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LIME AND AVOCADO FEDERAL MARKETING ORDERS: WHAT THEY MEAN TO THE CONSUMER

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Abstract

Various consumer groups, the Cost of Living Council, and now the Justice Department have severely criticized marketing agreements and orders. They contend that these agreements limit consumer choice and increase prices. By allowing producers to regulate interstate marketings, it is suggested that new producers are prevented from entering production of the commodities involved. This paper is a rebuttal to such arguments, and shows how the Federal Marketing Orders regulating the marketing of Florida limes and avocados not only increase supply and reduce prices, but without these orders producers would have no desire to enter production of limes and avocados.

Before the Federal Marketing Orders

Before the mid-1950's, there were no marketing orders in effect to regulate the marketing of limes and avocados produced in Florida. In the absence of such, the marketing process was a "dog eat-dog", "cut-throat" business. The industry was given a bad image, as the consumer received a product that quite often was low quality, unpalatable, and possibly unedible. There was very little order in the marketing process. Immature and undersized limes and avocados were sent to market in large quantities. The only quality regulation for limes was the state requirement of a minimum of 42% juice. There were no standards for decay and disease within a pack. There were no standards for uniformity of size.

In essence, then, the lime and avocado producer had very little concern for consumer welfare. Whatever the producer had to do to get his product to market, he did. An air of viciousness with a quick and short-run profit and an effort to beat the other producer "to the punch" seemed to be the sole motive. The quality of limes and avocados marketed was left solely to the motives of the individual producers. There were no industry standards, nor was there a regulatory body to enforce those standards. In a recent discussion with a producer, he stated that "While I am deeply concerned with the quality of the avocados that we market, in the absence of a regulatory body I am not about to sit back and watch a fellow producer market immature avocados and gain the competitive market advantage over me. In this kind of situation, my attitude is let the buyer be damned."

Implementation of the Federal Marketing Orders

Prior to the implementation of Federal Marketing Orders, Florida producers were aware that they were their "own worst enemies." They knew that their attempts to beat their fellow producer to the punch without due regard for the consumer was a detriment to the image of the industry and to its long-run survival. They knew that they needed a unifying body that could set industry-wide standards and enforce them—not only to the benefit of the grower but also to the consumer. They knew that they had to forego the concept of immediate and short-run profits, and to look for long-run survival of the industry. They knew that the marketing process had to be stabilized. They knew that more stable returns to producers were, essential, and that more stable prices and consistency of quality to the consumer were essential. The preceding factors motivated the members of the lime and avocado industry to organize and to implement Federal Marketing Orders under which they could market their commodities. Under the Federal Marketing Orders, the industry is able to regulate quality, regulate quantity, standardize containers, or packs, fund research and development projects, develop marketing information, and fund the promotion of their products. They are also able to specify unfair trade practices and are granted enforcement authority against those violating the terms of the marketing orders.

Federal Marketing Orders Do Not Decrease Supply and Increase Prices

Having pointed out the attitudes of producers toward consumers prior to the implementation of the Federal Marketing Orders seems to be justification enough for the existence of marketing orders. However, further discussion will lend more justification to their existence.

For example, limes can only be shipped if they are a minimum of 1-7/8 inches in diameter and contain a minimum average juice content of 42% by volume. Before implementation of the marketing order, no such industry-wide standard existed, nor was there any enforcement authority. Shipments of limes were based solely on what the market could bear. Obviously then, the regulation of minimum diameter and minimum juice content does not restrict supply—it increases supply. Shipping a larger lime is clearly an increase in the quantity of product getting to market. If the quantity of product getting to market is increased, then the inverse relationship between quantity shipped and price received is *a priori* evidence that price to the consumer is decreased.

A comparable situation for avocados exists. Before implementation of the Federal Marketing Order, there were no maturity standards for the varieties of avocados grown in South Florida, nor was there any enforcement authority. This situation has been corrected under the Federal Marketing Order. Shipping dates, minimum weights, and minimum diameters have now been established for all major avocado varieties (See Table 1, 1974-75 Shipping Schedule for Major Varieties) grown in Florida. These are also enforced.

For avocados, maturity is related to size. Obviously, all varieties of avocados are not mature at the same date and size. Therefore it is imperative that such dates and sizes are established if the consumer is to receive a palatable and edible avocado.

