**Issues for the 1990's: MARKETS**

**Federal Milk Marketing Orders: Minnesota-Wisconsin Price Hearing**

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**Richard F. Fallert  (202) 219-0710**

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**Issue.** The Minnesota-Wisconsin (M-W) price is the basis for establishing minimum prices charged handlers under Federal milk marketing orders (FMMOs). The M-W price is an estimate of the average price paid for all manufacturing grade (Grade B) milk at about 166 plants and receiving stations in Minnesota and Wisconsin. The manufacturing grade milk market in Minnesota and Wisconsin has declined as Grade B milk production in that area has fallen. In May 1990, USDA's National Agricultural Statistics Service (NASS) notified the Agricultural Marketing Service (AMS), the USDA agency that administers FMMOs, that it would be unable to provide an accurate M-W price series much beyond mid-1992. However, NASS later indicated that it could continue to report the M-W price until a replacement is found. With less Grade B milk being obtained and priced by plants and receiving stations, confidence has eroded in the M-W as a reliable estimate of the competitive value of milk.

**Context.** Most milk produced in the United States is now Grade A, regardless of its final use. The M-W price is used to determine the base price for Grade A milk regulated under the 40 FMMOs, which is about 80 percent of all of the Grade A milk marketed in the United States. California, accounting for about 15 percent of milk marketings, is the only major producing area where the M-W is not the base price. California uses economic and product price formulas for pricing milk rather than the M-W price.

The M-W price was first used in FMMOs in 1961 and since 1975 has been the basis for establishing minimum class prices in all Federal order markets (see figure). Minimum class prices are set at or above the basic formula price. The Class III price for milk used to produce manufactured hard products such as butter, cheese, and nonfat dry milk is generally set equal to the basic formula price (M-W). Class II (soft products such as ice cream and yogurt) prices are formula-based. Milk used to produce beverage milk products (Class I) receives the highest price and is based on the M-W price plus a fluid differential that reflects the added cost of marketing and transporting milk for fluid use.

USDA announced in July 1990 and later Congress mandated in the 1990 farm act that AMS study possible replacements for the M-W price and hold a hearing on viable alternatives. AMS published the results of its study of M-W price alternatives in November 1991. At that time, the dairy industry was asked to propose alternatives. About 50 proposals were submitted. The USDA held a national hearing in June 1992 to review 10 selected categories. AMS received comments on the hearing record following its publication in June. The Department is now in the process of developing a recommended decision.

**At Stake.** The challenge for USDA is to find an alternative price that reflects supply and demand relationships. A replacement that includes Grade B milk may require another hearing in a few years because of declining Grade B production.

**Alternatives.** The June 1992 hearing limited its scope to replacement of the M-W price and considered no other proposed changes in how the M-W price is used in FMMOs. The proposals that the Secretary of Agriculture can consider under the rulemaking procedures of Federal orders may be categorized in six groups as follows:
(1) An expanded survey of Grade B milk prices. This method closely tracks historical M-W prices. Some groups proposed extension of the area to be covered by the price series beyond Minnesota and Wisconsin. A question still remains as to how long there will be sufficient Grade B milk to continue generating a reliable price estimate, as Grade B milk now accounts for only 7 percent of marketed milk, down substantially from 17 percent in 1978.

(2) A survey that includes both Grade A and Grade B milk used to produce manufactured dairy products. This new price series was developed to reflect prices paid for milk used in manufactured dairy products regardless of the grade of milk. The combined Grade A/B price has historically run about 72 cents per hundredweight (cwt) above the M-W price and could increase government spending for dairy programs, unless the differentials were reduced by an offsetting 72 cents per cwt.

(3) A formula based on the wholesale prices of manufactured dairy products. These proposals use the competitiveness in the wholesale market to formulate farm-level prices for milk. These formulas estimate the value of milk used in specified dairy products utilizing product prices, yield factors, and make allowances. Problems with these formulations may occur because yields vary seasonally and because they are dependent on deriving the cost of converting raw milk to manufactured products. In addition, make allowances would need to be kept current with updated yields.

(4) A formula based on the cost of producing milk. USDA’s cost of production studies would be used in arriving at an alternative to the M-W price. Because USDA’s cost of production studies are survey based, there may be an incentive for some producers to inflate costs to reach a higher minimum price. The resulting higher price and consequent increased production could boost the cost of USDA’s support program.

(5) Use of the support price, currently $10.10 per cwt. This more drastic alternative would probably lower all minimum class prices, but market forces could be reflected in additional payments to producers, called over-order payments. This alternative provides producer groups more incentive to lobby for higher support prices.

(6) A modification of certain alternatives. Proposals were received to use product-price formulas to update Grade B and Grade A/B prices from the previous to the current month. Other proposals would combine the Grade A/B price with a cost-of-production formula.

**Agenda.** A recommended decision on the M-W price series is currently being developed. The 1990 farm act requires that at least 30 legislative days be allowed for comments on the AMS recommended decision. USDA will issue a final decision that will require a vote of approval by producers/cooperatives in the Federal orders. Due to the regulatory and legislative processes, a replacement to the M-W price likely will not be put into place before the end of 1993.


**Federal milk marketing orders’ link with Federal price support program**

The Federal support price program determines minimum prices for nonfat dry milk, butter, and cheddar cheese. Processors determine what they can pay producers for manufacturing milk based on the prices they receive for manufactured products. The negotiated price paid for manufacturing grade milk in Minnesota and Wisconsin, the M-W price, is the basic formula price for classified pricing in Federal milk marketing orders.

