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Should imports free-ride or help pay–decisions about generic promotion programs for agricultural commodities[1]

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Abstract

Many U.S. agricultural commodity industries are currently considering if and how they might implement a mandatory national generic promotion program. As U.S. industries consider how to finance these programs, one of the key decisions they face is the choice to include or exempt imported products from promotional assessment fees. Free-riders, unwilling riders, exclusion costs, economies of scale, market share, seasonality of production, storage constraints, and the role of government are reviewed within the context of this choice. The paper concludes that perceptions of *fairness* and *ownership* of decision processes, commonly held objectives, and effective communication links are key factors affecting decisions about the structures of generic commodity promotion programs.

1. Introduction

As recently noted in the trade press, a number of U.S. agricultural commodity industries are considering if and how they might implement a mandatory national generic promotion program.[2] These programs would finance generic (i.e., not brand-specific) advertising and promotional activities designed to increase demand for an agricultural industry's products. Although considerable research has examined whether or not these programs have positive financial and economic returns, little work has examined the *a priori* decisions an industry faces when its members are considering whether or not to implement a generic promotional program. A particularly illustrative example of these types of decisions is the choice between

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including or excluding assessments on that portion of market volume that is imported into the U.S.

Thirteen promotional programs already exist. Seven of these 13 collect promotional assessment fees on imports. As other U.S. agricultural commodity industries consider how they can best organize and finance the promotion of their products, these industries will need to analyze the potential advantages and disadvantages of assessing imports as a component of a national generic demand expansion program.

This article (1) outlines several economic issues related to implementing a national mandatory generic promotion program (e.g., high exclusion cost goods, free riding, economies of scale), (2) analyzes key considerations and market conditions that would, in part, help determine if assessments on imports could be a viable part of such a program, and (3) explores the potentials of import assessments as possible elements of regional industry-wide strategic efforts to expand demand in light of a more global marketing context.

This paper takes as given the proposition that generic commodity promotions can provide positive returns to an agricultural industry. As Ward notes, "Commodity advertising and promotion programs have had a positive impact on demand for many commodities. These increases have been large enough to benefit producers in many of the case studies [in which researchers analyzed the financial and economic returns to particular promotional programs]. There are considerable differences in the rates of return as would be expected given the substantial differences among the commodity programs (Ward, 1993, p. 42)." Alston et al. suggest that with agricultural commodity promotion "the total payoff to advertising and its distribution, and the optimum advertising effort from the viewpoint of both producers and society, depend on how the advertising is financed. They also depend on the structure of the market for the commodity, and on the nature of any government interventions, such as trade barriers and farm programs (Alston et al., 1994, p. 162)."

These comments reflect what appears to be a general consensus within the literature about the returns to promotion programs: generic promotional programs typically have positive rates of return, but that the potential returns of any single program are dependent on a broad set of market and policy factors.

2. Alternative institutional arrangements for generic promotion

Agricultural commodity industries have several alternatives for organizing and financing industry generic advertising and promotion of their commodities. These include national promotion programs (established either by the Secretary of Agriculture as authorized in the 1996 farm bill or by free-standing legislation), federal marketing orders, federal marketing agreements, state-level marketing orders, and state-level marketing-promotional commissions. And in some commodity industries, marketing commissions from several states have voluntarily banded together to form multistate promotional programs. Each of these institutional arrangements is described in greater detail in the appendix. As is noted there, these arrangements differ primarily in terms of geographic scope, specific program mandates, and degree of required participation (e.g., mandatory or voluntary). Another important distinction

between these alternatives is that only national promotion programs have the option to make mandatory the collection of promotional assessment fees on imported agricultural products.

3. Free riders and high exclusion costs

In most market situations, a firm that produces a "good" (i.e., a product or service, tangible or intangible) is able to sell that good and reap most, if not all, of the benefits from this sale. And a firm would tend to avoid producing goods that, when made available, other firms could capture some or all of the benefits of their provision. The *exclusion costs* are the costs a firm has to incur to prevent other firms from capturing the economic benefits of a firm's activities (Schmid, 1987). When exclusion costs are low, a firm can readily defend its vested interests, and protect and keep for itself the "rents" (e.g., revenue, reputation enhancement, increased market demand) generated by the provision of a good. Patents and their enforcement are an example of an institutional arrangement to keep exclusion costs low. When exclusion costs are high, other firms can readily capture some or all of the rents that result from the provision of the good without having to compensate the individual firm that provided the good. Firms who seek to capture rents without having to pay for the provision of the activities that generated those rents are often referred to as *free riders.*

In the specific case of generic promotion of an agricultural commodity, a marketing board or promotional board provides advertising and promotion on behalf of the producers and other industry participants within the geographic scope of the program. In essence, the producers and other industry participants that fund a generic program are the "owners." The program board's actions, that is, the advertising and promotion activities that it organizes, are the "production process." The benefits of the advertising and promotion activities (e.g., demand expansion) are the "goods" resulting from this production process.

