Marketing Orders

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INTRODUCTION

Scholars have likened marketing orders to industrial cartels. Critics contend that marketing orders allow independent, and normally competing, firms to engage in collective activities that antitrust laws deny firms in other industries. The nation's long-term public policy favors laws designed to maintain competition and to prohibit conspiracies and combinations in restraint of trade. However, Congress has granted partial exemptions to certain industries, including segments of agriculture, from these laws.

Many of these exemptions granted to industries originated during the Great Depression of the 1930s. Public policy affecting agriculture often considered the exemptions for marketing agreements and orders involving eligible vegetables, fruits (fresh and dried), and tree nuts as outside the price support system. Unlike price support programs, marketing orders for horticultural crops have no direct price setting provisions.

Most students conclude that marketing orders for horticultural crops are marketing plans developed by growers and handlers under enabling legislation that allows improved returns through industry-wide regulations. These regulations legally bind all parties identified in the order. Appropriate administrative agencies enforce the regulations.

In 1987, the federal government had in effect forty-five federal mar-

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2 Programs designed to improve marketing include the Federal Marketing Order and Agreement programs authorized by the Agricultural Marketing Agreement Act of 1937, Pub. L. No. 137, 50 Stat. 246 (codified as amended in scattered sections of 7 U.S.C.); various state marketing order programs, such as that of the State of California; commodity commissions as authorized by specific state legislative acts; and other state programs. While California marketing order programs are important to many of California's commodity interests, they originally were activated to conduct demand-creating programs not then permitted under federal orders. While these state programs are important, they are often similar in objectives, if not in provisions. Therefore, this Article describes marketing order features of federally authorized programs.
keting order programs. In addition, California had about thirty state marketing orders, and other states had about fifteen orders. Marketing orders affect more than half of the tree fruits and fifteen percent of the vegetables grown in the United States. In 1987, the farm value of the thirty-three crops covered by federal orders was about $5.6 billion. California marketing order programs include more than seventy percent of fruits, nuts, and vegetables marketed.³

I. Historical Perspective

Commercialization of agriculture and the transportation of large volumes of fruits from California to distant populations created a need to improve marketing practices. Strong, single commodity cooperatives provided an early remedy. Farmers and legislators soon realized that cooperatives alone could not overcome the marketing practices of farmers who stayed outside the cooperative or the marketing practices of independent handlers. The Great Depression resulted in low-income problems that persisted longer in the agricultural community than in the industrial community. As a result, farm leaders requested that Congress enact legislation to enable eligible commodity groups to establish industry-wide marketing programs. The farm leaders proposed that these programs would bring about improved producer returns through better marketing practices.

Large fluctuations in supply and subsequent swings in commodity price often destabilized the market to the disadvantage of both producers and consumers. Marketing of immature fruit early in the season to capture high prices turned consumers away for the remainder of a season. Marketing of fruit with mixed sizes and grades destroyed wholesaler and retailer confidence and affected subsequent purchases. Deceptive packaging caused product loss and lack of confidence in the markets. For some commodities, irregular shipments within a season caused gluts and shortages that affected marketing and pricing.

Congress responded by enacting the Agricultural Adjustment Act of 1933.⁴ This Act authorized commodity interests to form voluntary programs to bring about economic adjustments. As with the earlier experience of cooperatives, the voluntary nature of the marketing agreement programs resulted in "free-rider" problems. Thus, nonparticipants benefited but did not contribute to the commodity program.

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To overcome these problems, Congress enacted the Agricultural Marketing Agreement Act of 1937 (AMAA). The AMAA provided the enabling legislation for marketing agreement and order programs largely as they exist today. The Act provided for mandatory regulations on all industry interests once agreed to by a majority, two-thirds, or three-fourths, depending on the commodity. Therefore, the AMAA makes approved marketing programs truly industry-wide.

II. THE POLITICAL LOGIC AND LEGAL FRAMEWORK

During the 1930s, all agricultural commodities experienced a dismal economic environment. However, widely grown crops found in many regions benefited from their national significance. In contrast, fruits, nuts, and vegetables that grew in localized areas of the country did not share in this benefit. Also, unlike these horticultural crops, many of the other crops were storable and fungible. These fungible crops became known as "basic" commodities for which Congress established minimum price supports, and later, acreage allotments.

