The Organic Produce Niche Market: Can Mexican Smallholders be Stakeholders?

Robin Marsh and David Runsten

North American Integration and Development Center
3250 Public Policy Building
UCLA
Los Angeles, CA 90095-1656 USA
runsten@ucla.edu, marsh@ix.netcom.com

4 August 1997

Paper prepared for the project: "The Transformation of Rural Mexico: Building an Economically Viable and Participatory Campesino Sector"
The Organic Produce Niche Market: Can Mexican Smallholders by Stakeholders?

Introduction

The elimination of most input subsidies, rural credit and other government support for Mexican farmers over the last decade has “pushed” farmers to seek more profitable production alternatives than traditional grain cultivation. Diversification into higher value crops, particularly fruits and vegetables, could be an option for a large number of small and medium-size farmers if they are able to manage the significant technical, financial and marketing requirements of this type of intensive production. Data from the 1990 and 1994 SARH/CEPAL and SRA/CEPAL ejidal surveys indicate that more than 350,000 ejidatarios are already growing fruits and vegetables, though with highly variable quality and almost entirely for local and national markets.

This paper explores the potential for small farmers in Mexico to participate in a particular niche market—organic fruits and vegetables for export, with emphasis on the United States market. Though the market for organic produce is still a small fraction of the conventional produce market, U.S. demand for organic fruits and vegetables is growing rapidly, at an annual rate of 20 percent since 1991, as compared with stagnating demand for conventional produce (Natural Foods Merchandizer 1989-1996).

Sections one through four of the paper summarize the current trends in organic fruit and vegetable production and marketing in the United States, and the environmental and health concerns that explain the growing demand for organic products in the United States, as well as in Europe and Japan. The “buy local” movement in the United States, which has the potential to become a significant social and economic barrier for Mexican imports, is juxtaposed against the reality of growing globalization of the food marketplace. A limited discussion of Mexican organic horticulture production is given in section five, based on the recent work of CIESTAAM2 (University of Chapingo, Mexico) on organic farming in Mexico as well as the authors’ previous field research.3

Section six presents the marketing side of a case study of a successful organic herb and vegetable production cooperative of ejidatarios in Baja California Sur, Productores Orgánicos del Cabo, discussing how the cooperative has managed to obtain adequate financing, technical expertise and marketing know-how through partnering with experienced organic farmers from California. The cooperative serves as a model for study and possible replication/adaptation in other parts of Mexico. The last section summarizes the principal opportunities and barriers for Mexican smallholder participation in the organic produce market, largely from the vantage point of U.S. firms who are interested in partnering with Mexican farmers to bring high-quality, counter-seasonal organic fruits and

1 “Organic” produce refers to fruits and vegetables that are produced without the use of synthetic chemical inputs, from soil preparation through post-harvest handling.
2 Centro de Investigaciones Económicas Sociales y Tecnológicas de la Agroindustria y la Agricultura Mundial, Universidad Autónoma Chapingo.
3 Because of lack of data on what is still an incipient economic activity in Mexico, especially as compared with the enormous and very well documented conventional horticulture business, this section is more suggestive than comprehensive. Another study would be needed to systematically survey organic horticultural production in Mexico, as well as the income and welfare benefits for Mexican producers under different marketing arrangements.
vegetables into U.S. markets. The special advantages (and barriers) for small farm participation are highlighted.

Data for the U.S. organic production and marketing sections were collected from publications and phone interviews with experts from industry, government and trade associations. The Del Cabo case study is based on several field visits to the site over the last three years, extensive interviews with the participants, data from both the Mexican and U.S. operations, and many conversations with the U.S. founder of the enterprise, Larry Jacobs. The concluding section also reflects the authors' previous field research on Mexican smallholder fruit and vegetable production undertaken during the first phase of the UCSD sponsored Ejido Reform Project (Marsh & Runsten forthcoming).

1. Trends in U.S. Organic Fruit and Vegetable Marketing

United States sales of organic fresh produce (fruits and vegetables) have grown steadily over the last fifteen years, at an average annual growth rate of just over 20%. Sales are concentrated in natural food stores (approximately 6,600 nationwide), although organic produce is increasingly sold in conventional grocery and supermarket stores as well. Direct sales to consumers is also an important marketing outlet for producers (farmers markets, Community Supported Agriculture, roadside stands, U-pick operations, restaurants). Export sales have grown as well, primarily to Canada, Europe and Japan.

Figure 1 shows the principal categories of organic foods sold in natural health/food stores in 1995, with fresh produce representing 27.7 percent of the total ($1.451 billion). Figure 2 shows the history of organic fresh produce sales in natural health/food stores from 1980 to 1995. From an infant industry of just $19 million in 1980, sales grew to $402 million in 1995. There are no figures available for organic produce sales in conventional markets, nor for direct farmer-to-consumer sales nor exports, however, the Merchandiser estimates from its research that these channels together would raise total sales by at least one-third to $535 million in 1995.

In retail organic sales, the biggest expansion in the last few years has been in natural foods supermarkets, attracting consumers away from conventional supermarkets. Figure 3 shows that nearly 55 percent of fresh produce sales in 1995 were in natural supermarkets, such as Whole Foods and Wild Oats. At the same time, the trend is for more and more conventional food stores to stock organic produce to meet increasing consumer demand and in pursuit of higher profits. The Packer’s Fresh Trends 1995 survey results show that 54 percent of surveyed conventional supermarket produce buyers sell organic produce.

---

4 The most comprehensive source of information on U.S. organic sales is the annual organic market survey conducted by Natural Foods Merchandiser. Data are collected through telephone and mail surveys with natural/health food stores (total of 6,600 stores), telephone interviews with health food chains (total of 2,643 stores), and through interviews with distributors and brokers for conventional or mass markets (136,000 grocery and supermarket stores). The market analysis focuses on the natural/health food stores where the bulk of organic sales are concentrated. Disaggregated figures for organic produce sales through other market channels (direct marketing, mass markets, exports) are not available. This section is based on data from the Natural Merchandisers’ annual organic reviews, 1989-1996, unless otherwise indicated.

5 “More stores of all sizes are beginning to carry or carry more organics.” according to the Packer’s 1995 Fresh Trends report. “Some retailers estimate that a supermarket can make 10 to 15 percent more profit by carrying organics.”
According to industry experts, natural foods stores continue to dominate marketing of natural products, including organic produce, because of the "intricacies of natural products retailing," which mass market retailers are unable or unwilling to undertake ("such as dealing with hundreds of vendors, supplying deep product knowledge, foregoing slotting fees," Gilliland, Wild Oats buyer). "They don't have the information they need to sell the products, and few natural foods sections in the mass market are staffed as well as in natural foods stores," says Arlene Shirk, key accounts manager for Nature's Best.

2. **Organic Trade Associations**

Growth in the organic produce industry is largely a function of increasing consumer demand for nutritious, environmentally safe fresh foods, and the simultaneous decline in retail prices with increased organic acreage and yields. It is also a function of the steady stream of new products on the market, such as baby carrots, bulk lettuce mix and precut vegetables, all items that meet the growing demand for convenience foods.

Greater consumer awareness and demand for organic products can be partly attributed to the proactive efforts of the national Organic Trade Association (OTA), and other regional support associations, to educate consumers, health care professionals and retailers about the benefits of certified organic produce. OTA annual activities include annual *Wild about Organic* and *Organic Harvest Month* programs, media outreach programs, and hiring of advertising agencies to produce generic organic TV and print ads that manufacturers, retailers, wholesalers and growers can use cooperatively.

The Organic Farmers Marketing Association (OFMA) was recently formed to "advance communication and cooperation among organic farmers in product marketing, consumer education and public advocacy, and secure economic and environmental sustainability of an organic food system." (OFRF 1996: 2). The OFMA Produce/Perishables Committee offers free on-line information services to all organic produce and perishable farmers, including: 1) National and Regional Organic Produce Market Price Reporting (OPMPR), 2) Cost of Production Analysis, 3) Farm Worker Employment Service, 4) Cooperative Marketing Opportunities, 5) Community Supported Agriculture (CSA) Information, and 6) Standards of Grading and Quality Control Information.

