

season-to-season tend to be larger than fluctuations in the amount purchased by buyers.

The significant variability is illustrated by the fact that between 1980 and 2001, the coefficient of variation (CV) of northwest spearmint oil production was about 0.24. The CV is a standard measure of variability above and below the average production level of 1,880,727 pounds. Production in the shortest crop year was about 48 percent of the 22-year average and the largest crop was approximately 164 percent. A key consequence is that in years of oversupply and low prices, the season average producer price of spearmint oil is below the average cost of production (as measured by the Washington State University Cooperative Extension Service).

Over the 22-year period, the CV for spearmint oil prices was about 0.13, well below the CV for production. This provides an indication of the price stabilizing impact of the marketing order.

In an effort to stabilize prices, the spearmint oil industry uses the volume control mechanisms authorized under the order. This authority allows the Committee to recommend a salable quantity and allotment percentage for each class of oil for the upcoming marketing year. The salable quantity for each class of oil is the total volume of oil that producers may sell during the marketing year. The allotment percentage for each class of spearmint oil is derived by dividing the salable quantity by the total allotment base.

Each producer is then issued an annual allotment certificate, in pounds, for the applicable class of oil, which is calculated by multiplying the producer's allotment base by the applicable allotment percentage. This is the amount of oil for the applicable class that the producer can sell.

By November 1 of each year, the Committee identifies any oil that individual producers have produced above the volume specified on their annual allotment certificates. This excess oil is placed in a reserve pool administered by the Committee.

There is a reserve pool for each class of oil that may not be sold during the current marketing year unless the Secretary approves a Committee recommendation to make a portion of the pool available. However, limited quantities of reserve oil are typically sold to fill deficiencies. A deficiency occurs when on-farm production is less than a producer's allotment. In that case, a producer's own reserve oil can be sold to fill that deficiency. Excess production (higher than the producer's

allotment) can be sold to fill other producers' deficiencies.

In any given year, the total available supply of spearmint oil is composed of current production plus carry-over stocks from the previous crop. The Committee seeks to maintain market stability by balancing supply and demand, and to close the marketing year with an appropriate level of carry-out. If the industry has production in excess of the salable quantity, then the reserve pool absorbs the surplus quantity of spearmint oil, which goes unsold during that year, unless the oil is needed for unanticipated sales.

Under its provisions, the order may attempt to stabilize prices by (1) limiting supply and establishing reserves in high production years, thus minimizing the price-depressing effect that excess producer stocks have on unsold spearmint oil, and (2) ensuring that stocks are available in short supply years when prices would otherwise increase dramatically. The reserve pool stocks grown in large production years are drawn down in short crop years.

An econometric model was used to assess the impact that volume control has on the prices producers receive for their commodity. Without volume control, spearmint oil markets would likely be over-supplied, resulting in low producer prices and a large volume of oil stored and carried over to the next crop year. The model estimates how much lower producer prices would likely be in the absence of volume controls.

The Committee estimated the available supply during the 2003–2004 marketing year for both classes of oil at 1,814,356 pounds, and that the expected carry-in will be 148,344 pounds. Therefore, with volume control, sales by producers for the 2003–2004 marketing year should be limited to 1,665,972 pounds (the recommended salable quantity for both classes of spearmint oil).

The recommended salable percentages, upon which 2003–2004 producer allotments are based, are 45 percent for Scotch and 38 percent for Native. Without volume controls, producers would not be limited to these allotment levels, and could produce and sell additional spearmint. The econometric model estimated a \$1.57 decline in the season average grower price per pound (from both classes of spearmint oil) resulting from the higher quantities that would be produced and marketed without volume control. Northwest grower prices for both classes of spearmint oil averaged \$8.86 for 2000 and 2001, based on National Agricultural Statistics Service data,

continuing a downward decline in recent years. The severe surplus situation for the spearmint oil market that would exist without volume controls in 2003–2004 also would likely dampen prospects for improved grower prices in future years because of the buildup in stocks.

The use of volume controls allows the industry to fully supply spearmint oil markets while avoiding the negative consequences of over-supplying these markets. The use of volume controls is believed to have little or no effect on consumer prices of products containing spearmint oil and will not result in fewer retail sales of such products.

The Committee discussed alternatives to the recommendations contained in this rule for both classes of spearmint oil. The Committee discussed and rejected the idea of recommending that there not be any volume regulation for Scotch spearmint oil because of the severe price-depressing effects that would occur without volume control.

The Committee also considered various alternative levels of volume control for Scotch spearmint oil, including leaving the percentage the same as the current season, increasing the percentage to a less restrictive level, or decreasing the percentage. After considerable discussion in which there was no support for increasing the percentage and minimal support for decreasing it, the Committee chose to remain at the current level (45 percent). One Committee member voted in favor of establishing an allotment percentage of 40 percent due to his belief that anything more would not help improve the current depressed prices growers are receiving for their oil.

The Committee also discussed alternative allotment percentage levels for Native spearmint oil. With the current price for Native spearmint oil lower than the 20-year average, and demand fairly flat, the Committee, after considerable discussion, determined that 808,528 pounds and 38 percent would be the most effective salable quantity and allotment percentage, respectively, for the 2003–2004 marketing year. With a market situation similar to that of Scotch, none of those in attendance at the October 2, 2002, meeting were in support of a higher level of volume regulation, and only a few voiced support for levels less than 38 percent. After considerable discussion, the Committee unanimously supported the recommendation contained herein.

As noted earlier, the Committee's recommendation to establish salable quantities and allotment percentages for both classes of spearmint oil was made