However, most of the output of this production process (i.e., expanded demand) is a high exclusion cost good. Firms not participating in the promotion or marketing board are in an advantageous position. They are able to benefit from the gains in market demand for the commodity without contributing financial support to the program's activities that generated those gains. This suggests that the geographic scope and institutional structure of a promotional program can substantially influence the degree to which some firms can act as free riders. Table 1 lists the various institutional arrangements that can be used in the U.S. to create generic industry promotional programs, as well as the potential for free-riding that is inherent in each.

As noted in Table 1, national promotion programs have the greatest potential to lessen free rider problems. These programs are national in scope, and generally are mandatory in the sense that once these programs are established all producers/growers and/or processors must pay assessment fees to the program.[3] And when national promotion programs include assessments on imported products, essentially all U.S. market volume of a commodity (i.e., U.S. domestic and foreign grown production exported to the U.S.) is assessed fees to support the program.[4] As is indicated in the far right column of Table 1, no other organizational structure can prevent importers from free-riding.

Federal marketing orders may or may not be national in scope, and are not permitted to

Table 1
Alternative organizational structures for generic commodity promotion and the potential for free riding

Programs	*Potential for free riding*	
	U.S. domestic producers	*Foreign producers exporting to U.S.*
National Promotion Program, Imports Assessed	low	low
National Promotion Program, Imports Not Assessed	low	medium to high
Federal Marketing Order	low within covered regions, medium to high out of regions	medium to high[a]
Federal Marketing Agreement	medium to high	high
State-level Marketing Order	low within state, medium to high out of state	high
State Marketing Commission, Mandatory Participation	low within state, medium to high out of state	high
State Marketing Commission, Voluntary Participation	medium to high in state, high out of state	high
Multi-state Promotion Program	medium to high	high

[a] Although Federal Marketing Orders cannot be used to assess imports, they can be used to set quantity controls, grades, and size and maturity standards. If a marketing order includes grade or quality standards on both U.S. production and imports, these controls can limit the total volume of imported products in a commodity market. In these circumstances, federal marketing orders can indirectly reduce to some degree the amount of free-riding by importers.

collect promotional assessments on imported product. Consequently, with a federal marketing order, there is a greater potential for free riding by imports than with a national promotion program that assesses imports. On the other hand, state-level marketing orders usually have an even narrower geographic scope than federal marketing orders. Unless total U.S. production is highly concentrated in one state, state marketing orders are fairly susceptible to free-riding by producers/growers and/or processors in other states and other producing countries that export products to the U.S. State marketing commissions that have voluntary participation have especially high potentials for free-riding because they are limited in geographic scope, and participation in the programs within the state is not completely mandatory. Multistate promotion programs are another means to address free-riding. Because multistate programs have a broader geographic scope and may standardize the assessment rates within participating states, they can reduce the potential for free-riding in comparison to individual state programs.

3.1. Minimizing the potential for free riding—further implications

The typical result of high exclusion costs is the undersupply or the nonprovision of the good. Because it is difficult for a firm that provides a high exclusion cost good to actually capture all, or even most, of the benefits of its efforts, it is unlikely that any firm will provide the good. In the case of agricultural commodity industries, individual producers/growers, processors and/or importers are unlikely to independently finance generic commodity pro-

motion. Consequently, demand expansion initiatives for agricultural commodities will not be started unless producers/growers, processors and/or importers are able to organize into some form of collective action that reduces the possibility of free-riding.

Thus, institutional arrangements like generic promotion programs that lower the potential of free riding also create an institutional setting that makes the provision of a high exclusion cost good possible. Not only can generic promotion programs be structured to reduce free-riding, but more generally, they make possible activities that are intended to enhance demand for agricultural commodities—an enhanced demand that probably would not be realized without the generic promotion programs.

Minimizing the potential for free-riding has still other implications. The creation of organizational structures that reduce the potential for free-riding tend to increase the possibility of creating *unwilling riders*. Unwilling riders are program participants who would choose not to participate in a promotional program if their participation was not mandatory. Unwilling riders are, by definition, those participants who believe that their costs of participation (e.g., assessments) are greater than the benefits that they receive (e.g., increased demand for their products). For example, importers who are required to pay assessments into a program that they perceive primarily benefits domestic producers are likely to be unwilling riders in that program.

