

Consideration of Price Recommendation by the Director  
for the Perennial Ryegrass Bargaining Council  
Presented by Brent Searle, Special Assistant to the Director

**Background and Required Action by the Director:**

The Perennial Ryegrass Bargaining Council met under the auspices of the OR Dept. of Agriculture on June 29, 2005 to negotiate prices for the 2005 crop of perennial ryegrass under contract between growers who are members of the Perennial Ryegrass Bargaining Association and dealers who hold the contracts.

After six hours of negotiations and discussions, the Bargaining Council was unable to reach a recommended price, and requested the department exercise option 4(b)(1) under the department's rule OAR 603-076-0016) that provides two options in this situation.

Section 4(b) states that if the parties are unable to arrive at a negotiated price, they may either:

- 1) ask for a suggested price from the Director which the representatives may further consider, or
- 2) suggest to the Director a specified price range for his/her consideration, from which the Director shall determine the price that represents the interests of the state and the industry based on the information and facts available.

The growers initially proposed option 2, asking that the director set the price. The dealers were in favor of option 1. ODA representative Brent Searle indicated that the director would want a consensus recommendation on which option was chosen before she would take action.

The Council agreed to option 1, which requires a response from the Director within 2 days.

Note: the last offers between the parties were: 59 cents/lb. certified seed, 58 cents/lb. uncertified by the PRBA growers on one-half of the crop; and, dealers presented a proposal of up to 50% of the crop at 56 cents/lb. for certified seed, with the percentage of the crop to be chosen by the individual farmer. The grower could select "0" if he felt the price would be better later, or any percentage up to 50% at the 56-cent price. The other 50% of the crop would be negotiated in late September.

**Facts for consideration:**

1. Production for the 2005 crop is estimated in the range of 260 to 280 million pounds (grower and dealer estimates, respectively). This represents a substantial increase from the prior year of 257 million lbs. (OSU data).
2. Carryover inventory is estimated at 40 million lbs. located with the dealers who participated in the Bargaining Council negotiations (unaudited, voluntarily reported).
3. Average movement of perennial ryegrass over the past five years from Oregon into the marketplace has been about 220 million lbs (OR Ryegrass Commission data).

4. Carryover into 2006 could be substantial unless acres are reduced after the 2005 harvest in the range of 20-40,000 acres, or increased markets are found, or some mechanism is developed to keep seed off the market (or all of the above).
5. Exports exceed imports by over 6 million lbs., removing production from the U.S./North American system, making imports a minimal consideration to pricing.
6. Production in Canada and the Midwest amount to less than 5% of total Oregon production.
7. Prices that Canadian or Midwest dealers are offering to growers in those regions or at which dealers are moving product into markets are always discounted 5-10% from the Oregon price, regardless of where the price is set in Oregon.
8. Costs for growers have increased with fuel, fertilizers, machinery, labor, electricity, and other production expenses going up substantially.
9. Perennial ryegrass seed production in Oregon is predominantly done under production service contracts with growers, with specified acres and quality of product. All production under consideration in these discussions/negotiations is under production service contracts with grower members of PRBA.
10. Grower-owned varieties (producer-dealers) are increasing; exact acreage is unknown because some of these growers are PRBA members and some are not, the latter of which do not provide information to ODA. A rough estimate is that somewhere between 15-30,000 acres are in grower production. However, a good portion of this is accounted for in the negotiations because the grower-dealer companies are present and report data to ODA. It is estimated that at least half of the grower-dealer acreage is represented in the negotiations. Hence, total production from these sources could be in the range of 20 to 40 million lbs., with half of this involved in the negotiations. Using a mid-point of 30 million lbs. estimate, grower-dealer production would account for about 12% of the 2004 crop. Presuming about half of this is under PRBA grower control, adding this to contracted acreage of other dealers at the Bargaining Council (30% of all production), implies that 35-36% of Oregon perennial ryegrass production is involved in the Bargaining Council negotiations.
11. Data/information for many of the critical factors used in arriving at a negotiated price are based on estimates; better data is needed on a timely basis to the Bargaining Council. However, a negotiated pricing agreement is about more than just "data" and developing some sort of formula that kicks out the "optimal" price.
12. There is no clear 1:1 relationship between movement of price versus movement of seed – historical references provide some guidance and indication, but the interpretation of such is subject to disagreement.

## **Recommendation and Rational:**

The process established by law under HB3811 in 2001 affords an unique opportunity for dealers and growers (those involved in a bargaining association) to meet to discuss prices and all factors pertaining to such without fear of prosecution for price collusion or anti-trust violations.

The process of supervised price negotiations is not an exact science that lends itself to establishing a set formula and cranking out a price. There are many factors involved, including guiding federal and state laws that set parameters, supply and demand market forces, dynamics of personalities and varying companies who participate, grower economic realities, grower-dealer relationships and historical perspectives, individual dealer interests and market segments, and politics, to name a few.