<table>
<thead>
<tr>
<th>Price support program</th>
<th>Milk marketing orders</th>
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<tbody>
<tr>
<td>Support price for milk</td>
<td>Class I price= M-W + differential</td>
</tr>
<tr>
<td>Support purchase prices for dairy products</td>
<td>Class II price= M-W + ~15 cents</td>
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<tr>
<td>Wholesale prices for manufactured dairy products</td>
<td>Class III price= M-W price</td>
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<tr>
<td>Prices for manufacturing grade milk</td>
<td>equals Minnesota-Wisconsin (M-W) price</td>
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**Issue.** The pricing, processing, and marketing system for milk within the Federal milk marketing order (FMMO) system has become increasingly complex. Proper pricing and pooling provisions, regional and individual producer equity problems, and the slowness of the rulemaking process are issues facing the U.S. Department of Agriculture (USDA) and industry during the 1990's.

**Context.** A Federal milk marketing order is a regulation issued by the Secretary of Agriculture that determines how milk is priced at the farm level. The order requires that milk receipts be pooled and paid to individual producers or cooperatives on a weighted average price or blend price. Pool plant provisions establish which producers can share in the marketwide blend price. The order also requires that first buyers not pay less than the minimum price for any class of milk based on how the milk is used. Processors may pay prices higher than those required by the order. These higher prices are referred to as over-order prices. Only Grade A milk is regulated by FMMOs. Milk used for fluid or beverage purposes is Class I, milk manufactured into soft products like yogurt and ice cream is Class II, and milk used to produce hard products such as cheese is Class III. Minimum Class I prices are based on the Minnesota-Wisconsin (M-W) manufacturing grade milk price (the minimum Class III price) plus a Class I differential partially based on the distance from the base point (Eau Claire, WI), the cost of converting Grade B milk to Grade A, and a return for the costs of operating balancing plants (plants which process surplus beverage milk and operate at capacity for only a portion of the year). (See *Federal Milk Marketing Orders: Minnesota-Wisconsin Price Hearing*, AIB 664-30.) Class II prices are formula-based. There are 40 Federal milk marketing orders pricing Grade A milk within their boundaries. Grade A milk accounts for 93 percent of total milk marketings, while 80 percent of the Grade A milk is regulated by FMMOs.

There is virtually unanimous producer and industry agreement for maintaining the FMMO system and classified pricing. However, there are some regional differences in position. For example, Upper Midwest producers believe that their own Class I differential is too low, that differentials in the South and Northeast are too high, and that market access is limited in distant markets.

**At Stake.** Proper class prices and appropriate pooling requirements could result in more efficient milk production and marketing. Properly set class prices could result in lower government costs and more equitable consumer milk and dairy product prices. Properly set class prices may help reduce excess Grade A milk supplies in some areas and reduce regional conflict. Slowness in the rulemaking process detracts from USDA's effectiveness.

**Alternatives.** Some suggested alternatives are:

1. **Leave the system as is.** This is the preference of essentially all producers and the industry in Federal orders, except in the Upper Midwest.

2. **Institute a flat Class I differential (that is, the same differential in all regions).** Even if minimum Class I prices are the same throughout the country, over-order prices would prevail in order to cover the costs of transporting milk. This alternative would probably work if the minimum differential were low and based on the added costs of producing and handling grade A milk for fluid uses. Set low enough,
the flat differential results in multiple-base-point pricing. Over-order prices would probably be higher in some regions than they are now and could become more variable. Some research indicates that the pricing structure may be close to the current effective Class I price structure.

(3) Multiple-base-point pricing. This alternative adds several areas with surplus fluid (beverage) milk supplies to the Eau Claire, WI, base. All bases would receive the lowest minimum Class I differential, with the minimum Class I differentials rising for producers farther away from the base points. This alternative could lead to more efficient pricing, production, and marketing. Depending on the requirements to pool grade A milk under Federal orders, over-order payments may increase and prevent effective Class I prices from declining appreciably. However, establishing additional base points would be a problem because no area wants its Class I differential lowered. Consumers in most base point areas, except the Upper Midwest, would pay less for beverage milk. This alternative would likely slightly reduce government expenditures.

(4) Increase Class II minimum differentials. This alternative is popular with producers. Producer incomes could increase or remain the same if such a change were made. The effects of the minimum differential change on over-order premiums determine the result. If over-order premiums remain the same, incomes rise; if the premiums disappear, incomes stay the same. Unchanged Class II over-order premiums could lead to excess milk supplies in some areas, since the effective milk price has increased. This could also lead to higher consumer prices for ice cream and other soft dairy products. This option could also raise government costs if the Federal Government purchases more dairy products because of increased grade A milk supplies. Over-order Class II prices exist in most Federal order markets.

(5) Merge FMMOs into fewer and larger orders. Merging Federal orders could increase the efficiency of FMMOs by bringing together handlers and producers who are in the same market. Because producer approval is needed to merge Federal order markets, the USDA has been reluctant to initiate hearings unless producers request them.

(6) Improving the rulemaking process. Streamlining the rulemaking process could speed up implementation of needed changes in the Federal order system. Some have suggested that the USDA may have to take a more active role in the rulemaking process.

**Agenda.** Because regional and individual equity problems exist and because the overall pricing, processing, and marketing system has become increasingly complex, the issues and alternatives will likely be debated throughout the 1990’s. An agenda needs to be developed to address them.

**Issue.** The level of the price support is likely to be at issue for the dairy price support program through the mid-1990s because the current support rate was a compromise among groups. U.S. dairy farmers feel the current support price has not provided adequate income, as shown by the exit rate of producers from the industry. The dairy industry believes that a higher support price would stabilize milk prices. Consumers and taxpayers, however, would pay more for milk and surplus products if the support price were raised. The current price support system does not affect long-term developments such as the changing structure of dairy farming, the loss of small farms, and the regional production shift from the Central United States toward the West and Southwest.