National promotional programs are structured to give voice to unwilling riders. A continuance referendum is required if a minimum of 10% of a national promotion program's participants sign a petition requesting such a referendum. A program will become inactive if a majority of those under the program vote to suspend or discontinue it in a continuance referendum. The implication of a vote to discontinue or suspend a program is that the majority of participants at the time of the vote had been unwilling riders.

4. Market structure and generic promotion

Addressing the problem of free riders is not the sole criterion for choosing a particular institutional arrangement for generic promotion of an agricultural commodity. Past experiences indicate that other issues must be considered as industries try to resolve whether or not to assess imports. The viability of a generic promotion program (as partially reflected in its continued support through industry-wide referenda on program continuance) also is influenced by several market characteristics. These include the share of the U.S. market that is supplied by imported product, the seasonality of fresh production, and the degree to which the industry's products are stored and/or processed.

4.1. Market share

If the portion of U.S. sales volume that comes from imports increases, several factors must be considered. If generic promotion is not funded in part by assessments on imported products, then the increasing imported portion of total U.S. market volume is free riding. To counter this an industry can, through a national promotion program, assess imported products. However, current USDA regulations require that if importers contribute to a promo-

tional program, then they must have representation on the promotion board proportional to their contribution.[5] U.S. producers and industry participants may object to "their" promotion boards being "co-opted" with an increasing presence of importers on the board. This is particularly true if U.S. industry participants believe that importers' vested interests are counter to their own, favoring the interest of producers/growers in other countries who are exporting their products to the U.S.

The issue underlying these concerns is that collective provision of a high exclusion cost good raises the problem of who gets to determine the specific characteristics of how that good is provided (e.g., the emphasis of an advertising campaign or promotion). Importers on a board will be able to exercise some influence over the specific content of the board's advertising and promotional activities. Domestic producers/growers and/or processors may not want to cede to importers a portion of their control over this process. They may believe that importers will change the characteristics of a promotional program in ways that will be detrimental to U.S. domestic interests. Thus, decisions about the institutional structure of a promotional program (e.g., whether to include or exclude importers), will influence to some degree whose interests are most reflected in the promotional board's activities.

4.2. Seasonality

Seasonality of production potentially can reinforce an industry's decision to include assessment fees on imported product. A commodity industry selling fresh produce can benefit from having year-round supply in retail grocery stores. Imported fresh products from countries near the equator or the southern hemisphere can help maintain shelf space in U.S. retail stores when U.S. production is out-of-season. This continuous availability can help increase consumer awareness and subsequently, consumer demand for the commodity. In cases like these, importers and the U.S. industry are not competing directly with each other and share the common goal of "growing the market."

Alternatively, imported product can directly compete with U.S. grown produce because of overlapping harvest and marketing periods between regions. The degree to which harvests overlap will have some influence on how strongly different regions are competing. For example, in some cases production zones straddle an international border (e.g., the U.S. and Canadian, or U.S. and Mexican borders). Harvest seasons may be very close to each other and hence the competition will be quite strong. In other situations, competition may be less severe if the harvest seasons only partially overlap, with foreign grown produce coming into season and entering the U.S. market when inventories of U.S. grown products have reached a low point at the end of the U.S. marketing cycle, but before a new U.S. crop is ready for harvest.

When imports compete with U.S. domestic production, a U.S. domestic agricultural commodity industry will have to balance and resolve conflicting objectives. "Growing the overall market" is still a commonly held objective of both U.S. industry participants and foreign growers exporting to the U.S. However, the distributional share of the market is a potentially contentious point between importers and a U.S. industry. Perceived threats and trade-offs between the benefits and costs associated with these conflicting objectives will influence an industry's decisions about including assessments on imported products.

Table 2
Selected market characteristics for commodities with national promotion programs that collect assessment fees on imported products

Commodity	*Estimated % of annual U.S. sales from imports*	*Relative ability to store commodity*	*Relative portion of U.S. production processed before sold*
Beef	9	high	high
Upland Cotton	1[a]	high	high
Honey	45	high	high
Fresh Mushrooms	2	low	low
Pork	4	high	high
Potatoes	5	medium	medium
Watermelons	10	low	low

[a] Most foreign grown cotton is imported into the U.S. as retail cotton based products, not as baled, unprocessed cotton.

Source: USDA-AMS, various documents; USDA-WASDE and USDA-NASS, various tables. Estimates based on market data reported during the mid-1990s.

4.3. Storage

Storage technology can influence the degree to which U.S. and imported produce compete. Fresh commodities that are easily stored for year-round sales are much more likely to compete with imported produce than those with shorter, annual marketing periods. If a U.S. industry has year-round supplies, U.S. producers/growers may be hesitant to collaborate with importers in a national promotion program because they see importers as their direct competitors.

