

Standards for Grade. The revision brings these grade standards in line with other recently amended standards and current terminology, and updates the standards to more accurately represent today's marketing practices and provide the industry with greater flexibility.

**Authority:** 7 U.S.C. 1621–1627.

Dated: July 29, 2016.

**Elanor Starmer,**

*Administrator, Agricultural Marketing Service.*

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## DEPARTMENT OF AGRICULTURE

### Agricultural Marketing Service

#### 7 CFR Part 986

[Docket No. AO–FV–15–0139; AMS–FV–15–0023; FV15–986–1]

#### **Pecans Grown in the States of Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas; Order Regulating Handling**

**AGENCY:** Agricultural Marketing Service, USDA.

**ACTION:** Final rule.

**SUMMARY:** This rule establishes a marketing agreement and order (order) for pecans grown in the states of Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas. The order provides authority to collect industry data and to conduct research and promotion activities. In addition, the order provides authority for the industry to recommend grade, quality and size regulation, as well as pack and container regulation, subject to approval by the Department of Agriculture (USDA). The program will be financed by assessments on handlers of pecans grown in the production area and will be locally administered, under USDA oversight, by a Council of seventeen growers and shellers (handlers) nominated by the industry and appointed by USDA.

**DATES:** This rule is effective August 5, 2016.

**ADDRESSES:** Marketing Order and Agreement Division, Specialty Crops Program, AMS, USDA, 1400 Independence Avenue SW., Stop 0237, Washington, DC 20250–0237.

#### **FOR FURTHER INFORMATION CONTACT:**

Melissa Schmaedick, Senior Marketing Specialist; Telephone: (202) 557–4783, Fax: (435) 259–1502, or Michelle Sharrow, Rulemaking Branch Chief; Telephone: (202) 720–2491, Fax: (202) 720–8938, or Email: [Melissa.Schmaedick@ams.usda.gov](mailto:Melissa.Schmaedick@ams.usda.gov) or [Michelle.Sharrow@ams.usda.gov](mailto:Michelle.Sharrow@ams.usda.gov).

Small businesses may request information on this proceeding by contacting Antoinette Carter, Marketing Order and Agreement Division, Specialty Crops Program, AMS, USDA, 1400 Independence Avenue SW., Stop 0237, Washington, DC 20250–0237; Telephone: (202) 720–2491, Fax: (202) 720–8938, or Email: [Antoinette.Carter@ams.usda.gov](mailto:Antoinette.Carter@ams.usda.gov).

**SUPPLEMENTARY INFORMATION:** Prior documents in this proceeding: Notice of Hearing issued on June 26, 2015, and published in the July 2, 2015, issue of the **Federal Register** (80 FR 38021); Recommended Decision and Opportunity to File Written Exceptions issued on October 20, 2015, and published in the October 28, 2015, issue of the **Federal Register** (80 FR 66372); and Secretary's Decision and Referendum Order issued on February 22, 2016, and published in the February 29, 2016, issue of the **Federal Register** (81 FR 10138).

This administrative action is governed by the provisions of sections 556 and 557 of title 5 of the United States Code and, therefore, is excluded from the requirements of Executive Orders 12866, 13563, and 13175. Notice of this rulemaking action was provided to tribal governments through USDA's Office of Tribal Relations; no comments have been received.

#### **Preliminary Statement**

The marketing agreement and order regulating the handling of pecans grown in the states of Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas is based on the record of public hearing held July 20 through July 21, 2015, in Las Cruces, New Mexico; July 23 through July 24, 2015, in Dallas, Texas; and, July 27 through July 29, 2015, in Tifton, Georgia. The hearing was held to receive evidence on the marketing order from growers, handlers, and other interested parties located throughout the production area. The hearing was held pursuant to the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601–674), hereinafter referred to as the “Act,” and the applicable rules of practice and procedure governing the

formulation of marketing agreements and orders (7 CFR part 900). The marketing order is authorized under section 8(c) of the Act. Notice of this hearing was published in the **Federal Register** on July 2, 2015.

The proposal was submitted for consideration to the Department on May 22, 2015, by the American Pecan Board (Board), a proponent group established in 2013 to represent the interests of growers and handlers throughout the fifteen-state production area. A subsequent, modified draft of the regulatory text was submitted on June 10, 2015.

The order provides the pecan industry with tools to assist the industry in addressing a number of challenges, including: a lack of organized representation of industry-wide interests in a single organization; a lack of accurate data to assist the industry in its analysis of production, demand and prices; a lack of coordinated domestic promotion or research; and a forecasted increase in production as a result of new plantings.

Upon the basis of evidence introduced at the hearing and the record thereof, the Administrator of AMS on October 20, 2015, filed with the Hearing Clerk, USDA, a Recommended Decision and Opportunity to File Written Exceptions thereto by November 27, 2015. No exceptions were filed. That document also announced AMS's intent to request approval of new information collection requirements to implement the program. Written comments on the proposed information collection requirements were due by December 28, 2015. None were filed.

However, USDA provided two conforming changes to the order language as published in the Recommended Decision. These conforming changes replaced the word “redefining” in § 986.55 (c)(6) with “reestablishment,” and the word “redefining” in § 986.33(b) with “reestablishment,” thereby conforming to the terminology used in § 986.58.

Further, USDA provided a correction to the Regulatory Flexibility Act (RFA) analysis published in the Recommended Decision. The RFA incorrectly referenced a Small Business Administration (SBA) threshold of \$7 million in annual receipts to identify small handler entities, while hearing testimony correctly identified a \$7.5 million threshold.

The specifics of these corrections were addressed in the Secretary's Decision and Referendum Order issued on February 22, 2016, and published in the February 29, 2016, issue of the **Federal Register**.

That document also directed that a referendum be conducted during the period of March 9 through March 30, 2016, among growers who produced a minimum average, annual amount of 50,000 pounds of inshell pecans between August 1, 2011, and July 31, 2015, or who owned a minimum of 30 pecan acres, to determine whether they favored issuance of the order. In the referendum, the order was favored by more than two-thirds of the growers voting in the referendum by number and volume.

The marketing agreement was mailed to all pecan shellers (handlers) in the production area for approval. The marketing agreement was approved by more than 50 percent of the volume of pecans handled by all shellers (handlers) during the representative period of August 1, 2014, and July 31, 2015.

### Small Business Considerations

Pursuant to the requirements set forth in the Regulatory Flexibility Act (RFA), the Agricultural Marketing Service (AMS) has considered the economic impact of this action on small entities. Accordingly, the AMS has prepared this final regulatory flexibility analysis.

The purpose of the RFA is to fit regulatory actions to the scale of business subject to such actions so that small businesses will not be unduly or disproportionately burdened. Small agricultural producers have been defined by the Small Business Administration (SBA) (13 CFR 121.201) as those having annual receipts of less than \$750,000. Small agricultural service firms, which include handlers that will be regulated under the order, are defined as those with annual receipts of less than \$7,500,000.

Interested persons were invited to present evidence at the hearing on the probable regulatory and informational impact of the order on small businesses. The record evidence is that while the program will impose some costs on the regulated parties, those costs will be outweighed by the benefits expected to accrue to the U.S. pecan industry.

Specific evidence on the number of large and small pecan farms (above and below the SBA threshold figure of \$750,000 in annual sales) was not presented at the hearing. However, percentages can be estimated based on record evidence.

The 2014 season average grower prices per pound for improved and native seedling pecans were \$2.12 and \$0.88, respectively. A weighted grower price of \$1.85 is computed by applying as weights the percentage split between improved and native acreage on a

representative U.S. pecan farm, which are 78 and 22 percent, respectively. The average yield on the representative farm is 1,666.67 pounds per acre. Multiplying the \$1.85 price by the average yield gives a total revenue per acre figure of \$3,080. Dividing the \$750,000 SBA annual sales threshold figure by the revenue per acre figure of \$3,080 gives an estimate of 243 acres as the size of farm that would have annual sales about equal to \$750,000, given the previous assumptions. Any farm of that size or larger would qualify as a large farm under the SBA definition.

Data presented in the record show that about 52 percent of commercial U.S. pecan farms have 250 or more acres of pecans. Since the 243 acre estimate above is close to 250 acres, it can be extrapolated that 52 percent is a reasonable approximation of the proportion of large farms and 48 percent is the proportion of small pecan farms. According to the record, this estimate does not include "backyard" production.

According to record evidence, there are an estimated 250 handlers in the U.S. Of these handlers, which include accumulators, there are an estimated 50 commercially viable shellers with production over 1 million pounds of inshell pecans operating within the production area. Fourteen of these shellers meet the SBA definition for large business entity and the remaining 36 are small business entities.

Record evidence indicates that implementing the order would not represent a disproportionate burden on small businesses. An economic impact study of the authority for generic promotion presented at the hearing provided that the program would likely benefit all industry participants.

### Impact of Generic Promotion Through a Marketing Order

The record shows that generic promotion over a wide variety of agricultural products stimulates product demand and translates into higher prices for growers than would have been the case without promotion.

Promotional impact studies of other tree nuts (almonds and walnuts), and of Texas pecans, show price increases as high as 6 percent, but the record indicates that 0 to 3 percent is a more representative range. Since the other tree nut promotion programs are well-established, the record shows that a representative middle (most likely) scenario would be a price increase from promotion of 1.5 percent for the early years of a new pecan promotion program. Low and high scenarios were 0.5 and 3.0 percent, respectively.

The record indicates that an analytical method used historical yearly prices from 1997 to 2014 in a simulation covering that period to obtain an expected average price without promotion. In a subsequent step, the simulation applied a demand increase of 1.5 percent to the entire distribution of prices to represent the impact of promotion. The projected increases in grower prices from promotion for improved and native pecans were 6.3 and 3.6 cents per pound, respectively, as shown in Table 1. These two price increase projections represent a range of results. Based on a range of simulated price increases as high as 3 percent, the low and high price increase projections for improved pecans were 4.0 and 9.6 cents, respectively. For native varieties, the results ranged from 2.7 to 4.2 cents.

