

PROPOSED AMENDMENT TO CFR PART §959
Contributions
Justification of Proposal

Proposed Language:

The Committee may accept voluntary contributions. Such contributions may only be accepted if they are free from any encumbrances or restrictions on their use and the Committee shall retain control of their use. The Committee may receive contributions from within and outside of the production area.

1. What is the purpose of the proposal?

This proposal would add the authority for the South Texas Onion Committee (Committee) to accept contributions such as grants. The Committee wants to expand marketing and paid advertising. There are opportunities to find additional funding and STOC is missing out on, without this authority they aren't able to accept any that they might receive.

Since its inception, the Committee has operated in an advisory capacity for grants such as marketing and promotion, or research (i.e. developing mechanical harvesting capabilities). This change would bring the contributions under the direct control, both financially and for final decision-making, of the Committee. Thus giving the producers and handlers of FMO#959 more influence over how projects funded from outside sources can improve the Texas onion industry to the benefit of all.

2. What problem is the proposal designated to address? Explain/Quantify.

Many research projects and promotional activities are not being conducted because of a lack of funding. Sources outside the marketing order have expressed an interest in supporting various activities to benefit the Texas onion industry and the STOC. However, because the Committee does not have the authority to accept contributions to assist in funding projects, many requests for funding are denied. There are limited funds in the industry, and the STOC would want to take advantage of any opportunity which gives the producers and handlers an opportunity to improve the local industry.

With additional funds provided through voluntary contributions, the pool of resources to support activities such as research and promotions would expand, more projects benefiting the industry could be undertaken. For example, additional promotional activities such as targeted marketing campaigns or improvements to the TX1015 brand recognition to make consumers aware of South Texas onions and their versatility would increase sales. And increased sales would increase returns to growers.

In the face of the growing popularity and successful marketing campaigns conducted by other onion-groups for the last 20+ years, the Texas onion has continued to lose market share and presence in the domestic market. Many sales agents handling Texas onions report that it is common for grocery store buyers to stop purchasing Texas onions in the middle of the season (~middle/late April) in favor of varieties with more consumer recognition. This impacts the average return to growers since during many seasons the prices paid by retailers is \$1-\$3 more per 50lbs equivalent than then the prices paid by wholesale or foodservice users (due to the higher quality of the final product).

As another example, there are funds available from the Texas Department of Agriculture for projects such as promotions and research, but the STOC cannot accept those monies with the

current language order. The STOC needs a system to accept contribution funds.

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3. What are the current requirements or industry practices relative to the proposal?

Currently, the STOC cannot accept contributions and must use only assessment funds for any projects. However, over the last decade the industry production has fluctuated dramatically – due to a variety of influences – so funds for activities beyond simple compliance have largely been limited. As a result, the STOC is typically limited to an advisory role in many projects so few investments have been made.

On the research front, the Committee advised on a study for mechanical onion harvesting and served as a communication tool between researchers and the machinery company. The committee did contribute some funds from assessments to this project over the years (approximately \$30,000 since 2019), however the majority of the funding arrived from a grant managed by a different party. Since the advent of this grant and the support STOC provided, two different Texas growers have invested in mechanical harvesting systems. The STOC is still supporting a wider NRCI project with smaller “in-kind” contributions, however the impact to Texas has been minimal since partnering with other states and marketing orders which could accept contributions was necessary to keep the research going.

Research projects such as the one above have had a positive outcome and the committee would like to do more research to help the industry.

Another example is that since 2019, the Texas International Produce Association (TIPA) has conducted various marketing campaigns targeting both commercial buyers as well as consumers, largely focused on re-establishing relevance, prominence and recognition of Texas onions. As a result, the Texas onion industry .

For both grants, the Committee served only to advise. Revising the language would give authority to the committee so that they can lead marketing and research activities without relying on an outside organization.

4. What are the expected impacts on producers, handlers, and consumers?

First and foremost, granting the Committee the capacity to accept contributions means increasing the abilities of the Committee to engage in activities such as marketing, promotions, and research, without increasing the financial burden on the industry. Utilizing outside funding leverages the capabilities of the Committee without needing to increase the assessment rate or go into debt to achieve a myriad of goals.

Adding the proposed language into the Order would: open accessibility to state and federal funding sources, move forward Committee goals and objectives by utilizing these funds on behalf of the industry for self-improvement, make a more efficient and streamlined use of the funds, minimize assessment fees paid by handlers and growers to achieve the same goals, and improve conditions throughout the Texas onion industry.