Imported product can also compete against U.S. production if part or all of a commodity industry's production is processed before being sold (i.e., conditions where seasonality or storage constraints because of spoilage are minimal). In the event that consumers do not or cannot distinguish between U.S. and foreign grown products used to make the processed good, a joint import-U.S. industry promotion program is likely to benefit both. However, the relative proportion of gain each will capture depends on other issues like market shares and consumer preferences. In these circumstances, industry perceptions about who gains what can influence decisions about whether or not to include import assessments in a promotion program.

Competition from imports can also arise if imported fresh produce is taking away market share from U.S. grown produce that has been processed (e.g., canned or frozen). This also creates conflicting objectives between imports and the U.S. industry, and complicates the decision to include assessments on imports in a national generic promotion program.

To analyze the relative influence these selected market characteristics have on the decision to assess imports, the seven commodities that have national promotion programs that mandate the collection of assessment fees on imported products are summarized in Table 2. Selected market characteristics for the six national promotion programs that do not assess imports are summarized in Table 3.

Overall, the information in these tables suggests that none of the selected market char-

Table 3
Selected market characteristics for commodities with national promotion programs that do not collect assessment fees on imported products

Commodity	*% of Annual U.S sales from imports*	*Relative ability to store commodity*	*Relative portion of U.S. production processed before sold*
Dairy	5	low	high
Eggs	.01	low	low
Fluid Milk	5	low	high
Peanuts	4	high	high
Popcorn	1	high	high
Soybeans	0.2	high	high

Source: USDA-AMS, various documents; USDA-WASDE and USDA-NASS, various tables. Estimates based on market data reported during the mid-1990s.

acteristics shown in these tables determine, in and of themselves, whether these industries have chosen to include import assessments as part of their national promotion programs. For example, if the percentage of total U.S. sales from imports is high, there appears to be an increased likelihood that imported products will be assessed. But cotton and fresh mushrooms seem to be exceptions to this because these two commodities have very low levels of imported raw commodities, yet imports are assessed. With cotton, this is readily understood because the Cotton Board also assesses the cotton content of all imported textile and apparel products. The vast majority of foreign grown cotton that comes into the U.S. is in the form of finished goods, not raw product, so the 1% of U.S. movement of baled cotton that comes from imports noted in Table 2 greatly underestimates the de facto amount of cotton imports. On the other hand, imported fresh mushrooms comprise only a very small percentage of total market sales in the U.S. This suggests that other factors have influenced the decision to include import assessment fees as part of the fresh mushrooms promotion program.

5. Content and type of advertising and promotion

Several issues related to the scope and scale of advertising and promotion activities are affected by an industry's decisions about the organizational structure that it uses to implement its promotion program. Consequently, decisions about the structure of a generic promotion program influence the content, type, and mix of activities that can be organized by the program.

5.1. Content

If an agricultural commodity industry organizes at the national level, then it can promote its commodity with a national identity (e.g., U.S. peanuts). This national identity can be marketed in a similar manner as a brand-name product is marketed. However, if assessments are placed on imported products, USDA regulations prohibit U.S. national identity "brand-

Table 4
Summary statistics on national promotion programs that assess imported products

Commodity promotion program	*1998 total budget*	*1998 income from fees on imported products*	*Revenue from import fees as a percent of total budget*	*Promotion board composition:*		*User fees paid to USDA (fiscal year 1998)*
	(million $)	*(million $)*	*(%)*	*Total*	*Importers*	*($)*
Beef	46.0	7.0	15	111	7	171,000
Upland cotton	60.0	21.0	35	29	6	186,000
Honey	4.6	1.7	37	13	4	118,000
Fresh mushrooms	3.2	0.1	3	9	0[a]	76,000
Pork	55.0	3.8	7	15	1	166,000
Potatoes	10.7	0.4	4	32	1	123,000
Watermelons	2.0	0.2	10	31	2	64,000

Source: Agricultural Marketing Service, USDA—various documents.

[a]Importer participation on the fresh mushroom board is contingent upon a minimum volume requirement of 35 million pounds. Once that volume is reached, importers will have one seat on the board. In 1998, approximately 23 million pounds of fresh mushrooms were imported into the U.S.

ing" and all generic promotion must be free of these types of references (e.g., "Pork! The Other White Meat" but not "U.S. Pork"). Industries must decide if the potential benefits of national branding exceed or are less than the potential benefits from including imports in an assessment program.[6]

5.2. Type and mix

The size of a national promotion program's annual budget is one of the most influential determinants of the type and mix of advertising and promotional activities that a promotional board undertakes. Among commodity program managers and other industry participants, a commonly quoted "rule of thumb" suggests that a minimum of $20 million annually is needed to run an effective nationwide television campaign. As noted in Table 4, many national promotional programs do not have budgets that reach this minimum threshold. Research has shown that promotional boards with annual budgets that are much less than $20 million can effectively promote their commodities, but these programs have organized promotional activities that do not emphasize television advertising with national coverage. Often, these alternative activities include regional targeting of television advertising and/or other promotion activities, using a mix of media including print, radio and billboard, and coupon and other price-discounting promotions.