The record indicates that a key analytical step was developing an example farm with specific characteristics to explain market characteristics and marketing order impacts. An important characteristic of this "representative farm" is the acreage allocation between improved and native pecans of 78 and 22 percent, respectively. This is similar to the proportion of the U.S. pecan crop in recent years allocated to improved and native varieties. Average yield per acre of the representative farm (covering all states and varieties) is 1,666.67 pounds per acre.

The acreage split of 78 and 22 percent are used as weights to compute weighted average prices (combining improved and native pecans) of 5.7 and 2.3 cents, respectively, as shown in the fourth column of Table 1.

The record shows that the initial ranges of marketing order assessments per pound are 2 to 3 cents for improved pecans and 1 to 2 cents for native pecans. The midpoints of these ranges (2.5 and 1.5 cents, respectively) are used to compute a benefit-cost ratio from promotion, with a weighted average assessment cost of 2.3 cents, as shown in Table 2. Assessments would be collected from handlers, not growers, but for purposes of this analysis, it is assumed that 100 percent of the assessment cost would be passed through to growers.

Table 1 shows that dividing the projected benefit of 5.7 cents per pound (weighted price increase from promotion) by the estimated assessment cost of 2.3 cents (weighted assessment rate per pound), yields a benefit-cost ratio of 2.5. Each dollar spent on pecan promotion through a Federal marketing order is expected to result in \$2.50 in increased revenue to the pecan growers of the United States.

TABLE 1—ESTIMATED BENEFIT-COST RATIO OF PECAN PROMOTION THROUGH A FEDERAL MARKETING ORDER

	Improved pecans	Native pecans	Weighted
Benefit: Projected price increase from pecan promotion (cents per pound) .....	6.3	3.6	5.7
Cost: FMO Assessment rate (cents per pound) .....	2.5	1.5	2.3
Benefit-cost ratio .....	2.52	2.40	2.50

\* Weights for improved and native pecans are 78% and 22%, respectively, which is the acreage allocation of a representative U.S. pecan farm, according to the record.

Examining potential costs and benefits from promotion across different farm sizes is done in Table 2. Record evidence showed that the minimum size of a commercial pecan farm is 30 acres, and that a representative average yield across the entire production area is 1,666.67 pounds per acre. This combination of acreage and yield results in a minimum threshold level of commercial production of 50,000 pounds. Witnesses stated that expenditures for the minimum necessary level of inputs for commercial pecan production cannot be justified for any operation smaller than this.

In Table 2, a very small farm is defined as being at the minimum commercial threshold level of 30 acres and 50,000 pounds. Small and large farms are represented by farm size levels of 175 and 500 acres, respectively. Multiplying those acreage levels by the average yield for the entire production area gives total annual production level

estimates of 291,667 and 833,335 pounds, respectively.

Multiplying the 2014 grower price per pound of \$2.14 by the 291,677 pounds of production from the small farm (175 acres) yields an annual crop value estimate of about \$618,000. This computation shows that the small farm definition from the record is consistent with the SBA definition of a small farm (annual sales value of up to \$750,000).

Table 2 shows for the three representative pecan farm sizes the allocation of total production levels between improved and native varieties (78 and 22 percent, respectively).

Although marketing order assessments are paid by handlers, not growers, it is nevertheless useful to estimate the impact on growers, based on the assumption that handlers may pass part or all of the assessment cost onto growers from whom they purchase pecans. To compute the marketing order burden for each farm size, the improved

and native production quantities are multiplied by 2.5 and 1.5 cents per pound of improved and native pecans, respectively. For the representative small farm (175 acres), summing the improved and native assessments yields a total annual assessment cost of \$6,650. For the large farm, the total assessment cost is \$19,000.

A parallel computation is made to obtain the total dollar benefit for each farm size. The improved and native quantities for the representative farm sizes are multiplied by the corresponding projected price increases of 6.3 and 3.6 cents. Summing the improved and native benefits for the small and large farm size yields projected annual total benefits for the small and large representative farm sizes of \$16,643 and \$47,550, respectively. The results of dividing the benefits for each farm size by the corresponding costs is 2.5, which equals the benefit-cost ratio shown in Table 2.

TABLE 2—COSTS AND BENEFITS OF PROMOTION FOR THREE SIZES OF REPRESENTATIVE U.S. PECAN FARMS

	Very small farm	Small farm	Large farm
<b>Representative Pecan Farms: Acres and Production</b>			
Acres per farm .....	30	175	500
Production on Representative Farms (Acres multiplied by estimated U.S. average yield of 1666.67 pounds per acre) .....	50,000	291,667	833,335
Improved pecan production (78% of farm acres) .....	39,000	227,500	650,001
Native pecan production (22% of farm acres) .....	11,000	64,167	183,334
Cost per farm: Grower burden of program represented as cost per pound			
Improved (2.5 cents) .....	\$975	\$5,688	\$16,250
Native (1.5 cents) .....	\$165	\$963	\$2,750
Total Estimated Cost per Farm .....	\$1,140	\$6,650	\$19,000
Benefit per farm: Price increase per pound from pecan promotion multiplied by improved and native production			
Improved (6.3 cents) .....	\$2,457	\$14,333	\$40,950
Native (3.6 cents) .....	\$396	\$2,310	\$6,600
Total Estimated Benefit per Farm .....	\$2,853	\$16,643	\$47,550

The computations in Table 2 provide an illustration, based on evidence from the record, that there would be no disproportionate impact on smaller size farms from establishing a marketing order and implementing a promotion program. Costs are assessed per pound and thus represent an equal burden regardless of size. The projected benefits

from promotion are realized through increases in price per pound and are thus distributed proportionally among different sizes of farms.

All of the grower and handler witnesses, both large and small, testified that the projected price increases from promotion of pecans (6.3 and 3.6 cents per pound for improved and native

pecans, respectively) were reasonable estimates of the benefits from generic promotion of pecans. A number of them expressed the view that the price increase estimates were conservative and that, over time, the price impact would be larger.

As mentioned above, marketing order assessments are paid by handlers, not

growers. However, since handlers may pass some or all of the assessment cost onto growers, it is useful to provide this illustration of potential impact on both growers and handlers.

Using the most recent three years of prices as examples of typical U.S. annual grower prices, Table 3 summarizes evidence from the record that shows the marketing order assessment rates as percentages of

grower and handler prices received. Based on record evidence that a representative handler margin is 57.5 cents per pound, handler prices are estimated by summing the grower price and handler margin.

TABLE 3—MARKETING ORDER ASSESSMENT RATES AS A PERCENTAGE OF PRICES FOR PECANS RECEIVED BY GROWERS AND HANDLERS

	Grower and handler prices			Assessment rates ***	Assessment rates as a % of prices received		
	2012	2013	2014		2012	2013	2014
Grower price *							
Improved .....	\$1.73	\$1.90	\$2.12	\$0.025	1.4%	1.3%	1.2%
Native .....	0.88	0.92	0.88	0.015	1.7	1.6	1.7
Handler price **							
Improved .....	2.31	2.48	2.70	0.025	1.08	1.01	0.93
Native .....	1.46	1.50	1.46	0.015	1.03	1.00	1.03

\* Season average grower price per pound from NASS/USDA.

\*\* Grower price plus average handler margin of 57.5 cents per pound, based on hearing evidence.

\*\*\* Midpoints of initial marketing order assessment rates: Improved (2 to 3 cents); Native (1 to 2 cents). For growers this represents the cost of the marketing order burden and for handlers this represents the cost of the assessment paid.

For both improved and native pecans, using 2012 to 2014 prices as examples, Table 3 shows that the potential burden of the program can be calculated at between 1 and 2 percent of operating expenses for growers and are approximately 1 percent of operating expenses for handlers. Grower and handler witnesses, both large and small, covering both improved and native pecans, testified that the initial marketing order assessment rates would not represent a significant burden to their businesses and that the benefits of the generic promotion program substantially outweigh the cost. Sheller witnesses (large and small) that would likely become handlers under a Federal marketing order testified that the additional recordkeeping required to collect assessments to send to the marketing order board (American Pecan Council) would not be a significant additional burden and that the benefits would substantially outweigh the costs. Several witnesses stated that one reason that collecting the assessments would have only a minor impact is that they already perform similar functions for promotion and other pecan-related programs (or other commodity programs) organized under state law.

#### Additional Marketing Order Program Benefits

Statements of support for additional benefits that could come from a Federal marketing order came from grower and handler witnesses, both large and small, covering both improved and native pecans. The additional benefits cited included: (1) Additional and more accurate market information, including data on production, inventory, and total

supplies, (2) funding of research on health and nutrition aspects of pecans, improved technology relating to the pecan supply chain and crop health, consumer trends, and other topics, and (3) uniform, industry-wide quality standards for pecans, as well as packaging standards and shipping protocols. Witnesses testified that the burden of funding and participating in marketing order programs with these features would be minor, and that the benefits would substantially outweigh the costs.

The order will impose some reporting and recordkeeping requirements on handlers. However, testimony indicated that the expected burden that will be imposed with respect to these requirements would be negligible. Most of the information that will be reported to the Council is already compiled by handlers for other uses and is readily available. Reporting and recordkeeping requirements issued under other tree nut programs impose an average annual burden on each regulated handler of about 8 hours. It is reasonable to expect that a similar burden may be imposed under this marketing order on the estimated 250 handlers of pecans in the production area.

The record evidence also indicates that the benefits to small as well as large handlers are likely to be greater than would accrue under the alternatives to the order; namely, no marketing order.

In determining that the order and its provisions will not have a disproportionate economic impact on a substantial number of small entities, all of the issues discussed above were considered. Based on hearing record evidence and USDA's analysis of the

economic information provided, the order provisions have been carefully reviewed to ensure that every effort has been made to eliminate any unnecessary costs or requirements.

