Commodity Promotion Policy

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Introduction

Generic commodity promotion has become one element in the overall marketing planning for producers facing changing consumer preferences, increasing global competition, and decreasing government price supports. Numerous federal and state advertising and promotion programs generate funds from producer assessments and use public sources for domestic and export promotion. As the recent Supreme Court ruling in the mushroom case indicates, they are not without controversy.

Background

Table 1 shows total dollars available to the largest organizations by commodity programs. Commodity promotion is intended to help U.S. agricultural producers enhance consumer demand and improve their competitive position in both domestic and foreign markets. A large portion of the funds are collected under federal legislation and administered through commodity boards. For the 2000/2001 fiscal year, 15 fruit and vegetable marketing orders budgeted a total of $28.4 million for generic advertising and promotion. State authorized programs also generate significant funds for promotions.

Table 1. Funds Available Under National Check-off Programs*

Program	($ million)	
Beef	$87.90	($48.1 to National Board)
Cotton	$60.20	
Dairy	$244.00	($80.8 to National Board)
Eggs	$18.80	
Fluid Milk	$109.50	
Honey	$3.60	
Mushrooms	$2.65	
Peanuts	$18.74	
Popcorn	$0.45	
Pork	$54.60	($43.6 to National Board)
Potatoes	$8.57	
Soybeans	$61.40	($30.7 to National Board)
Watermelons	$1.60	

* For most recent audited fiscal year, as of March 2001.

The federal commodity promotion programs began in 1954 with the passage of the National Wool Act, and with an amendment in August 1954 to the

Agricultural Marketing Agreement Act of 1937 authorizing generic research and promotion programs as part of marketing orders for fruit, vegetable and specialty crops. In the mid-1960s, Congress began passing a series of statutes authorizing advertising, promotion, and research programs for specific commodities. A new era was established in 1983 when a dairy promotion program was authorized with nonrefundable assessments and a delayed referendum. Beef and pork programs were subsequently authorized with similar provisions. The primary focus of the programs with federal check-off authority is on domestic promotion programs. In the 1990 Farm Bill, dairy processors were authorized to establish a check-off program for fluid milk advertising. While separate from the producer program, this may set a precedent for processing or marketing firms in other industries to join funding efforts.

Foreign market development programs supported by federal appropriated funds operate under the jurisdiction of the Foreign Agriculture Service (FAS) of USDA. The Foreign Market Development Program (FMDP) has operated since 1955. The Market Access Program (MAP) was authorized in 1978 as Section 203 of the Agricultural Trade Act. The level of funding for these programs has declined from $107 million in 1995 to $53 million in 2000.

Current Situation and Forces for Change

Commodity promotion policy has evolved over the past two decades as more commodity interests have initiated check-off programs. Federal check-off promotion programs have been established with the intent to require all industry participants to contribute — generally based on amount or value of products sold. They have extended coverage to include imports, and several major programs were initiated prior to conducting a producer referendum to affirm support of them. The check-off for cut flowers was terminated under one of these delayed referenda after less than two years of activity. Some programs have undergone a subsequent referendum, which confirmed producer support. In the most recent case of pork, the program was defeated by those producers voting in a USDA advisory referendum. However, the pork promotion program continues to operate, under a court case settlement, subject to several changes, including a commitment to a future binding referendum.

Continuing change in consumer preferences may create market opportunities for industries prepared to aggressively pursue them. At the same time, pressures to reduce income and price supports to farmers puts a premium on industry-led marketing initiatives. Globalization of markets in recent years has also stimulated producer interest in market development opportunities in international markets.

Increased marketing efforts by other exporting countries put pressure on producers to obtain public or self-generated funds to promote U.S. products in foreign markets. Reduced availability of export price subsidies creates incentives to increase emphasis on non-price promotion approaches often funded through check-off programs.

Increasing demand for accountability led to a new section in the 1996 FAIR Act, which requires that federal commodity check-off programs conduct economic evaluations of their impacts every five years.

Issues

Public policy issues arise from internal as well as external factors. Issues include:

Changing industry structure. Significant change in the structure of production agriculture, types of producers, and their expectations present challenges to these programs. For example, in the rapidly concentrating hog industry, do the major integrators favor promoting undifferentiated commodities? Can the classic small producer of homogeneous commodities continue to expect to benefit from collective marketing action through generic promotion?

Mandatory promotion programs. Check-off programs are intended to provide producers with tools to help themselves on a market-wide basis. Some producers have challenged mandatory program implementation, arguing that there is no government purpose for these programs and that they restrict freedom of speech. The 1996 FAIR Act attempted to lay out a "finding of Congress" regarding the need for collective producer action so that check-offs would be protected from court challenges. Several lawsuits have revolved around whether the commodity is already regulated by the government, such as through marketing orders or price supports, thus giving legitimacy to a "government purpose" for the check-off.

Generic export promotion. Globalization of markets has progressed significantly in recent years, creating challenges from imports and opportunities for exports. Export promotion programs provide one tool for U.S. producers to increase their market share in global markets. However, there is also some concern about whether export promotion programs are a form of export subsidy in conflict with international trade agreements, such as the WTO.

USDA's role in mandatory evaluation and referenda. The appropriate level of USDA regulatory oversight continues to be debated. The 1996 FAIR Act required mandatory evaluation which has impacted small industry programs as well as the major commodity promotion programs. How well have these impact evaluations worked to inform producers, policy makers and other industry participants of the impacts of the programs within their own industry and across commodity lines? Have they produced results which allow producers to judge the benefits they receive for their check-off dollars, and shown whether it is in their best interest to continue or to revoke the programs? Should periodic referenda be mandated?

