Old Dog, New Tricks: The Changing Role of California's Agricultural Marketing Organizations

Zoë Plakias

Agricultural marketing institutions in California and around the U.S. are evolving to meet changing grower needs. This article highlights some of the more recent changes in California marketing organizations and the economic concepts and industry factors that may be leading to these changes.

Agricultural marketing organizations, including advisory boards, commissions and councils, were first authorized by federal and state legislation in 1937. And despite the fact that agriculture looked quite different 77 years ago, these organizations are still alive and well—particularly in California. But they *do* look different, thanks to the dynamism of California's agricultural sector. Growers must vote to establish these organizations, and in most cases growers must vote every few years on whether to keep the organizations in operation, giving growers an opportunity to terminate ineffective or unwanted organizations. In the past few years, several tenured marketing organizations were terminated, while several new organizations were approved.

These events lead to the question: are there common underlying factors contributing to these changes in marketing organizations? This article looks at several of these factors through the lens of specific California industries and offers some conclusions about the future role of these organizations.

Marketing Organizations 101

In California, there are four primary types of agricultural marketing organizations at the state level. (All four types of marketing organizations have analogues at the federal level, although the laws that create these organizations are not identical.) The first is marketing order-created advisory boards. State marketing orders are sanctioned under the California Marketing Act of 1937 and are valid only after being approved by the California Secretary of Food and Agriculture and via producer referenda.

For a state marketing order, a minimum percentage of affected producers must participate in the referendum for it to be approved. Passage of the marketing order also requires that a specified minimum percentage of producers vote in favor of the policy, and those voting for the policy must produce a specified minimum percentage of industry output. A marketing agreement is much like a marketing order but with voluntary agreement; it is only mandatory for signatories of the agreement and is not voted upon by the industry as a whole.

Commissions and councils are similar to marketing orders in many respects, but the process for establishing them is different. Unlike marketing orders, they have the greater hurdle of needing direct approval by the legislature in addition to a producer referendum. However, commissions and councils have a broader scope of permitted activities than the advisory boards created by marketing orders.

Once in place, marketing organizations provide for the election of an advisory board (or commission or council) and engage in specific activities included in their approved scope of action, such as market or production research, quality standards or generic promotion. Additionally, these activities can be funded by levying of mandatory assessments on growers, if approved by growers in a referendum.

According to the California Marketing Act and the commissions and council laws, the purpose of these marketing organizations is to support growers for the good of the state. The conventional wisdom among economists is that these organizations address various problems faced by growers in the markets for certain crops. For example, the development and administration of grades and standards can reduce the transaction costs associated with marketing. If the grades and standards measure quality attributes desired by buyers, they will lessen the cost of negotiating individual purchases.

Marketing organizations can also address the public good problems growers face in marketing their crops. A public good is a good that is non-excludable (i.e., it can be consumed by anyone) and non-rival (i.e., one person's consumption of the good does not preclude another person from consuming it). Thus, activities like non-patented research and marketing are public goods.

The organizations would engage in these activities less if contributions were voluntary. Each grower would wish to "free-ride" on the investments made by other growers. If one grower spends money on advertising that generates additional demand for peaches, other peach growers will benefit as well. On the other hand, the grower who is paying for the promotion only takes his own benefit from advertising into account when choosing how much to spend. He does not consider the benefits accruing to other growers. Thus, the amount of spending on advertising is less than it would be if the benefits to all growers were considered.

Mandatory assessments to fund public goods have the potential to benefit growers as a group. However, if this is true, why have growers of several crops chosen to terminate their marketing orders within the past few years? And, in light of these terminations, why are other producers just now developing these organizations?

Contributing Factors

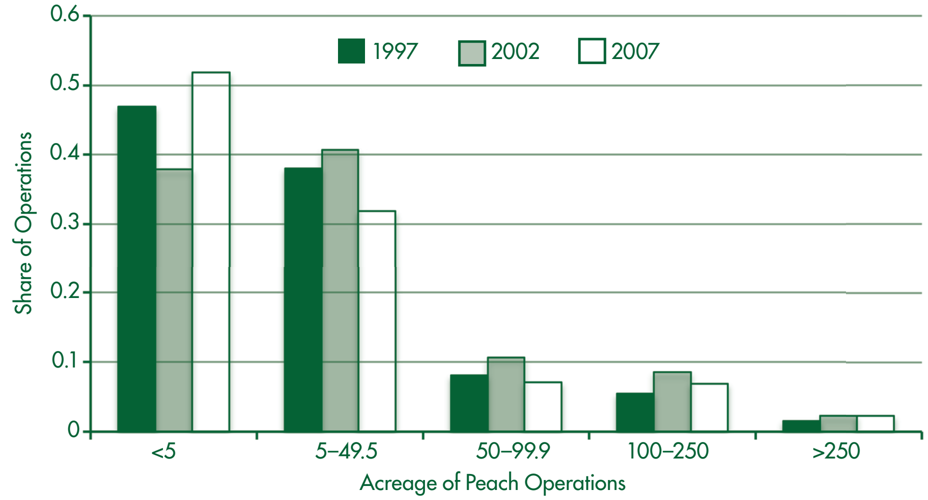
However, despite these benefits, there are numerous reasons why producers may wish to terminate a marketing organization. In particular, several factors may be contributing to the recent changes in California:

Consolidation is changing the needs of agricultural industries. Industry-level marketing organizations that began as a tool for many smaller farmers decades ago may not provide the same benefits to larger farms, particularly ones that engage in value-added activities, not simply agricultural production. As operations become larger, it becomes easier for them to bring their marketing and research in-house, decreasing the need for the services of the marketing organization. Consolidation can provide opportunities for private cooperation because the cost of coordination is lower with fewer firms. For example, a few firms may become joint investors in a processing facility.

Legal battles concerning marketing organizations are increasingly common. In some cases, growers who engaged in branded advertising argued that the "generic" advertising undertaken on behalf of the industry as a whole violated their First Amendment rights. These lawsuits cause us to rethink the distributional issues associated with marketing organizations. In addition, once some growers characterize mandatory assessments as a violation of First Amendment rights, others may reevaluate the benefit of the organization.

Multi-state or multi-crop marketing organizations may not be flexible enough for 21st century markets. Consumers today have increased access to information about product origins, recalls, and particular brands. The rise of the information age has increased the

Figure 1. Peach Operations in California, 1997–2007



Source: http://quickstats.nass.usda.gov

importance of reputation, which may have different implications depending on the extent to which production is differentiated. In addition, there is increasing coordination between growers, particularly large growers, and their buyers.

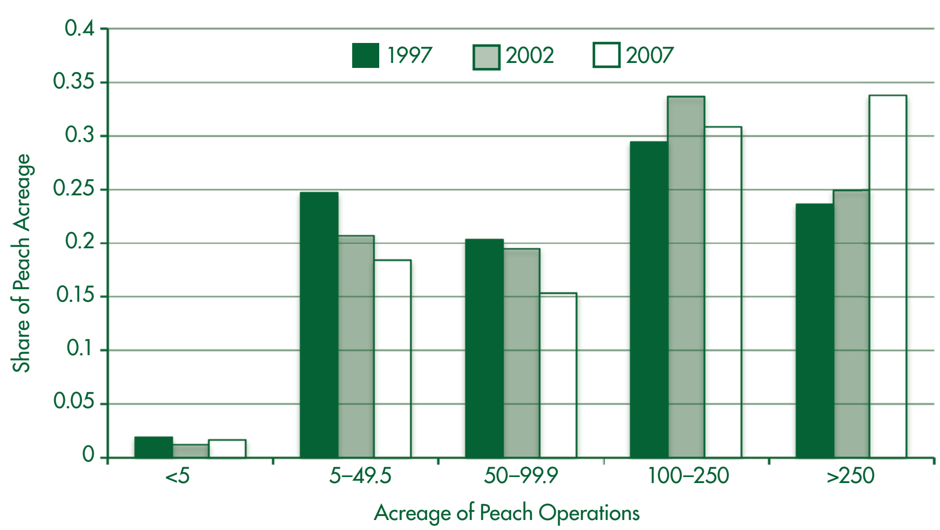
Growers may maintain these relationships by producing to buyer requirements, which are sometimes more specific than the marketing order's defined grades and standards; or they may violate them, as in the case of a buyer who wishes to purchase smaller fruit than allowed under the marketing order. In this case, the rigidity of the organization restricts the operation of the market.

Out with the Old, in with the New

An examination of recent changes in marketing organizations affecting California agriculture provides some evidence to support the importance of each of these factors.