From there, the impact depends on the project. Marketing and promotions would drive additional purchases of Texas onions by consumers, thereby increasing the final return to growers and handlers. Mechanical harvesting and improved storage conditions would reduce the labor cost and allow the Texas onion producers to sell more onions through a longer window, also increasing the final return to growers. New varieties, higher yields, disease resistance, pest management, improved shipping containers, relevant marketing campaigns, larger and more ostentatious marketing

campaigns all lead to improved returns to growers – and accepting contributions makes it all possible without increasing the financial burden on the growers.

5. How would the proposal tend to improve returns to producers? Quantify.

This proposal would allow the STOC to use the combination of both assessments and outside funding to increasing the monies available for pursuing a variety of industry needs. This increase will open new opportunities which can benefit growers across a spectrum of areas, with the end goal always being an increase to the bottom line of the producers.

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Activities such as research into new varieties and/or new storage technics could yield an onion that extends the length of the Texas onion season. This would give growers a wider window in which to grow, handle and sell onions. That window would not only open the volume and amount of sales, but it would extend the presence of the Texas producer on store shelves, which in turn would further entrench the importance of Texas production to the sourcing plans for grocery stores and foodservice. That importance would in turn generate additional sales, which means increased returns to the growers.

Activities such as increased marketing could improve not only the price per pound for Texas onions, but would also increase the demand and recognition of Texas onions, further driving additional sales and movement.

For example, marketing builds product awareness and would make Texas onions more desirable from a consumer & purchaser awareness point-of-view. Constantly updating the marketing campaign, similar to California Milk, ensures the product resonates with the tastes and generational-preferences of the constantly changing ‘American consumer.’ Increasing the sale of onions would result in an increase in returns to the producer. During the 2018-19 FY, the Committee advised on a project that used less than \$70,000 in grant funds for advertisements promoting Texas onions. Including the development of a website, the advertisements ran for six months on six different platforms (The SNACK, AndNowUKnow, The Produce News, Produce Business, Onion Insider, and The Packer). The results were:

- 2 unique full-page ads and 4 smaller variational advertisements promoting Texas onions
- 1 unique recipe and full-page advertisement for “Texas onion quiche”
- 9 articles/stories featuring Texas onions across 6 publications
- 75 digital or print ads in 4 different marketing channels promoting Texas onions across 7 months (starting October 2019 through April 2020)
- 461,908 digital impressions from e-mail advertisements, resulting in 1532 click throughs
- Over 1400 site visits to the www.tx1015.com promotional website from Jan 1 2020 to June 1 2020, with 1230 unique visits and 732 different IP address visits (signifying approximately 500 return visits to the website on a different day)
- 3 marketing channels alone provided visibility to 20,500 print subscribers and nearly 140,000 digital subscribers

Meanwhile, the ongoing research into mechanical harvesting of Texas onions seeks to drive down the per unit cost of harvesting while addressing one of the largest problems facing the Texas industry today - labor. During the Texas onion season, many growers continue to report dwindling numbers of available laborers to harvest the onions from the field. Those growers then begin to compete not only among themselves (Texas onion growers) but they also compete with the other crops – grapefruit, oranges, kale, cilantro, cabbage, mustard greens, parsley, watermelons, honeydews, cantaloupes, etc. This competition drives the cost

of the few workers up higher and higher. This competition is especially common in seasons where rain prevents harvesting of all the crops and drives all of the commodities to be harvested in the exact and very small windows between weather events.

The ability to mechanically harvest means that a crew of 10 workers could achieve what a crew of 30 to 50 workers (depending on the conditions) can do with the help of the machine. This reduces the per bag cost to harvest the onions, and eliminates the competitive scenarios that artificially drive up labor rates and would thus increase the production cost to the growers.

Both projects have different benefits, but ultimately increase profitability of the industry. And by accepting contributions beyond the self-assessments set by the industry, the growers are able to achieve more and improve their returns without creating financial stress on their organizations to finance activities beyond normal operations.

6. What are the expected effects on small businesses?

This proposal would not increase or decrease any reporting, recordkeeping or compliance costs to small businesses since the Committee staff – or management firm staff – would oversee the contributions and report on the utilization of the funds biannually to the Committee, and at least annually to the grantors (although in many cases the state grant reporting is quarterly, with 6-month detailed reviews and an annual project update).