Further, this process is predicated on the concept of an exchange of services between two sides that are seeking a mutually beneficial interest. In other words, the existence of a grower organization that is formed as a cooperative bargaining association outlined under federal law (Capper-Volstead Act) is essential for the process to occur. Dealers cannot meet collectively without the grower entity to meet with. The PRBA is the only existing grower organization formed to negotiate on behalf of perennial ryegrass growers. Dealers, who collectively appear to favor this form of price establishment, must recognize that the negotiations, price setting, and interactions with growers all send signals and have implications for the continuing viability of the grower's organization. While dealers cannot explicitly encourage growers to join or discourage them from doing so, it is imperative to recognize that the process will not exist without a grower organization to bargain with.

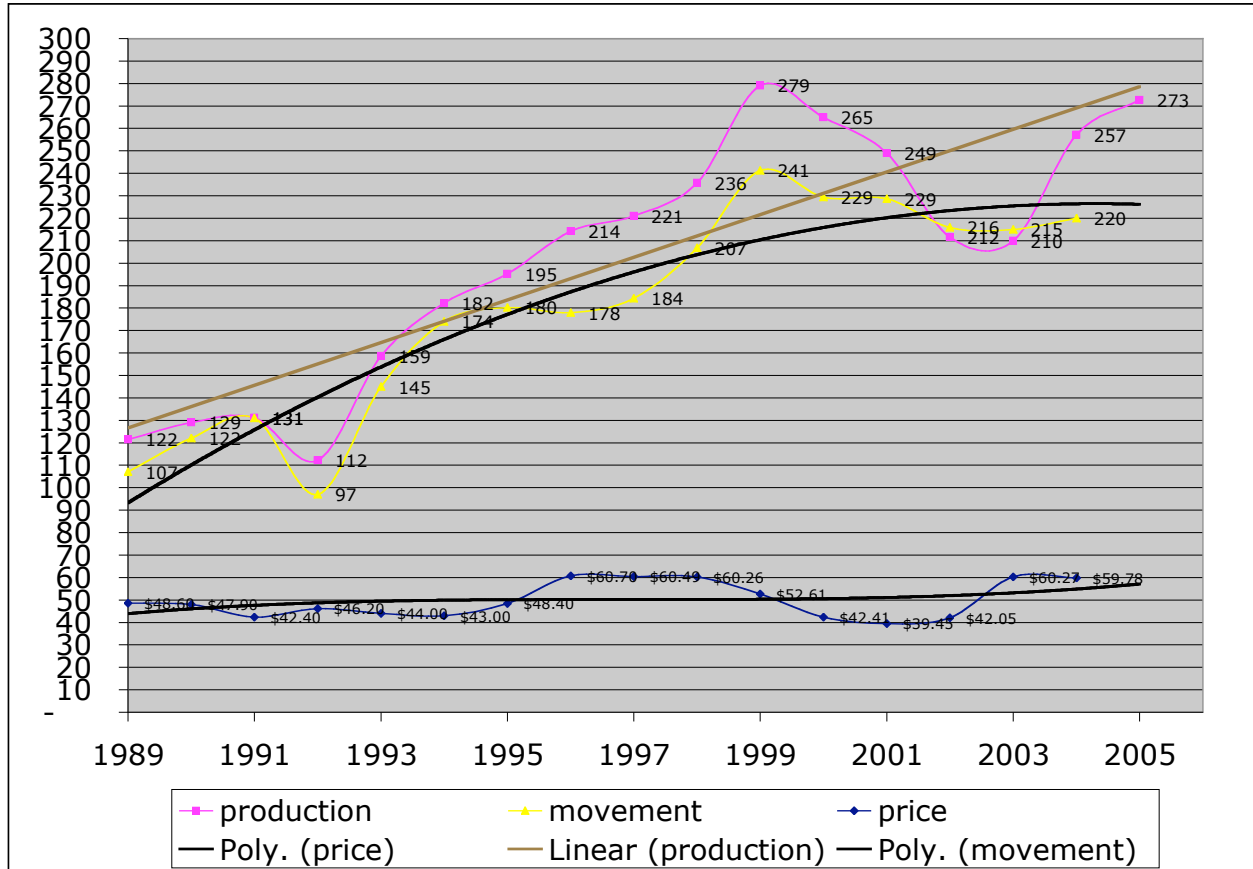
As noted earlier, there is no magic formula for establishing a price. Economic modeling can be one tool that the parties may want to consider.

Below is a graph using trend lines based on historical data to project what the 2005 movement and price might be. A straight linear trend line is used to show the trajectory for production, and the increase is pretty dramatic over the past 25 years, with acreage nearly doubling.

A polynomial trend line is used to fit seed movement and price trajectories. This is because a linear line has no flexibility at all, and the polynomial produces a better "fit."

In the graph we see that the movement trend line is projected at about 228 million lbs. for 2005, a pretty good estimate. The price estimate is right around 58 cents.

