Grower Allotment Marketing Orders

Coordination of long-run productive capacity with demand could be done for perennial crops through an industry-wide grower allotment marketing order. This is legally permitted by federal enabling legislation for some crops. The approach has been used on a very limited basis in the United States. Examples of its use include allotment marketing orders for hops, cranberries, and Florida celery.

An allotment program under a marketing order could use either grower acreage allotments or marketing (tonnage) allotments. Because of the effects of variable weather, grower tonnage allotments would be more effective in coordinating supplies with market needs from year to year. This would, however, impose considerable risk burden on the growers because of the variable production from year to year. Use of tonnage marketing allotments would encourage growers to individually process and store in large-crop years and to fill their marketing quotas partly from stored stocks in short-crop years. The success of storage as a part of a marketing quota system would depend on technical and economic feasibility for processing and storing that commodity.

Individual growers would probably prefer a marketing quota program based upon acreage. They could then plant their orchards to closely correspond to their acreage allotments. If this approach were used, however, other mechanisms would be needed to balance annual fluctuations in supply. Such other mechanisms might include storage provisions under the marketing order, storage by cooperatives or other processors, or an additional marketing order provision permitting sales of excess production to alternative markets.

Grower-allotment marketing orders would work most effectively under certain economic conditions. These conditions include: a relatively stable and limited demand, a highly inelastic demand, a crop that has small production variations due to weather, and/or a secondary alternative market not covered by the allotment to absorb annual quantity fluctuations.

A major challenge to a marketing quota program is to provide for flexibility and market access possibilities for new and expanding producers. Such a market
quota program also needs to be carefully designed considering its effects upon shifts from high-cost regions to lower-cost production regions.

Permitting the marketing quotas to be bought and sold among growers is one way to provide some grower flexibility and to encourage regional shifts. If the marketing quotas are quite restrictive to supply and have a major price-increasing effect, however, the value of these quotas will be capitalized into a substantial market price for the quotas themselves. This capitalization would have the effect of benefitting the growers who initially receive the quotas at the expense of newer and expanding producers who must later buy allotments.

The potential problem of capitalized value of the marketing quotas might be minimized by including a provision in the marketing order that the total of all marketing quotas in existence must increase periodically in some proportional relationship with the demand expansion potential. One way this might be done is to tie increases in total industry allotments to certain long-run demand growth factors such as consumer income. For example, there might be a provision in the marketing order stating that the total of all grower allotments would be increased each year by a percentage equal to the percentage increase in U.S. real disposable income times the income elasticity, and perhaps plus the percentage increase in U.S. population. For a commodity that has an unusually high long-run growth potential for demand, the increase in total grower marketing allotments for that commodity might be equal to more than 100 percent of the above factors' growth. For example, total allotments might be increased by perhaps 110 percent the combined annual growth of real income and population.

Even with expanding grower allotments tied to demand growth factors, if all the expansion in allotments were permitted to be obtained by existing growers, new growers, young growers, and growers in new regions would be precluded from the market. This would probably not be desirable (except for the established growers). To overcome this potential problem, an additional stipulation could be included in a marketing order stating that a given percentage of any increase in total industry allotments would be required to be available for new producers. Some mechanism for equitably allocating these among potential new producers would be needed.

A shortcoming of a marketing allotment approach is that it has the potential to be used in a manner to unduly restrict supplies. Careful attention would also need to be given to provide adequate demand expansion to the extent possible. Perhaps this could be facilitated by combining a marketing quotas program with a provision in the marketing order for demand expansion as well.

It may be desirable for some commodities to have separate marketing allotments for each of several different major market uses. It might be desirable, for example, to have separate marketing allotments for fresh market, for canning, for freezing, for drying, and for juice. Management of the market allotment totals would probably involve expanding the total allotments for the different major market uses at different rates. If, for example, such a program were used for apples, the total marketing allotment for apple juice would probably be expanded at a more rapid rate than for canning or freezing apples (with the total market allotment for fresh sales probably increasing at an intermediate rate between that for juice and for canning). These relationships could, of course, change over time.
Marketing allotments under a marketing order may be viewed negatively by some industry participants who do not agree with this "centralized" decision-making approach. This may be especially so, since a marketing order can be written to cover a large share of the industry involved.