If an agricultural commodity industry is considering how it will implement a national generic promotion program, industry participants need to evaluate anticipated revenues for the proposed program. The inclusion of import assessments may or may not add significantly to the anticipated budget. Because the size of the budget affects the mix and type of advertising, the potential contribution of import assessments must be compared to other goals and objectives of the proposed program. For example, a desire to promote with a national identity associated with the commodity may have to be balanced with a desire to undertake

a national television advertising campaign. If the revenue from import assessments pushes the proposed program's anticipated annual budget to near or over the $20 million threshold, the inclusion of import assessments could make it possible for an industry to finance national television advertising, but would prevent the industry from promoting with a national identity.

6. Economies of scale

As stated in the 1996 farm bill, "generic commodity promotion programs are of particular benefit to small producers who often lack the resources or market power to advertise on their own, and who are otherwise often unable to benefit from the economies of scale available in promotion and advertising (Title V, Subtitle A)." No specific economies of scale are listed in this section of the farm bill, but the following highlights possible sources of economies of scale as alluded to in the Act.

Standard production economics asserts that returns to scale exist when marginal or average costs are decreasing as more units of output are produced. Under these conditions, increasing returns to scale exist until the physical plant is at capacity, where capacity is defined as the level of production where the marginal return of producing one more unit of output is zero.

In the specific case of generic commodity promotion programs, the "units of output" are in terms of enhanced demand for the commodity. The "physical plant" is the combination of all of the advertising and promotion activities of the program. "Capacity" is reached when the marginal return of one more "unit" of advertising and promotion is zero. In other words, the advertising and promotion has reached a saturation point where the costs of further changing the buying behavior of consumers exceeds the returns in increased demand for the commodity. As noted previously, without generic commodity promotion programs, generic advertising and promotion of agricultural commodities will be undersupplied to the market because of free-rider problems. To assert that these promotional activities are undersupplied is to assert that the promotional programs are not at capacity, and that there is the potential for increasing returns (i.e., economies of scale) to additional advertising and promotion activities.

An additional source of economies of scale exists in terms of the distribution of costs. As Schmid notes, "the cost facing one buyer depends on the number of people with similar taste (Schmid, 1987, p. 72)." Schmid continues, noting that as the number of buyers increases, the cost of making an "indivisible good" available is distributed more widely to more and more buyers.

In the case of participants in an agricultural commodity industry seeking to enhance demand for their produce and food products, the buyers are the individual industry participants and the indivisible good is enhanced demand. In this situation, economies of scale exist in terms of decreasing cost to each buyer as more buyers are included in the financing of activities that enhance demand for the agricultural commodity (e.g., generic promotion and advertising). For example, if a U.S. domestic industry organizes and finances a national

program to promote the consumption of an agricultural commodity, then the industry has to bear all of the costs of that effort. On the other hand, if these U.S. growers and/or processors cooperate with importers, the costs of these activities can be distributed over a broader base of support.

A third, though relatively minor, source of economies of scale exist with the start-up costs for the layout and setting of advertising copy or for making television commercials. Once these materials are created, they can be used multiple times. The costs of doing more advertising using these same materials are no longer associated with their production, but with the costs of buying print space or television air-time. Under conditions like these, there are scale economies that can be realized by distributing the production costs over more and more applications of the advertising materials. However, it is important to note that the bulk of the costs of advertising are in buying print space, or radio or television air-time, not in the production of the advertising copy or filmed advertisements.

7. Role of government

The government helps assure compliance on the part of all industry participants covered by a national promotion program. This enforcement role assures that assessment fees are paid by everyone, and assures all participants that all others are "paying their share." Knowing that the government can enforce the terms of the program greatly reduces the potential for nonpayment, and hence free-riding by individuals within the industry.

When national promotion programs assess imports, U.S. Customs acts on the behalf of the promotional boards by collecting assessment fees on the imported produce/products covered by the program. Because all imports must pass through customs, this provides the promotional boards with virtually 100% compliance on all imported product at virtually no costs to the board. Customs also can gather information for the board that facilitates the board's ability to track the country-of-origin of all imports, and data on country-specific volume of imported product.