The OTA and OFMA are currently lobbying the USDA to implement the federal Organic Foods Production Act of 1990 (OFPA)\(^6\), which is designed to protect both consumers and legitimate organic producers by regulating the production and marketing of organically grown commodities. Upon implementation, organic growers and processors selling in the marketplace will have to be certified by a USDA accredited agency and abide by federal guidelines for organic production, processing and handling (Klonsky and Tourte 1994). Once implemented, the law is expected to give a boost to U.S. organic exports.\(^7\)

3. **Pros and Cons of the "Buy Local" Movement**

\(^6\) The OFPA became effective on October 1, 1993, but final recommendations for the law's implementation have been delayed by budget and time constraints.

\(^7\) It is not clear how U.S. imports of organic produce will be affected, other than to expect that the same federal standards for certification will be applied at ports of entry/border crossings.
One important aspect of the organic industry’s public advocacy is the urging of consumers and retailers to support local/regional agriculture by “buying local” and “buying in-season” (Kirschenmann 1997; Feenstra 1995; Wilkins 1995). Consumers are asked to increase their purchases of locally grown foods in order that nearby rural communities can remain economically viable and environmentally sustainable in the face of increasing agricultural globalization. Advocates also point out that buying local reduces contamination of the environment brought about by packaging and transporting goods long distances from production to consumption. Furthermore, buying local and in-season puts consumers more in touch with the growing possibilities of the surrounding natural environment, and enhances real and perceived local food security.

Today, nearly one-half of the fresh fruits and vegetables consumed throughout the United States are produced in California, and most of America’s northeastern states import more than 70 percent of their food (Wilkins 1995: 153). Off-season fruits and vegetables are largely supplied by foreign imports. In her article, Seasonal and Local Diets: Consumers’ Role in Achieving a Sustainable Food System, Jennifer Wilkins argues that consumers need to take responsibility for the considerable costs of meeting their year-round demand for fresh fruits and vegetables through distant U.S. and foreign imports.

At the same time, Wilkins recognizes certain disadvantages to “eating from the foodshed,” namely: 1) there are significant nutritional benefits from eating fresh fruits and vegetables year-round, and some concern about the nutritional adequacy of a regionally-based diet; 2) studies of consumer preference show that most consumers consider it very important to have year-round fresh supplies of certain produce items (i.e. tomatoes, apples, lettuce); and 3) “Building a market for locally-produced foods may diminish markets for foods grown for our consumption in poor countries” (p. 157), an ethical issue that should not be ignored in discussions of localizing the food and agriculture system.

The “buy local” movement could have serious consequences for promotion of organic production in foreign countries, including Mexico. If enough consumers are persuaded to shun imports, retailers will have little interest in sourcing from abroad. However, U.S.-based organic advocacy organizations believe it is possible to build strategic alliances between organic farmers in the U.S. and Mexico that ensure economic viability on both sides. “Scheduling of production and marketing is key to avoid direct competition.” (Bob Scrowcroft, Executive Director, Organic Farmers Research Foundation [OFRF]). Nevertheless, even support for complementary imports would contradict a strict interpretation of the “buy local” emblem.

Several means are offered (by OFRF, OTA, OFPA and the Institute for Agriculture and Trade Policy [IATP]) by which Mexican organic growers can enter U.S. markets without threatening local

---

8 The coalition of regional Sustainable Agriculture Working Groups (SAWGs) recommends that all government agriculture agencies...work together with urban and rural farmers and community groups to encourage and enable local sourcing of food purchases. This would require: 1) the substitution of domestic and foreign food imports with local food alternatives acceptable to consumers, and 2) a restructuring of the food system to re-diversify and decentralize production, value-adding, and marketing functions. Such a shift may be facilitated by consumer education about the community, its food and agriculture system, and potential environmental benefits of producing and consuming locally.” (Wilkins: 153)

9 “Given limits to oil extraction and refinement, the future costs (both in dollar and pollution terms) of transregional and transnational shipments of food may soon begin to outweigh the benefits of having non-local fruit and vegetable alternatives from which consumers can choose.” Wilkins 1995: 154
farmers with oversupply and lower prices: 1) produce what is not being produced in the United States at all either because agribusiness has moved to cheaper production areas (i.e. asparagus, pineapple, certain cut flowers) or for climatic reasons (tropicals); 2) work with U.S. organic farmers to determine market openings for complementary supply to meet off-season or excess seasonal demand; 3) look for export opportunities outside of the United States (Canada, Europe and Asia); and 4) promote imports of U.S.-produced organic fruits and vegetables not produced in Mexico.

Cathy Dimattio, Director of OTA, believes that there is plenty of opportunity for U.S. and Mexican organic growers to work together to meet growing worldwide demand for organic produce (personal interview). She points out that all organic farmers benefit by making supply available year-round at affordable prices, thus bringing new consumers into the organic marketplace. Also, increasing supply will motivate processors, who now complain about lack of consistency in supply, to come out with more organic products. Finally, increasing supply may allow domestic farmers to increase their exports without seriously affecting domestic prices and demand.

There may be a “social” benefit as well to allowing small organic farmers in Mexico and other poor countries to share in the U.S. organic market, and U.S. organic support organizations are not indifferent to this argument. “We live in one world. Anything that we can do with our neighboring countries that improves their livelihoods and environment will create a better world for everyone.” (Dimattio). This same appeal can be made to socially-minded consumers when marketing organic imports grown by small farmer cooperatives in Mexico and elsewhere. If care is taken to avoid head-on competition with small organic farmers in the U.S., all organic farmers may stand to benefit from this type of social marketing.

4. Organic Fruit and Vegetable Farming in the U.S. and California

USDA estimates indicate that there were approximately 4,100 certified organic farmers in the United States in 1994, farming 1,127,000 acres.\(^{10}\) This represents a near doubling in both number of growers and acreage since 1991 (Natural Foods Merchandiser June 1996: 38).

According to the 1995 National Organic Farmers’ Survey (OFRF 1996), based on responses from 945 growers in 44 states\(^{11}\), 66 percent of organic farmers nationwide grow vegetables and a little under 50 percent grow fruit, nut or tree crops. “Organic farms are family farms” (ibid: iii), as 83 percent are sole proprietors or family partnerships. Nearly 80 percent of the respondents’ farms are entirely organic. On average each farmer has 2.6 salaried and 10 hourly employees. The average age of the growers is 46. Twenty-one percent (21 percent) are female. Nearly 60 percent have completed college and 19 percent hold graduate degrees.

\(^{10}\) There are also a large number of non-certified organic growers that may well exceed the number of certified growers, however, until all organic growers are required to register with the USDA under the OFPA, the correct figures cannot be known.

\(^{11}\) A total of 3,480 organic farmers were surveyed by mail, with a response rate of 27.2 percent. USDA provides estimates of land devoted to organic farming, placing total organic cropland at about 1,127,000 acres in 1994, up from an estimated 550,267 acres in 1991. Furthermore, the number of organic farmers has nearly doubled, from 2,814 in 1991 to 4,060 in 1994.
Organic farmers participate in a wide variety of marketing channels. Direct sales to consumers was the principal channel of 37 percent of the respondents (on-farm, farmers’ markets, other truck or farm stand location, CSAs, mail order, direct to foreign buyer, and barter); while 60 responded that wholesale marketing is their principal channel (via grower cooperative, processor, retail store or buyer, restaurants, wholesale to foreign buyer, handler/broker/distributor or packer).

As the main barriers they face when beginning organic production, the answers with the largest number of respondents were (in order): 1) lack of knowledge about organic production (71 percent); 2) uncooperative or uninformed extension agents (63 percent); 3) information unavailable on organic production (59 percent); 4) pressure from other farmers to farm conventionally (31 percent); 5) difficulty obtaining farm credit for organic production (21 percent). Most U.S. organic farmers self-finance their operations (64 percent), and another 10 percent received loans from friends or family members. Only 25 percent received credit from commercial banks, the farm credit system or a federal land bank.