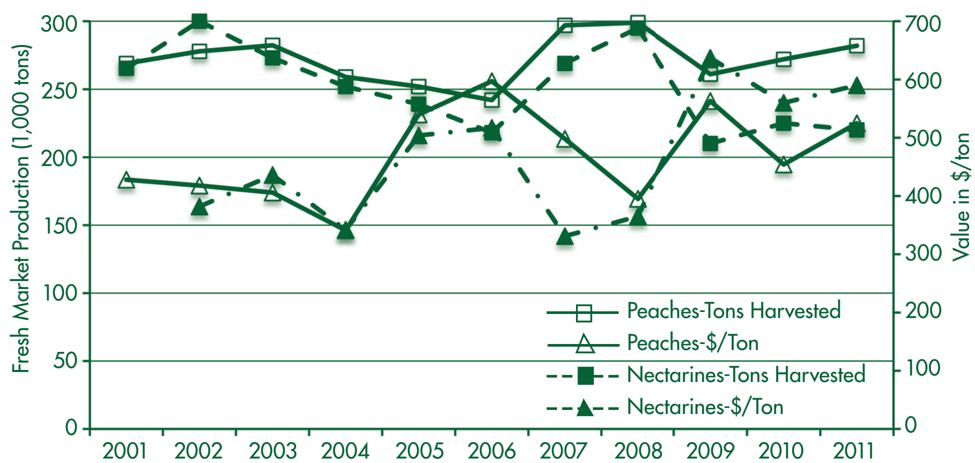
In 2011 the 78-year old California Tree Fruit Agreement (CTFA) was dissolved and the two associated federal marketing orders, for fresh California peaches and nectarines, were terminated. In its termination notice, the USDA cited industry consolidation as one reason for the decision. Figures 1 and 2 illustrate this phenomenon. Between 1997 and 2007, the percentage

Figure 2. Size of Peach Operations in California, 1997–2007



Source: http://quickstats.nass.usda.gov

Figure 3. Fresh Market Production and Value of Peaches and Nectarines in CA, 2005–2011



California Agricultural Statistics Review, California Department of Agriculture, 2012-2013. www.cdfa.ca.gov/statistics/pdfs/2013/FinalDraft2012-2013.pdf

of peach operations over 250 acres in size increased by 50%, and the percentage of peach acreage produced by these farms increased by 43%, indicating a shift toward larger farms.

Industry decline was likely a factor as well. Data from the National Agricultural Statistics Service (NASS) indicate that the number of peach producers with bearing acreage in California shrank by 25% in the five-year period from 2002 to 2007, while the total bearing acreage in peaches for these operations decreased by 30%. During this time, the number of operations with 500 or more bearing acres shrank from 26 to 14. These numbers suggest significant exit from the industry, consolidation of existing operations, or both.

In this same period from 2002 to 2007, the number of nectarine producers in the state with bearing acreage decreased by 35% and the average acreage in nectarines decreased by nearly 30%. Concurrently, prices received by growers were moving slowly upward, but fluctuating, with a particularly low dip in the 2007 marketing year. These phenomena are shown in Figure 3, which indicates quantity harvested on the left axis and value on the right axis.

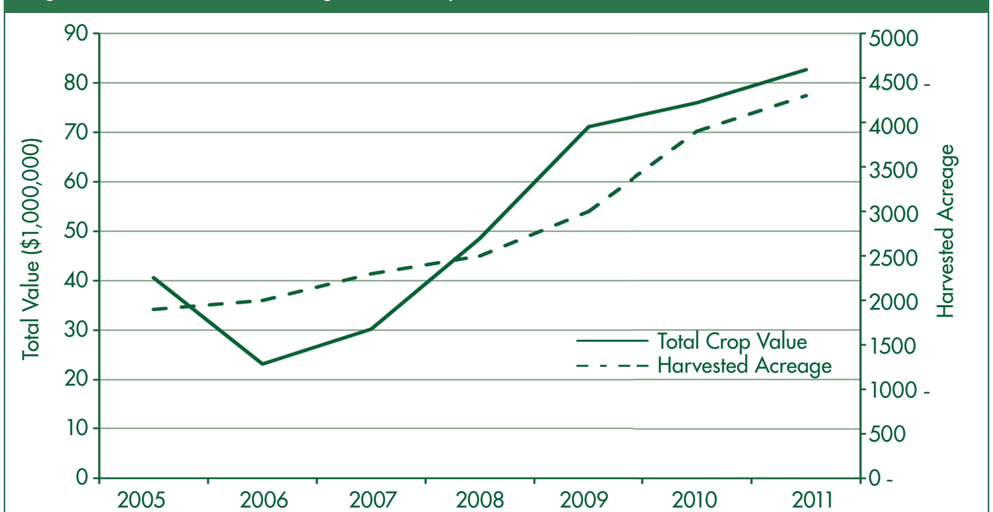
Acreage and operation numbers from the 2012 Agricultural Census are not yet available, but the peach industry appears to have recovered somewhat after 2007. However, as recent as 2011, one grower and Peach Board member told a Central California business journal reporter: "I can't remember the last time peach growers had a good year." This kind of sentiment coming from industry leadership corroborates the indicators highlighted above and is suggestive of longer-term industry decline.

