

Fact Sheet 2003-04

WHAT WILL HAPPEN AFTER THE CLOSING OF THE WASHINGTON APPLE COMMISSION?

By **Gerald B. White, Bruce Anderson, Wen-fei Uva, and Brian Henehan**
Department of Applied Economics and Management
Cornell University

The eastern apple industry was taken by surprise with the recent news of the demise of the Washington Apple Commission (WAC). In many ways this formidable competitor served as a benchmark for the eastern industry. The eastern industry judged its advertising and promotion programs against those of the Washington industry, and the amount of the mandatory assessment for operating the WAC became a goal against which to compare the effort of the eastern industry.

With the disappearance of the WAC, many questions arise: Since research indicates that most generic advertising/promotion programs increase or at least retard the decline in the demand of a product, will the demise of the WAC negatively impact the national demand for apples? What kind of advertising/promotion will all growers or major players in the Washington industry develop in the future? Are there new strategic opportunities for the New York apple industry in conducting its advertising/promotion programs? Court challenges to mandatory assessments have succeeded in the last couple of years in several commodities, including mushrooms and table grapes as well as apples. Is there anything to be learned about how marketing orders should be structured in order to survive and succeed? This article is intended to help answer some of these questions.

On April 10, 2003, the WAC decided to cease operations as a result of a March 31, 2002 U.S. District Court decision ruling that mandatory assessments for its advertising and promotion of apples was unconstitutional, and that the WAC could no longer collect such assessments. The situation is still in a state of flux, but a basic exploration of the role of marketing orders and generic promotion might help to point the way to the formulation of a strategy for the apple industries of New York and other eastern states in the future.

Marketing orders are organized either under state or federal enabling legislation. Orders are most often organized for a combination of the following purposes: regulation of quality, regulation of quantity, standardization of containers or packs, research and development (including market research), providing market information for trade use, as well as advertising, promotion, and publicity that would benefit the entire represented industry (not with reference to any private brand). Many marketing orders require mandatory assessments for the funding of their generic programs.

The WAC was established by the state legislation, not as a marketing order, but as a Commission. It was basically a private organization endorsed by Washington state legislation, but operating at arm's length from the state government and without state review of its activities. In addition to the typical activities of a marketing order, the WAC also performed the following functions: category management; funded a food safety and biochemical food processing specialist for the Northwestern Horticulture Council; provided key budgetary support (about half) to the US Apple Association; and organized and helped fund the Northwest Fruit Exporter Group.

The New York Apple Order is organized as a state marketing order, and is regulated by the NY Department of Agriculture and Markets (NYDAM). It has the oversight of the Commissioner of NYDAM and is administered by the NY Apple Marketing Order (NYAMO). It is the NYDAM that collects the mandatory assessments, and the Department must approve the use of all such funds. Historically, NYDAM has contracted with the New York Apple Association (NYAA) to carry out the following activities: advertising, promotion, publicity of apples and apple products, market and product research as well as information services. Information services consist of dissemination and analyzing industry statistics obtained from state and federal sources. In addition, NYAA tracks exports of New York fresh apples by country of destination. This structure may offer protection from a successful court challenge to the NYAMO.

One of the remedies being looked at by Washington agriculture is reform of their various Commissions to give the Director of their Department of Agriculture more oversight, including the authority to appoint all board members of the Commissions. This authority, if realized in a restructuring of the Washington apple industry, will certainly be controversial with some producers and shippers.

While both the WAC and the NYAA conduct generic advertising and promotion programs, the size of the Washington industry, as well as its past higher assessments, meant that its total budget dwarfed that of the NYAA. However, it is uncertain that promotion by the apple industries will continue. The nation's third largest apple producing state, Michigan, recently had 90 per cent of its growers vote affirmative to continue their Apple Advertising and Promotion Program.

Promotion and advertising by the Washington apple industry will be accomplished in different ways. Speculation would suggest that ownership and use of the Washington logo will be a primary issue. Rights to it may be licensed or franchised to individual firms or obtained by a new entity representing the entire state's apple industry. This raises implications for the New York industry. Will Washington apples be promoted as effectively under some new structure as they were in the past? This is a key question because many knowledgeable observers believe the Washington generic advertising/promotion program has increased apple consumption in the United States and abroad. In this regard producers in all other apple producing states have been free riders. Total apple demand may be negatively affected if overall advertising/promotion expenditures decline.

Another important question is what will happen to the US Apple Association's promotional efforts without the budgetary resources (nearly half) from the WAC? In some ways this is the most immediate problem affecting New York and eastern growers. The WAC has decided to continue full funding until August 31, 2003, and 25% funding until July 1, 2004.

Any new organization(s) or new promotion and advertising programs that come out of Washington's reorganization will likely present apple producers from New York and other states with new strategic threats and opportunities. The primary opportunity is that the relative profile of New York apples could increase compared to the past.

The apple industry in Washington is becoming more concentrated, as are eastern marketing organizations, but to a much greater extent. One threat is that the demise of the WAC may encourage faster consolidation than would otherwise occur and that would eventually make Washington a more formidable competitor. Another threat of the disappearance of the WAC is that it may cause increased competition between firms in the Washington apple industry, especially if they try to compete for market share rather than expand the total demand for apples. This could cause ripple effects across the whole country, and may have a negative impact on apple prices.

The New York apple industry has shown foresight in its method of organizing generic apple advising and promotion through a state marketing order rather than a commission. There is likely to be a prolonged period of industry uncertainty as trial and error restructuring proceeds in Washington. To successfully react to these recent developments the New York industry must quickly consider its strategic alternatives under different scenarios that may arise in the Washington industry. Apple growers can encourage industry leaders and marketers to explore such alternatives. New York has done this in the past and we are confident it will in the future.