Congress conceived the marketing order program as an alternative to provide market stabilizing opportunities for designated perishable crops. Through amendments Congress has made the AMAA available for additional commodities and has clarified certain procedures, but has not modified the basic objectives of the Act.

Congress broke new ground in several ways upon enactment of the AMAA. The AMAA established precedence for an industry to adopt self-imposed regulations under terms established by Congress and administered by a federal agency. It granted partial exemption from several antitrust laws for a commodity group operating within the terms of the AMAA. It established the means for Congress to establish and for a federal agency to administer a program having both a commodity interest and a public interest. In subsequent years, case law established the authority of the U.S. Department of Agriculture (USDA) to administer the AMAA in accordance with the USDA's interpretation of Congressional intent.

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7 See id. § 608b.
8 See, e.g., United States v. Rock Royal Cooperative, 307 U.S. 533, 574-77 (1939) (approving delegation of authority to Secretary of Agriculture).
III. General Provisions Authorized by the AMAA

Marketing orders permit three classes of marketing activity: (1) volume management, (2) quality regulations, and (3) market support activities.9

A. Volume Management

Volume control regulations are the most controversial of the activities authorized by marketing orders. Using volume control regulations, the administrative committee can estimate supply and demand for the year and divert "excess supplies" from primary market channels into alternative outlets. These outlets include noncompeting food uses, export markets, or nonfood uses. Since 1967, three orders with volume control provisions have been terminated: tart cherries, Florida Indian River grapefruit, and Florida grapefruit. In 1987, eight marketing orders were authorized for market allocations and four for reserve pools.

In addition, three crops (cranberries, Florida celery, and Far West spearmint oil) have producer allotment provisions to regulate the total quantity placed on the market. These provisions allocate market requirements as quotas to individual growers.

Flow-to-market regulations keep an orderly quantity of product moving to market during the normal marketing season, avoiding large short-run (weekly) fluctuations in supplies and prices. The regulations specify the quantity of the commodity that each individual handler may ship during a designated period. These regulations may reduce the total quantity of the crop marketed, but usually they do not. The regulations help tailor current supply to expected demand, minimizing periodic gluts and scarcities within the crop season. Of the thirteen federal orders with volume control provisions, five feature provisions for marketing holidays instead of flow-to-market.10

B. Quality Regulations

By regulating the quality of a commodity eligible for shipment, an industry enhances consumer confidence in its products. Quality regulations limit the products shipped to fresh domestic markets by requiring certain minimum qualities. These quality requirements protect the industry's reputation, maintain prices and consumer confidence, and pre-

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9 French, supra note 3, at 49.
10 A marketing holiday is a designated period during which shipments cannot be made of a regulated commodity. The holiday may be imposed to overcome the impact of unusual supply-demand relations.
vent small or immature fruits and vegetables from depressing market prices. Forty-three federal marketing orders have grade and/or size regulations. The purpose of these regulations is not to influence the total quantity marketed during periods of large supply, but they may have that effect and thereby strengthen the market and prices.

C. Market Support Activities

Market support activities are the most widely used provisions under federal marketing orders. These activities include collecting market information and conducting research and development for production and marketing. Seventeen federal orders and nearly all state marketing orders authorize advertising programs.

Some market order committees consider their research and development activities in a broad context as market support activities. However, most of the thirty-seven federal orders authorizing research and development support technical production-oriented research, instead of economic market studies. Some state market orders are specified solely for advertising and research and development activities. A few state orders specify unfair trade practices.

IV. Legal and Economic Issues

A. Philosophic, Economic, and Legal Perspectives

Since the inception of marketing orders, people have disputed these orders from philosophic, economic, and legal perspectives. Some people philosophically object to any program that regulates trade. Critics who consider marketing orders equivalent to cartels fail to recognize important differences. Cartels specify price-fixing production agreements for each cartel member, and often, market entry restrictions. However, cartels have no power to enforce these agreements. In comparison, the government enforces regulations agreed to under marketing orders. These regulations lack the elements of price fixing and individual production quotas. Three federal market orders feature marketing, not production, allotments.