Moreover, a recent, real-life experience can help to emphasize the importance of maturity to the consumer and to illustrate that the setting of Maturity Standards under the Federal Marketing Order actually tend to increase, rather than restrict, supply and tends to decrease price. For example, in early August of this year, it was discovered that a local supermarket was selling avocados of the Lula variety at 39¢ each. The supermarket had purchased these avocados from a local producer who was attempting to take advantage of a short-supply situation. These avocados were immature as they only weighed 8 ounces. To be mature, they should weigh at least 18 ounces and should not be on the market before October 21, 1974 (See Table 1 for the Lula Variety). Therefore, this is a clear-cut example of how the settings of industry-wide maturity standards under the Federal Marketing Order for avocados tend to increase supply. If there were no marketing order, there would be "wholesale" shipment of small (8 ounces), immature avocados. Under the marketing order such avocados cannot be marketed until they reach a weight of 18 ounces, and those who ship such avocados before they reach the minimum weight as outlined in Table 1 are in violation of the Federal Marketing Order and are subject to prosecution.

Table 1. Major Varieties Shipping Schedule, 1974-75 Season.

VARIETY	A DATE	MIN. WT.	MIN. DIAM.	B DATE	MIN. WT.	MIN. DIAM.	C DATE	MIN. WT.	MIN. DIAM.	D DATE
Dr. DuPuis#2	6-24	16	3-9/16	7-8	14	3-7/16				7-22
Pollock	7-8	18	3-11/16	7-22	16	3-7/16				8-5
Simmonds	7-8	16	3-9/16	7-22	14	3-7/16				8-5
Nadir	7-8	14	3-3/16	7-15	12	3-1/16	7-22	10	2-14/16	8-5
Waldin	8-19	16	3-9/16	9-2	14	3-7/16	9-16	12	3-4/16	9-30
Booth 8	9-16	16	3-9/16	10-7	13	3-4/16	10-21	10	3-1/16	11-4
Booth 7	9-30	18		10-14	16	3-10/16	10-28	14	3-8/16	11-11
Hickson	10-7	15	3-5/16	10-21	12	3-1/16				10-28
Hall	10-14	26	3-14/16	10-28	20	3-9/16				11-11
Choquette	10-21	24	4-1/16	11-4	20	3-14/16				11-25
Lula	10-21	18	3-11/16	11-4	14	3-6/16				11-18
Monroe	10-21	24	4-1/16	11-4	20	3-14/16				11-25
Booth 1	10-28	16	3-12/16							11-18

Obviously, as in the prior example for limes, if producers are required to ship avocados at 18 ounces under the marketing order, rather than 8 ounces (for violators of the marketing order), then supply is increased under the marketing order concept—not decreased—and price is bound to decrease.

To take the argument beyond the issues of supply and price, it should also be emphasized that small, immature fruit will not properly ripen and will be unpalatable, and most likely, unedible. Therefore, such fruit, at any price, is a "bad deal": for the consumer. It is also a bad deal for the producers (the industry) as the long-run effect of such immature fruit being placed on the market will drive consumers away, reduce the demand for avocados, and reduce the return to producers.

Federal Marketing Orders Do Not Prevent Entry into the Industry

It has already been mentioned that before implementation of Federal Marketing Orders, the sole motive of producers was a quick and short-run profit. Under these conditions, it is impossible to have a stable industry with stable cash flows and stable returns. Cash inflows, and therefore returns, are bound to fluctuate wildly. Under such conditions, it is difficult for an industry to attract new capital and new growers, unless a premium is paid for the extra risk incurred. Such a situation is comparable to a wildly fluctuating stock market—the ones who enter are speculators and are in and out.

To attract new capital, an industry must be stable. This is especially true of the lime and avocado industry, for investment in a lime or avocado grove is a long-term proposition. For limes, the simple pay-back period¹ is 6 to 8 years. For avocados, it's approximately 10 years. Obviously, then, investment in the lime and avocado industry is a long-term proposition, and capital will not be committed to such usage if returns fluctuate wildly, as under the absence of a Federal Marketing Order.

In the absence of Federal Marketing Orders, the marketing of limes and avocados is disorderly—marketing is not planned. This disorder and absence of planning in the marketing process contributes to the wildly fluctuating returns. Producers ship fruit at the earliest possible date, without regard to quality and the welfare of the consumer. Other producers observe that their neighbor is shipping, so they are motivated to ship also in order that they can get in on the early market and higher prices. But this is self-defeating, for the cumulative effect is to glut the market—fruit arrives at the market in one big lump. This situation drives prices below a profitable level.

However, during this disorderly marketing process, there are always a "handful" of producers who receive high prices, and therefore, excess profits. Those who receive high prices are the ones who enter the market first, before the glut occurred. But the majority of producers get stuck with the glutted market, and therefore, unprofitable price levels. Therefore, among producers of the same fruit within the same geographical proximity, some are making excess profits while others are losing money and are going out of business.

