Minutes of the Perennial Ryegrass Bargaining Council
Supervised by the Oregon Department of Agriculture
June 29, 2005

The Perennial Ryegrass Bargaining Council met at 9 a.m., on Wednesday, June 29, 2005 at the Oregon Department of Agriculture in Salem, Oregon.

<u>In attendance representing the Grower Board of the Perennial Ryegrass Bargaining Association:</u>
Ralph Fisher, Ex. Director, Ron DeConick, President, Jack Sayer, Mike Freeman, Mark Reiling, Phil Hawman, Dave Vanasche, Don Fisher, Dan Sandau, Ron Quiring, Tim Butler, Dave Malpass, Alfred Pohlschneider. Other growers who are PRBA members were in attendance as observers.

<u>In attendance representing seed dealers:</u>
Rich Underwood (Innovative Seed Marketing), Brian Martin (Turf Merchants), Troy Kuenzi and Todd Bond (Mt. View Seeds), Tom Pape and Scott Harer (Columbia Seeds), Jon Odenthal (LESCO, Inc.), Rod Anderson (ProSeeds), David Lundell (Ultra Turf), Glen Jacklin (Simplot/Jacklin Seed), Pat McClain (Burlingham), Blaise Boyle and Marc Cool (Barenbrug USA), Mike Baker, Trevor Abbott, and Terry Ross (Pennington Seed, Inc.), Duane Klundt (Turf Seed, Inc.), Gary Cooper (Production Service), Mike Billman (DLF International), Aaron Kuenzi (AMPAC), Gary White (Allied Seed), Kevin Turner (Scotts Co.), Chris McDowell (Pickseed), Gordon Zielinski (Turf-Seed).

Following introductions, Brent Searle, designee of the Director to supervise the perennial ryegrass pricing negotiations, referenced the process and authority of the Department of Agriculture to provide oversight and supervision necessary for anti-trust protection to the participating parties.

Ralph Fisher, Executive Director of the PRBA, read the following statement into the meeting record:

“Representatives of the PRBA are attending this bargaining session to discuss the potential 2005 crop year production of turf-type perennial ryegrass seed, projected carryover as of July 1, 2005, export and imports of turf-type perennial ryegrass seed, and to consider and negotiate a PRBA member-grower price for Tournament®Quality perennial ryegrass seed crop under various seed production service agreements for the crop year 2005, in accordance with legislation HB 3811, 2001.

“Under legislation passed in the 2001 legislative session and signed by the Governor in May 2001, the Oregon Department of Agriculture is directing the discussions and bargaining between the PRBA and dealer representatives, who represent those companies producing and marketing the majority of the production of Tournament®Quality turf-type perennial ryegrass produced by members of the PRBA; and the Department of Agriculture is directing the negotiating parties to use criteria the department has drawn from HB 3811, 2001.”

Imports / Exports:

Ralph distributed charts showing perennial ryegrass imports (USDA/FAS data source). Approximately 10 million lbs. of seed was imported in the July 2004 through March 2005 period, down from nearly 16 million lbs. in 2003/04.

Imports over the past 5 years have trended downward, with a low point in 2002/03 of 6.4 million lbs.

Canadian imports fluctuated from 10 million lbs. in 2000/01 down to 5 million lbs. in 2002/03, and back up to nearly 9 million lbs. in 2004/05.

Imports from Oceania also showed considerable swings from 15.7 million lbs. 1999/00 down to a low of 1.4 million lbs. in 2002/03, up to over 8 million lbs. the following year, and back to only 500,000 lbs. in 2004/05.

Imports from the EEC have not been over 1.5 million lbs. in the past five years and were about 732,000 lbs. in 2004/05.

Imports of 10 million lbs. amounts to less than 4% of total Oregon production. Production in other areas of the U.S. would amount to even less.

Export data indicate that over 16 million lbs. of perennial ryegrass left Oregon to overseas markets, including the EEC (4.6 m. lbs.), Oceania (484,000 lbs.), Canada (3.3 m. lbs.), Asia (5.7 m. lbs.), and other locations (2 m. lbs.).

Exports net imports shows that 6 million lbs. more perennial ryegrass seed left the U.S. (mostly from Oregon) than was brought into the U.S. from other foreign production locations. This indicates that imports are not a significant factor in pricing for Oregon production.

Exports appear fairly stable, ranging from 16 million lbs. in 1999/00 to a high of 23 million lbs. in 2002/03, and back to 16 million for 2003-05.

Inventory:

Inventory of seed on hand at dealer's location that was gathered by an ODA survey was distributed. Dealers indicate about 40 million lbs. of seed as of June 15, 2005.

