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A GROWER MARKETING CERTIFICATE  
PROGRAM FOR TART CHERRIES

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## A Grower Marketing Certificate Program for Tart Cherries

### **I. Purposes:**

To provide an economic balance of tart cherry industry supply and demand--both in short-run and especially in the long-run.

To help avoid overplantings.

To provide sufficient supplies to enable and encourage demand to grow as much as is realistically possible.

### **II. Grower marketing certificate**

Each grower would have a certificate base which would be calculated using some combination of tree numbers, acreage or past production.

A. Some possible alternative criteria for initially establishing each grower's base certificate quantity:

1. Production delivered in recent years
  - a. Such as an average of last say three years
  - b. Or an average of the highest two of last three years
2. Existing acreage or trees
  - a. Bearing acres or trees
  - b. Bearing acres or trees plus non-bearing acres or trees (perhaps at a different rate for non-bearing)
3. Purchased stock tonnage

Funds for stock tonnage could be deducted from future payments for cherries by processors and paid into an industry advertising, promotion and new product development fund.

4. Future production during next 5-8 years

5. Some combination of these
  - a. All existing trees, bearing and non-bearing plus actual deliveries of main commercial tonnage during future years plus say 20% of non-controlled or secondary market deliveries.
  - b. Implement the grower certificate plan in a future year (perhaps in 7 years) based only on plantings made in 1987 or before and using the production (deliveries) in two of the most recent three years before the implementation year. This approach would probably be combined with a supply management marketing order during the intervening seven years which involves such features as secondary market sales, non-harvest, at-plant diversion, rotating reserves, and tree pull credits.

A grower's base could change each year. After the program is begun each grower's rolling base would be recalculated annually using that grower's deliveries for the latest year for main commercial market tonnage. Thus as the industry's main markets for cherries are expanded over time, each grower would get a share of the industry's expanding demand and hence an increasing base--provided that the grower had the delivered production to fill that expanding base.

Growers could buy and sell their base certificates to other growers. Thus growers who decided to take out all of their cherries, or enough to reduce production below their base, could sell their base to a grower who wanted to expand. This buying and selling would be similar to the way Pro-fac cherry stock for example, is bought and sold among growers.

In short-crop years, when the new crop plus open market carryover plus the reserve pool is less than the potential demand quantity, growers would be able to deliver all of their production. Thus growers with a large crop when the industry has a short-crop will be able to build up their certificate base quantity. This would provide an added incentive for planting only on superior sites.

Growers would be able to temporarily lease part of their certificates to another grower. Thus in a freeze-damage year a grower with a short crop could lease part of his certificates for that year to another grower who had a large crop and needed more certificates. This would aid both growers temporarily. Such a lease provision could also help to assure that the market was not unduly shorted on supplies during that year.

A provision for base quantities for new growers would need to be included, since this is required by USDA guidelines on this type of marketing order. As the total base quantity for all growers expands with industry demand growth, some of this expansion in base quantities would need to be allocated to new growers. Established growers would also want to get as much as possible of the expanding base quantities. So this would be a point of contention.

### **III. Board decisions**

#### **A. Industry demand and grower's base**

Each year the Board would analyze the most recent industry demand, as measured by total industry sales movement in the main commercial markets. If the Board determined that industry demand had increased by say 5%, each grower's base quantity would be increased by comparable amount (perhaps 4% with 1% allocated for new growers).

#### **B. Percent of base for open market and reserve stocks**

The Board would decide each year what percent of each grower's base quantity would be open market tonnage for main commercial uses. The rest

could go into secondary, unregulated markets such as export or juice, or into reserve stocks or other designated uses. The open market tonnage percent would be based upon the recent highest demand for main commercial market cherries, plus a demand growth factor equaling total industry demand. That year's potential total supply would be the estimated crop plus open market carryover minus desired carryout. Then the designated open market percent would be the total industry demand divided by that year's aggregate of all grower certificates.

C. Reserve stocks

In case the industry's open market tonnage came up short, perhaps because of an inaccurate crop estimate or a major storm, some of the reserve stocks would be released in the fall to bring the open market tonnage up to the target industry demand quantity. The rest of the reserve would be kept in reserve unless there was unexpected demand growth during the year. The reserve could also be sold for secondary markets and uses such as export or new products. The reserve could also be used in case there was a later short-crop year. With a base marketing certificate plan, some participation in a moderate size pool would be normal and probably desirable for most growers.