It is also significant that California produces almost half of the country's fresh peaches. Similarly, California produces most of the country's nectarines. (Washington is the only other state that produces them commercially.) These facts suggest that much of the domestic competition in these industries must necessarily take place between growers in California, potentially diminishing their desire for a state or federal-level marketing organization covering all production in the state, which would effectively require growers to cooperate instead of compete.

Changing attitudes in this industry may also have been the result of litigation that occurred in the late 1990s. In a drawn-out court case that lasted nearly ten years and ultimately reached the Supreme Court, a large producer/shipper, Wileman Bros. & Elliott, Inc., and several other handlers of peaches, plums and nectarines, refused to pay their assessments, claiming that generic advertising violated their First Amendment right of free speech. The Supreme Court ruled against Wileman, but the controversy remains and litigation related to marketing orders continues.

Although nectarine and peach acreage is declining in California, blueberry production in California has been increasing and the industry approved a state-level commission in 2010, even though a marketing organization already existed at the federal level. This trend is shown in Figure 4. The approval of the state marketing organization suggests a desire among producers of blueberries to compete more effectively with these

Figure 4. Harvested Acreage and Crop Value for Blueberries in CA, 2005-2011



California Agricultural Statistics Review, California Department of Agriculture, 2012-2013. www.cdfa.ca.gov/statistics/pdfs/2013/FinalDraft2012-2013.pdf same industries in other states. Unlike peaches and nectarines, California does not lead U.S. production of blueberries, so growers can use a state-level commission as a tool for branding, research, and promotion to differentiate their product from that of other states and potentially gain market share.

California's leafy greens handlers have also chosen to differentiate themselves from other handlers in the nation through the approval in 2007 of the state-level Leafy Green Products Handler Marketing Agreement (LGMA). This agreement sets best practices for signatory handlers and allows them to use an official service mark to signal their use of these practices. The ongoing debates about this particular marketing agreement and a similar proposed agreement at the national level have raised some interesting questions about the role of marketing organizations. One question is the intended beneficiaries of the policy and organization.

Ostensibly, these organizations are created to help society by helping growers. In the case of the California Leafy Green Products Handler Marketing Agreement, handlers are the signatories and the only ones to whom the agreement applies, but the agreement imposes *de facto* standards on growers. Furthermore, California handlers of leafy greens are highly consolidated.

Opponents of these marketing agreements have suggested that allowing handlers to work cooperatively unfairly increases their control over marketing channels, thus leading to potentially negative consequences for growers. In this case, the level of perishability and the resulting geographic constraints on distribution play an extremely important role in the debate, as growers may have few, if any, alternatives for distribution.

Throughout the debate, handlers and supporters of the agreement continue to emphasize the benefits to consumers from this agreement. In 2009, grower/handler and then-LGMA Chairman Joe Pezinni suggested the purpose of the agreement was to "help buyers understand the standards and the science, the best growing and processing practices," adding that "some wholesale buyers say that based on the required practices in the LGMA, they'll no longer require third-party audits."

Another question that has been raised in this debate is whether food safety issues are really the purview of marketing organizations at all. Food safety concerns have long been important to the leafy greens industry. The California Leafy Greens Research Board, also composed of handlers, has invested a great deal of money into research about disease resistance and food safety. This board was created by a marketing order and therefore covers all handlers in the industry. Certainly, reputation has a great deal to do with marketing and branding. However, some say that leaving the determination of what makes food safe for consumers to the industry itself is not the best way to go about ensuring the safety of the U.S. food supply.

The Bottom Line

An examination of this small sample of industries reveals that although the enabling legislation for marketing organizations was passed during the Great Depression, marketing organizations are still proving flexible enough to be of use to modern agricultural producers and handlers—albeit in new and ever-evolving ways. The economic factors affecting marketing organizations in California are numerous and diverse, and some are significant enough to cause termination of marketing organizations.

For California peach and nectarine producers, consolidation and branding ability for individual sellers may have contributed to their desire to no longer market collectively and to legally challenge the marketing organization.

On the other hand, for the leafy greens industry, a marketing organization that precludes the ability to brand may be less of an issue, but the reputation benefits from improving food safety are high. The California leafy greens industry has found a state marketing agreement to be an effective tool for setting food safety standards and maintaining the reputation of the California leafy green industry. This action also raised new questions about the role of marketing orders.

Like the leafy greens industry, California blueberry producers may be using their marketing organization to gain a strategic advantage within their own industry. Going forward, consolidation of agricultural industries and legal challenges to marketing organizations are likely to continue, but the changes in these industries suggest that agricultural producers will find new ways to use the marketing organizations to fit their needs.

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Zoë Plakias is a Ph.D. candidate in the Department of Agricultural and Resource Economics at UC Davis. She can be contacted by e-mail at plakias@primal.ucdavis.edu.

For additional information, the author recommends:

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