A spreadsheet prepared by ODA indicates that production numbers provided by dealers (those reporting) equated to about 193 million lbs. for the 2004 crop. It was estimated that this represented 90% of production under contract. Using quarterly movement of seed as reported by the Ryegrass Growers Commission, these numbers showed remaining seed at 23 million lbs. at the end of the 3rd quarter (March 2005). On April 15, dealers reported to ODA that they had 48 million lbs. in inventory – more than would have been available by these estimates.

OSU production estimates for 2004 placed the crop at 257 million lbs. Using the same movement, and present inventory (40 million lbs. as reported by dealers), this would indicate 4th quarter movement through June at about 26 million lbs.

Dealer representatives felt the OSU numbers were closer to reality than the ODA survey, which led to questions about the accuracy of data reported by dealers. It was determined that inventory numbers are tracked differently by dealers and that seed physically at dealer location and contracted seed that is unshipped from growers caused some confusion about how inventory numbers were reported in April versus June.

The group agreed that in the future inventory data would include both categories and be broken down into that which is physically at dealer's sites (unsold) and that which is unshipped from growers.

Some growers suggested ODA auditing of dealer records to verify accurate inventory data, as this is a critical part of understanding carry over into the following crop year. ODA will check whether this is possible as a process to gather more accurate data.

Movement:

The Council discussed data on movement, noting some typos on data distributed on one document that didn't match another distributed by PRBA. ODA noted the corrections.

With 4th quarter movement estimated at 25 million lbs., total movement for the 2004 crop will be about 215-220 million lbs. This is about average for the past 5 years, with a bit of variation.

Dealers noted that the 1996 to 2000 period with prices in the 60 cent/lb. range triggered an increase each year in plantings and total acreage, leading to a subsequent oversupply and a resulting price reduction until acreage was reduced. They believe the present situation is the same and necessitates a reduction in price to reflect a larger crop and inventory carryover.

Production Projections:

PRBA presented their position and rational for projected 2005 production based on acreage (about 185,000 acres), weather impacts, and probable yields (1,400) to result in 260 million lbs. of total crop.

Dealers responded that this was a very conservative estimate, believing production would be closer to 280 million lbs., feeling that yields will be somewhat better than growers indicate. To arrive at 280 million lbs. would indicate total acreage is likely in the 195,000 range with yields at 1,450.

If the dealer's acreage estimate is accurate, this would indicate an increase of 9.5% in acreage over 2004.

Dealers indicated that a scenario using PRBA's estimate of 260 million lbs. with a carryover of 50 million lbs. (40 known and 10 more they believe is also around), would result in 310 million lbs. of seed going into the 2005 marketing year. They point out that the most seed moved in any year to date was 240 million lbs., (1999) with more typical years being in the 220 million range in recent history.

Dealers are very worried that this scenario will result in a carryover into the 2006 crop year of 90-100 million lbs. and create a huge downward pressure on the market.

Both growers and dealers recognize that overproduction has occurred and that the spring market for seed did not materialize as much as anticipated.

Growers believe that OSU numbers are somewhat inflated; dealers believe that in any given year they are within 2-5% accuracy. Accumulated, over a 10-year period, the difference would show more inventory around than actually exists.

Part of the reason for increasing acres is the limited options for growers with other cropping alternatives disappearing as a result of the closure of vegetable and fruit processing in the Willamette Valley over the past 5-8 years.

The point was also expressed that dealers are responsible for the amount of acreage under contract and need to reduce the contracts being put out to growers. Growers feel it is unfair for the impact of over-subscribed acres to fall on them in the form of lower prices.

Market Factors:

Discussion ensued about present prices in other parts of the U.S., with the Midwest having sales to growers at 52 cents and Canadian sales into Eastern markets at 68 cents which would translate back to Oregon grower prices of about 55 cents.

Dealers noted that other grass species will have minimal up or down side impacts on the perennial ryegrass market. The Midwest production of Tall Fescue is off significantly and that will create a hole for some Oregon perennial and Tall Fescue, with prices for that crop rising. But the impact will be marginal compared to the supply situation for perennial.

Dealers indicated that with a large volume of seed on the market, unless prices adjusts, production will come in from other areas and Oregon seed will not move. Dealers articulated an argument for moving the most seed at the appropriate market price that will get the volume down. Dealers further note that if Oregon's price is sufficiently higher than the market, production itself will move elsewhere.

Growers feel that Oregon dealers should be more devoted to Oregon growers and production based on the research, production capacity and proven yields, quality, grower expertise, and historic relationships.

Dealers responded that some of the larger companies are investor owned and not all owners are Oregonians. They are focused on the company's profits and it is their fiduciary responsibility to investigate other production areas, determine costs, production potential, and returns to the company.

ODA note: from available data, total production by Oregon companies outside of Oregon in North America (Canada and other states) is about 35,000 acres, which accounts for about 15% of total acres but less than 5% of total production. The production in these areas varies significantly year to year, with a few Oregon companies aggressively seeking production contracts outside Oregon. Evidence to date indicates that production in these other areas, while maintaining some advantage in cost of production, cannot consistently produce the yields and quality that occurs consistently in Oregon.