California is the dominant player in production of U.S. organic fruits and vegetables. In 1995, Cooperative Extension and the Department of Agricultural Economics at the University of California, Davis, conducted a statistical review of California’s organic agriculture using grower registration records for 1992-1993 (required by the California Organic Foods Act of 1992 [COFA]). The review is based on records from 1,159 registered organic growers farming 45,493 acres in 1992 (Klonsky and Tourte 1995).[12]

As of July 1995, COFA records indicate there were 1,800 registered organic growers in California, representing an annual increase of roughly 25 percent since 1992 (ibid.: 8). Furthermore, industry experts believe that between 1992 and 1995 the overall industry has at least doubled with respect to total gross sales—to approximately $170 million. Thus, organic agriculture in California is a very small but highly dynamic segment of California agriculture as a whole. “Organic agriculture represents approximately one-half of one percent (.5%) of the total farmed acres and total gross sales for all growers in the state.” (ibid: 4).

Table 1 provides figures on the number of growers, acreage and gross sales for organic fruit, nut and vegetable production in California, 1993. The figures show clearly the dominance of fruit and vegetable production in the California organic industry: 95 percent of all growers; 75 percent of total acreage, and 96 percent of total gross sales. It is estimated by industry experts that the $72 million in gross sales in 1992-93 more than doubled to approximately $150 million in 1995 (ibid:8).

The vast majority of organic fruit and vegetable farmers in California are small, part-time farmers, as indicated in Table 2. Of a total of 1,218 farmers, 812 or 67 percent had gross sales of $10,000 dollars or under, and another 142 farmers or 11 percent sold between $10,001 and $25,000. At the other extreme, 48 organic fruit and vegetable growers, or 4 percent, earned $250,000 or more in gross sales. These figures coincide fairly closely with the results of the OFRF nationwide survey reviewed earlier: nearly half of the respondents grossed less than $15,000 in organic farming income in 1994 (all commodities); another 32 percent grossed between $15,000 and $100,000. Fifty percent of the

[12] The review is currently being updated but the data are not yet available in published form (Tourte, personal interview).
respondents reported that organic net income represented 25 percent or less of their overall family income. (OFRF: iii)

5. Organic Fruit and Vegetable Farming in Mexico

There are no systematic data on Mexican production of organic fruits and vegetables for domestic or export markets (nor for any other commodity). Although copies of “bill of lading” are kept by the Animal and Plant Health Agency (APHIS/USDA) on all produce entering the United States from 80 ports and border crossings, including specialty commodities not normally covered by USDA, the documents do not specify whether the produce is organic or not, and in any case the information is not currently in a form convenient for analysis (Cathy Green, ERS/USDA, telephone interview).

Currently, the only way to get a sense of the dimension of organic production in Mexico is by consulting research studies on the topic and by conferring with producer groups and support organizations involved in organic production, as well as with U.S.-based grower-agents and importers. According to the CIESTAAM reports, “Expectativas de la Agricultura Orgánica en México” (April 1996) and “Hortalizas Orgánicas en México” (April 1997), there are approximately 13,000 organic farms in Mexico covering an estimated area of 23,000 hectares, which represents 0.11 percent of the total cultivated area in Mexico in 1996. These farms are typically of small size and organized in cooperatives receiving support from rural development and environmental NGOs. According to CIESTAAM, organic production is concentrated in the states of Chiapas, Oaxaca, Querétaro, Jalisco and Guerrero.

Coffee production dominates the organic industry in Mexico in number of producers (estimated 10,000 or over 75 percent of total), area (estimated 19,000 ha or 82 percent of total organic area) and value of sales (estimated US$19.2 million or 56 percent of total organic sales in 1996) (ibid 1997: 15-16). Organic vegetables, herbs and medicinal plants are second in importance in terms of area planted (an estimated 2,400 ha or 10.3 percent of total organic area) and dollar sales (estimated US$7 million or 20 percent of total organic sales in 1996). The main crops in this category are squash, tomato, garlic, chilis, green pepper, peas, cucumber, lettuce, melon, basil, yams, eggplant, mint, and ginger. About 4 percent or 870 hectares are planted to organic fruits (apples, banana, avocado, pineapple, cherry, papaya, blackberry and lychee). Other important organic crops are sesame (563 ha) hibiscus/jamaica (230 ha) and vanilla (150 ha) (ibid: 15).

Organic production of fresh vegetables in Mexico is concentrated in the northern states of Baja California North and South, Sonora (Hermosillo, Obregon) and Sinaloa (Guasave, Culiacán), primarily for export to the United States. These states also dominate exports of conventionally grown fresh vegetables to the United States. Table 3 shows that this is a large and growing industry, reaching an estimated value of $1.21 billion dollars in 1996. Mexico is clearly the dominant source of U.S. fresh

---

13 Since Del Cabo’s sales alone were almost US$5 million in 1996, this is clearly an underestimation.
14 It is not known to what extent organic horticultural production in Mexico is organic “by default”, that is, cultivated without any use of chemicals for economic reasons and neglect, rather than as a planned and systematic growing practice. Certainly this is true to a significant extent in fruit and nut production.
winter vegetables. According to industry experts, the share of organic imports in total vegetable imports is still tiny but growing in response to increased U.S. demand for year-round organic produce.

According to the 1997 CIESTAAM report based on field research carried out in 1996 (Table 7: 19), there are currently sixteen organic vegetable enterprises in Mexico of varied organizational types (e.g. “triple S” cooperatives, U.S.-Mexico joint ventures, unions of ejidos, private ranches). However, this survey is not complete as it does not include known organic vegetable operations in Sonora and Guanajuato (New Harvest/Tierra Orgánica and Wildwood/Carl Jankay’s operations, respectively) A better estimate may be 20-25 organic vegetable enterprises in Mexico. There are also organic mangoes and bananas being produced by several firms in Nayarit for export to the United States.

According to the same CIESTAAM report, there are four different types of organic vegetable marketing arrangements practiced in Mexico (ibid: 29-30): 1) by commission, where the seller (producer or shipper) pays a broker a 10 to 15 percent commission on the highest market price obtained, and the seller is responsible for covering all production and post-harvest costs, including shipping and payment of duties; 2) by contract, where the grower agent/marketing firm establishes floor and ceiling prices based on conventional market prices (no organic premium paid), and covers the costs of harvest, shipping and duties; 3) by joint-venture contract, where the marketing firm, typically U.S.-based, and producers share all costs and after-sale profits 50-50; and 4) direct sale, where the organic cooperative or firm, whether wholly Mexican owned or joint venture, has its own marketing capability and negotiates sales terms directly with the buyers.

For farmers getting started in organic production for export, especially smallholders, marketing by contract or through joint ventures are the only advantageous options because they provide a means to share the costs and risks of production and selling. Selling by commission to brokers is rarely beneficial for the producer unless the broker is willing to set a reasonable floor price. The CIESTAAM report claims that the most advantageous arrangement for Mexican producers, providing them the greatest share of the profits over time, is when the producing firm or cooperative manages to develop its own marketing capability and control over sales terms (1997: 32). One such cooperative would appear to be the case mentioned earlier, Productores Orgánicos Del Cabo, but the situation is somewhat more complicated, and it is to that case study that we now turn.

6. Productores Orgánicos Del Cabo, S. de R.L. de C.V. and Jacobs' Farm, San José del Cabo, Baja California Sur: A Case Study of a Niche Marketing Strategy

Introduction

Productores Orgánicos Del Cabo is a cooperative of 141 ejidatarios in Baja California Sur who produce organic vegetables and herbs for export in cooperation with organic farmers from California. Larry Jacobs and Sandy Belin, both former Peace Corps volunteers in Guatemala and owners of an organic farm in Pescadero, California, became interested in the idea while on vacation in Cabo in 1984, and conceived of the plan along with the then Comisariado Ejidal in San José, Angel Salvador Ceseña Burgoin, in 1985. The first production occurred in the winter of 1986-1987 with eight ejidatarios. They were joined the following year by Steve Farrer, another organic

---

15 As stated earlier there are no data sources on organically grown imports to the U.S. Organic and conventionally grown fruits and vegetables are aggregated together in USDA reporting.
farmer from California and an expert in tomato production. The group expanded rapidly up to 1992, when there were 185 ejidatarios from the ejidos of San José, Boca de la Sierra, Santa Cruz, Las Cuevas, Santiago, Las Casitas, and La Ribera.\textsuperscript{16}

Growers produce the herbs and vegetables on a very small scale, usually transplanting one or more rows at a time in plantings staggered over many months. The U.S. partners borrowed money in the United States and advanced it to the cooperative on a monthly basis. The cooperative then advanced the growers most purchased inputs and at one time even performed or paid for land preparation costs. The growers are responsible for the labor and water costs. The cooperative provides technical assistance in the form of hired agronomists and (in the past) farmers teaching farmers. The U.S. farmers have also invested a large amount of time in on-farm work and in researching and solving problems. The U.S. partners have been ultimately responsible for the pest control decisions. The product is packed by the cooperative in its own sheds, flown to the United States as cargo on commercial passenger airliners (though some is now trucked), and marketed by Jacobs' Farm.