**Context.** The current dairy program adjusts the support price to accommodate changing domestic market conditions and to stabilize milk production and program costs. To ensure that manufacturing milk prices are no lower than the statutory minimum, the Commodity Credit Corporation (CCC) will buy butter, nonfat dry milk, and cheese at prices high enough to effectively support milk prices. Separate and apart from CCC support purchases, CCC funds are used to remove products from the domestic market by subsidizing exports under the Dairy Export Incentive Program (DEIP). If total CCC removals through the purchase program and the DEIP are projected to be less than 3.5 billion pounds on a milk-equivalent (ME) basis, the support price must be raised at least 25 cents per cwt. If government purchases are projected to be greater than 5 billion pounds (ME), then the support price must be reduced 25-50 cents per cwt. But, the support price cannot go lower than the current $10.10 per cwt. And, if purchases are estimated to be greater than 7 billion pounds (ME), then dairy producers are assessed to cover the added cost. Imports of dairy products from the international market are limited by import quotas to insulate the United States from the world market.

GATT chairman Arthur Dunkel proposed the reduction of export subsidies in terms of spending and quantities in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The Dunkel proposal also limits each country’s domestic support for agricultural programs. Completion of the Uruguay Round along the lines of Dunkel’s proposal could constrain dairy support program options more than without a GATT agreement. The limitation on export subsidies would limit the United States’ use of the DEIP or CCC direct sales to dispose of surplus dairy products. The domestic support provisions may prevent substantial increases in support prices or may allow price increases only when accompanied by production controls.

**At Stake.** The current program provides producers with a support program that stabilizes milk prices. The current support price appears to provide returns near the national cost of production. The legislation also constrains budgetary costs to a narrow range by assessing farmers for purchases estimated over 7 billion pounds (ME). In a world industry dominated by government-subsidized exports and production, the current U.S. dairy support program provides domestic consumers an adequate supply of milk products at prices near the estimated free market price. However, the current program does not obstruct structural change in the industry.
Alternatives. General classes of policy alternatives include:

(1) Continue current policies and programs (status quo). With small modification, the current program can accommodate anticipated requirements of the GATT, which remains unfinished at the time of writing.

(2) Increase the support prices in conjunction with some form of production control program. The challenge is to increase dairy farm income without boosting program costs, raising consumer prices, or violating international trade agreements. Simply raising the support price would bring surplus production and higher program costs because the domestic market is adequately supplied at current prices. A support price increase would have to be accompanied by a production control program. Under a voluntary production control plan, small-size farm operators would be more likely to reduce production or quit altogether, while large-size farm operators would take advantage of the higher support price to expand. Regardless, consumers would have to pay higher milk and milk-product prices.

(3) Decouple production from the subsidy payment. Continue the support program at a lower price as a safety net because of the price volatility in milk markets. In addition, this program would provide a subsidy to low-income producers. This proposal directly addresses the income, regional, and structural concerns of the dairy industry while maintaining control over program costs.

(4) Producer self-help program. Producers have suggested a program in which a producer board would assess producers and subsidize export of surplus products. This program would raise producer income and consumer prices, and lower government costs. This program may be inconsistent with current GATT proposals.

(5) Eliminate the price support program. Rely on market forces to allocate production, as done in most of U.S. animal agriculture and in most other U.S. industries.

Agenda. There is no legislation before Congress. However, arguments are being made to change the current program. If prices drop to the support level, some kind of legislation would likely be proposed.


U.S. milk prices

*Annual average milk prices became more dependent on market conditions as the support price was lowered in the 1980's.*
Federal Support for Nonprice
Export Market Promotion

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**Issue.** Federal support for export market development increased sevenfold from 1985 through 1992, encouraging greater private industry support. Concerns about Federal funding focus on the distribution of funds among generic and branded products and between large and small firms, as well as how long government support should last. Another issue is the extent to which advertising and other nonprice promotions boost exports.

**Context.** Nonprice promotions attempt to expand export demand for U.S. agricultural products by emphasizing product characteristics rather than reducing product prices. The Foreign Agricultural Service (FAS) administers two nonprice programs—the Foreign Market Development (FMD) program and the Market Promotion Program (MPP). Under the FMD, producer and processor organizations and, in some cases, importing country industry groups have joined FAS in conducting market development activities since 1955. The Targeted Export Assistance (TEA) program, authorized in the 1985 farm act to counter adverse effects on U.S. agricultural commodity exports of “unfair trade practices,” was replaced by the Market Promotion Program (MPP) in 1991. The MPP, authorized in the 1990 farm act, features market development as a prime program goal, but gives priority to commodities whose exports were curbed by unfair trade practices.

Nonprice export market promotions take many forms, including trade servicing (such as articles in trade newsletters, public relations, and trade missions), technical assistance, and consumer promotions. The more traditional trade servicing and technical assistance activities are the prime focus of the FMD program, while consumer promotions (from instore demonstrations to media advertising) dominate MPP marketing strategies.

Funding for export market promotions comes from the U.S. Department of Agriculture (USDA), producer assessments, and other industry contributions. FAS currently requires producer organizations that participate in the MPP to contribute a minimum of 5 percent of the costs of MPP promotions. While the bulk of nonprice promotion activities are generic, FAS has directly contributed funds to a limited number of producer cooperatives and other private firms for branded promotions since the early 1970’s. FAS may reimburse companies for no more than 50 percent of eligible promotion costs (with some exceptions). Producer organizations also may transfer MPP funds to companies to promote their products. About 40 percent of MPP expenditures go for branded promotions.

**At Stake.** Nonprice export promotion programs assist U.S. agricultural exports by changing potential purchasers’ tastes and preferences in importing countries. The bulk of MPP funds are targeted to high-value products such as meats, fruits, vegetables, and grocery items. The MPP is the chief source of Federal support for many of these products. Exports of high-value agricultural products increased from $12.5 billion in 1985 to $23.2 billion in 1992, in part due to market promotion efforts. The programs, by contributing to increased exports, benefit agricultural producers and processors. Taxpayers and, to a lesser extent, producers and companies pick up the tab for nonprice export market development. Competition for global consumer dollars is fierce, and many governments support their producers’ export promotion efforts.