Although the order may impose some additional costs and requirements on handlers, it is anticipated that the order will help to strengthen demand for pecans. Therefore, any additional costs would be offset by the benefits derived from expanded sales benefiting handlers and growers alike. Accordingly, it is determined that the order will not have a disproportionate economic impact on a substantial number of small handlers or growers.

#### Paperwork Reduction Act

In compliance with OMB regulations (5 CFR part 1320) which implement the Paperwork Reduction Act of 1995 (Pub. L. 104-13), the forms to be used for nomination and selection of the initial administrative council will be submitted to OMB for approval. Any additional information collection and recordkeeping requirements that may be imposed under the order as a result of future council recommendations and rulemaking would also be submitted to OMB for approval. Those requirements would not become effective prior to OMB approval.

#### Civil Justice Reform

The provisions of the marketing agreement and order have been reviewed under Executive Order 12988, Civil Justice Reform. They are not intended to have retroactive effect. The agreement and order will not preempt any State or local laws, regulations, or

policies, unless they present an irreconcilable conflict with this rule.

The Act provides that administrative proceedings must be exhausted before parties may file suit in court. Under section 608c(15)(A) of the Act, any handler subject to an order may file with the Department a petition stating that the order, any provision of the order, or any obligation imposed in connection with the order is not in accordance with law and request a modification of the order or to be exempted there from. A handler is afforded the opportunity for a hearing on the petition. After the hearing, the USDA would rule on the petition. The Act provides that the district court of the United States in any district in which the handler is an inhabitant, or has his or her principal place of business, has jurisdiction to review the Department's ruling on the petition, provided an action is filed not later than 20 days after the date of the entry of the ruling.

#### Findings and Determinations

(a) *Findings upon the basis of the hearing record.* Pursuant to the provisions of the Agricultural Marketing Agreement of 1937, as amended (7 U.S.C. 601 *et seq.*) and the applicable rules of practice and procedure effective thereunder (7 CFR part 900), a public hearing was held upon a proposed marketing agreement and order regulating the handling of pecans grown in the States of Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas.

Upon the basis of evidence introduced at such hearing and the record thereof, it is found that:

(1) The marketing agreement and order, and all of the terms and conditions thereof, will tend to effectuate the declared policy of the Act;

(2) The marketing agreement and order regulate the handling of pecans grown in the production area in the same manner as, and are applicable only to, persons in the respective classes of commercial and industrial activity specified in the marketing agreement and order upon which a hearing has been held;

(3) The marketing agreement and order are limited in its application to the smallest regional production area that is practicable, consistent with carrying out the declared policy of the Act, and the issuance of several orders applicable to subdivisions of the production area would not effectively carry out the declared policy of the Act;

(4) The marketing agreement and order prescribe, such different terms applicable to different parts of the production area as are necessary to give due recognition to the differences in the production and marketing of pecans grown in the production area; and

(5) All handling of pecans grown in the production area as defined in the marketing agreement and order is in the current of interstate or foreign commerce or directly burdens, obstructs, or affects such commerce.

(b) *Additional findings.* It is necessary and in the public interest to make the provisions of this order effective not later than one day after publication in the **Federal Register**. A later date would unnecessarily delay implementation of the program, which is expected to benefit the pecan industry. Making the program effective as specified would allow for the nomination, selection and organization of the initial administrative council in advance of the 2016 harvest season. It also allows time for the council to recommend a budget and any administrative rules and regulations deemed necessary to operate the program.

In view of the foregoing, it is hereby found and determined that good cause exists for making the order provisions effective one day after publication in the **Federal Register**, and that it would be contrary to the public interest to delay the effective date for 30 days after publication in the **Federal Register** (Sec. 553(d), Administrative Procedure Act; 5 U.S.C. 551–559).

(c) *Determinations.* It is hereby determined that:

(1) The "Marketing Agreement Regulating the Handling of Pecans Grown in Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas," upon which the aforesaid public hearing was held, has been signed by handlers who during the period of August 1, 2014, through July 31, 2015 handled not less than 50 percent of the volume of such pecans covered by the order, and

(2) The issuance of this order is favored or approved by at least two-thirds of the producers who participated in a referendum on the question of its approval and, who produced a minimum average, annual amount of 50,000 pounds of inshell pecans between August 1, 2011, and July 31, 2015, (which has been determined to be a representative period) or who owned a minimum of 30 pecan acres. Such producers also produced for market at least two-thirds of the volume of pecans represented in the referendum.

#### List of Subjects in 7 CFR Part 986

Marketing agreements, Pecans, Reporting and recordkeeping requirements.

#### Order Relative to Handling

*It is therefore ordered,* That on and after the effective date hereof, all handling of pecans grown in the States of Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Missouri, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas, shall be in conformity to, and in compliance with, the terms and conditions of the said order as follows:

The provisions of the marketing agreement and order are set forth in full herein.

■ Title 7, chapter IX is amended by adding part 986 to read as follows:

#### **PART 986—PECANS GROWN IN THE STATES OF ALABAMA, ARKANSAS, ARIZONA, CALIFORNIA, FLORIDA, GEORGIA, KANSAS, LOUISIANA, MISSOURI, MISSISSIPPI, NORTH CAROLINA, NEW MEXICO, OKLAHOMA, SOUTH CAROLINA, AND TEXAS**

##### **Subpart A—Order Regulating Handling of Pecans**

##### **Definitions**

Sec.	
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986.2	Act.
986.3	Affiliation.
986.4	Blowouts.
986.5	To certify.
986.6	Confidential data or information.
986.7	Container.
986.8	Council.
986.9	Crack.
986.10	Cracks.
986.11	Custom harvester.
986.12	Department or USDA.
986.13	Disappearance.
986.14	Farm Service Agency.
986.15	Fiscal year.
986.16	Grade and size.
986.17	Grower.
986.18	Grower-cleaned production.
986.19	Handler.
986.20	To handle.
986.21	Handler inventory.
986.22	Handler-cleaned production.
986.23	Hican.
986.24	Inshell pecans.
986.25	Inspection service.
986.26	Inter-handler transfer.
986.27	Merchantable pecans.
986.28	Pack.
986.29	Pecans.
986.30	Person.
986.31	Production area.
986.32	Proprietary capacity.
986.33	Regions.
986.34	Representative period.
986.35	Secretary.

- 986.36 Sheller.
- 986.37 Shelled pecans.
- 986.38 Stick-tights.
- 986.39 Trade supply.
- 986.40 Unassessed inventory.
- 986.41 Varieties.
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#### Administrative Body

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- 986.46 Council nominations and voting.
- 986.47 Alternate members.
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#### Expenses, Assessments, and Marketing Policy

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- 986.75 Reports of handler inventory.
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- 986.96 Amendments.
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- 986.98 Additional parties.
- 986.99 Order with marketing agreement.

#### Subpart B—Reserved

Authority: 7 U.S.C. 601–674.

#### Definitions

##### § 986.1 Accumulator.

*Accumulator* means a person who compiles inshell pecans from other persons for the purpose of resale or transfer.

##### § 986.2 Act.

*Act* means Public Act No. 10, 73d Congress, as amended and as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 *et seq.*).

##### § 986.3 Affiliation.

*Affiliation.* This term normally appears as “affiliate of” or “affiliated with,” and means a person such as a grower or sheller who is: A grower or handler that directly, or indirectly through one or more intermediaries, owns or controls, or is controlled by, or is under common control with the grower or handler specified; or a grower or handler that directly, or indirectly through one or more intermediaries, is connected in a proprietary capacity, or shares the ownership or control of the specified grower or handler with one or more other growers or handlers. As used in this part, the term “control” (including the terms “controlling,” “controlled by,” and “under the common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a handler or a grower, whether through voting securities, membership in a cooperative, by contract or otherwise.

##### § 986.4 Blowouts.

*Blowouts* mean lightweight or underdeveloped inshell pecan nuts that are considered of lesser quality and market value.

##### § 986.5 To certify.

*To certify* means the issuance of a certification of inspection of pecans by the inspection service.

##### § 986.6 Confidential data or information.

*Confidential data or information* submitted to the Council consists of data or information constituting a trade secret or disclosure of the trade position, financial condition, or business operations of a particular entity or its customers.

##### § 986.7 Container.

*Container* means a box, bag, crate, carton, package (including retail packaging), or any other type of receptacle used in the packaging or handling of pecans.

##### § 986.8 Council.

*Council* means the American Pecan Council established pursuant to § 986.45, American Pecan Council.

##### § 986.9 Crack.

*Crack* means to break, crack, or otherwise compromise the outer shell of a pecan so as to expose the kernel inside to air outside the shell.

##### § 986.10 Cracks.

*Cracks* refer to an accumulated group or container of pecans that have been cracked in harvesting or handling.

##### § 986.11 Custom harvester.

*Custom harvester* means a person who harvests inshell pecans for a fee.

##### § 986.12 Department or USDA.

*Department* or *USDA* means the United States Department of Agriculture.

##### § 986.13 Disappearance.

*Disappearance* means the difference between the sum of grower-cleaned production and handler-cleaned production (whether from improved orchards or native and seedling groves) and the sum of inshell and shelled merchantable pecans reported on an inshell weight basis.

##### § 986.14 Farm Service Agency.

*Farm Service Agency* or *FSA* means that agency of the U.S. Department of Agriculture.

##### § 986.15 Fiscal year.

*Fiscal year* means the twelve months from October 1 to September 30, both inclusive, or any other such period deemed appropriate by the Council and approved by the Secretary.

##### § 986.16 Grade and size.

*Grade and size* means any of the officially established grades of pecans and any of the officially established sizes of pecans as set forth in the United States standards for inshell and shelled pecans or amendments thereto, or modifications thereof, or other variations of grade and size based thereon recommended by the Council and approved by the Secretary.

