Government payments to growers to encourage orchard removal have been used in a number of foreign countries such as in Europe and Australia. This approach has not been used extensively in the United States. In countries using this approach, a government payment is made to growers to encourage removal of those perennial crops that are plagued with oversupply due to excessive plantings. In some cases a marketing board is used to facilitate this type of program.

Payments to remove orchards are based on the recognition of the very long-run nature of the specialized orchard investments which have no alternative use. Also this type of program is more commonly used for industries composed of many small, owner-operator growers in which case the individual firm has little ability to influence industry supply or demand.

Orchard removal or tree-pull programs typically involve a payment to the grower of a certain amount per tree or per acre. The payment rate may vary depending on the crop, region of production, variety, and age of the trees.

With a sufficiently high payment rate, a tree-pull program can effectively reduce orchard productive capacity to balance long-run demand. This type of program may be most appropriate for crops which face great difficulties in achieving substantial demand expansion.

A key consideration on tree-pull payment programs is: Is the government willing to spend taxpayers' money for this kind of program? This will affect both (a) the overall political feasibility of the program, and (b) the magnitude of possible payment level.

The rate of payment for such a program could be based upon estimates of the aggregate amount of orchard removal needed to attain a desirable balance of long-run supply and demand. Growers would likely argue that payments should be based upon their investment costs. Alternatively, such a program could be viewed as a supplementary adjustment-accelerating mechanism to hasten orchard removal when needed. If this view is taken, it can be argued, especially from the taxpayers' vantage point, that the payment rate should be as low as possible to obtain the needed reduction in orchard acreage (for which some consideration of typical grower costs is relevant).
If used as a disinvestment accelerator, an orchard removal program would likely accompany low prices to growers. The low prices would in themselves also provide an incentive for orchard removal.

Arguments for government orchard removal payments would be especially strong if overproductive capacity for certain perennial crops had been stimulated by previous government subsidies or programs to plant larger acres. Some countries have encouraged expansion of perennial crop acreage through use of mechanisms such as direct payments, tax incentives, low-cost credit, subsidized irrigation, and/or other key inputs and through technological assistance. To the extent that these result in later oversupplies and economic hardships for the industry, it might logically be argued that the government should help the established growers to make the disinvestment adjustments necessitated by the government's earlier expansion involvement. That type of political economic argument has not received widespread attention in the U.S. however.

In the U.S., government has not been heavily involved in perennial crop expansion activities. An exception to this is the partial government financing of some large irrigation projects in western states.

If a government follows a consistent and predictable program of paying growers to remove overplanted orchards, this may encourage growers to consistently overplant these crops. Even if there are only occasional government actions of this nature, if the growers expect the government will "bail them out" when overplantings occur, growers may tend to do a less than thorough analysis of long-run market outlook information before making plantings. Removal payments thus may encourage imprudent investments. This relates to the fact that removal payments will shift some of the risk from the grower investors to the taxpayers.

Governments that have engaged in tree-pull payment programs have usually done so in response to (a) events of major impact considered to be unforesayable by growers, and (b) events which have occurred a number of years after widespread plantings were made. Usually the policy is not to consistently pay growers for removing orchards -- but only when unusual forces external to the industry have resulted in major industry overinvestment. This might occur because of an elimination of a protective tariff or perhaps because of a ban on certain food products for health reasons. In this way, orchard removal payments can be made on the basis of assisting growers to make a very difficult long-run adjustment to a non-reoccurring overcapacity problem. To help assure that the removal payments do not contribute to reoccurring overcapacity problems, payments for orchard removal can be accompanied by a provision that the acreage cannot be replanted to that crop, or perhaps to other specified crops, for a number of years.

Advantages

- Acreage removal payments can help growers make difficult economic adjustments for long-term specialized investments such as orchards. This is especially important with large, unforeseeable economic changes.

- Removal payments can assist in a rapid supply-reduction adjustment.

- For consumers this approach may facilitate continuous large productive capacity if growers anticipate periodic government payments for orchard removal.
Removal payments may aid and speed a shift to preferred varieties or types of crops or to lower-cost producers and regions.

Disadvantages

• Cost to taxpayers may be significant (although these costs may be quite small compared to some other government programs).
• Removal payments may contribute to wasted resources -- especially compared to mechanisms which help avoid planting of unneeded acreage.
• Such a program may de-emphasize demand-expansion programs. (This can be minimized by combining tree-pull payments with demand-expansion programs.)
• This approach is somewhat inconsistent with a common U.S. philosophy of having investors bear the economic consequences of their investments.
• Prospects of governmental removal payments may stimulate unneeded plantings -- or at least contribute to less caution by perennial-crop investors.
• Removal payments may reduce production in certain regions especially rapidly, to the detriment of commodity marketing firms and specialized input firms in that region.

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This publication is one of a series on "Coordination of Long-run Supply and Demand for Perennial Crops." Leaflets in this series include:

#1 AN OVERVIEW
#2 GROWER ACREAGES INFLUENCED BY PRICES RECEIVED
#3 GROWER COOPERATIVES
#4 COOPERATIVE-CORPORATION JOINT VENTURES
#5 COMMODITY DEMAND EXPANSION
#6 MARKETING ORDERS
#7 LONG-TERM CONTRACTS AND FORWARD DELIVERABLE CONTRACT MARKET
#8 GOVERNMENT PAYMENTS FOR ACREAGE REMOVALS