According to Larry Jacobs, "Del Cabo was established with the objective of assisting small farmers to improve their economic well-being by teaching them organic agricultural techniques, how to produce specialty crops, and how to administer an organization that would allow them to take advantage of niche export markets in the winter." That is, Del Cabo had an explicitly social mission that included supporting agriculture in the Cabo area against the continual encroachment of tourism, raising the incomes of relatively poor ejidatarios, and introducing organic farming techniques in part to preserve the fragile ecosystem of Baja California. Organic production also allowed the group to differentiate the product and access niche markets in the United States.

**Del Cabo’s Growth**

The number of ejidatarios in the Del Cabo project grew from an original 8 to approximately 185 by the early 1990s. This rapid growth in numbers led to inevitable logistical problems, as the ejidatarios were in seven ejidos spread out over 100 kilometers (see Figure 4).

The combination of an overvalued peso and the consequent need to lower the price paid to the growers, along with the beginnings of competition from other firms seeking growers in the Cabo area, led groups to leave the cooperative in the 1990s. Since the peso devaluation at the end of 1994, production has become very attractive again, but the cooperative maintains a policy to restrict entry, choosing instead to allow members to expand their acreage, and the number of members has stabilized at 141 growers. The expansion of acreage occurs in two ways: (1) by certifying as organic additional acreage of member ejidatarios; and (2) by certifying land belonging to their relatives, with production registered under the members’ accounts.

As shown in Figure 5, hectares planted more than doubled from 1993 to 1995. This increase was a response to growing demand for cherry tomatoes as well as a necessity caused by declining productivity of the land. Despite efforts to maintain soil fertility, growers had such small amounts of land certified that they inevitably planted the same crops in the same ground in too short of a rotation. The result has been soil disease and nematode problems.

\textsuperscript{16} There is a satellite group of ejidatarios to the north in Múlege as well, but though the produce from Múlege is marketed under the Del Cabo brand name, production is operated separately from the Cabo area and is not considered in this paper.
Figure 6 shows the growth in total sales of cartons shipped from San Jose del Cabo. Sales have grown at an annual average of 94 percent over the ten seasons and now are approximately $4.5 million. Dips in growth are generally due to weather problems, as the region is subject to hurricanes in the fall and these have impacted significant numbers of growers in some years. Though the dispersion of growers over 100 kilometers creates logistical problems, it is of benefit in lowering the covariant risk of weather impacts.

Marketing

Del Cabo faced a steep learning curve on the marketing side. The marketing was taken on from the start by Larry Jacobs as a part of his California-based business, Jacobs' Farm, and throughout the history of the project the ejidos have not been involved in U.S. marketing. Jacobs thought that he could expand his already-existing marketing office to accommodate Del Cabo produce, however Mexican production expanded so rapidly that the marketing demands at times exceeded Jacobs' Farm's capacity. This created a significant bottleneck in the middle years of the project, limiting production in Mexico, which in turn led to efforts to limit the size of the cooperative on the part of the growers and to defections by some growers to other firms. In more recent years, as the products have become widely known in the trade and as a marketing infrastructure has been put in place in the United States, demand has outpaced supply, particularly at peak season in the winter.

The Del Cabo niche marketing strategy had three main components: a social component, an organic component, and a quality component. The following sections discuss each of these in turn.

Del Cabo as Social Project

Since Larry Jacobs, Sandy Belin, and Steve Farrer were all organic farmers based near the California Bay Area, they were able to use their contacts in the region to promote Del Cabo as a rural development project with a social mission. Sibella Kraus, a key player in the Bay Area produce/restaurant scene, was a friend of both Jacobs and Farrer, brought them together as collaborators in Del Cabo, visited Baja, and wrote some of the early media coverage of the project (Kraus 1989, 1992).

The media portrayed Del Cabo as a positive social project—ex-Peace Corps volunteers working with small farmers to produce organic produce—and this appealed to many consumers in the liberal Bay Area, where the products were first marketed. Del Cabo distributed a video, created point-of-sale educational materials, and later put the small farmer story on the cherry tomato clamshells, all in the effort to convey social information to consumers and retailers. The Del Cabo logo shows a campesino plowing with a horse.

Marketing via this “socially conscious” niche allows the product to be differentiated from most of its competition, larger farmers, to this day. There are significant transaction costs involved in dealing with many small producers, but there also is this possibility of differentiation in the marketplace, if a recognizable brand can be established. Certainly marketers of crafts, coffee, and other peasant-produced items have attempted to exploit such social concerns, with varying degrees of success. It is questionable how large the group of socially-concerned consumers is, but it certainly exists. The problem with
socially conscious produce marketing is that produce is mainly sold by shippers to retail produce buyers, who know and care little about the farm size or level of poverty of producers. This points up the importance of branding to create demand directly from consumers.

**Del Cabo as Mexican Organic Produce**

When the Del Cabo project was started in the mid-1980s, there was virtually no consciously organic production of vegetables occurring in Mexico. By 1989, Kraus was able to identify only three such operations, including Del Cabo. Del Cabo sought to occupy the market niche of off-season organics, especially with the tomatoes and vegetables. As an early article about the project put it:

"Many shoppers in the San Francisco Bay area, well aware of the hazards of eating non-seasonal product from other countries, have welcomed the high-quality and clean Del Cabo produce not only because it is one of the few positive alternatives to eating unsafe Mexican produce in the winter, but also because it provides practically the only available organic supply of summer vegetables from December to April." Friedman (1989, p. 61)

U.S. consumers had become accustomed to hearing that Mexican produce was heavily sprayed with chemicals, was grown with sewage water (*aguas negras*), and other partial truths. In fact, Mexican produce entering the United States was no more likely to fail government residue testing than U.S. produce (Archibald, Marsh, and Robledo, 1989). But this perception of Mexican produce existed because many chemicals are still available for use in Mexico that have been banned in the United States, growers in certain regions of Mexico (e.g. Valle de Mezquital) producing for the domestic market did use sewage water,\(^{17}\) and Mexico has no real laws governing the occupational safety of farm workers with respect to chemical applications (e.g. no field re-entry rules).

Del Cabo was thus a pioneer in claiming its produce from Mexico was organic, and faced an uphill battle in convincing many people that this was true. Jacobs and Farrer tried to get their organization, California Certified Organic Farmers (CCOF), to certify Del Cabo, but CCOF members voted against any certifying in Mexico. So they turned to Oregon Tilth, which began third-party certification of Del Cabo in the 1991-92 season, and has continued to do so.

Del Cabo was able to grow slowly and make mistakes—to learn how to transport and market produce from Mexico, to find ways to communicate with a large number of dispersed growers—in part because there was little competition. It entered the market early and used the economic rents from its market power to capitalize the firm. It would be difficult to replicate the experience, because there is now more competition from large firms. However, the demand for organic produce in the winter has by no means been satisfied, and the project could be replicated with an approach that was better-capitalized and professionally marketed from the start.