Federal funding for nonprice export promotion climbed from $35 million in 1985 to more than $235
million in 1992 with the implementation of the TEA and the MPP (see chart). Higher Federal funding increased the number of participating organizations, but it also heightened concerns about accountability, industry contributions, allocations to large U.S. companies, and the traditional involvement of overseas companies. Legislators cut the fiscal 1993 MPP funding level by 25 percent, to $147.7 million, although FMD funding remained constant at about $37 million.

**Alternatives.** General policy alternatives are to:

(1) **Continue programs as they are.** Nonprice market promotions bolster U.S. exports. However, program effectiveness measures are complicated by the influences of exchange rates, relative prices, and changes in importer and exporter trade policies.

(2) **Cease Federal support of nonprice export promotions.** All funding would come from producer assessments and other industry contributions. Producer assessments and other industry contributions have been increasing, but Federal funding remains the chief source of support. Current market development efforts could not be maintained without Federal funding.

(3) **Continue funding MPP and FMD programs with changes.** Control the participation of large U.S. and foreign companies in branded promotions and limit the number of years for which a company or producer organization may receive Federal nonprice promotion funds. Limiting the number of years of Federal assistance may increase participation. Promoting branded products may raise consumer awareness of U.S. products more effectively than generic promotions, but may be perceived as financing activities that the companies should finance themselves.

**Agenda.** Several lawmakers have proposed changes to the MPP, including some of the alternatives discussed above. The MPP is part of farm legislation that is renewed every 5 years. Funding for both market development programs is approved in annual budget appropriations.

**Information Sources.** Foreign Agricultural Service, Commodity Marketing Programs, Marketing Operations Staff, (202) 720-4327, and Planning and Evaluation Staff, (202) 690-1198. Also, U.S. Agricultural Export Development Council (represents most market development program participants), (202) 682-4734.

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<td><strong>Total</strong></td>
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<table>
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<th>Market promotion funding</th>
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<td>TEA</td>
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<td>MPP</td>
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Note: 1993 total is estimated.
Chart includes funding for USDA's Foreign Market Development Cooperator, Targeted Export Assistance, and Market Promotion Program.

1TEA and MPP allocations.
Issue. In an increasingly competitive trade environment, the level and method of agricultural export assistance are both trade and budget issues. Some question large Federal expenditures to assist agricultural exports, especially when commodity supplies are tight. Others question the way funds are spent. However, commodity groups point to large sums that foreign competitors spend to support their agricultural exports and protect their own markets.

Context. Competitors' funding of export price subsidies has increased dramatically since 1985. European Community (EC) restitutions to exporters rose from $7 billion in 1986 to $13 billion in 1991. The EC heavily subsidizes exports as part of its objective to protect high internal prices. Other grain exporters such as Canada meet price competition implicitly through private marketing boards. The U.S. Export Enhancement Program (EEP) allows U.S. exporters to match subsidized competition in targeted markets. The U.S. export credit guarantee programs (GSM-102 and GSM-103) provide government guarantees of repayment of private credit extended for the purchase of U.S. commodities. GSM-102 covers credit up to 3 years, and GSM-103 covers loans of 3-10 years. The market promotion programs support producer organizations and firms in their long-term market development efforts (See Federal Support for Nonprice Export Market Promotion, AIB 664-33).

Funding for commercial export programs has increased since 1985. EEP bonuses have fluctuated along with market conditions, ranging from a low of $286 million in 1986 to a high of $1 billion in 1987. Short-term credit guarantee program levels have remained stable at about $5 billion. An additional $500 million was made available annually for GSM-103 medium-term credit guarantees in 1986, and $200 million in credit guarantees were authorized in the 1990 farm act to aid emerging democracies.

At Stake. In the face of EC subsidies, the U.S. share of the world wheat and flour market, for example, has declined from 43.5 percent in the 1979/80 July/June marketing year to 32.1 percent in 1991/92. The EEP, by boosting U.S. exports, is credited with generating savings to taxpayers from lower government deficiency and storage payments and benefiting producers. EEP bonuses also put more pressure on the EC to revise its policy by causing higher EC budget outlays. Higher exports due to the EEP may raise domestic prices.

Credit guarantee programs may help maintain market share by assisting U.S. exporters to make sales in countries with foreign exchange constraints. They may increase Federal budget outlays if importers default and the U.S. Government must make payments to commercial banks.

Alternatives. Several factors could change export program funding levels.

(1) Phase down export subsidies with successful GATT. Since 1986, the United States has been participating in the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). If a GATT agreement is reached, export subsidies could be phased down, but not necessarily eliminated.

(2) Increase export program funding. Section 1302 of the 1990 Omnibus Budget Reconciliation Act required USDA to increase export program funding by $1 billion in fiscal 1994 and 1995 if no GATT
agreement had been reached by June 30, 1992. The additional funding can be applied to any of the commercial export programs. Higher EEP funding may increase exports, but, depending on the U.S. supply situation, may encourage imports of products similar to those sold under the EEP. An additional $1 billion in credit guarantees for fiscal 1994 and 1995 is also an alternative. However, credit guarantee recipients are required to be creditworthy. This requirement could limit increased funding for credit guarantees to many potential markets.

(3) Increase the EEP for high-value products. The EC highly subsidizes its exports of high-value products, including meats, poultry, dairy products, fruits, vegetables, tree nuts, wine, and all value-added products. Over 75 percent of EEP bonuses have assisted exports of wheat since EEP was implemented in 1985. About 15 percent have assisted high-value products. Raising that share could help counter the EC's subsidized exports. However, EEP bonuses for high-value products have been very large, sometimes accounting for 40 percent or more of the product price. Producers benefit less than processors do from increased high-value product exports.

**Agenda.** The GATT trigger provisions (Section 1302) of the 1990 Omnibus Budget Reconciliation Act will affect EEP program levels, as will annual appropriations. The EEP and credit guarantee programs are part of the farm legislation that is renewed every 5 years.

**Information Source.** Donald W. Street, Foreign Agricultural Service, Export Sales and Program Operations Division, (202) 720-5540.