Again, this is not a perfect model and doesn't take into account all the factors noted above – it is based only on fitting a curve to the trend of past data. It is a tool for informative purposes and does a pretty good job of ending up in the "ball park" that is being discussed by the Bargaining Council.



The facts noted above clearly indicate supply will be larger than historical demand for the 2005 crop year and going into the 2006 crop year.

The two fundamental questions to be answered are:

1. Will a price differential of 3-6 cents make a substantial difference in moving more seed? In other words, what is the “ideal” price that can help seed move in the given situation?
2. Why has overproduction occurred and what are the remedies to address this and better match production to demand?

One of the key elements in answering these questions is having accurate data.

One of the limitations of the existing process of the Bargaining Council is that it meets once or twice per year, scrambles for data, and makes decisions that have significant impacts on the parties with somewhat limited information. A recommendation to address this will be made below.

Another limitation in the process is that the presumed tool for addressing acreage/planting increases is that of price reductions. This works in a market economy with commodities – and dealers argue that in the retail segment perennial ryegrass is viewed largely as a commodity – but

the production of perennial ryegrass is not a commodity. It is conducted under contract arrangements over which dealers have exclusive control for the acres they contract individually and collectively. PRBA grower-dealers have indicated they will abide by any agreements of the Bargaining Council relating to pricing and related efforts. Hence that acreage would be subject to whatever the Bargaining Council agrees to.

Acreage control must be a good faith element of the pricing strategy. Increased plantings with contracted seed don't occur primarily because of price signals unless dealers are extending contracts under those prices. It is disingenuous to suggest otherwise. Therefore it is also mistaken to suggest that price reductions should be the blunt tool used to reduce plantings, putting the majority of the burden of market value loss on growers.

Indeed, dealers are impacted when prices are lowered due to inventory holdings; but this impact is far less than that to growers on a collective basis.

In general the Bargaining Council participants recognize that Oregon cannot be and should not be the "low cost leader" in perennial ryegrass. The growers here consistently produce the highest quality and reliable quantity of seed available in the world. Pricing should reflect an approach of sending signals to the market that Oregon seed is a valuable product, not a dumping commodity.

Indeed, the language in the authorizing legislation indicates that the purpose of this process is to *partially displace competition* (that of dealers entering a bidding war to push prices down), so that the broader interests of the industry and the state (including the viability of growers) is recognized and considered.

The establishment of a price, however, must consider the increased production and inventory facing the industry. This indicates some reduction in price is justifiable. But one can pick various points of movement and prices over the past 25 years and justify a variety of pricing positions. An appeal to any particular year in history also must consider the unique circumstances occurring at that time that may not be applicable at the present – again to the point of this being about more than just supply and demand, although that cannot be ignored and must be a significant consideration.

Given the scope of control that Oregon dealers have in establishing market price due to the volume of production in Oregon, quality products, and consistent product availability, there is adequate evidence to argue that pricing should not be held hostage to minor market influences from outside production areas in Canada, the Midwest, or imports.

Therefore, weighing all the information in arriving at a price recommendation, I suggest the following pricing structure for your consideration. Further, I recommend that Bargaining Council consider the following as part of the price discussion going forward to address the data issue and other considerations that will help improve the process:

1. For 50 percent of the crop, certified Tournament©Quality seed at 58 cents/lb. and uncertified at 57 cents per lb. The remaining 50 percent of the crop will be negotiated in

September based on data available at that time relating to movement, inventory, and other factors. The price could be adjusted up or down at that point.

2. Form sub-groups, consisting of two growers and two dealers for each of the following topics; these sub-groups will evaluate the topics and issues, and bring recommendations to the full Bargaining Council at appropriate times to assist the process:
  - a. **Inventory** – meet with Jim Cramer, ODA Commodity Division, to develop a process of validating inventory at different points in time; discuss and recommend when is the best time to validate inventory and report such to the Bargaining Council.
  - b. **Acreage data** – explore options on developing better acreage projections; discuss possible surveys with OSU, USDA/Ag Statistics Service, or other third-party sources and time on reporting data to the Bargaining Council.
  - c. **Acreage control** – develop recommendations for consideration by the Bargaining Council, including how to equitably allocate reductions among dealers, how long the reductions would be in effect, how to balance acreage with projected market movement, etc.
  - d. **Improved marketing efforts** – given the fact that the market has doubled in the past 25 years (from 107 million lbs. to over 220 million), it is conceivable that the market can continue to be expanded, finding new uses, new markets, and applications. Meet with Dalton Hobbs and/or Gary Roth, ODA AG Development and Marketing Division and explore opportunities to move more seed.
  - e. **Grower relations** – many of the historical issues relating to trust are evidenced when negotiations get difficult. ODA has heard from both growers and dealers about grievances on business practices, contract issues, and payment. A sub-group focused on grower relations could examine options for the Bargaining Council to consider that would work to improve relationships between the parties to improve trust and enable the negotiations to move beyond each party questioning the integrity of the other when the Bargaining Council meets.

Approved as above:



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Katy Coba, director

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date