Mechanisms other than a marketing order can also be used for variations of a "marketing allotment" program. Some large firms who have strongly branded products now use in effect "marketing allotments" to coordinate supplies with demand for that branded product. This is sometimes done through (a) "open market" purchases from farmers by the food marketing firm owning the brands, (b) a corporation-cooperative joint venture, or (c) with a grower cooperative. In these cases the "marketing allotment" applies only to the volume that is marketed through that brand.

Another possible alternative which is not currently being used extensively might be to combine marketing allotments with a grower bargaining or marketing cooperative. If this approach were used, the grower bargaining association would probably need to have specified volume contracts with processor-buyers. The bargaining association could in turn then have grower "allotments" for each member's share of the association's contracted tonnage. Through long-term contracts with the buyer firms, a strong bargaining association could serve a key role in coordinating grower orchard plantings and removals through member "allotments."

Advantages

- A grower-allotment marketing order can be very effective in limiting and stabilizing long-run supplies by affecting acreage planted.
- Grower allotments may be especially relevant if long-run demand expansion is quite difficult or limited.
- This type of program might facilitate gradual adjustment of orchard investments or disinvestments in accordance with changing market conditions.
- Grower allotments might be especially beneficial to established growers.

Disadvantages

- A grower allotment marketing order might overly restrict supplies and thus may be detrimental to consumers. This would be less likely to occur if individual marketing orders did not cover all U.S. production regions.
- This approach is contrary to a commonly-held value among some growers and processors that "centralized" decision-making is to be avoided. Those who have this attitude would view the centralized decisions of a marketing order as a disadvantage.
- A grower allotment program might hamper production shifts to lowest-cost regions and to low-cost growers. Safeguard provisions could be included which would minimize this potential danger.
- This type of marketing order could result in large benefits to established growers, with potential new growers foreclosed from entry although safeguard provisions could be used to reduce this potential danger.
Grower allotments might discourage demand expansion and industry growth. This could be especially disadvantageous to marketing firms, input suppliers, and special support agencies.

This approach might reduce flexibility to shift sales from one major market to another.

Centralized decision-making by such a program magnifies the need for "accurate" and "appropriate" decisions for the entire industry, for consumers, and for others who are concerned. Major mistakes could adversely affect the entire industry.

Marketing Orders With Nonharvest Provisions

Some have advocated use of nonharvest or green-drop provisions in market orders as a mechanism to coordinate long-run productive capacity with market demand for perennial crops. A part of the rationale for such a program is that growers will restrict plantings, or increase removals, if they know that a marketing order will be used for substantial percentages of green-drop or nonharvest if industry overplantings occur. If growers expect substantial portions of the crop to be green-dropped for a period of years they will, it is reasoned, be more likely to keep plantings in balance with market needs.

A nonharvest marketing order program might be combined with a provision to include payment to growers for removal of old or less desirable orchards financed by collections from all growers of that commodity. The rationale behind this type of program is that growers with the remaining acreage will benefit from the removals through higher prices and reduced need for using the nonharvest provision.

Even though the intent of these provisions is to limit acreage and avoid overplanting (hence oversupplies), experience to date indicates that this may not always be the result. For example, the experience of the California cling peach industry with its green-drop marketing order indicates that under certain conditions this type of marketing order program may stimulate even greater overplantings. If this occurs, the programs would result in an opposite effect from that intended.

The experience to date does not provide strong evidence that green-drop or nonharvest marketing orders can be expected to be effective mechanisms for balancing planting and removals of perennials with long-run market demand. It appears that other mechanisms are more likely to be effective in achieving this goal.

A green-drop or nonharvest marketing order might be effective as a way to deal with unusual, but temporary, excessive supplies due to unusually favorable weather. This might be especially so for crops in which the present system periodically results in some grower production being wasted because there is no market for the entire crop in certain years. Such an approach might be especially relevant for crops which do not lend themselves to economical storage.