Accessing these monies would allow Texas onion producers the ability to compete with larger companies and industries in an assortment of situations and scenarios – market recognition, market access, international market development, national market development, best practices, utilization of new and emerging technologies, and so forth. More specifically, utilizing outside funding provides an opportunity to the industry as a whole to pursue activities including outreach, research and development, varietal trials and other activities that will improve profitability of the industry without increasing the assessment rates to the growers for these purposes. All of which are activities outside the capabilities of the small farmers and packers due to the capital intensive and necessary skill sets of the aforementioned projects.

7. Would the proposal increase or decrease costs to producers, handlers, committee and/or USDA? Explain/Quantify.

This proposal would not increase any costs to producers or handlers.

In fact, by creating the ability to accept contributions the Committee is likely to have decreased costs. The reliance or possibility of using a costly third-party with a pass-through cost (i.e. contractors) would no longer be necessary. The Committee can instead determine the most effective use of the funds, directing projects to the areas industry finds most useful. While this means more work for the Committee, the benefits outweigh the burden in that accessing these funds provides a revenue stream in addition to the assessment for the committee.

8. How would the proposal be implemented?

The amendatory language is minimal and would not have negative regulatory or economic impact to producers, handlers or consumers. The ability to accept voluntary financial contributions would have a significant beneficial impact on the industry. Additional funds would enable the Committee to further expand its promotional efforts to increase the demand for Texas onion by making

consumers aware of the health benefits, versatility, unique taste and flavor. Increased sales of onions would without question positively impact grower returns.

Voluntary contributions would be made to the Committee free of all encumbrances. The Committee Manager would be responsible to ensure that contributed funds were used only for the intended purpose, and that no preferential treatment or privileges were granted to donors. Funds received through voluntary contributions would be included in the budget and allocated to research and promotion activities. The budget is then reviewed and approved by the Committee and USDA.

Other organizations have found contributions as a fast-track for implementing industry improvements. For example, look at the Georgia Organic Peanut Association. They recently accessed a USDA grant from the Organic Market Development Grant program to purchase processing equipment which would allow their producers to start making organic peanut oil. In 2013, the Wisconsin Food Hub Cooperative used a working capital grant to build a regional fresh produce food hub and packinghouse, which allowed their farmer-led coop to distribute to more wholesale market operations and thus increase the return to their growers.

9. How would compliance with the proposal be affected? Explain/Quantify.

Compliance would not be impacted. Oversight and accounting protocols are already in place for the Committee, with monthly financial reviews done by the Office Manager of the management firm. All checks require 2 signatures from the executive committee and all activities (financial and otherwise) are audited bi-annually by USDA. Further, an annual financial audit by a Yellow-book authorized firm is conducted that would also identify irregularities. The audit findings and summary are presented to the entire industry, and the Committee must vote to accept these findings annually as well.

In addition to those protections, many contributions would be grants which would arrive from local, state and federal sources which themselves have accounting and usage procedures and audits, adding yet more layers of governance and oversight into the usage of these funds, further and further decreasing the likelihood of mismanagement.

**Sample Language for adding “Contributions”
to existing Federal Marketing Orders**

The Council may accept voluntary contributions. Such contributions may only be accepted if they are free from any inconveniencies or restrictions on their use but these shall only be used to pay expenses incurred pursuant to §955.50 and the Council shall retain complete control of their use. The Council may receive contributions from both within and outside of the production area. The Council will have a broad discretion in allocating the voluntary contributions. The Council will not be bound by any specific donor wishes regarding the contribution's use. The Council will provide regular report on how the voluntary contributions are going to be used in order to maintain the public's trust. The Council will ensure that the financial transactions related to the contributions comply the relevant laws and regulations.

§986.63 Contributions.

The Council may accept voluntary contributions. Such contributions may only be accepted if they are free from any encumbrances or restrictions on their use and the Council shall retain complete control of their use. The Council may receive contributions from both within and outside of the production area.

§915.43 Contributions.

The committee may accept voluntary contributions. Such contributions shall be free from any encumbrances by the donor and the committee shall retain complete control of their use.

§955.45 Contributions.

The committee may accept voluntary contributions but these shall only be used to pay expenses incurred pursuant to §955.50. Such contributions shall be free from any encumbrances by the donor, and the committee shall retain complete control of their use.