

AEC 841--MODULE 4G
MARKETING ORDERS AND MARKETING BOARDS

I. Origins and Definitions of Marketing Orders and Boards

- A. Origins in the failure of efforts to boost farm prices through efforts of cooperatives in post World-War I farm depression in Europe and the U.S. in 1920s (due to problem of free riders)
1. Although co-ops could help improve competition and to some extent coordination, could not effectively deal with overall imbalance of supply and demand due to incapacity to limit supply.
 2. Problem especially acute in production of those perishable goods for which there were heavy fixed investment and long lags in production (e.g., dairy, tree fruits), and inelastic demand, and hence
 - a. Supplies very price-inelastic in the short-run
 - b. Possibility of exploitation ("hold-up") by processors, especially in glut markets when processors had lots of alternative sources of supply of raw product==>concerns about "disorderly marketing."
Concern about the abuse of market power by processors and (for export crops) the oligopolistic nature of much of the buying industry (e.g., for cocoa).
 - c. Often produced in context of significant externalities, imperfect knowledge about what others were producing, imperfect risk markets, and significant differences in scale of production between farming and processing, leading to oligopsony power.

- d. Great instability of supply (e.g., from weather and basic biology of production—e.g., in tart cherries).
 - (1) Short-run impacts on consumers (e.g., for milk).
 - (2) Long-run effects on demand creation
 - 3. Led to attempt to use authority of the state to compel mandatory participation in marketing improvement efforts that:
 - a. Were initiated by farmer groups
 - b. Voted for by a majority of farmers.
 - 4. U.S. opted in favor of federal and state marketing orders for perishable commodities; gov't price support programs and acreage or production limitations for many more basic commodities like grains.
 - 5. U.K., its dependencies, and France and its dependencies went more in favor of marketing boards.
- B. Definitions: (**overhead and hand-outs**)
- 1. **Marketing Order**--A legal mechanism under which regulations issued by authority of the U.S. Secretary of Agriculture are binding upon all buyers of a regulated product in a specified geographic area.
 - 2. **Marketing Board**--A statutory body established to direct the market and marketing of specific commodities in specific geographic areas (usually a country). Can either be
 - a. A trading board--i.e., actually involved in buying and selling the

commodity, often with a statutory monopoly. E.g., the Canadian Wheat Board.

- b. A non-trading board (less common)--Simply regulates trade and promotes the product (e.g., Australian Meat Board), OPAM and other grain boards in West Africa, under structural adjustment (provides market information and national security stock).

II. Marketing Orders

A. Enabling Legislation

- 1. Federal--Agricultural Marketing Agreement Act of 1937
- 2. Various state statutes (esp. in California)

B. Objectives

- 1. Bring about "*orderly marketing*", defined by USDA review committee as "the matching of supply with potential demand at prices reflecting the costs of producing and marketing the commodity by typical well-managed firms in the industry."
 - a. Aim was to avoid:
 - (1) Wide swings in prices and quantities available on the market both within and across seasons, which were viewed as inimical to both farmers and consumers
 - (2) Prices below "full" costs of production, which would imply a waste of resources.

- b. Dilemmas in this definition, because of multiple, at times conflicting role of prices in the real world of uncertainty:
 - (1) **Allocation of already produced goods.** Direct the allocation of already-produced goods to those who will pay the most for them, thereby clearing the market.
 - (2) **Guide Future Allocation of resources.**
 - (a) Represent rewards for producing which may turn out to be negative or positive, thereby
 - i) Indicate the rewards to be expected from future production and marketing of alternative commodities
 - ii) Direct the allocation of inputs among alternative enterprises
 - (3) **Act as a tool of income distribution in society.**
- 2. Raise prices to farmers--toward parity prices (an outdated concept, since it doesn't account for productivity growth in agricultural production relative to manufacturing).
- 3. Protect consumer interests (by not allowing prices above parity or too rapid an adjustment towards parity). Obviously, some conflict between objectives 2 and 3. Complaints since the 1980s about how marketing orders may have ignored consumer concerns by unduly raising prices.