Moreover, the important issue is that the producer incurring the excess profits may not be the best manager. He may be the least efficient manager. In other words, in the absence of a Federal Marketing Order, a producer's success is much more a function of his audacity toward shipping immature fruit (beating his neighbor to the market) than his ability to manage competently.

Another point about this disorderly marketing process should also be made. Although fruit arrives at the market in one big lump, causing a glut and depressed prices, the situation is really worse than this. Since poor quality, immature fruit has been shipped, the market absorbs less than it would had high quality, mature fruit been shipped. So not only is the market flooded quantity-wise, it is also flooded with poor quality. This aggravates the situation and drives prices even lower, for such fruit is unpalatable. This drives would be consumers out of the market and decreases short-run demand, and gives the industry a bad image that can only be erased over a long period of time by responsible producers.

Moreover, while this lack of consumer demand and bad image are being overcome, returns to producers have declined, forcing them out of production. This is particularly critical in South Florida, where land prices are dramatically high. Where land prices are high, producers readily exercise their option of selling their land when returns begin to decline as just described. The decrease in productive acreage caused by growers selling their land tends to decrease supply to market and will have the ultimate effect of increasing price to consumers.

Under these conditions of instability just described, grower returns are reduced and risks are increased to the extent that it is difficult to attract capital and new producers to the industry. Unless capital is attracted to the industry, acreage, and therefore, supply to market will decrease creating the ultimate effect of higher prices to consumers.

Under the Federal Marketing Order, the industry is able to create a more orderly process. The condition of market gluts is avoided, quality of fruit to market is improved, and prices and returns to growers are stabilized at a reasonable level. Under this more stable situation, risk is reduced, and capital and new producers can be attracted to the industry. Prospective new producers can do a more effective job of investment and financial planning. The ultimate effect will be to eliminate wild fluctuations in production and returns, and to more closely match market supply and market demand.

To see how the industry is able to create an orderly market under the Federal Marketing Order, refer to Table 1 and consider the Booth 8 variety. You will notice that this variety cannot be shipped before September 16, and in order to be shipped, it must weigh at least 16 ounces or be 3-9/16 inches in diameter. Through the enforcement of this size constraint through the Federal State Inspection Service, the possibility of a market glut is automatically eliminated. At the same time, enforcement of this constraint assures consumer welfare and satisfaction as a large, high quality, mature fruit will reach the market. Moreover, all of the fruit of this variety is not rushed to market in a short period of time as it might have been before the existence of the marketing order. Rather than being allowed to pick all the fruit from the tree at one picking, pickings of the Booth 7 variety are spread out over a considerable period of time. The minimum time required is approximately six weeks (September 16th to November 4th), subject to the constraints of a minimum weight or minimum diameter to assure that only mature fruit is being shipped for consumption.

Summary

1. Prior to the implementation of Federal Marketing Orders for limes and avocados, marketing was a "dog-eat-dog", vicious process. The long-run welfare of the industry was sacrificed at the expense of quick and short-run profits. There was no real concern for the consumer since there were no industry standards and no enforcement authority. Small, immature fruit reached the market, reducing quality and supply, ultimately causing higher prices to the consumer.

2. Through implementation of Federal Marketing Orders, concern for the consumer is more prevalent, as industry standards with respect to size, quality, etc. are developed, and are maintained through Federal-State Inspection Services and under the

enforcement authority granted under the Federal Marketing Order.

3. Under the Federal Marketing Orders, larger, higher quality, and mature fruit reach the market, thereby increasing supply and reducing price.

4. Under the Federal Marketing Orders, cash flows and returns are stabilized, risk is reduced, better investment and financial planning is possible, and capital and new producers can be attracted. The long-run effect is to eliminate wild fluctuations and to increase supply more in line with consumer demand.

Concluding Comments

The social and economic benefits of Federal Marketing Orders, and in particular, the Federal Marketing Orders for limes and avocados, are comprehensive. No attempt has been made here to cover them all, for this would require more space than allotted.

The basic objectives of this paper were to demonstrate that under the Federal Marketing Orders for limes and avocados: (1) supply is not restricted, it is increased; (2) barriers to entry into the industry by new producers are reduced, not increased; and (3) the welfare of consumers *is* much greater than in the absence of Federal Marketing Orders.

There is no contention here that implementation of Federal Marketing Orders is the only way to attain the same level of social and economic benefits. It is contended, however, that between the two available alternatives—implementation of Federal Marketing Orders or the absence of Federal Marketing Orders—the implementation of a Federal Marketing Order results in greater social and economic benefits.

¹Calculation of simple pay-back period does not include a cost for capital.