##### § 986.17 Grower.

(a) *Grower* is synonymous with producer and means any person engaged within the production area in a proprietary capacity in the production of pecans if such person:

(1) Owns an orchard and harvests its pecans for sale (even if a custom harvester is used); or

(2) Is a lessee of a pecan orchard and has the right to sell the harvest (even if

the lessee must remit a percentage of the crop or rent to a lessor).

(b) The term “grower” shall only include those who produce a minimum of 50,000 pounds of inshell pecans during a representative period (average of four years) or who own a minimum of 30 pecan acres according to the FSA, including acres calculated by the FSA based on pecan tree density. In the absence of any FSA delineation of pecan acreage, the regular definition of an acre will apply. The Council may recommend changes to this definition subject to the approval of the Secretary.

**§ 986.18 Grower-cleaned production.**

*Grower-cleaned production* means production harvested and processed through a cleaning plant to determine volumes of improved pecans, native and seedling pecans, and substandard pecans to transfer to a handler for sale.

**§ 986.19 Handler.**

*Handler* means any person who handles inshell or shelled pecans in any manner described in § 986.20.

**§ 986.20 To handle.**

*To handle* means to receive, shell, crack, accumulate, warehouse, roast, pack, sell, consign, transport, export, or ship (except as a common or contract carrier of pecans owned by another person), or in any other way to put inshell or shelled pecans into any and all markets in the stream of commerce either within the area of production or from such area to any point outside thereof. The term “to handle” shall not include: sales and deliveries within the area of production by growers to handlers; grower warehousing; custom handling (except for selling, consigning or exporting) or other similar activities paid for on a fee-for-service basis by a grower who retains the ownership of the pecans; or transfers between handlers.

**§ 986.21 Handler inventory.**

*Handler inventory* means all pecans, shelled or inshell, as of any date and wherever located within the production area, then held by a handler for their account.

**§ 986.22 Handler-cleaned production.**

*Handler-cleaned production* is production that is received, purchased or consigned from the grower by a handler prior to processing through a cleaning plant, and then subsequently processed through a cleaning plant so as to determine volumes of improved pecans, native and seedling pecans, and substandard pecans.

**§ 986.23 Hican.**

*Hican* means a tree resulting from a cross between a pecan and some other type of hickory (members of the genus *Carya*) or the nut from such a hybrid tree.

**§ 986.24 Inshell pecans.**

*Inshell pecans* are nuts whose kernel is maintained inside the shell.

**§ 986.25 Inspection Service.**

*Inspection service* means the Federal-State Inspection Service or any other inspection service authorized by the Secretary.

**§ 986.26 Inter-handler transfer.**

*Inter-handler transfer* means the movement of inshell pecans from one handler to another inside the production area for the purposes of additional handling. Any assessments or requirements under this part with respect to inshell pecans so transferred may be assumed by the receiving handler.

**§ 986.27 Merchantable pecans.**

(a) *Inshell. Merchantable inshell* pecans mean all inshell pecans meeting the minimum grade regulations that may be effective pursuant to § 986.69, Authorities regulating handling.

(b) *Shelled. Merchantable shelled* pecans means all shelled pecans meeting the minimum grade regulations that may be effective pursuant to § 986.69, Authorities regulating handling.

**§ 986.28 Pack.**

*Pack* means to clean, grade, or otherwise prepare pecans for market as inshell or shelled pecans.

**§ 986.29 Pecans.**

(a) *Pecans* means and includes any and all varieties or subvarieties of Genus: *Carya*, Species: *illinoensis*, expressed also as *Carya illinoensis* (*syn. C. illinoenses*) including all varieties thereof, excluding hicans, that are produced in the production area and are classified as:

(1) *Native or seedling* pecans harvested from non-grafted or naturally propagated tree varieties;

(2) *Improved pecans* harvested from grafted tree varieties bred or selected for superior traits of nut size, ease of shelling, production characteristics, and resistance to certain insects and diseases, including but not limited to: Desirable, Elliot, Forkert, Sumner, Creek, Excel, Gracross, Gratex, Gloria Grande, Kiowa, Moreland, Sioux, Mahan, Mandan, Moneymaker, Morrill, Cunard, Zinner, Byrd, McMillan, Stuart, Pawnee, Eastern and Western Schley,

Wichita, Success, Cape Fear, Choctaw, Cheyenne, Lakota, Kanza, Caddo, and Oconee; and

(3) *Substandard pecans* that are blowouts, cracks, stick-tights, and other inferior quality pecans, whether native or improved, that, with further handling, can be cleaned and eventually sold into the stream of commerce.

(b) The Council, with the approval of the Secretary, may recognize new or delete obsolete varieties or sub-varieties for each category.

**§ 986.30 Person.**

*Person* means an individual, partnership, corporation, association, or any other business unit.

**§ 986.31 Production area.**

*Production area* means the following fifteen pecan-producing states within the United States: Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, New Mexico, Oklahoma, South Carolina, and Texas.

**§ 986.32 Proprietary capacity.**

*Proprietary capacity* means the capacity or interest of a grower or handler that, either directly or through one or more intermediaries or affiliates, is a property owner together with all the appurtenant rights of an owner, including the right to vote the interest in that capacity as an individual, a shareholder, member of a cooperative, partner, trustee or in any other capacity with respect to any other business unit.

**§ 986.33 Regions.**

(a) *Regions* within the production area shall consist of the following:

(1) *Eastern Region*, consisting of: Alabama, Florida, Georgia, North Carolina, South Carolina

(2) *Central Region*, consisting of: Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Texas

(3) *Western Region*, consisting of: Arizona, California, New Mexico

(b) With the approval of the Secretary, the boundaries of any region may be changed pursuant to § 986.58, Reapportionment and reestablishment of regions.

**§ 986.34 Representative period.**

*Representative period* is the previous four fiscal years for which a grower's annual average production is calculated, or any other period recommended by the Council and approved by the Secretary.

**§ 986.35 Secretary.**

*Secretary* means the Secretary of Agriculture of the United States, or any other officer or employee of the United

States Department of Agriculture who is, or who may be, authorized to perform the duties of the Secretary of Agriculture of the United States.

**§ 986.36 Sheller.**

*Sheller* refers to any person who converts inshell pecans to shelled pecans and sells the output in any and all markets in the stream of commerce, both within and outside of the production area; *Provided*, That the term “sheller” shall only include those who shell more than 1 million pounds of inshell pecans in a fiscal year. The Council may recommend changes to this definition subject to the approval of the Secretary.

**§ 986.37 Shelled pecans.**

*Shelled pecans* are pecans whose shells have been removed leaving only edible kernels, kernel pieces or pecan meal. *Shelled pecans* are synonymous with *pecan meats*.

**§ 986.38 Stick-tights.**

*Stick-tights* means pecans whose outer shuck has adhered to the shell causing their value to decrease or be discounted.

**§ 986.39 Trade supply.**

*Trade supply* means the quantity of merchantable inshell or shelled pecans that growers will supply to handlers during a fiscal year for sale in the United States and abroad or, in the absence of handler regulations § 986.69 setting forth minimum grade regulations for merchantable pecans, the sum of handler-cleaned and grower-cleaned production.

**§ 986.40 Unassessed inventory.**

*Unassessed inventory* means inshell pecans held by growers or handlers for which no assessment has been paid to the Council.

**§ 986.41 Varieties.**

*Varieties* mean and include all cultivars, classifications, or subdivisions of pecans.

**§ 986.42 Warehousing.**

*Warehousing* means to hold assessed or unassessed inventory.

**§ 986.43 Weight.**

*Weight* means pounds of inshell pecans, received by handler within each fiscal year; *Provided*, That for shelled pecans the actual weight shall be multiplied by two to obtain an inshell weight.

**Administrative Body**

**§ 986.45 American Pecan Council.**

The American Pecan Council is hereby established consisting of 17 members selected by the Secretary, each of whom shall have an alternate member nominated with the same qualifications as the member. The 17 members shall include nine (9) grower seats, six (6) sheller seats, and two (2) at-large seats allocated to one accumulator and one public member. The grower and sheller nominees and their alternates shall be growers and shellers at the time of their nomination and for the duration of their tenure. Grower and sheller members and their alternates shall be selected by the Secretary from nominees submitted by the Council. The two at-large seats shall be nominated by the Council and appointed by the Secretary.

(a) Each region shall be allocated the following member seats:

(1) *Eastern Region*: Three (3) growers and two (2) shellers;

(2) *Central Region*: Three (3) growers and two (2) shellers;

(3) *Western Region*: Three (3) growers and two (2) shellers.

(b) Within each region, the grower and sheller seats shall be defined as follows:

(1) *Grower seats*: Each region shall have a grower Seat 1 and Seat 2 allocated to growers whose acreage is equal to or exceeds 176 pecan acres. Each region shall also have a grower Seat 3 allocated to a grower whose acreage is less than 176 pecan acres.

(2) *Sheller seats*: Each region shall have a sheller Seat 1 allocated to a sheller who handles more than 12.5 million pounds of inshell pecans in the fiscal year preceding nomination, and a sheller Seat 2 allocated to a sheller who handles less than or equal to 12.5 million pounds of inshell pecans in the fiscal year preceding nomination.

(c) The Council may recommend, subject to the approval of the Secretary, revisions to the above requirements for grower and sheller seats to accommodate changes within the industry.

**§ 986.46 Council nominations and voting.**

Nomination of Council members and alternate members shall follow the procedure set forth in this section, or as may be changed as recommended by the Council and approved by the Secretary. All nominees must meet the requirements set forth in §§ 986.45, American Pecan Council, and 986.48, Eligibility, or as otherwise identified by the Secretary, to serve on the Council.

