

# Message from CAC Leadership

## A Brighter Future

Since 2003, California Hass avocado growers have paid an assessment of 2.5 cents per pound to the Hass Avocado Board (HAB) when their bins arrive at the packinghouse door. Handlers collect an assessment for the California Avocado Commission as well, which in recent years has been 2.3 percent of the first wholesale value of the fruit. If you began growing avocados after 2003, you might not be aware of how our industry ended up with two organizations involved in the promotion of avocados in the U.S. market, or how they interrelate.

Nearly two decades ago, faced with the prospect of an ever-increasing volume of imported avocados, the California Avocado Commission crafted federal legislation that became known as the Hass Avocado Promotion, Research and Information Act (Act), 7 USCA §7801 et seq. With much help from Representative Ken Calvert of Riverside, the bill was passed by the U.S. Congress, becoming law on October 28, 2000.

Prior to that time, the development of the U.S. market for avocados rested almost entirely in the hands of the domestic growers. The Commission had been successful at building demand since 1978, and it was clear that marketing and promotion would play a key role in the future development of the U.S. market to ensure that demand

kept pace with a burgeoning supply. There was no mechanism, however, to prevent imports from getting a “free ride” on expenditures by the Commission. One of the driving purposes of the legislation was to correct this inequity. By its terms, the Act was created to: 1) *strengthen the position of the Hass avocado industry in the domestic marketplace; and 2) maintain, develop, and*

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*expand markets and uses for Hass avocados in the domestic marketplace. Congress said that the need was (in part) to preserve and strengthen the economic viability of the domestic Hass avocado industry.*

Think of the legislation as Congress’ instructions to the Executive Branch, specifically the U.S. Department of Agriculture (USDA) as an Executive Branch agency. To implement the will of Congress, the next step was promulgation of a regulation—the Hass Avocado Promotion, Research and In-



John Lamb

formation Order (Order), 7 CFR Part 1219, by USDA, which occurred on September 6, 2002. Shortly thereafter, the Hass Avocado Board was established. Together, the Act and the Order govern the operation of the Hass Avocado Board. Once HAB began collecting the federal assessment, the Commission lowered the state assessment so that California growers would pay no more for marketing than they had prior to the creation of HAB.

The Act and Order provide for the Commission to receive 85 percent of the assessments collected by HAB on Hass avocados grown in California. The Act and Order also allow importers to form “importer associations” and receive 85 percent of the assessments paid on Hass avocados imported by the members of such associations. To date, Mexico, Peru and Chile have formed importer associations which receive rebates based on the volume of Hass avocados imported into the United States.

HAB retains the remaining 15 percent of assessments paid by domestic growers and importers for administration and to implement programs per the terms of the Order. Broadly



*Tom Bellamore*

speaking, HAB's programs center on nutrition research, nutrition-related marketing communications, collection and dissemination of industry statistics, consumer and retail research, and collection of retail data. It is noteworthy that the marketing and promotion activities of HAB are limited by design. The Commission and the importer associations believe that building demand is best left to the associations formed for this purpose.

Collectively, the Commission and the importer associations have been instrumental in increasing U.S. per capita demand for avocados from around 1.6 pounds in the 1990s to about 8 pounds, presently. Growth is projected to increase at 10 percent annually provided market development work by the associations continues. Currently, of the roughly \$61 million in federal assessments collected by HAB, some \$52 million is rebated to the associations under the cited provisions, all of which must be used for U.S. market development. The remaining \$9.2 million is the 15 percent retained by HAB.

When HAB was first organized, the total volume of Hass avocados (both domestic and imported) sold in the U.S. was 682 million pounds. The federal assessment at the time amounted to roughly \$17 million; after the 85 percent

rebate to CAC and the importer associations, the 15 percent retained by HAB amounted to around \$2.6 million. The burgeoning volume of Hass avocado imports into the U.S., reaching 2.5 billion pounds in 2018, has propelled the retention amount to \$9.2 million, without end in sight. The 15 percent funds are literally overflowing HAB's coffers, replenishing at a greater amount each year. The rate of this replenishment was virtually unforeseeable nearly 20 years ago when the legislation was crafted.

At its February 2019 meeting, the CAC board discussed the possibility of raising the rebate from 85 to 95 percent, thus allowing CAC and the importer associations to receive more of their own assessment dollars to promote their respective brands. The idea is not a novel one. In February 2008, the Commission board took up the same proposal and voted in its favor. The change was never realized, however, largely because of political impediments at the time. The current round of deliberations on the subject was robust. Many of the Commission board members spoke of the good work HAB has been doing, particularly in the area of nutrition research, where the 15 percent funds provide a direct benefit to the avocado category and fruit of all origins. While concern was expressed that the change could reduce HAB's 15 percent budget, projections that were circulated around the board table showed the impact to be relatively short-lived. As import volumes continue to grow, HAB's budget steadily rises. Even a 5 percent year-over-year market expansion—slower growth than we are presently realizing—would position HAB with about a \$4 million retention in 2023. The discussion ended with the majority of the CAC board voting to pursue an increase in the rebate to 95 percent.

Preliminary discussions with the importer associations have indicated

strong support for the change. Based on the aggregate volume of Hass avocados in the U.S. market last year, a change to a 95 percent rebate would result in an additional \$6 million being returned to CAC and the importer associations—money which would be spent directly on market-level promotions aimed at moving volume. For California, the difference amounts to \$750,000 on a crop size like last year's, no small chunk of change. With California's market share entering single digits as the market expands, the additional funds become a hedge against losing relevancy among our key customers. The California brand would be buoyed by the infusion of additional federal funds at a time when it is needed most.

California growers have faced very tough, competitive conditions since Mexico first entered the market in 1997. HAB has served its core purpose, collecting and disbursing funds for market development work by CAC and the importer associations, and the vision that led to its creation has been realized beyond the wildest dreams of those of us who labored over the legislative language.

Collectively the efforts of CAC and the importer associations have created an extremely powerful marketing machine that has fueled unprecedented demand. The robust U.S. avocado market that has resulted has kept the California brand strong despite the many challenges faced by growers. Now, after nearly 20 years, the legislation that enabled the Hass Avocado Board deserves another look, with an eye towards making the federal assessment dollars more efficient for growers and importers alike. In the ensuing months, CAC will be working with the importer associations to carry out the board's directive. After all things are considered, we firmly believe that doing so will position California avocados for a brighter future. 🥑