**Del Cabo as High-Quality Produce**

\(^{17}\) The Mexican federal government put a stop to this particular case during the NAFTA negotiations, after several newspaper reports surfaced in the United States.
Finally, Del Cabo has had much of its success simply because they are selling a high-quality, fresh, and flavorful product in the winter. This is partly due to the use of air-freight for transport, allowing one to move perishable products, such as basil and cherry tomatoes, rapidly to markets. As one famous restaurateur told Kraus: "It comes down to taste," says Judy Rogers, the chef at Zuni Café. "My bias against off-season produce is that it usually doesn’t taste good, but the Del Cabo vegetables can be really tasty." (Kraus 1989) To the extent the organic and socially-conscious market segments are limited, ultimately the expansion of sales is a function of the price-quality relationship.

Del Cabo has shipped many different fruits and vegetables over the past 10 years, and has records of packing at least 60 in San Jose. Nevertheless, basil and tomatoes have been the principal products, and Figure 7 shows their overwhelming share of packages shipped in the last 6 seasons. In the following section, we highlight some of the issues that have arisen in the marketing of Del Cabo’s basil and tomatoes, and the efforts that have been made to move beyond narrow market segments.

**Basil**

Basil has been the principal product of Del Cabo. In 1995-96, it accounted for 67 percent of total sales, and in earlier years represented an even larger value share of production. Del Cabo production of basil has climbed steadily (Figure 8), though it was set back by weather in 1995-96.

In order to sell increasing quantities, Del Cabo has had to move beyond the “organic” market to sell the basil as simply a quality product. Though the organic market has grown, the organic basil market has not grown at Del Cabo’s average basil production growth rate of 16.4 percent per year since 1990. For the conventional market, the basil is still packed and marketed in the same way, only the buyers are not necessarily retailing it as “organic.” One consequence of entering the broader retail market, however, is the growing demand of retailers for more packaging of produce items. This may force Del Cabo into plastic clamshell packaging of herbs, following the lead of Frieda’s Finest, Greenhouse, and similar competitors, who have introduced such packaging even into natural foods chain stores.

Another consequence of expanding sales has been lower prices in the conventional market. Of course lower prices are also due to increasing competition and an expanded production season.

Del Cabo’s experience with basil shows one possible evolution of a product that begins as a niche marketing effort. Larry Jacobs was an organic herb grower in California and knew that prices were high and the opportunity existed to sell basil in the winter, as most of the product came from Hawaii or from Southern California, which had problems with freezes. The initial Baja season ran from November through May. However, what began as a complementary, off-season product is now sold year-round to some buyers: the quality is high and the production is relatively reliable.

The success of this venture also encouraged competitors to contract for basil production in Baja California Sur (BCS), particularly in years of short supply. For a period of time in the early 1990s, Del Cabo growers were being lured away by US brokers promising higher prices, and when prices later fell and growers wanted to return to the cooperative, acrimonious debate ensued about their readmission and

---

18 The basil plant is easily killed by freezing temperatures, and new plants require over two months to come into production.
their use of Del Cabo subsidies to produce basil sold to other firms. Nevertheless, the general effect was to expand basil production in the region, which had a downward impact on prices and tended to reinforce BCS as a source of supply.

The Del Cabo case points up a dilemma in agricultural trade. Sources of supply of products that are “complementary” in the short run may in fact have absolute competitive advantages as production grows and evolves. This is clearly the case with tropical fruit imports (e.g. mangoes) that now compete with Florida, and may be true of Mexican competitors for Florida tomatoes and California avocados. These were all products that were grown in the United States not because that was the best place in the world to produce them, but because of a series of laws, trade barriers, and technological, phytosanitary, and infrastructural obstacles that prevented their importation from more favorable production zones. As these obstacles are removed, natural advantages may come to dominate.

Tomatoes

Tomatoes were developed by Del Cabo as a crop complementary to basil. Because Del Cabo’s ability to sell basil was initially limited, tomatoes, which have a very large market with many niches, were seen as a complementary crop that could bring growers additional income. Steve Farrar, who joined Larry Jacobs and Sandy Belin as a partner, had learned to grow tomatoes at Molino Creek Farm in Santa Cruz, California, and he provided the needed expertise. Of course certain groups of Del Cabo ejidatarios (such as those from Boca de la Sierra) were long-time tomato growers and only required conversion to organic techniques.

An initial advantage that favored the tomato program was the commercial air transportation strategy. First, the airlines were not accustomed to carrying much produce as cargo, and they initially charged Del Cabo either by volume or by weight. Because most of the shipments were basil, which weighed little, the airlines charged by volume, allowing the tomatoes to be shipped at a low cost. Second, it turned out that USDA inspectors at the San Francisco airport were unaware of marketing order size requirements for imported tomatoes, allowing Del Cabo to import “undersize” tomatoes, which was the vast majority of the product produced by the chosen variety. Therefore, it turned out that tomatoes that could not have been trucked across the border could in fact be flown to San Francisco at relatively low cost.

The variety of tomato was a typical backyard tomato popular with organic farmers in California. It has very good taste, but is considered too soft for commercial trade and would be undersized under the federal marketing order. By flying them, Del Cabo was able to put “home-grown,” extremely flavorful tomatoes into markets in a couple of days, and much of Del Cabo’s reputation among consumers in the United States has revolved around the provision of such tomatoes in the dead of winter. Though most of Del Cabo’s sales have been of basil, little of it is branded and most consumer awareness of the brand relates to tomatoes.

---

19 The airlines have become more sophisticated, and Del Cabo now pays on a per pound basis.
20 The USDA began enforcing these restrictions at airports recently, no doubt in response to the Florida-Mexico tomato wars. Del Cabo has appealed, arguing that their “home-grown” tomatoes are a qualitatively different product and should not fall under the marketing order.
Del Cabo has also produced cherry tomatoes since the early years. Cherry tomatoes do well in the meager, sandy soils of BCS, and Del Cabo had a significant labor cost advantage in their harvest and packing, especially with the small pear, plum, and Sweet 100 varieties. At first these tomatoes were packed and shipped in open single-layer boxes containing open plastic strawberry baskets, the most minimal packaging possible, in keeping with the alternative, organic nature of the produce. Many problems arose, however, as boxes were tipped over or smashed in transit. And the baskets of cherry tomatoes were unidentifiable as Del Cabo tomatoes in most stores.

To solve the transport problem, Del Cabo designed a plastic clam shell and new single-layer boxes that were covered and strapped two to a package. In addition to protecting the tomatoes, the new packaging allowed for UPC bar coding and display of the Del Cabo logo and story on the clamshell. For the first time, Del Cabo was able to impart its name and message to the consumer without point-of-sale advertising.

This new package has seen remarkable success. Though non-cherry tomato packages exceeded cherries as recently as the 1993-94 season, in the subsequent two seasons total shipments of cherries rose 100 percent and 140 percent, respectively, and in 1995-96 accounted for over seven times the quantity of non-cherry tomato packages shipped (Figure 9). The package is accepted by all parts of the retail food industry, as it conforms to all of the norms of such packaging.

Del Cabo has tried to minimize the environmental consequences of such packaging by producing the clamshells from PETE, the most widely recycled of the plastics. Nevertheless, the package has met considerable resistance in long-time strongholds of Del Cabo sales, such as Berkeley, California.21 This points up the difficulty of satisfying different marketing strategies (socially conscious, environmental/organic, and high quality) with a single product.

**Local Marketing in Mexico**

Another option, to sell produce locally in Mexico, has been tried half-heartedly at various times by the cooperative, without much success. Nevertheless, it appears there are significant market opportunities in Cabo and La Paz, especially with the tourist trade. Tourists regularly come by the packing shed to buy produce, which is seen as very disruptive, and Del Cabo boxes can be seen in most of the local produce stores. A few local restaurants feature organic salads. Growers are reluctant to let the cooperative control these sales, as many growers sell produce on the side, utilizing the cooperative's subsidies in production.

The large number of hotels and restaurants catering to tourists in Cabo tend to buy their produce from wholesalers, and much of it is imported or brought from mainland Mexico. A study we conducted in Cancún showed a similar pattern, with hotels being notoriously slow to pay their bills (hence using wholesalers as sources of credit) and exhibiting a demand for a constant supply of a wide variety of produce items that local growers could not supply on a year-round basis.