C. Activities sanctioned under Marketing Orders (e.g., fruit and vegetable orders—30 federal orders and agreements in U.S. as of 2007). These are often implemented through commodity boards or cooperatives. A marketing agreement is only binding on those handlers who have signed a voluntary agreement, while an order is binding on all handlers in the area defined by the order.

1. **Quality Controls**--Size and grade regulations

- a. Aims at developing and maintaining strong product image for uniform quality, with hope of expanding the market. E.g., apricots, where harvesting immature fruit by a few farmers can have a large externality on others in terms of the “brand image” of the product.
- b. Discriminates against those consumers who would rather pay lower price and sort for quality themselves
- c. Mechanisms:
 - (1) Field sorting and grading at packing plant
 - (2) Mandatory federal inspection
 - (3) Disposal of below-grade and size product

2. **Quantity controls**--Aim is to influence price by reducing the quantity sold in the primary market--e.g., citrus, nuts. **In marketing orders, quantity controls are largely aimed at allocation of already-produced goods to different markets (via price discrimination) rather than**

influencing total amount produced. Cf. marketing boards.

- a. Shift surplus to processing market, which is more price-elastic (price discrimination principle), thereby raising overall revenue of sellers. Problem of the secondary market becoming the primary markets (e.g., almonds).
 - b. Reserve pool programs (e.g., set asides, as in cherries)
 - c. Market flow regulation--scheduling deliveries within seasons to avoid gluts to:
 - (1) Raise season-average price
 - (2) Stabilize prices within the year.
 - d. Attempt at reducing industry capacity to reflect demand (failed effort at tree removal under proposed cherry order action in Michigan--did not get sufficient votes from growers.)
 - e. Occasional producer allotments (quotas or green drops)--only in spearmint and raisins (PIK buy out).
3. **Market Facilitating provisions**--financed through farmer or processor assessments (check-offs)--Research and development, advertising, and market information:
- a. Standardized packaging--reduce losses and other shipping costs
 - b. research funds- e.g., varietal, environmental, processing
 - c. advertising--e.g., cherries in Japan - Recent court cases have held

that check-offs for advertising are a violation of freedom of speech (“forced speech”).

d. Information dissemination--e.g., on planting intentions.

D. Procedures for establishment and administration of marketing orders

1. Farmer or processor group (often a cooperative) will make a petition to the Secretary of Agriculture for an order in which they have to make case that
 - a. current marketing problems exist (disorderly marketing) and
 - b. problems would be ameliorated through the creation of an order (they provide specifics on how order would be structured).
2. Law specifies that the order has to be as narrowly drawn as possible to resolve the problem--usually deal with localized production, rather than all of product within the country. But this makes it difficult for an order to really influence supply unless the local area controls much of national supply, especially in an era of globalization of markets.
3. USDA reviews proposal and holds public hearings on proposal
4. Draft proposals are prepared
5. Farmer referendum--Usually require a 2/3 vote of all farmers or acreage of good for approval. Once approved, the rules become binding on all farmers and handlers of the product.
6. Can be rescinded by Secretary of Ag. if it is perceived that it is not achieving its aims or unduly enhancing prices. Also can be dissolved on a

vote of the farmers.

E. Administration of the Order

1. Administrative committee elected by the industry (growers and handlers) has oversight authority--advisory to:
2. Office of the Order administrator--part of the Agricultural Marketing service of USDA

F. Current debate: Are marketing orders government-sanctioned cartels?

1. No FTC oversight (Ag. Act of 1937 gives federal orders an anti-trust exemption. Note that the Anti-trust Modernization Commission recommended in 2007 that all such exemptions be reviewed.
2. Free speech challenges to check-offs.

