PRODUCER-HANDLER GUIDANCE

Due to the diversity of operations that MOSA certifies, it is sometimes challenging to determine if a particular operation should be certified as a producer, as a handler, or both. This worksheet will give some guidance on how we make this determination, and will illustrate how fees should be determined for several types of producer-handler operations.

MOSA has three fee schedules: one for producers (typical farm operations), one for handlers (including processors), and one for producer-handler. Producer-handlers are typically farm operations which also have some value-added sales of processed products that are derived from crops or livestock raised on the farm. This processing/handling activity is usually described using the handler organic system plan (OSP) in addition to the farm or livestock organic system plan.

Some definitions from the National Organic Standards may be helpful. A **producer** is a person who engages in the business of growing or producing food, fiber, feed, and other agricultural-based consumer products. To **handle** is to sell, process, or package agricultural products, but this doesn’t include sale or delivery of crops or livestock by the producer to a processor or other handler. **Processing** is cooking, baking, curing, heating, drying, mixing, grinding, churning, separating, extracting, slaughtering, cutting, fermenting, distilling, eviscerating, preserving, dehydrating, freezing, chilling, or otherwise manufacturing and includes the packaging, canning, jarring, or otherwise enclosing food in a container. We recognize that some processing/handling activities - like cutting, drying, or enclosing items in a container - occur on virtually every farm we certify. As indicated in our mission statement, we take a practical approach. We do not intend to require added forms or fees for usual and customary activities related to sale of farm products. We lean toward requiring handler certification only when the processing/handling activities are more complex or of a larger scope, require additional licensing, involve use of organic products from other operations, or when the product is substantially transformed from its original state.

Some routine on-farm processing/handling activities which may not require additional forms or fees are packaging of unprocessed vegetables, seed conditioning, grinding of feed, washing vegetables, drying of herbs, sale of meat that is processed at a certified organic slaughter facility, preparation of CSA boxes, etc. However, if the scope of such activities becomes more complex, we may require added forms and use of the producer/handler fee schedule. For example, a farm that provides feed processing services for an extensive customer base may be required to complete a handler OSP. But, a farmer that only grinds and/or mixes feed for his or her own livestock would not typically be subject to additional fees or forms. Contact MOSA for further guidance in making this determination.

Some examples of products that are typically certified as producer products include: raw milk, raw vegetables, grains, live animals, and whole eggs.
Some examples of products that are typically certified as processed/handled products are: pasteurized milk, cheese, salsa, sauerkraut, flour, meat, broken eggs, or multi-ingredient products.

Organic certification cost share dollars are available for every category in which an operation is certified. The categories are crops, wild crops, livestock, and processing, so it may be more cost-efficient for an operation to complete handler forms and be certified as a handler.

MOSA’s fee schedules are a tiered system based on sales of organic products. For producers, fees are calculated on gross organic sales. No deductions are allowed for costs of fertilizer, feed, transportation, etc. For processors and other handlers, fees are calculated on an adjusted gross sales figure. This starts with gross sales. “Sales” include toll or processing fees that are billed to customers for organic services, such as fees for custom processing, or for livestock slaughter and meat packaging. To arrive at the adjusted gross figure, handlers may deduct from the gross their cost of organic goods going into a finished, processed product. For example, an operation that purchases organic milk to make organic cheese may deduct the cost of the milk from the gross sales of the cheese. (Note: such deductions should be calculated on an as-used basis. A bulk purchase used over time will need to have its cost divided among all production runs derived from that purchase.) The only deductions allowed to arrive at the adjusted gross figure are for certified organic goods. Items that may NOT be deducted include nonorganic ingredients, salt, transportation costs, packaging, and other business expenses.

Since use of the producer-handler fee schedule requires that some of the processed/handled product comes from the farm, it is sometimes challenging to determine the value of the producer products compared to the value of the processed product. The value of products that are raised by the operation and used in the processed product must be determined on a business by business basis, with attention to the fair market value of the commodity in question. In some cases, an operation’s records may show that they have “sold” the product to themselves. In other cases, it may make the most sense for the value of the commodity to simply be accounted for in the sales price of the finished, processed product. In any case, you must have records to show how commodity values were established, and to account for all transactions.

***When completing the Sales Information section of the 2016 Easy Organic System Plan (or the New Client Overview for new applicants), include the gross sales of raw farm based product as well as the fair market value of farm based products that are used in the production of the final processed product.

The example below will show how different types of operations might calculate their producer-handler fees using the 3-part producer-handler fees schedule:

**Example:** A vegetable farm uses some of their own produce to process spaghetti sauce. They purchase some organic and nonorganic ingredients for the sauce, and sell a lot of produce straight to market. (Figures below may not represent current market norms.)

**Basic figures:**
Gross annual sales of various unprocessed produce items (also known as "producer sales.") (This includes CSA sales, farmer's market sales, and produce used to make sauce): $440,000
Gross annual sales of packaged spaghetti sauce: $340,000
Cost of organic ingredients used to make sauce (tomatoes*, soybean oil, sugar, onions*, garlic*, olive oil, romano cheese, basil*, black pepper, fennel*): $208,000 (* includes these items raised on farm. Their value is included in the calculation for producer sales.)
Cost of nonorganic ingredients used in sauce (salt, citric acid): $1080
Cost of packaging materials, shipping, etc: $33,200

**Processor adjusted gross sales (gross sales of processed product less cost of organic goods):**
$340,000 - $208,000 = $132,000
Note that salt and citric acid (both nonorganic) and other processing costs are not used in determining adjusted gross

**Total sales (producer gross sales + processor adjusted gross sales):**
$440,000 + $132,000 = $572,000

**Fees due:**
Since total sales are more than $500,000, go to part B of the producer/handler fee schedule. The certification fee for $572,000 in total sales is $2116. An inspection deposit of $340 is also due.