Through its legal framework (institutionalized by legislation and regulation), the government also provides the legal basis that facilitates the creation and maintenance of promotional programs. At the federal level, the Agricultural Marketing Service (AMS) of the USDA is paid by industries to organize the required review and voting process that is used to implement a national promotion program. The AMS also has oversight of the programs once they are established.

Industries are required to compensate the AMS for services that it provides to national promotion boards. These include the costs incurred by AMS to help an industry start a program as well as annual oversight of the program once it is in place.[7] According to officials at the AMS, implementation costs for a national promotion program will cost an industry a minimum of approximately $80,000.[8] Column 6 of Table 4 lists examples of the annual user fees charged to promotion boards in fiscal year 1998.

8. Experiences and insights—the role of cooperation and common strategies

Because a number of national generic promotion programs have been operating for some time, information was sought concerning key factors, common problems, and highlighted successes of these programs. To gather these experiences and insights, numerous key informants were contacted informally by telephone and interviewed about their perspectives on generic promotion of agricultural commodities. These key informants included executive administrators and other support staff of national promotion boards and state level marketing boards, board members, and other growers/producers closely involved in their industry's promotional efforts, and staff at the AMS of the USDA. The following section synthesizes their comments and observations.

8.1. Fairness

The perception of fairness is the factor most frequently identified as being important to the viability of an agricultural industry's self-funded promotional program. Foremost are concerns about free-riding; a program that permits some producers, processors or shippers to obtain the benefits of commodity promotion without helping pay for the costs of creating that promotion program typically will be considered unfair by others within an agricultural industry. Any program that is designed to permit someone to ride free will likely be challenged by others who are paying into the program. But the success of these challenges will depend on what the majority within an industry considers "fair" (e.g., the majority may argue that it is "fair" to exempt producers and/or importers with very small market volumes).

For example, Rosselle (1999) reports about the importance of perceived fairness in the context of the now defunct national promotional program for fresh-cut flowers. She notes that Ronald Ward studied the effects of this program's advertising campaign, and he "found that the advertising clearly was attracting buyers. But because the floral industry remains diverse—and some sectors of it perceived they were being shortchanged while others were experiencing a windfall—the industry voted out the campaign (p. A8)."

Another aspect of "fairness" that is frequently discussed focuses on the degree of representation within the administration of a program for various segments within an agricultural industry. There are clear trade-offs between having representation based strictly on volume verses structuring representation such that all participants, regardless of their size/volume, have some representation within the decision processes. Checks and balances are needed to keep both large and small volume producers/states/countries working together within a system that is perceived by all to be fair. Typically, the composition of a program's Board is used as one way to provide such checks and balances. For example, as noted in Table 4, all national promotional programs that assess imports have positions reserved for importers on their boards.

When addressing concerns about fairness, a common strategy for structuring promotion boards is to add more board positions for various segments of an industry, especially for those with claims of under-representation in proposed or already existing programs. But this strategy highlights other trade-offs between "fair" representation and the possibilities of cumbersome, exceedingly large boards with dozens of members (as noted in Table 4, the

listed programs have between 9 and 111 board positions). Decisions about how many board members are too many, and at what point is everyone fairly represented need to be based upon the specific situation of each agricultural commodity industry. But how these trade-offs are resolved can be an important factor influencing a program's long-term viability.

8.1.1. Common objectives

A shared vision of the objectives of a commodity promotion program is also frequently listed by key informants as a critically important issue. According to these key informants, a shared set of objectives is the surest way to rally industry support for implementing and/or continuing a generic promotional program. For example, "growing the market" could be a shared objective that an industry might identify as a primary motivation for organizing a promotion program.

When seasonality effects are favorable, and imported produce/products can help a U.S. agricultural industry extend the marketing year by keeping fresh produce in retail stores, the U.S. industry has a stronger incentive to seek partnerships with import industries. Their shared marketing goals could be complemented by a national promotion program.

However, if a U.S. industry is in direct competition with imported products, there more likely will be some dispute over the objectives of a promotional program. Some in the U.S. industry may argue that the objectives of a promotion program should be to focus on the promotion of U.S. products/produce. Others may counter that promotion boards have very limited budgets, and do not have adequate financial resources that are needed to promote a commodity on the basis of national origin. This trade-off between "any product movement is good movement" verses "buy American" approaches to promotion are clearly based on conflicting objectives. As an industry considers implementing and/or continuing a promotional program and/or assessing imports, clearly specifying which of these overall objectives are the program's priorities is critical to the program's viability.