Policy Alternatives and Consequences

Alternative approaches to dealing with these issues, and their potential consequences, are discussed below.

Changing industry structure creates equity and efficiency questions that commodity promotion programs must address. Policy options could include:

- Exclude producers who are contractually committed to provide particular product characteristics which are marketed through branding or other consumer promotion activities from paying for assessments for generic product promotion. However, this could significantly reduce the generic promotion funding available in rapidly changing industries. It could put producers not involved in the supply chain at a competitive disadvantage in margins realized from product sales. Yet, it would prevent "double taxation" and would reduce the incentive for producers involved in supply chain contracts to oppose the program.

- Restrict use of promotion funds to require separation of promotion activities from organizations charged with lobbying on various industry issues, as included in the pork industry referendum settlement. This would deal with any concerns about commingling funds for purposes other than demand expansion. This is an important consideration since some smaller producers fear that policy positions of commodity organizations are accelerating consolidation trends.

- Institute mandatory periodic referenda so that petitions are not required, thus making it easier for participants to review and vote out a check-off program if they believe it no longer serves the collective industry purpose. This would eliminate the regulatory load on USDA in confirming validity of signatures on petitions, and would allow for the check-off programs to phase out if the industry structure no longer warrants their existence.

- Permit importers to opt out of check-off assessments when the industry structure indicates a strong separation of interests, and when domestic production might benefit from a separate, differentiated promotion. While this is contrary to the logic of avoiding free-riders by collecting the check-off on imports, it could reduce the tensions created among different groups of stakeholders as inevitable structural change occurs.

The role of mandatory promotion programs may be questioned more frequently as industry structures change. Options for dealing with this issue include:

- Requiring a broader assessment of total program impact. Measures of gross or net benefits to some aggregate set of producers may not be sufficient. When the authority of government is used to generate the funds, there is a public interest in the programs. To understand the total impacts of the programs, it is necessary to account for effects on consumers, other producers, participants throughout the marketing chain, and taxpayers. There may be disagreements over the appropriate effects to be included in such a wider assessment and on the methods to measure them. There is also an issue of the existence of legislated commodity programs or legal entities such as cooperatives and their interaction with promotion programs.

- Strengthening the Secretary of Agriculture's discretion regarding the initial approval of check-off programs. Included in this could be the requirement to show that the impacts on other commodities or participants in the marketing system are not likely to be substantial. Congress could provide criteria to be used in assessing impacts.

- Requiring importers to contribute to programs the same as producers. This would maintain the integrity of the intent to eliminate free riders, and would help maintain critical levels of funding in programs experiencing rapid growth in imports. However, it would also create potential opposition within the industry.

The role of generic export promotion may get more attention in new trade negotiations. To what extent will export promotion programs be permissible as a non-trade distorting activity? Options for dealing with this issue include:

- Providing government matches of program expenditures supported by producer check-off dollars. This option would increase the funds available for promoting U.S. commodities in export markets, emphasizing a marketing approach rather than a regulatory subsidy approach to boosting producer income. However, it may be perceived as an export subsidy which distorts the market and, thus, it is in conflict with WTO requirements.

- Allowing export promotion programs to be funded only by producer check-off programs, with no government matching. This would have the advantage of being a market-oriented program funded by those within the industry, would avoid any distortions created by government payments, and potentially would be more acceptable under WTO guidelines.

- Linking the size of federal budgets for export promotion directly to the strength of the dollar to help offset its negative effects on the competitiveness of U.S. commodities abroad. This would have the advantage of routinely boosting export aid when producers need it, and of reducing aid as exports respond to declines in the U.S. dollar. However, this approach begs the question of to what extent promotion can offset the effects of higher prices. Given relative effects of promotion vs. price demand responses, the impact could be limited.

The USDA's role in mandatory evaluation and referenda is contentious. These activities are intended to assess the economic impacts of commodity promotion programs on producers, marketing sector participants, consumers, and taxpayers. Some ways of dealing with this issue include:

- Mandatory periodic impact evaluations give policymakers an opportunity to determine needed changes in program implementation and the effects on different segments of the industry and consumers. Requiring industry to finance them from collected funds adds to the cost for program participants and can be particularly burdensome for industries with small program revenues. Exemptions could be established for programs below a certain budget size or total sales volume, allowing them to do impact evaluation on a less frequent basis. Industry funding provides some potential incentive for researchers and/or administrators to satisfy interests of the funders in obtaining positive outcomes.

- An increased government role in the evaluation process could address any objectivity concerns about evaluations funded by the check-off boards. USDA could be given the role as a "clearing house" for evaluations, contracting with third-party evaluation professionals. Funding could be budgeted from general revenue, or as part of the administrative charge assessed to the check-off programs. Acting as a clearing house would separate the evaluation professionals from the direct oversight of the commodity programs they evaluate.

- Periodic referenda would allow industry producers to regularly determine whether they wish to continue the program. Understanding the economic impacts provides producers with a basis for judging whether or not to continue funding. However, the ultimate evaluation is a vote on program continuation. Some programs legislatively require periodic referenda among producers to continue the program, while others have a requirement that a certain percentage petition for a referendum.

- Limiting government authority to assuring compliance with legal and financial requirements. This minimizes government interference with the market, yet protects the public interest. However, it also allows only one segment of those affected to make the most of the decisions.

Summary

A number of issues exist in government authorized check-off and budget-funded commodity promotion programs. Options for addressing these issues range from increased government roles to periodic producer reauthorization to additional program authority over the scope of activity. The implications of these alternative approaches will likely be vigorously debated in any legislation considered.

References and Suggested Readings

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