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**EEP bonuses and EC export refunds**

*EC export refunds far exceed U.S. EEP bonuses.*

Billion dollars

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1992 EC refunds are estimated appropriations.

**World wheat and flour market shares**

*The U.S. share declined from 43.5 percent in 1979/80 to 32 percent in 1991/92.*

Percent

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Issue. Animal welfare focuses on animal confinement and care, with care including everything from veterinary services performed by farmers, ranchers, and veterinarians and drug and chemical use in treatment and feeds to disposal of unwanted livestock. The basic concept of animal welfare is largely subjective and the two main protagonists, animal welfare activists and livestock producers, consider themselves most concerned with the well-being of animals. The issue is whether additional actions relating to animal welfare will be taken and what the costs/benefits of these actions will be.

Context. Laws, rules, and legislation for food animal welfare have existed for decades. Animal welfare activists focus on confinement raising of cattle, hogs, and layer chickens, where greater confinement leads to less natural movement by the animals and less human contact. Animal welfare groups charge that producers crowd, unnecessarily constrain, drug, and otherwise mistreat livestock. There are over 100 animal welfare groups in the United States. The profile for animal issue activists is white (93-97 percent), urban (73-88 percent), female (68-78 percent), 30-49 years old (48-57 percent), well-educated (66-82 percent had at least some college), with an income of over $20,000 (65-81 percent). The American Veterinary Medical Association posits that food animals are generally well cared for and that currently acceptable confinement and medical practices are humane and provide for improved food animal welfare.

At Stake. Over half of the $167 billion in U.S. farm commodity receipts in 1991 came from livestock production. These receipts do not include the additional billions of dollars in the animal byproducts industries that provide food, various medical byproducts (insulin, other organ and blood products, pig skin for burn patients, sutures, and heart valves), cosmetics, glues, leather products, and many other products. Costs of producing livestock products will likely increase if more constraints are imposed on animal agriculture. For example, eggs from free-ranging chickens cost roughly twice as much as eggs from caged layers. Some infer, citing research that demonstrates greater production from confinement with less feed, that well-provisioned, healthy livestock produce more output. Germany, Switzerland, the Netherlands, England, and some other countries are considering legislation to restrict or ban caged egg layers and some other forms of close confinement in livestock production. The legislation could restrict trade from countries whose animal production technologies are not similarly restricted.

Alternatives. These are the alternatives:

(1) The status quo, animal production technologies with no additional regulations.

(2) Some additional animal production regulation (such as less confinement and/or more humane veterinary practices), which would raise consumer costs of food. The issue would be willingness to pay.

Agenda. Legislation affecting animal welfare has existed for some time and remains in effect. The Humane Society of the United States is concerned with the treatment and use of downers (animals that cannot walk), with the use of growth hormones and anabolic steroids, and with apparent economic trends in agriculture toward greater confinement of animals. The most recently passed legislation makes it a felony for anyone to break into livestock production or research facilities or otherwise
interfere with livestock production or animal research. Legislation restricting use and treatment of
downers, especially in packing facilities, has recently been proposed, but failed. A bill proposed in
Minnesota would tax imitation fur and use revenues collected to pay for damage to farmland caused by
beaver populations not controlled by trapping.

**Information Sources.** American Veterinary Medical Association (708-925-8070), American Feed
Industry Association (703-524-0810), Animal Welfare Information Center (301-504-5215), and the
Humane Society of the United States (202-452-1100).

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**Retail price of choice beef and pork in real (1987) dollars**

*Decreasing real retail meat prices...*

![Retail price chart](chart1.png)

**Trends in large-scale livestock production**

*...coincide with trends in large-scale confinement operations.*

![Trends chart](chart2.png)

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**Issue.** There are five main facets to the issue of publicly owned rangelands, predominately Forest Service (FS) lands and Bureau of Land Management (BLM) lands. First, do the fees charged by the Federal Government reflect market value of forage removed by grazing? Second, who should pay any differences between fees collected and costs of administering FS/BLM grazing programs? Third, what are the economic effects of raising the grazing fee base for or eliminating grazing from FS/BLM lands? Fourth, what environmental effects does grazing have on soils, wetland areas, and wildlife? Fifth, do permittees have property rights of any type to the public lands?

**Context.** The General Land Law Revision Act (1891) allowed setting aside forest reserves from the unreserved public domain; these lands later became FS (in 1905) and BLM (in 1934) lands. The public domain lands had been grazed by introduced livestock before 1891. Fees have been charged for grazing privileges since the 1906 grazing season when the Secretary of Agriculture set fees at a third of what comparable private grazing was worth. The fees were originally charged to protect forest reserves and finance range administration. The FS and BLM charged different fees until 1969, but, except for the National Grasslands, have charged the same fee since. Congress, in 1978, via the Public Rangelands Improvement Act (PRIA), took over fee structure responsibilities from the Secretaries of Agriculture and Interior. In 1985, the fee structure was set by Executive Order to follow the PRIA formula, but with a $1.35 per animal-unit-month (AUM) floor. Since the PRIA, much debate has focused on whether the current fee formula reflects or should reflect both the market value of public forage and permittees’ ability to pay the fees. State and local governments receive a set share of fee receipts. A grazing fee base ($1.23) was set in 1969 as the difference between the costs to producers of raising cattle on private leased lands versus on public lands with free grazing. In other words, the base fee equalized the costs of raising cattle on public and private lands. This fee was to be updated according to annual changes in private land lease rates (forage value index—FVI).