(a) *Initial members*. Nominations for initial Council members and alternate

members shall be conducted by the Secretary by either holding meetings of shellers and growers, by mail, or by email, and shall be submitted on approved nomination forms. Eligibility to cast votes on nomination ballots, accounting of nomination ballot results, and identification of member and alternate nominees shall follow the procedures set forth in this section, or by any other criteria deemed necessary by the Secretary. The Secretary shall select and appoint the initial members and alternate members of the Council.

(b) *Successor members*. Subsequent nominations of Council members and alternate members shall be conducted as follows:

(1) *Call for nominations*. (i) Nominations for the grower member seats for each region shall be received from growers in that region on approved forms containing the information stipulated in this section.

(ii) If a grower is engaged in producing pecans in more than one region, such grower shall nominate in the region in which they grow the largest volume of their production.

(iii) Nominations for the sheller member seats for each region shall be received from shellers in that region on approved forms containing the information stipulated in this section.

(iv) If a sheller is engaged in handling in more than one region, such sheller shall nominate in the region in which they shelled the largest volume in the preceding fiscal year.

(2) *Voting for nominees*. (i) Only growers, through duly authorized officers or employees of growers, if applicable, may participate in the nomination of grower member nominees and their alternates. Each grower shall be entitled to cast only one nomination ballot for each of the three grower seats in their region.

(ii) If a grower is engaged in producing pecans in more than one region, such grower shall cast their nomination ballot in the region in which they grow the largest volume of their production. Notwithstanding this stipulation, such grower may vote their volume produced in any or all of the three regions.

(iii) Only shellers, through duly authorized officers or employees of shellers, if applicable, may participate in the nomination of the sheller member nominees and their alternates. Each sheller shall be entitled to cast only one nomination ballot for each of the two sheller seats in their region.

(iv) If a sheller is engaged in handling in more than one region, such sheller shall cast their nomination ballot in the region in which they shelled the largest



volume in the preceding fiscal year. Notwithstanding this stipulation, such sheller may vote their volume handled in all three regions.

(v) If a person is both a grower and a sheller of pecans, such person may not participate in both grower and sheller nominations. Such person must elect to participate either as a grower or a sheller.

(3) *Nomination procedure for grower seats.* (i) The Council shall mail to all growers who are on record with the Council within the respective regions a grower nomination ballot indicating the nominees for each of the three grower member seats, along with voting instructions. Growers may cast ballots on the proper ballot form either at meetings of growers, by mail, or by email as designated by the Council. For ballots to be considered, they must be submitted on the proper forms with all required information, including signatures.

(ii) On the ballot, growers shall indicate their vote for the grower nominee candidates for the grower seats and also indicate their average annual volume of inshell pecan production for the preceding four fiscal years.

(iii) *Seat 1* (growers with equal to or more than 176 acres of pecans). The nominee for this seat in each region shall be the grower receiving the highest volume of production (pounds of inshell pecans) votes from the respective region, and the grower receiving the second highest volume of production votes shall be the alternate member nominee for this seat. In case of a tie vote, the nominee shall be selected by a drawing.

(iv) *Seat 2* (growers with equal to or more than 176 acres of pecans). The nominee for this seat in each region shall be the grower receiving the highest number of votes from their respective region, and the grower receiving the second highest number of votes shall be the alternate member nominee for this seat. In case of a tie vote, the nominee shall be selected by a drawing.

(v) *Seat 3* (grower with less than 176 acres of pecans). The nominee for this seat in each region shall be the grower receiving the highest number of votes from the respective region, and the grower receiving the second highest number of votes shall be the alternate member nominee for this seat. In case of a tie vote, the nominee shall be selected by a drawing.

(4) *Nomination procedure for sheller seats.* (i) The Council shall mail to all shellers who are on record with the Council within the respective regions the sheller ballot indicating the nominees for each of the two sheller

member seats in their respective regions, along with voting instructions. Shellers may cast ballots on approved ballot forms either at meetings of shellers, by mail, or by email as designated by the Council. For ballots to be considered, they must be submitted on the approved forms with all required information, including signatures.

(ii) *Seat 1* (shellers handling more than 12.5 million lbs. of inshell pecans in the preceding fiscal year). The nominee for this seat in each region shall be assigned to the sheller receiving the highest number of votes from the respective region, and the sheller receiving the second highest number of votes shall be the alternate member nominee for this seat. In case of a tie vote, the nominee shall be selected by a drawing.

(iii) *Seat 2* (shellers handling equal to or less than 12.5 million lbs. of inshell pecans in the preceding fiscal year). The nominee for this seat in each region shall be assigned to the sheller receiving the highest number of votes from the respective region, and the sheller receiving the second highest number of votes shall be the alternate member nominee for this seat. In case of a tie vote, the nominee shall be selected by a drawing.

(5) *Reports to the Secretary.* Nominations in the foregoing manner received by the Council shall be reported to the Secretary on or before 15 of each July of any year in which nominations are held, together with a certified summary of the results of the nominations and other information deemed by the Council to be pertinent or requested by the Secretary. From those nominations, the Secretary shall select the fifteen grower and sheller members of the Council and an alternate for each member, unless the Secretary rejects any nomination submitted. In the event the Secretary rejects a nomination, a second nomination process may be conducted to identify other nominee candidates, the resulting nominee information may be reported to the Secretary after July 15 and before September 15. If the Council fails to report nominations to the Secretary in the manner herein specified, the Secretary may select the members without nomination. If nominations for the public and accumulator at-large members are not submitted by September 15 of any year in which their nomination is due, the Secretary may select such members without nomination.

(6) *At-large members.* The grower and sheller members of the Council shall select one public member and one accumulator member and respective

alternates for consideration, selection and appointment by the Secretary. The public member and alternate public member may not have any financial interest, individually or corporately, or affiliation with persons vested in the pecan industry. The accumulator member and alternate accumulator member must meet the criteria set forth in § 986.1, Accumulator, and may reside or maintain a place of business in any region.

(7) *Nomination forms.* The Council may distribute nomination forms at meetings, by mail, by email, or by any other form of distribution recommended by the Council and approved by the Secretary.

(i) *Grower nomination forms.* Each nomination form submitted by a grower shall include the following information:

- (A) The name of the nominated grower;
- (B) The name and signature of the nominating grower;
- (C) Two additional names and respective signatures of growers in support of the nomination;
- (D) Any other such information recommended by the Council and approved by the Secretary.

(ii) *Sheller nomination forms.* Each nomination form submitted by a sheller shall include the following:

- (A) The name of the nominated sheller;
- (B) The name and signature of the nominating sheller;
- (C) One additional name and signature of a sheller in support of the nomination;
- (D) Any other such information recommended by the Council and approved by the Secretary.

(8) *Changes to the nomination and voting procedures.* The Council may recommend, subject to the approval of the Secretary, a change to these procedures should the Council determine that a revision is necessary.

**§ 986.47 Alternate members.**

**§ 986.47 Alternate members.**

(a) Each member of the Council shall have an alternate member to be nominated in the same manner as the member.

(b) An alternate for a member of the Council shall act in the place and stead of such member in their absence or in the event of their death, removal, resignation, or disqualification, until the next nomination and elections take place for the Council or the vacancy has been filled pursuant to § 986.48, Eligibility.

(c) In the event any member of the Council and their alternate are both unable to attend a meeting of the Council, any alternate for any other

member representing the same group as the absent member may serve in the place of the absent member.

#### **§ 986.48 Eligibility.**

(a) Each grower member and alternate shall be, at the time of selection and during the term of office, a grower or an officer, or employee, of a grower in the region and in the classification for which nominated.

(b) Each sheller member and alternate shall be, at the time of selection and during the term of office, a sheller or an officer or employee of a sheller in the region and in the classification for which nominated.

(c) A grower can be a nominee for only one grower member seat. If a grower is nominated for two grower member seats, he or she shall select the seat in which he or she desires to run, and the grower ballot shall reflect that selection.

(d) Any member or alternate member who at the time of selection was employed by or affiliated with the person who is nominated shall, upon termination of that relationship, become disqualified to serve further as a member and that position shall be deemed vacant.

(e) No person nominated to serve as a public member or alternate public member shall have a financial interest in any pecan grower or handling operation.

#### **§ 986.49 Acceptance.**

Each person to be selected by the Secretary as a member or as an alternate member of the Council shall, prior to such selection, qualify by advising the Secretary that if selected, such person agrees to serve in the position for which that nomination has been made.

#### **§ 986.50 Term of office.**

(a) Selected members and alternate members of the Council shall serve for terms of four years: *Provided*, That at the end of the first four (4) year term and in the nomination and selection of the second Council only, four of the grower member and alternate seats and three of the sheller member and alternate seats shall be seated for terms of two years so that approximately half of the memberships' and alternates' terms expire every two years thereafter. Member and alternate seats assigned two-year terms for the seating of the second Council only shall be as follows:

(1) Grower member Seat 2 in all regions shall be assigned a two-year term;

(2) Grower member Seat 3 in all regions shall, by drawing, identify one member seat to be assigned a two-year term; and,

(3) Sheller Seat 2 in all regions shall be assigned a two-year term.

(b) Council members and alternates may serve up to two consecutive, four-year terms of office. Subject to paragraph (c) of this section, in no event shall any member or alternate serve more than eight consecutive years on the Council as either a member or an alternate. However, if selected, an alternate having served up to two consecutive terms may immediately serve as a member for two consecutive terms without any interruption in service. The same is true for a member who, after serving for up to two consecutive terms, may serve as an alternate if nominated without any interruption in service. A person having served the maximum number of terms as set forth above may not serve again as a member or an alternate for at least twelve consecutive months. For purposes of determining when a member or alternate has served two consecutive terms, the accrual of terms shall begin following any period of at least twelve consecutive months out of office.

(c) Each member and alternate member shall continue to serve until a successor is selected and has qualified.

(d) A term of office shall begin as set forth in the by-laws or as directed by the Secretary each year for all members.

(e) The Council may recommend, subject to approval of the Secretary, revisions to the start day for the term of office, the number of years in a term, and the number of terms a member or an alternate can serve.