It would also be possible to sell produce in mainland Mexico, utilizing the same tourist airplanes to Mexico City or Guadalajara, or sending trucks on the ferry from La Paz. One attempt at this failed and soured the ejidatarios on the idea.

---

21 This may be due in part to the refusal of the City of Berkeley to implement a plastics recycling program.
The failure to take advantage of these opportunities appears to be based in the control of marketing in the United States by the U.S. partners. Because the ejidatarios have not engaged in this marketing effort, they have not acquired the capacity to organize marketing in Mexico. There would also be the problem of convincing Mexican buyers that the produce is of a higher quality, thereby warranting the price premium received in the United States.

Flying Winter Produce from Mexico

Paul Hawken, in his book *The Ecology of Commerce*, argues that artificially cheap energy and resource prices have led us to a global economy that is ultimately unsustainable. “Higher energy and resource costs don’t mean we have to stop trade or foreign commerce, but we should be prepared to bid farewell to energy- and resource-consumptive luxuries such as Chilean strawberries and nectarines flown in daily during New York winters.”\(^{22}\) He could have used “cherry tomatoes and basil from Cabo” to make the same point.

In the Del Cabo case, though, flying the produce is merely a path of convenience. Other producers in the Cabo area truck the same commodities to Los Angeles, a journey of approximately 24 hours with two drivers. Del Cabo itself now sends two trucks a week. The produce that is flown goes on commercial passenger airlines that are flying tourists to and from the resorts. In this sense, Del Cabo is actually making those flights more cost-effective, since they are flying anyway for other purposes. It may be that all airline flights are artificially cheap, as Hawken argues, but to single out the transport of fresh produce as particularly worthy of disdain is baffling. If we are going to spend scarce energy resources on anything, we may well want to spend it on fresh organic produce in the winter.

Del Cabo offers real benefits to its ejidal members, and organic farmers in California benefited from marketing the produce. However, production inevitably competes with some domestic regions in the United States, particularly as the project continues to grow. To deny access to markets on this basis, as some advocates of local food systems have argued, and as discussed above, seems short-sighted.

Del Cabo as a Cooperative

When the Del Cabo project was started, it was an informal arrangement between a small group of ejidatarios and the U.S. partners. Money was advanced from the United States, inputs and tractor services were advanced to the growers, and cash loans to ejidatarios in need were common. Some ejidatarios became indebted, which was seen as due to the excessive generosity of “the gringos.” It was always the intention of the U.S. partners to form a cooperative of the ejidatarios and turn the Mexico-side management over to them, and as the number of growers grew large, this became more of a necessity. Some of the ejidal leaders also wanted to gain control over the finances, as their view of the needs of the ejidatarios was less generous.

The Del Cabo cooperative was formulated in 1991 as a Sociedad de Solidaridad Social, a form of cooperative pushed widely in Mexico during the Salinas administration. Though this form has been criticized, it nevertheless allowed for two important aspects: it required the cooperative to withhold some retained earnings every year, a form of forced savings; and it allowed for the employment of professional management. One of the fundamental problems of farmer-owned cooperatives is the desire

\(^{22}\) Hawken (1993), p. 211.
of the farmers to overpay themselves for raw product; in fact, Del Cabo had to cut the grower price of basil as competition increased. Retained earnings and professional management both tend to counteract this tendency.

The cooperative stopped loaning money to its members and cut back drastically on subsidized services, such as technical assistance and the delivery of inputs. Ejidal leaders attempted to run the cooperative, but they eventually hired a manager as the inevitable questions about misappropriation of funds arose, the suspicion of which is a problem that plagues all cooperatives in Mexico. Professional management created real independence from the U.S. partners in terms of the day-to-day operations in Mexico, even if the cooperative remained dependent on Jacobs’ Farm for all marketing.

One of the most important aspects of a cooperative structure is that it allows for the internalization of transaction costs associated with many small growers that would be prohibitively costly otherwise. The cooperative purchased a set of radios which allows far-flung groups of growers to communicate with the packing shed. The cooperative purchased tractors and other equipment, utilizing government assistance programs, which it then sold over time at favorable rates to groups of growers. The cooperative provides technical assistance at no cost, and coordinates harvesting and packing of the produce. The cooperative purchases most inputs and advances them to the growers against future deliveries of crops.

But perhaps most importantly, Del Cabo pays producers the same price for their tomatoes or basil no matter what day they are delivered, no matter the market price. The prices for each crop are fixed by the cooperative at the start of the season. In addition, farmers are paid within a week of delivery. This minimization of credit risk and insurance against market risk through average pricing is one of the principal factors in Del Cabo’s success and explains the continued participation of most of the farmers. This fixed price arrangement was set up from the beginning by Larry Jacobs, who essentially took the market risk himself. When the Del Cabo cooperative was formally set up, a calculation of the historic division of costs between the Mexican and U.S. operations was made, and a percentage of sales was assigned to each side. This allows both the U.S. and Mexican operations to increase profits by becoming more efficient independently.

Finally, the Del Cabo cooperative has also functioned as a collective insurance pool through retained earnings. Despite torrential rains and loss of crops in 1991 and 1993, farmers who suffered such losses were still enthusiastic because the losses were shared through the cooperative and through the ejido. Because smallholders operate with such minimal reserves, the insurance function of Del Cabo may be its greatest benefit.

Impact on the ejidos

This section briefly summarizes preliminary data on economic benefits to the participating ejidatarios. Gross farm sales per grower to Del Cabo averaged approximately $10,000 U.S. in 1995-96, with this figure being both the mean and the median; the range was from $1,400 to $46,000 in that

---

23 For a detailed discussion of this issue, see Runsten (forthcoming).
year (see Figure 11). There is little doubt that farm incomes have risen for ejidatarios involved with Del Cabo, as they were very low before initiation of the project.

Preliminary results of research show that family labor outnumbers hired labor by about 3 to 1, though this varies by ejido. Some farmers paid family workers quite high wages (as much as 120 pesos per day when the going wage was 35 pesos), while others used unpaid family labor to increase household profits. Ejidatarios with large families had significant advantages in what are relatively labor-intensive crops. Both basil and cherry tomatoes need to be harvested daily. Peak season labor shortages are common and represent a barrier to increased shipments.

We estimate that close to 1,000 people are involved in working for Del Cabo, either on the farms or in the packing sheds. The project appears to be sustainable, utilizing as it does organic techniques and a water supply that is recharged from rainfall. In the face of rapid tourism development in the region, ejidatarios are able to continue farming and raise family incomes, limiting the need to resort to tourism employment. In fact, Del Cabo, though it is entirely oriented toward export production, provides the basis for a sustainable local food supply for the Cabo region. Its success has encouraged other ejidatarios to intensify production and there is some evidence that the children are continuing to farm upon the death or retirement of the original usuarios. Of course the speculative value of the land under the titling of Mexican ejidos creates a situation where growers close to the ocean and San Jose may sell out. Most of the sales of Mexican ejidal land since the reforms have apparently occurred in such situations.

Conclusion to the Del Cabo Case Study

Del Cabo is an example of an almost ideal approach to working with small ejidatarios because the U.S. partners offered credit, technical assistance, and access to profitable niche markets. Many of the criticisms of non-traditional agricultural export projects with peasants have focused on the riskiness of dealing with fresh fruit and vegetable brokers, and the success of a project such as Los Pinos in Guatemala is attributed at least in part to the presence of Swiss technical advisors (Glover and Kusterer 1990). Del Cabo exhibits similar features of long-term, sustained technical assistance, in addition to the credit and marketing a broker might provide. Del Cabo demonstrates that very small ejidatarios can become competent producers of fruits and vegetables with relatively sophisticated systems of organic pest control. What they then lack is access to markets.

Del Cabo developed a marketing organization, through Jacob's Farm, at the same time as it expanded production in Mexico. This is an expensive proposition and should be avoided unless no alternative can be found. Having a marketing organization that is concerned about producer welfare, that shares information continually with the farmers, and that actively seeks to expand markets is an invaluable asset, but existing brokers and importers may be able to do it with proper oversight. The problem with developing marketing, packing, and production all at the same time and with insufficient capital is that they are inevitably going to have uneven paces of development, and Del Cabo has had excess packing and marketing capacity during some periods, and insufficient capacity during others.