Although there may be industry situations for which nonharvest marketing orders may be appropriate, probably most participants, including growers, processors, manufacturers, retailers, and consumers, would prefer a coordinating mechanism that would avoid the need for wasting farm production if this is at all economically possible. With this in mind, a storage program would probably in most cases be more desirable than a nonharvest program for handling large but
temporary excessive production. In those few cases where processing and storage are not economically feasible, an infrequently used nonharvest provision under a marketing order might be desirable.

Advantages

- This type of marketing order can be used after oversupply capacity becomes evident to ease the necessary adjustment to balance long-run supply and demand. (An industry must, however, guard against perpetuating an over-capacity problem with a nonharvest program.)

- During a temporary adjustment period this approach may provide an equitable distribution of the nonharvest, over-capacity burden among growers. This would be especially relevant for situations in which some nonharvest will occur even without the program.

Disadvantages

- Higher prices resulting from nonharvest may encourage or perpetuate industry over-capacity.

- This type of marketing order may discourage adequate attention to demand expansion possibilities.

- Nonharvest wastes are generally unpopular to growers as well as to consumers, processors, retailers, and other food marketing firms.

- Nonharvest involves more wasted resources than a system which avoids producing unneeded production (rather than producing followed by partial nonharvest).

- This approach may involve waste of production which will be economically needed later.

Marketing Orders for Allocation to Secondary Markets

A marketing order with provisions to permit allocation of the commodity between primary and secondary markets might be used to help improve the long-run balance of supply and demand. The primary purpose of this type of order is, however, usually to handle annual fluctuations in supply rather than a long-run supply-demand balance.

A market allocation marketing order might give more complete informational signals to grower investors by indicating to growers high prices for certain industry volumes for the primary market(s) and lower prices for additional or "surplus" volume for secondary markets. These signals can indicate to grower investors how to adjust productive capacity to correspond to market needs. Growers would presumably limit production and produce primarily for the high-price market if prices generated from the surplus or secondary market were below their total cost of production. Marketing orders with allocation for different market periods and corresponding price differentials have long been used in the dairy industry through base-surplus plans.
A marketing order with market allocation provisions for perennial crops would be most likely to succeed if demand for the secondary market(s) could be easily expanded and/or was highly elastic. With these demand characteristics, substantial increases in supply from either long-run increases in productive capacity or short-run crop fluctuations could be more readily sold in the secondary markets. Market allocation provisions may be combined with a storage program because of the annual production fluctuations.

For success of this type of program the two (or more) markets must be distinctly separate from one another. Some perennial crop marketing orders of this type have separated markets through use of the export market as the secondary market. For some crops another possibility might be to use certain processing markets as secondary markets.

Market allocation marketing orders are primarily designed and suited for handling temporary fluctuations in supply. Nevertheless this type of marketing order may be used to influence a desirable balance of the long-run supply and demand situation. Usually, however, this mechanism will be supplementary to other approaches which are likely to have a greater impact on the long-run supply-demand balance.

Advantages

- This type of marketing order emphasizes certain aspects of demand-expansion and industry growth while clarifying the price and informational signals to growers to encourage needed adjustments in productive capacity. Thus it can be used to manage supply to correspond to the limitations on demand expansion for that commodity.

- This approach may be used to facilitate development and expansion of new markets.

- A market allocation program may reduce problems of short-run crop fluctuations as well as provide some assistance on a long-run supply and demand balance.

- This type of program can be implemented after orchard productive capacity has developed.

- Consumer prices in secondary markets may be significantly lower than with other approaches providing an advantage to consumers.

Disadvantages

- Approaches emphasizing coordination of productive capacity before planting probably will be more effective in influencing long-run supplies.

- A market allocation program may result in higher consumer prices for the primary market(s) than certain other approaches.

- Growers may "misread" the higher price signals from the primary markets and hence tend to continue overproduction. This potential shortcoming can probably be minimized by informational programs with the marketing order.