#### **§ 986.51 Vacancy.**

Any vacancy on the Council occurring by the failure of any person selected to the Council to qualify as a member or alternate member due to a change in status making the member ineligible to serve, or due to death, removal, or resignation, shall be filled, by a majority vote of the Council for the unexpired portion of the term. However, that person shall fulfill all the qualifications set forth in this part as required for the member whose office that person is to fill. The qualifications of any person to fill a vacancy on the Council shall be certified in writing to the Secretary. The Secretary shall notify the Council if the Secretary determines that any such person is not qualified.

#### **§ 986.52 Council expenses.**

The members and their alternates of the Council shall serve without compensation, but shall be reimbursed for the reasonable and necessary expenses incurred by them in the

performance of their duties under this part.

#### **§ 986.53 Powers.**

The Council shall have the following powers:

(a) To administer the provisions of this part in accordance with its terms;

(b) To make bylaws, rules and regulations to effectuate the terms and provisions of this part;

(c) To receive, investigate, and report to the Secretary complaints of violations of this part; and

(d) To recommend to the Secretary amendments to this part.

#### **§ 986.54 Duties.**

The duties of the Council shall be as follows:

(a) To act as intermediary between the Secretary and any handler or grower;

(b) To keep minute books and records which will clearly reflect all of its acts and transactions, and such minute books and records shall at any time be subject to the examination of the Secretary;

(c) To furnish to the Secretary a complete report of all meetings and such other available information as he or she may request;

(d) To appoint such employees as it may deem necessary and to determine the salaries, define the duties, and fix the bonds of such employees;

(e) To cause the books of the Council to be audited by one or more certified public accountants at least once for each fiscal year and at such other times as the Council deems necessary or as the Secretary may request, and to file with the Secretary three copies of all audit reports made;

(f) To investigate the growing, shipping and marketing conditions with respect to pecans and to assemble data in connection therewith;

(g) To investigate compliance with the provisions of this part; and,

(h) To recommend by-laws, rules and regulations for the purpose of administering this part.

#### **§ 986.55 Procedure.**

(a) The members of the Council shall select a chairman from their membership, and shall select such other officers and adopt such rules for the conduct of Council business as they deem advisable.

(b) The Council may provide for meetings by telephone, or other means of communication, and any vote cast at such a meeting shall be confirmed promptly in writing. The Council shall give the Secretary the same notice of its meetings as is given to members of the Council.

(c) *Quorum*. A quorum of the Council shall be any twelve voting Council members. The vote of a majority of members present at a meeting at which there is a quorum shall constitute the act of the Council; *Provided, That*:

(1) Actions of the Council with respect to the following issues shall require a two-thirds (12 members) concurring vote of the Council:

- (i) Establishment of or changes to by-laws;
- (ii) Appointment or administrative issues relating to the program's manager or chief executive officer;
- (iii) Budget;
- (iv) Assessments;
- (v) Compliance and audits;
- (vi) Reestablishment of regions and reapportionment or reallocation of Council membership;
- (vii) Modifying definitions of grower and sheller;
- (viii) Research or promotion activities under § 986.68;
- (ix) Grade, quality and size regulation under § 986.69(a)(1) and (2);
- (x) Pack and container regulation under § 986.69(a)(3); and,

(2) Actions of the Council with respect to the securing of commercial bank loans for the purpose of financing start-up costs of the Council and its activities or securing financial assistance in emergency situations shall require a unanimous vote of all members present at an in-person meeting; *Provided, That* in the event of an emergency that warrants immediate attention sooner than a face-to-face meeting is possible, a vote for financing may be taken. In such event, the Council's first preference is a videoconference and second preference is phone conference, both followed by written confirmation of the members attending the meeting.

#### **§ 986.56 Right of the Secretary.**

The members and alternates for members and any agent or employee appointed or employed by the Council shall be subject to removal or suspension by the Secretary at any time. Each and every regulation, decision, determination, or other act shall be subject to the continuing right of the Secretary to disapprove of the same at any time, and, upon such disapproval, shall be deemed null and void, except as to acts done in reliance thereon or in compliance therewith prior to such disapproval by the Secretary.

#### **§ 986.57 Funds and other property.**

(a) All funds received pursuant to any of the provisions of this part shall be used solely for the purposes specified in this part, and the Secretary may require

the Council and its members to account for all receipts and disbursements.

(b) Upon the death, resignation, removal, disqualification, or expiration of the term of office of any member or employee, all books, records, funds, and other property in their possession belonging to the Council shall be delivered to their successor in office or to the Council, and such assignments and other instruments shall be executed as may be necessary to vest in such successor or in the Council full title to all the books, records, funds, and other property in the possession or under the control of such member or employee pursuant to this subpart.

#### **§ 986.58 Reapportionment and reestablishment of regions.**

The Council may recommend, subject to approval of the Secretary, reestablishment of regions, reapportionment of members among regions, and may revise the groups eligible for representation on the Council. In recommending any such changes, the following shall be considered:

- (a) Shifts in acreage within regions and within the production area during recent years;
- (b) The importance of new production in its relation to existing regions;
- (c) The equitable relationship between Council apportionment and regions;
- (d) Changes in industry structure and/or the percentage of crop represented by various industry entities; and
- (e) Other relevant factors.

#### **Expenses, Assessments, and Marketing Policy**

##### **§ 986.60 Budget.**

As soon as practicable before the beginning of each fiscal year, and as may be necessary thereafter, the Council shall prepare a budget of income and expenditures necessary for the administration of this part. The Council may recommend a rate of assessment calculated to provide adequate funds to defray its proposed expenditures. The Council shall present such budget to the Secretary with an accompanying report showing the basis for its calculations, and all shall be subject to Secretary approval.

##### **§ 986.61 Assessments.**

(a) Each handler who first handles inshell pecans shall pay assessments to the Council. Assessments collected each fiscal year shall defray expenses which the Secretary finds reasonable and likely to be incurred by the Council during that fiscal year. Each handler's share of assessments paid to the Council shall be equal to the ratio between the total

quantity of inshell pecans handled by them as the first handler thereof during the applicable fiscal year, and the total quantity of inshell pecans handled by all regulated handlers in the production area during the same fiscal year. The payment of assessments for the maintenance and functioning of the Council may be required under this part throughout the period it is in effect irrespective of whether particular provisions thereof are suspended or become inoperative. Handlers may avail themselves of an inter-handler transfer, as provided for in § 986.62, Inter-handler transfers.

(b) Based upon a recommendation of the Council or other available data, the Secretary shall fix three base rates of assessment for inshell pecans handled during each fiscal year. Such base rates shall include one rate of assessment for any or all varieties of pecans classified as native and seedling; one rate of assessment for any or all varieties of pecans classified as improved; and one rate of assessment for any pecans classified as substandard.

(c) Upon implementation of this part and subject to the approval of the Secretary, initial assessment rates per classification shall be set within the following prescribed ranges: Native and seedling classified pecans shall be assessed at one-cent to two-cents per pound; improved classified pecans shall be assessed at two-cents to three-cents per pound; and, substandard classified pecans shall be assessed at one-cent to two-cents per pound. These assessment ranges shall be in effect for the initial four years of the order.

(d) Subsequent assessment rates shall not exceed two percent of the aggregate of all prices in each classification across the production area based on Council data, or the average of USDA reported average price received by growers for each classification, in the preceding fiscal year as recommended by the Council and approved by the Secretary. After four years from the implementation of this part, the Council may recommend, subject to the approval of the Secretary, revisions to this calculation or assessment ranges.

(e) The Council, with the approval of the Secretary, may revise the assessment rates if it determines, based on information including crop size and value, that the action is necessary, and if the revision does not exceed the assessment limitation specified in this section and is made prior to the final billing of the assessment.

(f) In order to provide funds for the administration of the provisions of this part during the first part of a fiscal year, before sufficient operating income is

available from assessments, the Council may accept the payment of assessments in advance and may also borrow money for such purposes; *Provided*, That no loan may amount to more than 50 percent of projected assessment revenue projected for the year in which the loan is secured, and the loan must be repaid within five years.

(g) If a handler does not pay assessments within the time prescribed by the Council, the assessment may be increased by a late payment charge and/or an interest rate charge at amounts prescribed by the Council with approval of the Secretary.

(h) On August 31 of each year, every handler warehousing inshell pecans shall be identified as the first handler of those pecans and shall be required to pay the assessed rate on the category of pecans in their possession on that date. The terms of this paragraph may be revised subject to the recommendation of the Council and approval by the Secretary.

(i) On August 31 of each year, all inventories warehoused by growers from the current fiscal year shall cease to be eligible for inter-handler transfer treatment. Instead, such inventory will require the first handler that handles such inventory to pay the assessment thereon in accordance with the prevailing assessment rates at the time of transfer from the grower to the said handler. The terms of this paragraph may be revised subject to the recommendation of the Council and approval by the Secretary.

#### **§ 986.62 Inter-handler transfers.**

Any handler inside the production area, except as provided for in § 986.61(h) and (i), Assessments, may transfer inshell pecans to another handler inside the production area for additional handling, and any assessments or other marketing order requirements with respect to pecans so transferred may be assumed by the receiving handler. The Council, with the approval of the Secretary, may establish methods and procedures, including necessary reports, to maintain accurate records for such transfers. All inter-handler transfers will be documented by forms or electronic transfer receipts approved by the Council, and all forms or electronic transfer receipts used for inter-handler transfers shall require that copies be sent to the selling party, the receiving party, and the Council. Such forms must state which handler has the assessment responsibilities.