The enabling statutes that permit agricultural industries to organize national generic promotion programs also permit the use of assessment revenue for funding research and development activities. A U.S. agricultural commodity industry may come to a consensus that both promotion and research are needed, or perhaps only research. When one of the primary uses of assessment fees is to fund production-oriented research (e.g., reducing production costs for U.S. farmers), there is little incentive for import industries to help fund this program. Such a program primarily benefits U.S. industry participants, and may actually be a long-term threat to imports. Alternatively, U.S. industries and importers may share a common need for market research and development (e.g., consumer surveys or focus groups on preferences and buying habits) that would be beneficial to all of the program participants.

These cases exemplify an industry's need to establish a system for setting research priorities that is perceived to be fair by all those paying fees into the program. However, if the objectives of a promotion and research program are not necessarily in the best interests of all potential program participants, then limiting who pays into certain components of these programs may be a way that the programs can be implemented (e.g., do not include assessments on imported products if importers have conflicting interests with the overall objectives of a proposed program, or do not assess imports for the production-oriented research component of a program if that research primarily benefits the U.S. industry).

8.1.2. Communication

Many of the interviewed informants emphasize the importance of establishing and maintaining communication links across an industry. Establishing institutions that foster shared communications can be challenging for some promotion programs because these programs have both a national scope that may involve several agricultural regions and market segments, and potentially an international scope that transcends national borders (e.g., the beef program collects assessment fees from dairy, veal, and beef cattle industry segments as well as on imported cattle, beef and beef products). Consequently, effective communication is very important to the establishment, learning and acceptance of shared objectives and strategies for an industry. Communication is also central both to building a strong sense of cooperation and trust between different segments of an industry, and to creating a shared sense of fair representation and "ownership" of promotion program activities.

To date, the extent to which the existing national generic promotion programs have fostered a greater sense of cooperation and trust between U.S. industries and import industries is limited and varied by commodity industry. However, familiarity can foster a greater sense of trust. Promotion boards provide an institutional setting that brings together a broad set of industry interests. For some industries, a promotional board may be the main organizational structure that formally brings together the U.S. and import industries. Within this context, new and strategically vital initiatives may be developed between U.S. industry participants, their counterparts in other countries, and U.S. importers.

9. Summary

Promotional assessment fees on commodity products imported into the U.S. can help eliminate certain aspects of free-rider problems, capture greater economies of scale, and potentially extend the benefits of demand-expanding promotional programs that are designed to enhance the economic performance of agricultural commodity industries. The nature and structure of an agricultural commodity market (e.g., relative market shares, seasonality, and the ability to store products) can also influence the degree to which promotional assessment fees on imported products are a viable feature of a national promotion program. Along with these market characteristics, perceptions of "fairness" and "ownership" of the decision process, commonly held objectives by industry participants, and well-established communication links help form the basis for an industry's efforts to implement and/or continue a national generic promotion program. National promotion programs that assess imported products can also provide an institutional setting for fostering international cooperation between U.S. industry participants, their counterparts in other producing countries, and U.S. importers.

Notes

1. An earlier version of this paper was presented at the Ninth World Congress of the International Food and Agribusiness Management Association (IAMA), June 13–16, 1999, Florence, Italy.

2. Examples of agricultural commodity industries that are considering national promotion programs include sheep (Feedstuffs, September 13, 1999), sweet corn (The Packer, April 12, 1999), asparagus (The Packer, April 5, 1999), and apples (The Packer, February 8, 1999). The Agricultural Marketing Service is currently seeking comments on proposed promotional programs for cultivated blueberries and olive oil, and also reports that the kiwifruit industry is considering a national promotion program.
3. Concerning the term "mandatory," Cook notes, "It is important to understand that while, once approved, mandated marketing programs carry the enforcement power of the government, they are industry-financed and industry-initiated rather than government imposed. In other words, producers and/or handlers of a commodity sponsor the development of a mandated program, and design it according to their needs. Only after a program is approved by a majority vote does it become mandatory for the commodity and industry involved (Cook, 1996, p. 21)."
4. The Secretary of Agriculture has the authority to exempt from a mandatory program small quantities of production (and/or imports, if imports are included in a program). In such a case, some production, albeit very small volumes, would not be mandatorily assessed (although these producers would have the option of participating voluntarily in the program).
5. Some promotional boards (e.g., honey), that were created with free-standing legislation before the 1996 farm bill, were authorized with representation on boards that is not proportional to market volumes, thereby limiting the role of importers and the number of board seats available to them.
6. U.S. regional and state-level agricultural industries face a similar choice about how to effectively enhance demand for their commodities. They must decide if they want to promote their commodities with a state, regional, or national identity (e.g., "Florida orange juice" or "U.S. orange juice"), or with just generic advertising ("Orange juice, it's not just for breakfast anymore").
7. A key difference between national promotion programs and federal marketing orders is that USDA administrative costs of marketing orders are *not* billed to the industries.
8. This cost estimate is based on recent experiences with a noncontroversial program with a small board. Implementation costs can include AMS review of proposed program, publishing the proposal, overseeing the industry referendum, and appointment of the board. According to the AMS, costs may be significantly higher for complex programs that are controversial (i.e., require numerous public comments and/or Congressional inquires) and/or have large boards.
9. The Federal Agriculture Improvement and Reform Act of 1996 is often referred to as the 1996 FAIR Act or, more simply, the 1996 farm bill.
10. The statute permits several definitions of "simple majority" for referendum approval. An industry is free to specify that passage can be by either a majority of persons voting, persons voting for approval who represent a majority of the volume of the agricultural commodity, or a majority of persons voting for approval who also represent a majority of the volume of the agricultural commodity.

