alfalfa and holds it in the rotation for five years. Part of the philosophy with crop production at Hidden Valley Farm is that "if you feed the soil, the soil feeds the plant, take good care of one and the job is half done." Both compost and a liquid fish fertilizer are used on crops. Another key point of soil care is weed control. In addition to utilizing the rotation, planning has to be done well in advance with organic production because by the time it becomes evident there is a problem, as Perry puts it, "it's already too late." Some aspects need to be considered several years in advance to stay ahead of weed problems. Mechanical control is used and thus control is also more labor-intensive.

Hidden Valley's milk is sold to the neighboring Horizon Organic dairy, a division of Dean Foods, a long time dairy products company. With just a few miles between the two facilities, Horizon picks up milk from Hidden Valley. At this point, arrangements between Horizon and Hidden Valley are informal, no contracts or other written agreements.

Organic hay sales are typically made by phone calls to an established customer base across several states. Organic barley goes to Horizon's nearby operation. Prices for both organic hay and organic barley have been quite stable, typically garnering a 30 to 40% premium over the commercial market, although recent increases in grain prices have narrowed that margin.

Maintaining quality and consistency in both crop and milk products is important to Hidden Valley's long-term success. For crops, weeds have been the most difficult roadblock in maintaining quality. An aggressive program of mechanical control combined with a long-term perspective on crop rotation has been the key to success. Hidden Valley rotates five years in hay with a year of corn and a year of barley. Permanent pasture for the organic dairy occupies 70 acres. On the dairy side, the product's components (protein and butterfat), along with a somatic cell count (SCC) of less than 150,000 are what make the difference in pay. Hidden Valley watches those parameters carefully. The SCC fluctuates depending on weather and seasonal factors but has generally remained low.

A factor Van Tassell hadn't expected when he first ventured into organic farming and dairying was that in general, he has found dealing with other organic producers and suppliers to be a pleasant experience. His experience has been that individuals committed to organic production tend to be more honest in business dealings, more helpful, and more willing to share information and experiences. In an environment where there are no "organic field men," this type of sharing can make all the difference.

Managing Risk

Historically, there have been fewer price risks associated with organic dairy production relative to conventional production because organic prices are higher than conventional and have tended to be quite stable. The lack of price volatility meant that typically prices for organic dairy didn't decline. Over the course of the past few years, many large-scale dairy suppliers noticed the premium dairy pricing and entered the market themselves. The increased supply (and therefore competition) caused organic dairy prices to decline in 2007 (Robinson-Jacobs, 2008). Industry experts predict that the high price of organic feed will lead some organic dairy producers to revert back to conventional production. As Hidden Valley sells all of its milk through Horizon Organic, who obtains 80% of its product from family farms (Horizon Organic, 2006), it is somewhat protected from market risks.

While price risk is mitigated through selling to a large distributor, Hidden Valley avoids the risks of increasing input costs by being largely self-sufficient in regards to feedstuff. The hay and grain that is used to make up the majority of the dairy ration is grown on-farm, although Hidden Valley does buy organic canola meal that is trucked in from Great Falls, Montana. Part of Van Tassell's philosophy is that the cows must have access to pasture, which is why Hidden Valley has 70 acres of dedicated pasture for summer grazing.

Another key to Hidden Valley continues success is avoiding outbreaks of illness in the herd through a strong vaccination program. Prevention of disease is key in an organic operation as livestock cannot be treated with antibiotics, so if a cure is needed it is often too late in terms of maintaining the animal's organic qualification. Hidden Valley's all-Holstein herd apparently does well; the cows average between 5 and 6 lactations with some experiencing as many as 12 lactations (a reasonable estimate of the national average is fewer than 3 lactations).

Presently all of Hidden Valley's heifers (all of which are organically raised) are being kept for a proposed expansion to 500 head. The bull calves are kept and fed out to about 1,000 pounds, when they are then sold to a feedlot for finishing. Waste feed is used for feeding out the steers.

Stability in the operation is very important to Perry Van Tassell. With low employee turnover, herd longevity, and a strong preventative program for weed control and herd health, Hidden Valley is stable. The milkers have been with the dairy between 3 and 10 years, with the longest term of any current employee at 14 years. Employee longevity is important as organic operations are often left to their own devices to solve problems, glean what they can from the experiences of employees and other organic producers.

Lessons Learned

In working through the system and guiding his operation through the transition from conventional to organic production, Van Tassell feels there are a couple of key points for those who may be looking at a similar move:



1. Visit with someone who has gone through the process. Compared to conventional practices, the amount of organic information that has university-sponsored research behind it is minimal. Experience is invaluable.
2. A bonus for organic producers is the willingness among compatriots to share experiences.
3. Hidden Valley's success to date primarily to trial and error. Careful experimentation may be necessary on occasion, since there are no "organic field men."
4. One problem that has arisen is the lack of knowledge and understanding of organic rules by neighbors. Neighbors using conventional methods are concerned they may be responsible for any spray drift that might reach Van Tassell's fields. However, if there is spray drift, it is Hidden Valley's responsibility to maintain a buffer zone and not incorporate that part of the affected crop with the other organics.
5. The Idaho State Department of Agriculture, which oversees certified organic farms, has held seminars which have proved helpful. Other state certification agencies may do the same.

Future Directions

The market for organic food products has enjoyed strong growth in recent history, increasing as much as 20% in a year. While the piece of the pie that is organic production is still quite small, it is increasing. With food recalls constantly in the press, consumers are more frequently considering their options for food alternatives and often feel that organic foods are the answer. One "problem" for Hidden Valley's future then, according to Van Tassell, is to keep supply in pace with demand. Thus, in the foreseeable future, he will continue to grow the dairy to 500 cows, at which point the size of the dairy will be reevaluated to see if more expansion is desirable or not. As with the rest of the farm, Van Tassell is planning to expand as necessary to maintain the production base to meet both his on-farm needs and those of his customers.

References

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