#### **§ 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.

#### **§ 986.64 Accounting.**

(a) Assessments collected in excess of expenses incurred shall be accounted for in accordance with one of the following:

(1) Excess funds not retained in a reserve, as provided in paragraph (a)(2) of this section shall be refunded proportionately to the persons from whom they were collected; or

(2) The Council, with the approval of the Secretary, may carry over excess funds into subsequent fiscal periods as reserves: *Provided*, That funds already in reserves do not equal approximately three fiscal years' expenses. Such reserve funds may be used:

(i) To defray expenses during any fiscal period prior to the time assessment income is sufficient to cover such expenses;

(ii) To cover deficits incurred during any fiscal period when assessment income is less than expenses;

(iii) To defray expenses incurred during any period when any or all provisions of this part are suspended or are inoperative; and

(iv) To cover necessary expenses of liquidation in the event of termination of this part.

(b) Upon such termination, any funds not required to defray the necessary expenses of liquidation shall be disposed of in such manner as the Secretary may determine to be appropriate. To the extent practical, such funds shall be returned pro rata to the persons from whom such funds were collected.

(c) All funds received by the Council pursuant to the provisions of this part shall be used solely for the purposes specified in this part and shall be accounted for in the manner provided for in this part. The Secretary may at any time require the Council and its members to account for all receipts and disbursements.

(d) Upon the removal or expiration of the term of office of any member of the Council, such member shall account for all receipts and disbursements and deliver all property and funds in their possession to the Council, and shall execute such assignments and other instruments as may be necessary or appropriate to vest in the Council full title to all of the property, funds, and claims vested in such member pursuant to this part.

(e) The Council may make recommendations to the Secretary for one or more of the members thereof, or any other person, to act as a trustee for holding records, funds, or any other Council property during periods of suspension of this subpart, or during any period or periods when regulations are not in effect and if the Secretary determines such action appropriate, he or she may direct that such person or persons shall act as trustee or trustees for the Council.

#### **§ 986.65 Marketing policy.**

By the end of each fiscal year, the Council shall make a report and recommendation to the Secretary on the Council's proposed marketing policy for the next fiscal year. Each year such report and recommendation shall be adopted by the affirmative vote of at least two-thirds ( $\frac{2}{3}$ ) of the members of the Council and shall include the following and, where applicable, on an inshell basis:

(a) Estimate of the grower-cleaned production and handler-cleaned production in the area of production for the fiscal year;

(b) Estimate of disappearance;

(c) Estimate of the improved, native, and standard pecans;

(d) Estimate of the handler inventory on August 31, of inshell and shelled pecans;

(e) Estimate of unassessed inventory;

(f) Estimate of the trade supply, taking into consideration imports, and other factors;

(g) Preferable handler inventory of inshell and shelled pecans on August 31 of the following year;

(h) Projected prices in the new fiscal year;

(i) Competing nut supplies; and

(j) Any other relevant factors.

#### **Authorities Relating to Research, Promotion, Data Gathering, Packaging, Grading, Compliance, and Reporting**

#### **§ 986.67 Recommendations for regulations.**

Upon complying with § 986.65, Marketing policy, the Council may propose regulations to the Secretary whenever it finds that such proposed regulations may assist in effectuating the declared policy of the Act.

#### **§ 986.68 Authority for research and promotion activities.**

The Council, with the approval of the Secretary, may establish or provide for the establishment of production research, marketing research and development projects, and marketing promotion, including paid generic advertising, designed to assist, improve,

or promote the marketing, distribution, and consumption or efficient production of pecans including product development, nutritional research, and container development. The expenses of such projects shall be paid from funds collected pursuant to this part.

**§ 986.69 Authorities regulating handling.**

(a) The Council may recommend, subject to the approval of the Secretary, regulations that:

(1) Establish handling requirements or minimum tolerances for particular grades, sizes, or qualities, or any combination thereof, for different varieties or classifications of pecans during any period;

(2) Establish different handling requirements or minimum tolerances for particular grades, sizes, or qualities, or any combination thereof for different varieties or classifications, for different containers, for different portions of the production area, or any combination of the foregoing, during any period;

(3) Fix the size, capacity, weight, dimensions, or pack of the container or containers, which may be used in the packaging, transportation, sale, preparation for market, shipment, or other handling of pecans; and

(4) Establish inspection and certification requirements for the purposes of (a)(1) through (3) of this section.

(b) Regulations issued hereunder may be amended, modified, suspended, or terminated whenever it is determined:

(1) That such action is warranted upon recommendation of the Council and approval by the Secretary, or other available information; or

(2) That regulations issued hereunder no longer tend to effectuate the declared policy of the Act.

(c) The authority to regulate as put forward in this subsection shall not in any way constitute authority for the Council to recommend volume regulation, such as reserve pools, producer allotments, or handler withholding requirements which limit the flow of product to market for the purpose of reducing market supply.

(d) The Council may recommend, subject to the approval of the Secretary, rules and regulations to effectuate this subpart.

**§ 986.70 Handling for special purposes.**

Regulations in effect pursuant to § 986.69, Authorities regulating handling, may be modified, suspended, or terminated to facilitate handling of pecans for:

(a) Relief or charity;

(b) Experimental purposes; and

(c) Other purposes which may be recommended by the Council and approved by the Secretary.

**§ 986.71 Safeguards.**

The Council, with the approval of the Secretary, may establish through rules such requirements as may be necessary to establish that shipments made pursuant to § 986.70, Handling for special purposes, were handled and used for the purpose stated.

**§ 986.72 Notification of regulation.**

The Secretary shall promptly notify the Council of regulations issued or of any modification, suspension, or termination thereof. The Council shall give reasonable notice thereof to industry participants.

**Reports, Books, and Other Records**

**§ 986.75 Reports of handler inventory.**

Each handler shall submit to the Council in such form and on such dates as the Council may prescribe, reports showing their inventory of inshell and shelled pecans.

**§ 986.76 Reports of merchantable pecans handled.**

Each handler who handles merchantable pecans at any time during a fiscal year shall submit to the Council in such form and at such intervals as the Council may prescribe, reports showing the quantity so handled and such other information pertinent thereto as the Council may specify.

**§ 986.77 Reports of pecans received by handlers.**

Each handler shall file such reports of their pecan receipts from growers, handlers, or others in such form and at such times as may be required by the Council with the approval of the Secretary.

**§ 986.78 Other handler reports.**

Upon request of the Council made with the approval of the Secretary each handler shall furnish such other reports and information as are needed to enable the Council to perform its duties and exercise its powers under this part.

**§ 986.79 Verification of reports.**

For the purpose of verifying and checking reports filed by handlers on their operations, the Secretary and the Council, through their duly authorized representatives, shall have access to any premises where pecans and pecan records are held. Such access shall be available at any time during reasonable business hours. Authorized representatives of the Council or the Secretary shall be permitted to inspect any pecans held and any and all records

of the handler with respect to matters within the purview of this part. Each handler shall maintain complete records on the receiving, holding, and disposition of all pecans. Each handler shall furnish all labor necessary to facilitate such inspections at no expense to the Council or the Secretary. Each handler shall store all pecans held by him in such manner as to facilitate inspection and shall maintain adequate storage records which will permit accurate identification with respect to inspection certificates of respective lots and of all such pecans held or disposed of theretofore. The Council, with the approval of the Secretary, may establish any methods and procedures needed to verify reports.

**§ 986.80 Certification of reports.**

All reports submitted to the Council as required in this part shall be certified to the Secretary and the Council as to the completeness and correctness of the information contained therein.

**§ 986.81 Confidential information.**

All reports and records submitted by handlers to the Council, which include data or information constituting a trade secret or disclosing the trade position, or financial condition or business operations of the handler shall be kept in the custody of one or more employees of the Council and shall be disclosed to no person except the Secretary.

**§ 986.82 Books and other records.**

Each handler shall maintain such records of pecans received, held and disposed of by them as may be prescribed by the Council for the purpose of performing its duties under this part. Such books and records shall be retained and be available for examination by authorized representatives of the Council and the Secretary for the current fiscal year and the preceding three (3) fiscal years.

**Additional Provisions**

**§ 986.86 Exemptions.**

(a) Any handler may handle inshell pecans within the production area free of the requirements of this part if such pecans are handled in quantities not exceeding 1,000 inshell pounds during any fiscal year.

(b) Any handler may handle shelled pecans within the production area free of the requirements of this part if such pecans are handled in quantities not exceeding 500 shelled pounds during any fiscal year.

(c) Mail order sales are not exempt sales under this part.

(d) The Council, with the approval of the Secretary, may establish such rules,

regulations, and safeguards, and require such reports, certifications, and other conditions, as are necessary to ensure compliance with this part.

#### **§ 986.87 Compliance.**

Except as provided in this subpart, no handler shall handle pecans, the handling of which has been prohibited by the Secretary in accordance with provisions of this part, or the rules and regulations thereunder.

#### **§ 986.88 Duration of immunities.**

The benefits, privileges, and immunities conferred by virtue of this part shall cease upon termination hereof, except with respect to acts done under and during the existence of this part.

#### **§ 986.89 Separability.**

If any provision of this part is declared invalid, or the applicability thereof to any person, circumstance, or thing is held invalid, the validity of the remaining provisions and the applicability thereof to any other person, circumstance, or thing shall not be affected thereby.

#### **§ 986.90 Derogation.**

Nothing contained in this part is or shall be construed to be in derogation of, or in modification of, the rights of the Secretary or of the United States to exercise any powers granted by the Act or otherwise, or, in accordance with such powers, to act in the premises whenever such action is deemed advisable.

#### **§ 986.91 Liability.**

No member or alternate of the Council nor any employee or agent thereof, shall be held personally responsible, either individually or jointly with others, in any way whatsoever, to any party under this part or to any other person for errors in judgment, mistakes, or other acts, either of commission or omission, as such member, alternate, agent or employee, except for acts of dishonesty, willful misconduct, or gross negligence. The Council may purchase liability insurance for its members and officers.

#### **§ 986.92 Agents.**

The Secretary may name, by designation in writing, any person, including any officer or employee of the USDA or the United States to act as their agent or representative in connection with any of the provisions of this part.