Del Cabo is profitable in part because it has occupied a high-priced market niche, and because its principal crops, basil and cherry tomatoes, are very labor intensive, giving smallholders an advantage. This has allowed it to
make mistakes, to build a marketing organization, and generally to engage in learning by doing. If it had operated in general commodity markets, it would have been competed out of business.

7. Opportunities and Barriers for Mexican Smallholder Participation in the Organic Produce Niche Market

Opportunities

“Microclimate access and management dominates production decisions in the fresh produce industry as grower-shippers respond to the increasing market power of buyers and consumer demands for a high-quality, year-round, well-merchandised product. More financial and organizational resources will flow into forging partnerships with existing firms and/or exploring and opening up new production regions in the United States, Mexico, and Central and South America. Understanding “where Mother Nature favors you” will produce value for the firm.” (Wilson et al, Mother Nature…in Choices, 1st quarter 1997)

This quote from the recently published article in Choices is meant to describe the micro-climatic diversification and globalization of the conventional produce industry to meet year-round demand for fresh fruits and vegetables. It could, however, also describe the increasingly global sourcing for fresh organic fruits and vegetables (despite the “buy local” counter current described earlier). Indeed, according to one Nogales-based organic grower/importer, the market opportunities for Mexican growers to sell organic produce in the U.S. (and other export destinations) are “endless” if the U.S.-based partners are willing to “climb the steep learning curve and accept the initial losses” involved in partnering with organic farmers in Mexico. (Philip Orstrom, New Harvest/Tierra Organica Labels, telephone interview).

Orstrom and other industry experts\(^\text{24}\) cite three principal reasons for entering into business relations with Mexican farmers to produce and export organic fruits and vegetables: 1) to take advantage of the excellent off-season market niche for organic produce by planning production for sale from late fall through early spring; 2) to take advantage of the fast growing consumer demand for fresh and processed organic fruits and vegetables worldwide (which cannot be met with U.S. production alone); 3) to enjoy a higher net return as a result of lower labor costs (i.e. in picking, processing and packaging).

Currently, there is a great variety of “deals” being made between U.S. partners—whether they be growers, shippers, brokers, buyers or a combination—and Mexican firms—whether they be small farmer cooperatives, a few medium-size farmers banded together or single large growers. From the U.S. vantage point, there can be significant advantages to partnering with small farmers in Mexico. Among them, industry experts cite: 1) previous experience with organic horticulture using traditional practices; 2) quality control in production (picking and packaging is often superior with family farmers than with hired labor); and 3) smallholders typically are willing to contribute their own labor without payment up front, as compared with the larger growers who often demand total financing from the U.S. partner.

\(^\text{24}\) Doug O’Brien, United Organic Growers, Chris Bell, InterNatural Marketing, Amigo Bob Cantisano - telephone interviews.
Barriers (U.S. perspective)

U.S.-based firms who have endeavored to form business relations of varying types with Mexican organic growers, to take advantage of the opportunities listed above, have nevertheless faced a number of barriers to their success. These barriers travel “by word of mouth” and end up keeping the more risk-averse firms away from Mexico. The principal barriers are:

1. Apart from labor costs, the cost of organic production in Mexico is higher than in the United States because of the need to import specialized inputs as well as seeds and packing materials, the cost of maintaining a U.S. agronomist in Mexico, the fees and expenses to pay for U.S. organic certification and USDA inspection, payment to handle “sticky” administrative matters (particularly at the border), as well as transportation costs and import duties.

2. General lack of technical knowledge on organic horticulture production by Mexican farmers, particularly the more sophisticated input-intensive techniques (i.e. biological control, pest resistant varieties).

3. Bureaucratic obstacles: “need permits to do anything”, “I don’t know one person who is working above board in Mexico—that would be impossible”.

4. Lack of financing for agriculture within Mexico, and organic agriculture in particular. Commercial bank interest rates of over 30 percent. This puts the burden on the U.S. partners to come up with as much financing as possible, increasing their exposure. Often the larger Mexican growers want full financing up front for organic production.

5. Cultural and language barriers can lead to mistrust and misunderstandings, especially in sales transactions.

6. Still very high duties on most fruits and vegetables, despite NAFTA.

7. There is a sense of lack of legal protection in Mexico with respect to property rights and contract enforcement (whether real or perceived). Written and oral contracts are based on mutual trust rather than threat of penalties.

8. Specific barriers working with small farmers: 1) difficulties in achieving smooth management of small farmer associations or cooperatives; 2) high transaction costs in obtaining sufficient scale for packaging and shipping; 3) sometimes lack of basic communications equipment: functioning telephones, fax machine, computers.

9. There can be problems with market saturation for certain products and times of year if there is not proper planning to target the off-season niche, or if too much area is planted to one crop (the latter holds true for organic production anywhere).

Barriers (Mexican perspective)
Many of the barriers listed above are also important from the Mexican producer perspective, such as lack of local financing, very limited experience with organic agriculture, and the high costs of production (particularly the high cost of obtaining certification by foreign agencies, ranging from $20 to $100/ha). In addition, because of the very small national market for organic produce, Mexican producers must rely almost exclusively on export markets which entails considerable risk: protectionist non-tariff barriers, unscrupulous brokers, market saturation, price volatility, and fast changing production and packaging demands of the marketplace. Furthermore, unless strategic alliances can be built between organic farmers in the United States and Mexico, Mexican producers may eventually face a strong anti-import sentiment stemming from the growing “buy local” movement in many U.S. communities.

Despite these barriers and risks, organic production is an important economic alternative for smallholder agriculture in Mexico. The requirements for relatively small volumes of a wide range of intensively grown crops make it possible for well-managed small farm cooperatives to participate. Moreover, focusing on organic production avoids head-on competition with the massive conventional horticulture industry, and has additional employment and environmental benefits for their communities. The employment requirements for organic vegetable production and packaging far exceed conventional production because of the intensive use of labor in preparing and applying organic soil amendments, in monitoring pest populations, in hand weeding and in careful harvesting and packaging of specialty produce.

Gómez Cruz and Tovar (CIESTAAM 1996:20) sum up the potential of organic agriculture in Mexico as follows:

La importancia de la agricultura orgánica en México es creciente por el dinamismo que presenta en nuevos lugares, más superficie, nuevos productos, mayor empleo requerido por ha., mayor equidad en el reparto de los ingresos, mayores divisas; además de ser una agricultura que se puede vincular con los productores mayoritarios y generar efectos multiplicadores y dinamizadores en la economía de los sectores rurales del país.

7. Conditions (for Mexican Smallholders) to Succeed in the Niche Market for Organic Produce

There appears to be consensus on both sides of the border on the necessary conditions for Mexican producers, particularly smallholders, to succeed in the niche market for organic fruits and vegetables for export:

1. Form a business relationship or partnership with a U.S. (or other importing country)-based firm, where the U.S. partner is willing to contribute technical assistance in organic production and at least partial financing, as well as market intelligence and links with reliable brokers/buyers.

2. Hire a full-time specialist in organic horticulture production to work at the field level (may initially need to contract from the United States until Mexican agronomists/producers can be trained). Expert technical assistance is critical for guaranteeing high quality produce.
3. Have on hand staff able to adroitly handle administrative matters within Mexico, particularly the border crossings.

4. Organize smallholders to achieve adequate economies of scale in production, packaging and shipping (one importer suggested a minimum of 200 hectares).

5. Ensure that both the U.S. and Mexican partners are educated about the entire food chain from production to marketing. The more services that the Mexican partner can provide, i.e. cooling, packaging, transportation to the border, the more attractive the partnership becomes for the U.S. firm.

6. Work toward building long-term partnerships based on trust and a mutually acceptable division of responsibilities and rewards. At the same time, avoid potentially exploitative relationships that are formed to obtain short-term profits.

8. Conclusion

Meeting the conditions outlined above can take many forms to fit the particular situations of the firms involved. The Del Cabo Cooperative in Baja California is an example of organic vegetable production for export that has worked successfully for many years and may serve as a model for other prospective joint ventures between U.S.-based grower/importers and small farm organizations in Mexico. It has experienced difficulties, but it has survived for 11 years and now appears to be on a path of rapid growth. The key to this success is intelligent niche marketing.