III. Marketing Boards

A. Statutory boards, whose functions vary widely by country.

B. Generally have authority to do everything a marketing order does, plus:

1. Frequently have supply control, either through assignment of farmer production quotas or through having a statutory monopoly on marketing (parastatals). Problems of doing this in an era of globalized sourcing--hard to stop new entrants.
2. One of their aims is to gain bargaining power for farmers who are selling commodities in international markets.
3. May also aim to stabilize prices seasonally or interannually, through

reserve funds, pooling, and buffer stocks (e.g., through use of pan-territorial or pan-seasonal pricing—Discuss the impacts of these)..

- a. This is often done out of equity concerns (e.g., Canadian Wheat Board).
 - b. Efficiency effects not clear
 - (1) Discourages production for off-peak season within a year
 - (2) Debate about the effects of inter-annual price stabilization on
 - (a) income stability for farmers
 - (b) Savings and investment
 - (3) Problems that arise when one opens the market to competition when you have a board with a statutory requirement to serve all farmers, often with panterritorial prices. Board forced to serve the high-cost areas.
4. In many countries, export marketing boards, through their marketing monopoly, have become significant sources of government revenue.
- a. They may thus play an important role in the intersectoral transfer of resources in the economy. (Raises question of who should own the rents from the production of these export crops--the farmers or the larger society).
 - b. Where they deal with food crops, they may also play important

role in intersectoral transfer of resources by assuring mechanism to keep wages low and **stable** to key urban groups (army, civil service)

- c. There is thus the question of how to assure control and accountability of such boards.

C. In theory, marketing boards are run in the interests of farmers and governed by a board representing farmer interests

- 1. In many low- and middle-income countries, the board is appointed by the government, not elected by the farmers. This raises the question of whether farmers' interests are adequately represented.
- 2. In cases where the board has a legal monopsony, it may have licensed buying agents (often state-organized "cooperatives")

IV. Assessment of performance of marketing orders and boards

A. Have generally improved orderly marketing and coordination in the context of poorly integrated markets. E.g., the wild price fluctuations of the 1930s in the US are now absent.

- 1. Some income stability for farmers
 - a. Helped create a floor price for farmers in years of large production
 - b. Reduced interseasonal price fluctuations and raised season-average prices.
 - c. Question of whether farmers still need these given the other tools

that have been developed in the economy for dealing with risk

(Answer probably depends on the size of the farm and sophistication of the farmer).

- d. Have helped to stabilize and expand demand through maintaining quality and availability of products to buyers, particularly for processed products where the stability of supply is important in an industrialized food system (e.g., cherries for cherry pies and desserts).
- B. Have redistributed bargaining power towards farmers to some extent
- 1. Limited by marketing orders' inability to limit supply very much.
 - 2. By raising product quality, may have disadvantaged low-income consumers.
 - 3. Limited in those cases in developing countries where marketing boards have become tools for extracting surplus from agriculture for investment in other sectors.
 - a. Turned the terms-of-trade against farmers
 - b. Have to look also at how the receipts were reinvested, however, in order to see the full impact on rural people.
- C. Facilitated information flow on supplies and demand for the commodity
- D. May have redistributed income from consumers to farmers to some extent, but this has to be viewed in a dynamic sense:

1. What would the investment and unit costs of production have been in the subsector without the reduction of uncertainty brought about by the marketing orders and boards? This is especially the case for marketing orders, which do not limit production.
2. The relevant comparison for many products covered by marketing orders is not with market conditions of perfect competition, but with a situation of highly perishable products subject to strong weather-induced fluctuations in supply, having highly price-inelastic supply and demand, produced with large levels of fixed assets, significant lag times between decisions to produce and decisions to market, and sold under conditions of imperfect knowledge, imperfect risk markets, significant externalities, and oligopsony power--i.e., all the conditions that gave rise to the demand for the order in the first place. Therefore, need pragmatic evaluations of these marketing orders and boards.
3. Particularly germane given calls to abolish boards. Often these markets are risky no matter who is involved.