#### **§ 986.93 Effective time.**

The provisions of this part and of any amendment thereto shall become effective at such time as the Secretary

may declare, and shall continue in force until terminated in one of the ways specified in § 986.94.

#### **§ 986.94 Termination.**

(a) The Secretary may at any time terminate this part.

(b) The Secretary shall terminate or suspend the operation of any or all of the provisions of this part whenever he or she finds that such operation obstructs or does not tend to effectuate the declared policy of the Act.

(c) The Secretary shall terminate the provisions of this part applicable to pecans for market or pecans for handling at the end of any fiscal year whenever the Secretary finds, by referendum or otherwise, that such termination is favored by a majority of growers; *Provided*, That such majority of growers has produced more than 50 percent of the volume of pecans in the production area during such fiscal year. Such termination shall be effective only if announced on or before the last day of the then current fiscal year.

(d) The Secretary shall conduct a referendum within every five-year period beginning from the implementation of this part, to ascertain whether continuance of the provisions of this part applicable to pecans are favored by two-thirds by number or volume of growers voting in the referendum. The Secretary may terminate the provisions of this part at the end of any fiscal year in which the Secretary has found that continuance of this part is not favored by growers who, during an appropriate period of time determined by the Secretary, have been engaged in the production of pecans in the production area; *Provided*, That termination of this part shall be effective only if announced on or before the last day of the then current fiscal year.

(e) The provisions of this part shall, in any event, terminate whenever the provisions of the Act authorizing them cease to be in effect.

#### **§ 986.95 Proceedings after termination.**

(a) Upon the termination of this part, the Council members serving shall continue as joint trustees for the purpose of liquidating all funds and property then in the possession or under the control of the Council, including claims for any funds unpaid or property not delivered at the time of such termination.

(b) The joint trustees shall continue in such capacity until discharged by the Secretary; from time to time accounting for all receipts and disbursements; delivering all funds and property on hand, together with all books and records of the Council and of the joint

trustees to such person as the Secretary shall direct; and, upon the request of the Secretary, executing such assignments or other instruments necessary and appropriate to vest in such person full title and right to all of the funds, property, or claims vested in the Council or in said joint trustees.

(c) Any funds collected pursuant to this part and held by such joint trustees or such person over and above the amounts necessary to meet outstanding obligations and the expenses necessarily incurred by the joint trustees or such other person in the performance of their duties under this subpart, as soon as practicable after the termination hereof, shall be returned to the handlers pro rata in proportion to their contributions thereto.

(d) Any person to whom funds, property, or claims have been transferred or delivered by the Council, upon direction of the Secretary, as provided in this part, shall be subject to the same obligations and duties with respect to said funds, property, or claims as are imposed upon said joint trustees.

#### **§ 986.96 Amendments.**

Amendments to this part may be proposed from time to time by the Council or by the Secretary.

#### **§ 986.97 Counterparts.**

Handlers may sign an agreement with the Secretary indicating their support for this marketing order. This agreement may be executed in multiple counterparts by each handler. If more than fifty percent of the handlers, weighted by the volume of pecans handled during an appropriate period of time determined by the Secretary, enter into such an agreement, then a marketing agreement shall exist for the pecans marketing order. This marketing agreement shall not alter the terms of this part. Upon the termination of this part, the marketing agreement has no further force or effect.

#### **§ 986.98 Additional parties.**

After this part becomes effective, any handler may become a party to the marketing agreement if a counterpart is executed by the handler and delivered to the Secretary.

#### **§ 986.99 Order with marketing agreement.**

Each signatory handler hereby requests the Secretary to issue, pursuant to the Act, an order for regulating the handling of pecans in the same manner as is provided for in this agreement.

**Subpart B—[Reserved]**

Dated: July 27, 2016.

**Elanor Starmer,**  
Administrator, Agricultural Marketing  
Service.

[FR Doc. 2016–18346 Filed 8–3–16; 8:45 am]

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**SMALL BUSINESS ADMINISTRATION****13 CFR Part 126**

RIN 3245–AG81

**HUBZone and National Defense Authorization Act for Fiscal Year 2016 Amendments**

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Direct final rule.

**SUMMARY:** This direct final rule contains several amendments to the regulations governing the HUBZone Program. The U.S. Small Business Administration (SBA) is making changes to its regulations to implement section 866 of the National Defense Authorization Act for Fiscal Year 2016 (2016 NDAA). Section 866 of the 2016 NDAA made the following changes to the HUBZone program: authorized Native Hawaiian Organizations to own HUBZone small business concerns; expanded the definition of “base closure area” under the HUBZone program; and authorized the inclusion of “qualified disaster areas” under the HUBZone program. This direct final rule would implement these changes in SBA’s regulations.

**DATES:** This rule is effective on October 3, 2016 without further action, unless significant adverse comment is received by September 6, 2016. If significant adverse comment is received, SBA will publish a timely withdrawal of the rule in the **Federal Register**.

**ADDRESSES:** You may submit comments, identified by RIN 3245–AG81 by any of the following methods:

- *Federal Rulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.

- *Mail or Hand Delivery/Courier:* Mariana Pardo, Director, HUBZone Program, 409 Third Street SW., Washington, DC 20416.

SBA will post all comments on <http://www.Regulations.gov>. If you wish to submit confidential business information (CBI) as defined in the User Notice at <http://www.Regulations.gov>, please submit the information to Mariana Pardo, Director, HUBZone Program, 409 Third Street SW., Washington, DC 20416 and highlight the

information that you consider to be CBI and explain why you believe this information should be held confidential. SBA will review the information and make a final determination of whether the information will be published or not.

**FOR FURTHER INFORMATION CONTACT:**

Mariana Pardo, Director, HUBZone Program, 409 Third Street SW., Washington, DC 20416, 202–205–2985, [hubzone@sba.gov](mailto:hubzone@sba.gov).

**SUPPLEMENTARY INFORMATION:**

This direct final rule implements several conforming amendments to SBA regulations from the National Defense Authorization Act for Fiscal Year 2016, Public Law 114–92, 129 Stat. 726, November 25, 2015 (2016 NDAA). The 2016 NDAA became effective on November 25, 2015. Section 866 of the 2016 NDAA made the following changes to the HUBZone program: authorized Native Hawaiian Organizations (NHOs) to own HUBZone small business concerns; expanded the definition of “base closure area” under the HUBZone program; and authorized the inclusion of “qualified disaster areas” under the HUBZone program.

SBA seeks to amend its HUBZone regulations to mirror the changes the 2016 NDAA made to the Small Business Act, and to avoid public confusion and possible misinterpretations of SBA’s HUBZone program. Since these are conforming amendments, with no extraneous interpretation or other expanded materials, SBA expects no significant adverse comments. Based on that fact, SBA has decided to proceed with a direct final rule giving the public 30 days to comment. If SBA receives a significant adverse comment during the comment period, SBA will withdraw the rule, and proceed with a new proposed rule. The statute makes the following changes:

- *General Summary*—Expands the HUBZone program to assist small businesses in disasters areas and base closure areas and provides equal treatment under the HUBZone program for small businesses owned by NHOs.

- *“Major Disaster” Areas*—Treats major disaster areas as HUBZones for a period of 5 years. Applies to census tracts and nonmetropolitan counties (NMC) located in “major disaster” areas, if such census tract or NMC lost its HUBZone eligibility within the past 5 years or will lose its HUBZone eligibility within 2 years after the major disaster.

- *“Catastrophic Incident” Areas*—Treats areas where catastrophic incidents occurred as HUBZones for a period of 10 years. Applies to census

tracts and NMCs located in areas where catastrophic incidents occurred, if such census tract or NMC lost its HUBZone eligibility within the past 5 years or will lose its HUBZone eligibility within 2 years after the catastrophic incident.

- *Base Closures Areas (BRAC)*—Extends HUBZone eligibility for BRACs to 8 years (up from 5) and expands HUBZone eligibility to census tracts and NMCs that (1) contain BRACs, (2) intersect with BRACs, (3) are contiguous to BRACs, or (4) are contiguous to any census tract or NMC described in (1) through (3).

- *Native Hawaiian Organizations (NHO)*—Allows small businesses owned by NHOs to qualify as HUBZone companies.

In order to implement the changes made by section 866 of the 2016 NDAA, SBA is amending §§ 126.103 and 126.200 of its regulations.

SBA is amending § 126.103 by revising the definitions of the terms “Base closure area”, “HUBZone”, “HUBZone small business concern (HUBZone SBC)”, and “Qualified base closure area”, and by adding new definitions for the terms “Native Hawaiian Organization (NHO)” and “Qualified disaster area”. This rule adopts the definitions of these terms provided in amended sections 3(p)(1), 3(p)(3), 3(p)(4)(D), and new section 3(p)(4)(E), of the Small Business Act, 15 U.S.C. 632(p)(1), 632(p)(3), 632(p)(4)(D), 632(p)(4)(E).

SBA is amending § 126.200 by revising paragraph (b)(1) to implement the statutory authority for HUBZone small business concerns to be wholly or partly owned by NHOs. This rule adopts the language provided in new section 3(p)(3)(D) of the Small Business Act, 15 U.S.C. 632(p)(3)(D).

*Compliance With Executive Orders 12866, 12988, and 13132, the Paperwork Reduction Act (44 U.S.C. Ch. 35) and the Regulatory Flexibility Act (5 U.S.C. 601–612)*

*Executive Order 12866*

The Office of Management and Budget (OMB) has determined that this direct final rule does not constitute a significant regulatory action under Executive Order 12866. This rule is also not a major rule under the Congressional Review Act, 5 U.S.C. 800.

*Executive Order 12988*

This action meets applicable standards set forth in Sections 3(a) and 3(b)(2) of Executive Order 12988, Civil Justice Reform, to minimize litigation, eliminate ambiguity, and reduce burden. The action does not have retroactive or preemptive effect.