Philosophic and economic issues tend to intertwine. In the early 1980s, consumer advocates, the Federal Trade Commission, the General Accounting Office, and the Office of Management and Budget openly criticized many of the widely-used features of marketing orders. These groups had different concerns than the earlier but still active critics who worried about freedom of action on trade practices.

Consumer groups believe that volume regulations increase prices.
They also are concerned that grade and standard quality regulations remove products from the market that could be consumed. In addition, packaging and container regulations could increase cost or reduce consumer options. Consumer advocates also are concerned that the regulations reduce food availability for the poor.

Socioeconomic issues may present more formidable challenges to marketing orders in the future. In earlier decades public outcry focused on independence, freedom, and individual rights. Courts have largely handled these issues during the last fifty years. In contrast, administrative agencies, Congress, and the market arena will handle the socio-economic issues challenging marketing orders.

Another concern arises from the potential misuse of the authority to affect market supply by an administrative committee of growers and handlers acting under a marketing order. Marketing orders do not permit production control, which is the most effective method to control supply. However, critics contend that the quality and grade controls result in price increases to consumers and diminution of food supplies to the poor.

Economists note that few studies have analyzed marketing orders to determine their impact on industry performance. Admittedly, marketing orders have some impact on supplies. Given the inelastic demand for many of the farm commodities, some enhancement of price should result. The remaining question involves how much enhancement has occurred and if this amount has been reasonable.

B. Enhancement on Price and Reasonableness of Marketing Programs

1. Market Allocation

Market allocation programs for almonds, walnuts, and raisins have in some years elevated the short-run domestic price in relation to the export price. The programs also have caused an expansion in foreign sales and have provided outlets for excess supplies in large crop years. Although not completely clear, it seems likely that long-run gains to industry have outweighed adverse short-run impacts on consumers.11

On the other hand, citrus allocations have caused persistent differences in net prices in the fresh and processed product markets, especially for lemons. Consumers of processed lemons have benefited at the expense of buyers of fresh lemons.12

11 French, supra note 3, at 51.
12 See W. Kinney, R. Green, H. Carman & J. O'Connell, An Analysis of
2. Citrus Prorates

Prorates are used mainly for fresh citrus. A prorate is a regulation that diverts "excess supplies" from primary market channels or uses into alternative outlets. These alternative outlets include noncompeting food uses, export markets, nonfood uses, and noncompeting forms, such as processed or fresh products. Prorates may also include a "reserve pool," which is a quantity of current production withheld from market for possible later use.

Supporters contend that without prorates and/or shipping holidays, citrus markets would be unstable, with periods of gluts followed by depressed prices. Two recent empirical studies provide conflicting evidence about the consequences of prorates. A study of the California-Arizona orange prorate found only minor differences in the stability of shipments and prices in a year when the prorate was suspended, compared with years when prorates were in effect. However, a study of the lemon prorate found that the prorate stabilized both sales and prices when contrasted to the year without the prorate.

Opponents to prorates believe that different demands and market organizations now exist than when prorates were first introduced. For example, they argue that apples without prorate regulations seem to flow to market fairly smoothly.

3. Reserve Pools

Critics also question the use of reserve pools. These pools divert excess production from the current market period to a subsequent period or from a traditional product use to an alternative use. Opponents of reserve pools argue that individuals should assume the risk of storing products from high production years (and therefore low prices) for sale in a subsequent, more favorable period. Consumer advocates believe reserve pools that divert products to alternative uses cause higher prices and deprive consumers of available supplies.


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\[\text{French, \textit{supra} note 3, at 52.}\]
4. Grade and Quality

Finally, grade and quality regulations may reduce consumer choice, particularly when cosmetic blemishes prevent fruit from entering commercial channels. Consumer groups view such regulations as another method for reducing the total quantity of produce available for marketing.

V. RECENT LEGAL ISSUES

Many of the growers and handlers who were regulated by marketing orders are philosophically opposed to the use of marketing orders. Some of these growers and handlers have challenged the orders. The following discussion briefly describes petitions filed by these parties in recent years. This Section also analyzes the concerns of the nonsupportive handlers.