A grower could decide not to participate in the pool. Provisions could be developed to encourage or discourage pool participation depending on the economic circumstances.

If a grower had unsold reserves in the second year, the grower would be permitted to sell some or all of these under his certificates for the new crop and dispose of a comparable amount of new crop cherries in unregulated ways. Thus a grower could rotate pool cherries out of the reserve if he

chose to do so, although this action would not add to any surplus supplies. This would be a reason why some growers may want to participate in the pool to some extent especially in the first large-crop year.

#### **IV. Grower's production above open market**

If a grower produces more than the open market quantity of certificates, he can sell the extra production into designated secondary markets such as juice, export, dried, etc. This is likely to occur in large-crop years. Or the grower could keep some of the extra production in a reserve.

Another alternative for excess production would be to leave it in the orchard. The in-orchard portion would not need to be controlled or checked, because the regulation would only be on the delivered tonnage. The delivered quantities would be compared to the grower's historic base certificate quantity and the allowable deliverable percentages for that year.

Grower deliveries for secondary markets would probably not count to build the grower's rolling base. If it was deemed desirable for fairness and needed adjustments from grower to grower, these secondary market quantities could count, at perhaps a small percent, in establishing a rolling base. Non-harvested production would likewise not count for building base. This would provide a strong incentive for the grower to take out excessive acreage and thus bring his bearing acreage into line with the amounts which could be delivered for his main commercial or open market certificate tonnage.

#### **V. Establishing original certificate quantities**

Establishment of original base or certificate quantities for each grower in a fair, equitable manner would be an aspect of special importance to all cherry growers. Accomplishing this is complicated by the fact that there are already planted in the industry sufficient trees to produce substantially more than demand is likely to be, even with realistic demand growth during future years. An

equitable system is also complicated by the fact that while many growers have a high percent of young and non-bearing trees, others have a large percentage of older trees.

In addition to equity issues, a system for original certificate quantities needs to be done in a way to encourage acreage reduction in the industry and to discourage new plantings during the next few years. Achieving both of these two goals is not easy.

If the original certificate quantities for each grower were based solely upon production in recent years, this would disadvantage growers with large young and non-bearing acreage. This is particularly important for growers who have already invested large amounts in planting and growing these young trees.

Growers with large non-bearing acreages would prefer a certificate system based originally, at least in part, on existing trees or acreage including non-bearing orchards. If growers were given certificates based upon their existing acreage as of now, including non-bearing as well as bearing, this approach would be advantageous to the growers with large young plantings. Basing the certificates on acreage alone, without converting to a tonnage certificate, would benefit growers with high yields the most. This would provide greater incentives to the grower to plant only on good sites and to raise average yields. This would be desirable for the sake of on-farm efficiency.

Certificates based on acreage would be more difficult to administer than tonnage certificates. A system to check that a grower was delivering only from certificate acreage and not from non-certificate acreage would need to be developed, but would not be easily administered. Perhaps a substantial field staff would be needed.

In order to facilitate administration, certificates based on existing acreage could be converted to tonnage certificates by multiplying by some standard yield



factor. If a uniform yield factor were applied to all acreage, this would benefit the grower with relatively low yields the most and would disadvantage the grower with high yields per acre. Using various yields depending on site, age, care, tree size, etc. would be more complicated, but perhaps a yield history established over time could be used for each grower.

Basing the initial certificate quantities only on tree numbers would have a drawback that this approach would benefit growers with high density young plantings to the disadvantage of growers with only traditional low density plantings. In view of this factor, it might be more equitable to use a system of existing acreage modified by a rolling base influenced by a grower's production in the future.

If the original certificate quantities were based on all existing acreage or trees, including non-bearing, the total amount of grower marketing certificates would exceed the demand for normal commercial markets. This could be readily handled, however, by the Board setting a marketable percentage for main markets of less than 100% for the next few years. Then after productive capacity (acreage) became more in balance with demand, the marketable percent would approximate 100%.

One way to reduce the difficulties of basing initial certificate quantities on past production or acreage would be to allow the growers to purchase stock tonnage for their certificates. This would be somewhat similar to the way stock tonnage was initially handled by Pro-fac.