**At Stake.** Incorporating permittee ability to pay (prices received for beef cattle and permittee production costs) produced a fee that is below the FVI-indexed fee base. Fee receipts are below costs of administering livestock grazing on FS/BLM lands. Permittees maintain that higher fees, reduced stocking rates, and/or elimination of grazing on FS/BLM lands would put many producers out of business and have severe adverse effects on local economies. The extent to which adverse economic effects occur depends on the degree to which permittees and local economies depend on public grazing lands for forage. Conservation and environmental interests charge that damage occurs to public lands from grazing and that grazing competition harms threatened, endangered, and other wildlife species. Permittees contend that, having "purchased" grazing permits that they consider costs associated with FS/BLM grazing, they have property rights to the public grazing lands beyond the privilege of grazing. Permittees support this view by their historical use of the public rangelands and the improvements they have made to the public rangelands. The Federal Government view that the grazing privilege granted to permittees does not translate into a property right has been upheld in the courts. However, grazing permits do enhance ranch sale and collateral values.

**Alternatives.** There are several policy alternatives:

1. Leave the current fee formula and structure in place.
2. Change the fee formula and/or structure. This alternative consists of three basic proposals: raise the fees by raising the base fee in the fee formula, change the structure of the fee formula, or provide fee-reducing incentives to provide good stewardship.
(3) Eliminate the fee formula and offer the public grazing lands to the highest bidder, subject to stewardship and other environmental constraints.

(4) Eliminate grazing on the public grazing lands.

The value of forage from FS/BLM lands inferred from differences in costs of raising cattle on private versus public lands, assessments of lease rates for comparable private grazing lands, estimates of annualized values of purchased permits, competitive bidding, and subleases at rates higher than fees suggest that fees are below forage market value. The difference between fee receipts and livestock grazing program costs, along with some assessment of the difference between the fee and the market value of the forage on FS/BLM lands, is viewed by taxpayers, environmental groups, and others as a Federal subsidy to permittees. Environmentalists claim environmental damage from grazing, especially near wetland and desert areas where there is damage to habitat and wildlife species. Economic effects of higher fees or no grazing could be large locally, but small in the national view. Only 17.6 million of roughly 1 billion national AUMs come from FS/BLM lands.

**Agenda.** Grazing fee legislation has been introduced at least 6 times in the last 3 years, 3 times passing in the House, but then being narrowly defeated in the Senate. Alternatives aimed at providing incentives to permittees for good stewardship of the public grazing lands are being studied by U.S. Department of the Interior, U.S. Department of Agriculture (USDA), and university personnel.


**Costs of Forest Service and Bureau of Land Management public grazing administration, 1990**

*Program costs attributable only to livestock grazing exceed fee receipts.*

<table>
<thead>
<tr>
<th>Cost category</th>
<th>Total rangeland program costs</th>
<th>Costs not attributable to livestock grazing</th>
<th>Costs attributable to livestock grazing</th>
<th>Fee receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rangeland management</td>
<td>52,137</td>
<td>15,598</td>
<td>36,539</td>
<td>NA</td>
</tr>
<tr>
<td>Range improvements</td>
<td>21,668</td>
<td>6,205</td>
<td>15,463</td>
<td>NA</td>
</tr>
<tr>
<td>Total program</td>
<td>73,805</td>
<td>21,803</td>
<td>52,004</td>
<td>27,035</td>
</tr>
<tr>
<td><strong>1,000 dollars</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per AUM</td>
<td>3.22</td>
<td>0.95</td>
<td>2.27</td>
<td>1.18</td>
</tr>
</tbody>
</table>

1 AUM = Animal unit month. NA = Not applicable.
Issue. Federal marketing orders for California/Arizona navel and valencia oranges have volume control provisions that allow for the regulation of weekly shipments of navel and valencia oranges to market during their marketing seasons. These provisions have been used infrequently for valencias, but extensively for navels. Volume control provisions are frequently criticized by consumer groups because they potentially raise prices and restrict free movement of oranges to market. Some growers and handlers also oppose them. Proponents of marketing orders argue that consumers benefit from a more orderly flow of oranges to market at more stable prices.

Context. Federal marketing orders are authorized under the Agricultural Marketing Agreement Act of 1937, as amended. Marketing orders are selected by the industry through a formal regulatory process, including a public hearing and a referendum. The provisions deemed essential for marketing fresh oranges are developed by industry representatives. When volume restrictions are considered necessary for orderly marketing, the Navel Orange Administrative Committee (which administers the order) recommends to the Secretary of Agriculture a specific volume to ship into the market. The Secretary evaluates the recommended volume of weekly shipments into the domestic fresh market (includes Canada) and can approve, modify, or not approve the recommended volumes.

Except for three seasons, volume regulations for California/Arizona navel oranges were approved by the Secretary of Agriculture until at least 75 percent of the crop had been harvested. Volume restrictions were approved until 52 percent of the crop had been marketed in 1984/85, 46 percent in 1991/92, and 26 percent in 1992/93.

The decision to not approve weekly volume controls for the remaining part of the 1992/93 season was based on the U.S. Department of Agriculture conclusion that volume controls were not necessary at that time to achieve the declared policy of the Agricultural Marketing Agreement Act of 1937. The decision was based on a thorough review of current market conditions, on USDA guidelines that encourage industries to shift their marketing programs toward market enhancement rather than volume restrictions, and on the moratorium on new Federal regulations in effect at the time.

Market orders and prorate provisions have important implications for the orange industry. In 1991/92, there were over 116,000 bearing acres of navel oranges in California and Arizona that were operated by 3,933 growers. About 150 handlers were involved in packing and marketing fresh navel oranges from the two States. In 1991/92, the farm value of the California/Arizona navel orange crop was $348.5 million. The farm value of valencia oranges was over $131 million.

At Stake. Not approving the use of volume controls early during the 1984/85, 1991/92, and 1992/93 seasons brought sharp criticism by a major portion of the California/Arizona navel orange industry. Some in the industry argue that weekly shipments and prices decline and become more variable when volume restrictions are not used. By some industry estimates, navel orange growers in California and Arizona lost millions in revenue due to not approving volume controls early in the 1991/92 marketing season.
Specific considerations raised in connection with the Secretary’s decision to not approve volume restrictions include: changes in the week-to-week stability of navel orange shipments and prices, levels of fresh domestic shipments and prices, the level of grower revenue, and the market structure and marketing practices of handlers.