Parties seeking relief from existing or pending market order regulations may proceed through channels prescribed by the AMAA.\textsuperscript{17} Once they have exhausted these remedies, they may seek relief through federal district courts.\textsuperscript{18} Recent cases under the jurisdiction of judicial officers involve federal California-Arizona citrus orders; the nectarine, plum, peach, and almond orders.\textsuperscript{19}

Petitioners have argued a broad range of issues under the California-Arizona navel orange, Valencia orange, and lemon marketing orders. In these challenges, claimants charged that regulations did not comply with the law, attacked the validity of the order, or sought to declare prorates invalid. Since 1987, one entity has filed six petitions and was a co-petitioner in the seventh.\textsuperscript{20}

There have been five petitions filed against the nectarine, plum, and peach (tree fruit) market orders.\textsuperscript{21} These petitions raised issues of alleged discrimination, illegal provisions, and constitutional objections. One entity filed three petitions, and another entity filed the other two.\textsuperscript{22} Of the three petitions filed against the almond marketing order, two involve the same entity as a co-petitioner.\textsuperscript{23}

Having exhausted all recourses under the 15(A) provisions, petition-

\textsuperscript{18} Id. § 608c(15)(B).
\textsuperscript{19} See infra Table 1 (summarizing 15(A) cases).
\textsuperscript{20} Id. (listing case I.D.s 1-6 and naming petitioner Sequoia Orange Co.)
\textsuperscript{21} Id. (listing case I.D.s 8-11).
\textsuperscript{22} Id. (naming petitioners Wileman Bros. & Elliot, Inc. and Gerawan Co.)
\textsuperscript{23} Id. (listing case I.D.s 12-14).
ers may appeal to the federal district courts.\textsuperscript{24} During 1987 through 1989, the two 15(B) cases involved one entity and related to California-Arizona citrus marketing orders.\textsuperscript{25} The petitioner alleged prorate rules violations and unconstitutionality of the law. In addition, the most frequent 15(A) petitioners under the federal tree fruit and almond orders also have filed law suits against the USDA.\textsuperscript{26} The district court dismissed some of these cases because petitioners should have filed these as 15(A) cases before filing with the court.\textsuperscript{27}

This analysis suggests that only a few handlers file petitions concerning either type of market order litigation. It is unclear whether the handlers intend to create frustration for administrators and USDA officials or whether they genuinely believed they would obtain relief from market order provisions. However, this question of the petitioner's motivation is moot. Although handlers have a right to question the constitutionality of the AMAA, few unique and potentially successful arguments remain, as evidenced from the AMAA having withstood many constitutional challenges since 1937.

CONCLUSION

An unusual combination of bedfellows have criticized marketing orders in recent years. Consumer advocates believe grade and quality regulations and reserve pools reduce consumer choice and raise consumer prices. Industry opposition has come largely from handlers who believe that prorates and reserve pools interfere with trade practice. Federal agency proponents, another group of marketing order opponents, cite concerns involving consumer welfare, philosophy, and potential abuse of price enhancement authority.

Those who support marketing orders find few economic studies to support their positions. They support their views on the basis of producer welfare, economic theory, and experience. They rely on the political process to maintain existing programs. Industries have not supported economic studies, which has resulted in few measures that describe economic benefits resulting from marketing orders. Also lacking are studies of marketing order impacts on consumer welfare. The scarcity of studies partly results from the complexity and difficulty of this type of research and from the lack of agreement as to performance

\textsuperscript{25} See infra Table 2 (summarizing 15(B) cases).
\textsuperscript{26} See infra Table 3 (listing petitioners Sequoia Orange Co. and Wileman Bros. & Elliott, Inc.)
\textsuperscript{27} See id. (noting disposition and dismissed suits).
criteria.\textsuperscript{28}

Marketing orders appear to have wide industry support, as suggested by the relatively few complainants who filed most of the challenges against the orders.\textsuperscript{29} Industry can use marketing orders as a tool to impose regulations that affect market behavior. In turn, changes in industry structures, changes in consumer preferences, and international trade affect the operations and consequences of marketing orders. However, government and industry have allocated far too little funding for needed research on marketing order economic performance and on impacts from changing economic forces on marketing order programs.