Too often rural development has been undertaken in Mexico and other countries by starting at the production level and only tardily considering how to sell the products. This research demonstrates that access to high-value markets with a concerned marketing partner can create the conditions for the development of a prosperous and sustainable rural economy of small producers. Creating such marketing linkages should be the highest priority in assisting the Mexican rural social sector to make the transition to the new realities of competition in a liberalized economy. The rapidly expanding organic markets of the industrialized countries represent a tremendous opportunity that can transform the extractive, abusive agriculture of the post-war period into a more environmentally benign agriculture with a long-term future.

References


Feder, Ernest. (1977)

Feenstra, Gail. (1995)

Friedman, Diana (1989)

Glover, David, and Ken Kusterer (1990)

Gómez Cruz, Manuel A. and Laura Gómez Tovar. (1996)

Gómez Tovar, Laura, Gómez Cruz, Manuel A. and Rindermann, Rita. (1996)

——— (1997)
“Producción y comercialización de hortalizas orgánicas en México.” CIEESTEM, Universidad Autónoma Chapingo. Abril.

Hawken, Paul (1993)

Jacobs, Larry (1991)

Kirschenmann, Fred. (1997)
Re-Building Rural Communities. In *Biodynamics.* January/February.

Klonsky, Karen and Laura Tourte. (1994)

——— (1995)

Kraus, Sibella (1989)

____ (1992)

Marsh, Robin R., and David Runsten (forthcoming)
“Smallholder Fruit and Vegetable Production in Mexico: Barriers and Opportunities.” In Wayne A. Cornelius and David J. Myhre, eds., The Tranformation of Rural Mexico, Center for U.S.-Mexican Studies, University of California, San Diego.

Natural Foods Merchandiser.

Organic Farming Research Foundation (OFRF) (1996a)

____ (1996b)


Rindermann, Rita S. and Manuel A. Gómez Cruz. (1996)

Runsten, David (forthcoming)
“Del Cabo: A Case Study of Organic Fruit and Vegetable Production in Mexico.” Los Angeles: North American Integration and Development Center, UCLA.

Shidler, Lisa (1989)

Bittersweet Harvests for Global Supermarkets: Challenges in Latin America's Agricultural Export Boom. World Resources Institute. Washington, D.C. August.

Wilkins, Jennifer L. (1995)

Wilson, Paul N., Thompson, Gary D. and Cook, Roberta L. (1997)  

Telephone interviews with Roberta Cook (U.C. Davis), Laura Tourte (U.C. Davis), Andy Estrin (U.C. Davis), Bob Scowcroft (OFRF), Cathy Green (ERS/USDA), Doug O’Brien (United Organic Growers), Philip Orstrom (New Harvest/Tierra Organica), Larry Jacobs (Jacobs Farms/Del Cabo Cooperative), Chris Bell (InterNatural Marketing), “Amigo Bob” Cantisano (technical consultant for organic vegetable production and marketing), Cathy Dimattio (Organic Trade Association), Mark Ritchie (Institute for Agriculture and Trade Policy), Sergio Martinez (SALDEBAS).

Personal interviews with a large number of individuals associated with Del Cabo, but especially Larry Jacobs, Steve Farrer, Ricardo Green, Julio Morales, Juan Burgoin, and John Graham. The authors thank them all.
Table 1: Number of California Organic Growers, Organic Acreage and Gross Sales for Organic Growers by Commodity Group, 1992-93

<table>
<thead>
<tr>
<th></th>
<th>Fruit &amp; Nut Crops</th>
<th>Mixed Fruit, Nut &amp; Vegetable Crops</th>
<th>Vegetable Crops</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Growers</td>
<td>748</td>
<td>76</td>
<td>394</td>
<td>1,218¹</td>
</tr>
<tr>
<td># of Acres</td>
<td>19,059</td>
<td>773</td>
<td>14,209</td>
<td>34,041²</td>
</tr>
<tr>
<td>Gross Sales ($000)</td>
<td>33,454.7</td>
<td>1,275.5</td>
<td>37,715.7</td>
<td>72,446.0³</td>
</tr>
</tbody>
</table>

¹ 95% of total number of CA organic growers.
² 75% of total CA organic acreage.
³ 96% of total gross sales for CA organic growers. For 1995, industry experts estimate that gross sales of organic produce were around $150 million, doubling since 1992-93.

Source: Adapted from Tables 4, 6 and 7 in Statistical Review of California’s Organic Agriculture, 1992-1993, Cooperative Extension, Department of Agricultural Economics, University of California, Davis. September 1995.
Table 2: Number of California Organic Growers by Sales Class and Commodity Group, 1992-93

<table>
<thead>
<tr>
<th>Sales Class (in dollars)</th>
<th>Fruit &amp; Nut Crops</th>
<th>Mixed Fruit, Nut &amp; Vegetable Crops</th>
<th>Vegetable Crops</th>
<th>Total # of Growers</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10,000</td>
<td>514</td>
<td>58</td>
<td>240</td>
<td>812¹</td>
</tr>
<tr>
<td>10,001-25,000</td>
<td>86</td>
<td>8</td>
<td>48</td>
<td>142</td>
</tr>
<tr>
<td>25,001-50,000</td>
<td>57</td>
<td>5</td>
<td>29</td>
<td>91</td>
</tr>
<tr>
<td>50,001-100,000</td>
<td>41</td>
<td>2</td>
<td>28</td>
<td>71</td>
</tr>
<tr>
<td>100,001-250,000</td>
<td>28</td>
<td>2</td>
<td>24</td>
<td>54</td>
</tr>
<tr>
<td>250,001-500,000</td>
<td>16</td>
<td>1</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td>500,001-1,000,000</td>
<td>4</td>
<td>0</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>1,000,001 &amp; above</td>
<td>2</td>
<td>0</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Total # of Growers</td>
<td>748</td>
<td>76</td>
<td>394</td>
<td>1,218</td>
</tr>
</tbody>
</table>

¹ 67% of total # of growers. 78% of growers had gross sales $25,000 or under, 1992-1993.

Source: Adapted from Table 5 in Statistical Review of California's Organic Agriculture, 1992-1993, Cooperative Extension, Department of Agricultural Economics, University of California, Davis. September 1995.
Table 3: Total and Mexican Fresh Vegetable Imports to the United States, 1989-1996

<table>
<thead>
<tr>
<th></th>
<th>Value (million US$)</th>
<th>Volume (1,000 t)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total imports</td>
<td>Mexico</td>
</tr>
<tr>
<td>1990</td>
<td>874</td>
<td>781</td>
</tr>
<tr>
<td>1991</td>
<td>779</td>
<td>670</td>
</tr>
<tr>
<td>1992*</td>
<td>670</td>
<td>547</td>
</tr>
<tr>
<td>1993</td>
<td>943</td>
<td>790</td>
</tr>
<tr>
<td>1994</td>
<td>1,055</td>
<td>848</td>
</tr>
<tr>
<td>1995</td>
<td>1,244</td>
<td>1,027</td>
</tr>
<tr>
<td>1996**</td>
<td>1,493</td>
<td>1,210</td>
</tr>
</tbody>
</table>

* 1992 was an unusual production year because of floods in Sinaloa. ** Estimates through July 1996.

Source: Adapted from Table 7 in El impacto del TLC sobre las exportaciones de hortalizas frescas de invierno de Mexico a EUA by Rindermann and Gomez Cruz, CIESTAAM, Mexico, October 1996. Original data taken from USDA and FAS statistics.
Figure 5

Del Cabo Hectares Planted

Season

Hectares

Hectares Planted
Del Cabo Shipments from San Jose, B.C.S.
Figure 8

Del Cabo Herb Shipments from San Jose, B.C.S.

Season

Packages


Other Fresh Herbs
Basil
Del Cabo Tomato Shipments from San Jose, B.C.S.
Del Cabo Gross Payments
1995-1996 Season

U.S.$

Growers

0 10,000 20,000 30,000 40,000 50,000 60,000