**Alternatives.** Alternatives under present legislation include whether or not to authorize volume controls and, if authorized, when to suspend them during the season. Although possible, it would be very difficult to justify reinstatement of volume controls once they are not approved in a given marketing season. The issue of marketing orders is broader than volume controls and includes consideration of other order provisions such as grades and size, research, market development, promotion, and packaging.

**Agenda.** The regulatory process begins with a Marketing Policy Statement prepared prior to the beginning of each marketing season in which the Navel Orange Administrative Committee (NOAC) develops a proposed marketing plan for the coming season. The administrative committee, operating under the direction of the Secretary of Agriculture, is made up of 11 members, including 6 growers, 4 handlers, and 1 nonindustry member. The committee is charged, in the rules and regulations of the marketing order, to provide “equitable marketing opportunity” for handlers.

The marketing policy statement includes a tentative shipping schedule for the season based on the committee’s evaluation of the crop size and the demand conditions. Each Tuesday during the marketing season, the NOAC meets to decide on the quantity of oranges it will recommend shipping during the week beginning on the following Thursday at midnight. The weekly shipping recommendations must be approved by the Secretary of Agriculture. If approved, a share of this volume is prorated to each handler who is legally bound to comply with the hauling regulation.

Foreign Investment in U.S. Agribusiness

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Issue. Foreign direct investment in U.S. agribusiness, from farm production inputs to retailing of farm products, more than doubled (in nominal terms) during the 1980’s, reaching nearly $50 billion in 1991. Foreign investment in U.S. agricultural land alone increased 30 percent to $11 billion in the same years. These increases are part of foreign investment growth in all sectors of the U.S. economy, from $109 billion in 1981 to $408 billion in 1991. While adding investments in U.S. agribusiness, increased foreign ownership and control of resources is a public policy concern.

Context. Foreign investment in U.S. agribusiness includes the food processing and beverage industries, food wholesaling and retailing, textiles and clothing manufacturing, and wholesaling and retailing of farm inputs such as machinery and agricultural chemicals. Such investment grew from $21 billion in 1981 to $50 billion in 1991. The European Community is the leading investor, accounting for 80 percent of the total over the last decade. The United Kingdom is the largest single country investor, followed by The Netherlands and Germany. Japan ranks fourth, after investing rapidly in the late 1980’s. Food processing accounts for the largest share of foreign direct investment in U.S. agribusiness.

Foreign investment in U.S. agricultural land increased from 12.7 million acres valued at $8.5 billion in 1981 to 14.5 million acres valued at $11 billion in 1992. Canada is the largest single country investor in U.S. agricultural land, followed by the United Kingdom. The EC as a bloc is the largest source of investment for land. Forestland constitutes the largest acreage of foreign investment, followed by pastureland. Maine, Texas, and California have the most area held by foreign investors, and Maine, Hawaii, and New Hampshire have the largest proportions of foreign-owned land.

Foreign direct investment in U.S. agribusiness can be viewed from several perspectives: (1) only slightly more than 1 percent of U.S. agricultural land and about 10 percent of the assets in the food manufacturing industry are foreign owned, (2) foreign investment is nearly balanced by U.S. investment abroad (see table), (3) sales from U.S. affiliates abroad exceed the sales from foreign affiliates in the United States, and (4) U.S., Japanese, and EC multinational companies are intertwined all over the world.

At Stake. The United States welcomed capital from abroad to sustain economic growth during the 1980’s. The OECD (Organization for Economic Cooperation and Development) Code of Liberalization of Capital Movements, of which the United States is a participant, encourages the free flow of investment across national boundaries. Foreign capital for new projects creates new jobs and labor income in the United States, and outside capital may bolster existing businesses. Capital-surplus countries invest in the United States to earn a larger return on their investment than they could have at home. Foreign multinational firms use direct investment to expand their markets beyond their countries’ borders. The United States, with large and affluent markets, has often been a leading choice to expand foreign plants. But, this increased competition affects the economic stability of domestic firms.

Alternatives. In dealing with concerns about foreign direct investment, State versus Federal issues must be considered. The regulation of landownership is the prerogative of the States under the 10th Amendment to the U.S. Constitution. Twenty-eight States have some type of law that monitors or
restricts foreign ownership of real property. For example, Idaho restricts acquisition of State-owned lands, Indiana and others restrict the amount of acreage that may be held, and Minnesota and Iowa prohibit foreign ownership of land, with some exceptions. Federal laws, however, have focused on monitoring foreign landownership.

By law, investors must report on foreign ownership of U.S. agricultural land; the Agricultural Foreign Investment Disclosure Act of 1978 (AFIDA) requires the U.S. Department of Agriculture (USDA) to prepare an annual analysis of foreign ownership of U.S. agricultural land. The U.S. Department of Commerce, under the International Investment Survey Act of 1976, also collects data on foreign direct investment in the United States and conducts benchmark surveys, most recently in 1987. Congress has considered, but has not enacted, bills to provide an AFIDA-type monitoring of all foreign investments.

Foreign ownership of agricultural land appears to be a more sensitive issue than foreign ownership of agribusiness. Many city and State governments and chambers of commerce actively seek foreign investment in agribusiness.

**Agenda.** No proposed or pending legislation on foreign direct investment in U.S. agribusiness is before the U.S. Congress and there have been only minor changes in State legislation.


**Two-way foreign direct investment**

*Foreign direct investment in U.S. agribusiness grew rapidly, but this activity was nearly balanced by U.S. investment abroad.*

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Foreign direct investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in the United States:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All industries</td>
<td>263,394</td>
<td>314,754</td>
<td>368,924</td>
<td>396,702</td>
<td>407,577</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>36,086</td>
<td>42,447</td>
<td>48,887</td>
<td>48,536</td>
<td>49,998</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>9,346</td>
<td>9,480</td>
<td>10,371</td>
<td>10,646</td>
<td>11,115</td>
</tr>
<tr>
<td>U.S. investment abroad:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All industries</td>
<td>314,307</td>
<td>335,893</td>
<td>372,419</td>
<td>424,086</td>
<td>450,196</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>25,971</td>
<td>27,484</td>
<td>35,343</td>
<td>40,152</td>
<td>45,727</td>
</tr>
</tbody>
</table>

1Included in agribusiness.