\textsuperscript{28} See French, supra note 3, at 51.

\textsuperscript{29} See supra notes 17-26 and accompanying text.
<table>
<thead>
<tr>
<th>Case I.D. &amp; Commodity</th>
<th>Petitioners &amp; Date</th>
<th>Allegations/Petition</th>
<th>Disposition</th>
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<tbody>
<tr>
<td>1. No. 907-12 Navel oranges</td>
<td>Sequoia Orange Co. Dec. 24, 1986</td>
<td>Volume regulations for 1986-1987 season not in accord with law</td>
<td>Petition denied; appealed to U.S. Dist. Ct.; decision of USDA upheld, except for 30-day notification; USDA filed motion for reconsideration, which is pending</td>
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<tr>
<td>2. No. 907-15 Navel oranges</td>
<td>Sequoia Orange Co. Dec. 22, 1987</td>
<td>Marketing policy approval; the Regulatory Flexibility Act; the Adm. Proc. Act; justification for regulation; equity of marketing opportunity and others</td>
<td>Pending decision of No. 907-12</td>
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<td>5. No. 910-8 Lemons</td>
<td>Sequoia Orange Co. Dec. 24, 1986</td>
<td>Weekly volume regulations not in accord with law</td>
<td>Pending decision of No. 907-12</td>
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<td>7. No. 910-10 Lemons</td>
<td>Riverbend Farms Apr. 12, 1988</td>
<td>Inequitable prorate allotments; prorate basis determination unfair</td>
<td>Petition dismissed</td>
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<tr>
<td>10. Nos. 916-4, 917-5 Nectarines, Plums, Peaches</td>
<td>Gerawan Co. Aug. 8, 1988</td>
<td>Provisions of Marketing Order (M.O.) No. 916 (nectarines) and M.O. No. 917 (plums &amp; peaches) illegal</td>
<td>Pending</td>
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<tr>
<td>Case No.</td>
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<td>Allegations/Petition</td>
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<td>11. No. 917-6</td>
<td>Plums</td>
<td>Gerawan Co., May 15, 1988</td>
<td>M.O. No. 981 not in accord with law (5 reasons cited)</td>
</tr>
<tr>
<td>12. No. 981-4</td>
<td>Almonds</td>
<td>Saulsbury Orchards &amp; Almond Processing, Inc., Cal-Almond, Inc., Carlson Farms, Mar. 2, 1987</td>
<td>Violations of AMAA to allow single entity to have majority of seats on M.O.; constitutional issues, numerous procedural issues illegal</td>
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<tr>
<td>Case I.D. &amp; Commodity</td>
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<tr>
<td>1. Naval oranges (formerly 15(A) consolidated cases Nos. 907-6, 8, 9 &amp; 10)</td>
<td>Riverbend Farms Feb. 23, 1988</td>
<td>Navel orange order volume restrictions illegal</td>
<td>Initial ruling by court on May 31, 1989; supported USDA in all but one area; USDA has asked judge to reconsider ruling in that area Pending</td>
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<td>Commodity</td>
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Table 3 - Other Litigation

**Allegations**

- Similar to Sausalbury 15(A) case No. 98-1-4
- Relief sought from Cal. Dessert Grape M.O.
- Declaratory relief sought from shipping point inspectors
- Injunction sought to prevent M.O. from taking effect
- Suit against 27 orange handlers alleging violations of False Claims Act
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<tr>
<td>5. Nectarines</td>
<td>Wileman Bros. &amp; Elliott, Inc. v. Secretary of Agric., No. CV-F-87-392-EDP (E.D. Cal. Aug. 1987), appeal docketed, No. 87-2938 (9th Cir. Aug. 1987)</td>
<td>Declaratory judgment sought against Cal. Tree Fruit Agreement</td>
<td>Judge ruled that plaintiffs had not exhausted administrative remedies and that complaint was without merit; plaintiff's appeal pending</td>
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**USDA Enforcement Cases**

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