With an industry certificate program growers would be able to buy stock tonnage certificates up to an upper limit determined by their existing acreage and a relatively high yield per acre. The funds from these purchases would go into an expanded demand expansion program. The fee might be say 3-5¢ per pound, perhaps to be paid for each of several years. These purchase costs could be

deducted by processors from the growers future receipts for cherries.

Even though this approach would cost the grower some investment in certificates, many would purchase them because the plan would increase the price received on main market tonnage from 0-5¢ to more like 14-15¢ per pound.

Growers with a lot of young acreage could purchase considerably more stock than their past production. This would allow them to expand as they have planned to do relative to growers with a lot of old trees.

Some growers who are on the verge of going out of business, or who have a lot of old trees would probably not purchase much if any stock. This could be a significant advantage over a plan to give all growers certificates based on their past production or existing acreage.

The purchase of additional stock in certificates would generate substantial funds for industry demand expansion. This could be as much as \$10-15 million extra perhaps in each of several years. This additional program effort for advertising, new product work, etc. would appeal to those in the industry who want to emphasize demand expansion along with, or instead of, supply control.

Another approach which might be used in order to be equitable to growers with a lot of young acreage, could be to delay implementation on a certificate plan for several years and base the initial certificate amounts for each grower on that grower's deliveries during the next several years. This would appeal to growers with substantial non-bearing acreage. This approach would, however, provide substantial incentives to increase production to build base during the next several years--which is contrary to what the industry needs. In the mean time, however, the low prices generated by large supplies would force some people to remove acreage. This would be especially so for growers who have not lined up an adequate market outlet program for their farm.

A certificate program could be delayed in its implementation for several years and combined with a market diversion and storage reserves marketing order in the meantime to help avoid over supplies and disastrous prices during the next few years. Each grower's certificate quantity could be based upon his deliveries of open market tonnage during future years. The sizeable amounts of non-commercial market tonnage would encourage growers to remove some acreage. In order to provide an added incentive to reduce acreage during the intervening years before the marketing certificates program was implemented, a tree-pull credit provision would probably be desirable. This might be a workable combination or compromise approach.

Another combination approach which might be used could be to base growers initial certificate quantities on both past production and existing young and non-bearing acreage. This would help the grower with much young acreage. An additional possibility to aid growers with young acreage would be to allow his certificate base to be increased based on perhaps a percentage of his deliveries for unregulated or secondary markets. This approach would, however, reduce the effectiveness of achieving an industry balance of supplies with demand.

## **VI. Impact**

A marketing certificate or base quantity for each grower would be a powerful approach to bring industry market supplies in line with demand. Once established this plan would provide very strong incentives to remove and not plant excessive acreage, which is presently a major economic problem for the industry. This approach could quite effectively prevent serious over-plantings as occurred during the late 1970's and early 1980's (and earlier during the early 1950's). Thus the program could effectively be used to maintain a profitable balance of industry supply and demand over a long-period of time.

Open market tonnage for the main commercial markets could be kept at levels which would generate prices which were at least somewhat profitable for the most efficient growers. At the same time this industry program would prevent growers from making vast new plantings which exceed demand potentials.

Care would need to be given in the design and implementation of this type of program so that sufficient open market plus reserve supplies were allowed to encourage potential demand expansion. Some reserves stocks should probably be encouraged to avoid market shortages in years of severe freezes. Sales of over base percentages into secondary markets would also encourage demand expansion. This is important for long-run growth of the industry.

There would be limited opportunities for new growers to get into the cherry business. But then 0-5¢ cherries as now also indicate limited opportunities for profitable new cherry growers.

A historic rolling base would provide special benefits to growers with superior sites and a history of high production. Some would say that is appropriate. Other may feel that this is inequitable.

A historic base would continue production mainly in the now established areas. This would be desirable for states such as Michigan, New York, Utah, Wisconsin and Pennsylvania. States like Washington may feel the approach is inequitable.

A key question is: Will a majority in the cherry industry regard this type of historic base approach acceptable? If a sufficient majority of growers would support such an approach, it would be economically a very powerful approach for achieving and maintaining a profitable balance of overall industry supply and demand.

This approach would in some respects be like that which is used by some co-operatives who limit individual grower deliveries to their stock tonnage. If this type of grower marketing certificate plan were done under a market order it would expand what is being done by these co-operatives to cover the entire cherry industry.