**Issue.** Congress has authorized the collection of assessments from growers to support generic advertising, promotional, and research programs to expand producers’ sales and earnings. Some State and Federal fruit, vegetable, and milk marketing orders also provide for advertising and promotion. Many questions remain unanswered about the effects of these programs on sales and producer net returns, the distribution of returns between producers and marketers, and intercommodity competition.

**Context.** Advertising includes radio, television, newspaper, magazine, and billboard messages usually directed at consumers. Promotion includes buyer seminars and product booths at trade shows, point of purchase pamphlets and posters, and direct contacts with existing and potential commercial buyers. Both generic advertising and promotion seek to expand demand for a commodity produced by many producers. Brand advertising and promotion, by contrast, aim to expand sales of a firm’s own product.

Federal programs to authorize generic advertising started in the mid-1950’s. Congress has authorized stand-alone programs for 17 commodities, 13 of which are currently funded (see table). In addition, Federal marketing orders provide for producer-assessed industry financing of advertising and promotion for certain commodities. Collections from producers for generic advertising and promotion under Federal programs increased tenfold from about $44 million in 1982 to about $450 million during 1992. Some of these funds support research for developing new varieties and products more desirable to consumers and for developing cost-reducing production and marketing techniques. The U.S. Department of Agriculture’s (USDA) Agricultural Marketing Service (AMS) oversees the industry boards responsible for administering the programs.

**At Stake.** The minimum investment in advertising and promotion required to effectively expand the demand in regional, national, and overseas markets is too large for most individual producers to undertake. Moreover, the benefits of an individual producer’s commodity advertising or promotion efforts would likely be shared by other producers who would be free-riders (that is, they benefit without contributing to the costs). Collective funding of generic advertising and promotion using a per unit assessment overcomes problems of large investment and free riders and helps assure that producers share the costs in proportion to benefits received.

Can producers expand sales as more commodities are advertised and promoted? Generic advertising likely does not expand total domestic demand for food commodities because per capita food consumption is relatively constant. Individual producer groups though may gain by advertising to offset a potential sales loss from a rival’s advertising or to increase market share. Generic advertising and promotion might help new products gain acceptance or established products to enter new markets including foreign markets.

Who pays for and who benefits from generic advertising and promotion are frequently at issue. For example, advertising programs that successfully expand sales benefit marketers by increasing the volume they process and handle. For this reason, some producers argue that marketers should contribute to the programs. Marketers maintain that competition assures that benefits are passed back to producers. Some of the programs allow producers to request and receive a refund of their
contributions. Because of the free-rider problem, some grower groups support no refunds. Refunds are not currently allowed for cotton, eggs, beef, dairy, pork, honey, wool, and mohair.

**Alternatives.** Specific policy alternatives include:

1. Do not change the legislation authorizing generic advertising and promotion (status quo).
2. Require periodic independent evaluations of such programs.
3. Eliminate or reduce refunds for all commodities.
4. Require advertising messages where applicable to contain nutritional information about the commodity. Many advertisements today contain such information.

Regular and systematic evaluations might lead to more effective use of producers' funds or elimination of ineffective programs. Although evaluations have been conducted for several of the programs, the law requires them only for dairy. Eliminating or reducing refunds would help assure financial support for the programs, but it would be objectionable to producers who feel that they do not benefit. Requiring that generic advertising and promotion messages contain nutritional information would respond to increased public awareness about nutritional issues, but it might limit the ability of producers to manage the use of their advertising and promotion monies. Procedures also might be established to assure broader representation on governing boards or to make it easier for producers to call for a referendum on whether to continue a program.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Collections (Million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>79.90</td>
</tr>
<tr>
<td>Cotton</td>
<td>42.60</td>
</tr>
<tr>
<td>Dairy</td>
<td>219.59^2</td>
</tr>
<tr>
<td>Eggs</td>
<td>7.64</td>
</tr>
<tr>
<td>Fluid milk</td>
<td>3</td>
</tr>
<tr>
<td>Honey</td>
<td>2.40</td>
</tr>
<tr>
<td>Limes</td>
<td>3</td>
</tr>
<tr>
<td>Mohair</td>
<td>0.70</td>
</tr>
<tr>
<td>Mushrooms</td>
<td>3</td>
</tr>
<tr>
<td>Pecans</td>
<td>3</td>
</tr>
<tr>
<td>Pork</td>
<td>29.90</td>
</tr>
<tr>
<td>Potatoes</td>
<td>5.75</td>
</tr>
<tr>
<td>Soybeans</td>
<td>40.00</td>
</tr>
<tr>
<td>Watermelons</td>
<td>0.75</td>
</tr>
<tr>
<td>Wool</td>
<td>6.20</td>
</tr>
<tr>
<td>Federal marketing orders</td>
<td>16.07^4</td>
</tr>
</tbody>
</table>

18 fruit, vegetable, and nut

^1Collections less refunds from March 1991 to March 1992. Research expenditures are a small share of net collections. Two programs, wheat and flowers and plants, are not listed because they are currently inactive.

^2Includes the national program and 66 State and regional programs (three of which are operated under Federal marketing orders).

^3Program recently or not yet implemented.

^4Planned expenditures during the 1992/93 marketing season.

**Agenda.** More producer groups are likely to seek legislation for commodity advertising and promotion programs. The questions of who gains and by how much become more important as more and more groups advertise. Congress or USDA thus might face greater pressures to establish more uniform policies across commodities regarding evaluation, referendums, refunds, nutritional messages, and general oversight of these programs.