Appendix: Alternative institutional arrangements for organizing generic promotion

Before the 1996 farm bill, national generic promotional programs could only be authorized with the passage of "free-standing legislation"—an act of Congress that created a Promotional Board with the authority to collect promotional assessment fees from producers, growers, importers, handlers and/or processors within a specified agricultural commodity industry.[9] The 1996 farm bill included a statute, the "Commodity Promotion, Research, and Information Act of 1996," which eliminated the need for free-standing legislation by giving the U.S. Secretary of Agriculture the authority to oversee and approve the creation of national promotion boards. This institutional change greatly reduces the political gamesmanship necessary to create a promotional board, and helps explain the growing interest in promotional boards across the U.S. agricultural sector.

National promotion programs, by definition, assess all U.S. production (or processing volume) of a commodity industry, and also allow assessment fees on imported products. These programs are authorized to "establish an orderly process for developing, financing, and carrying out a program of generic promotion, research, and information for commodities. . . The promotion programs. . . are generic in the sense that the objective is to expand and otherwise promote markets and industry-wide developments for specific commodities—without reference to specific producers or brand names (Wright, 1997, p. 56)." An industry must reimburse the U.S. Department of Agriculture (USDA) for all costs incurred in creating the board (i.e., "implementation fees"), as well as all costs associated with overseeing the board's activities once it is in operation (i.e., "user fees").

As part of the implementation process, an industry-wide referendum must be conducted in which a simple majority is needed for approval of the national promotion program.[10] However, the Congressional statute permits two alternatives for an industry referendum. One alternative is an initial referendum, conducted to see if the growers, producers, handlers and/or importers to be covered by the program favor having the program implemented. This type of referendum is conducted *before* the program begins to collect assessments. The second alternative is to implement the national promotion program and then conduct a required referendum within three years *after* the starting date of assessment fee collection.

Before the passage of the 1996 farm bill, two commodities—fresh cut flowers and pecans—were authorized by free-standing legislation to use the delayed referendum alternative to implement their national promotion programs. In both cases, these programs were voted out at the time of the required referendum (62% of those voting in the pecan referendum and 58% of those voting in the fresh cut flower referendum voted to terminate their programs). Given these experiences, the staff at the AMS is now very cautious with program proposals submitted by agricultural industries that want to use the delayed referendum alternative to create a national promotion program.

Federal marketing orders are authorized by the U.S. Congress through the Agricultural Marketing Agreement Act of 1937 (AMAA). Federal marketing orders have a broad set of potential mandates that may or may not include programs for generic promotion and advertising. Under the provisions of the AMAA, marketing orders also can regulate the quality and/or quantity of a commodity, fund the provision of marketing information, and/or

fund research and development activities. Marketing orders do not necessarily include all of the U.S. production of a commodity industry, and cannot include promotional assessment fees on imported products. The USDA finances all implementation and oversight costs of federal marketing orders. As part of the implementation process, public hearings must be held and, in most cases, a referendum of industry "handlers" (e.g., producers/growers, processors) must pass with a two-thirds majority.

Federal marketing agreements also are authorized by the AMAA and have most of the same features as federal marketing orders, with one fundamental difference. Marketing agreements differ in that they are binding only on handlers who have *voluntarily* agreed to participate in the program (with marketing orders, all individuals and businesses who are classified as handlers within the geographic scope of the marketing order *must* abide by the requirements and regulations of the order). Because of their voluntary participation, marketing agreements are rarely used, and only one is currently active (an agreement for quality control in domestically-produced peanuts).

State-level marketing orders and state marketing commissions, in most cases, very closely mirror their national equivalents in structure and design. But by definition their geographic scope is limited to the borders of the state that have authorized these orders or commissions. And as is the case at the federal level, one of the key differences is that state marketing orders have mandatory participation, while state commissions may be based either on voluntary or mandatory participation.

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