<u>Discussion and Proposals:</u>

The idea of growers holding part of the 2005 crop off the market with a commitment from dealers to reduce acreage in 2006 was discussed. It was uncertain whether the "slow-pay/no-pay" statute would allow for this. Jim Cramer, ODA Administrator of the Commodity Inspection Division, briefly joined the group and gave his view that the Bargaining Council could reach an agreement that PRBA growers might hold a percentage of the crop off the market, but this could not apply to non-PRBA growers as they are not party to the agreement. Because ODA responds to slow-pay/no-pay based on grower complaints, ODA would not have to act if PRBA growers voluntarily agreed to a negotiated process that would hold seed and subsequent payment past May 1, and did not file complaints about payments past that date.

The group felt this idea might have merit but would require further research and discussion. Not all parties felt this was a good idea.

A grower noted that all contracts with dealers are for proprietary varieties, and these are production service contracts where the dealer is essentially renting the land, services, inputs, and expertise of the grower to produce a product under contract to the dealer's specifications. Yet the growers are not getting compensated fully for their services and costs under these production service contracts.

Dealers respond that cost of production is rarely the determining factor of price in the marketplace for a commodity product. Growers are frustrated with the connotation that proprietary, contracted grass seed is a commodity product. Dealers indicate that with over 150 varieties of perennial ryegrass and few distinguishing features between them, substitution is simple and the market treats it all as a common commodity. Growers indicate that this situation has been created by the dealers.

The parties broke for caucus to develop proposals for pricing consideration.

The dealers presented their proposal that some portion of the crop (x number of pounds per acre to be negotiated) at 55 cents/lb. with the balance to be negotiated in September.

Dealers indicated that they don't like reducing price because they have 40 million lbs. in inventory that was purchased at 61 cents and a 6 cent reduction will amount to a $2.4 million loss to them on this inventory. The overriding factor for dealers is the carryover inventory and large projected production they believe is ahead for the 2005 crop.

Growers proposed that the price remain where it is from the 2004 crop at 61 cents/lb. for certified TQ quality seed.

Growers believe that the competition in Canada and the Midwest always sets their price a 5-10% less than whatever the Oregon price is established at (Bargaining Council Price) and so "the competition" should not be the determining factor in how Oregon sets its price. A 6 cent reduction to growers on the entire crop amounts to $15.6 million less to growers (260 lb. crop assumption), and for which many of their operating loans are written at by the banks.

Dealers respond that this is simply a change in the value of the commodity in the marketplace.

Discussion around these positions followed.

The question was asked by a grower as to what sets the price in the market? Dealers responded that this was a good question, it largely being a factor of Oregon dealers' individual and collective determination, and the competition.

Growers don't believe that the competition from 5% or so of production outside Oregon should be the determining factor in establishing the price for all of Oregon's production. They therefore believe that Oregon dealers have the ability and responsibility for the price because of the predominance of production grown here, and that dealers are "talking down" the price in the market in order to arrive at a lower price – a self-fulfilling process.

Another question was asked by growers about whether the market really takes more seed at a lower price. Dealers responded with the example that golf course managers have a fixed budget for grounds and they do respond to price by purchasing more or less seed within that fixed budget. On a broader scale, dealers note that they believe the market capacity is about 220 million lbs. and to move more than that requires a discount or lesser price than the present pricing for the 2004 crop at 61 cents.

A question was asked about price differentials between TQ seed grown by PRBA growers under contract and growers who do not belong to the PRBA. Dealers responded that they could do this, but that it creates problems for them and they don't want to differentiate for contracted seed.

Some dealers voice the suggestion of pricing at the beginning of the crop year before new plantings go in so as to set a price that growers could then base their planting decisions around. Other dealers expressed the opinion that knowing harvest and production outcome is equally important and it's better to wait until more is known about the crop in order to price. This topic is generally raised at every Bargaining Council meeting and there is no consensus on when to establish a price based on different marketing interests and desire for crop information at different points throughout the year.

Growers disagree with the premise that price should be the signal to growers under a contract production situation about acreage of plantings. They believe that the dealers are responsible for contracts put out, and that dealers must reduce contracted acreage in the 2006 and that will address the problem with 20-30,000 acres less in production.

Dealers acknowledge the collective problem of increased acreage but couldn't agree on how a reduction could be fairly distributed between them. It was noted there is enough inventory and seed traded between dealers that each dealer does not individually need to fully subscribe acres for projected sales, as apparently is being done.

The groups again broke for caucus to discuss the proposals and further options.

Upon reconvening the growers presented a price of 59 cents/lb. for certified seed on 50% of the 2005 crop.

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.

Discussions and further caucuses followed. Both sides felt this was as far as they could go given their perceptions of the market and production, and other factors under consideration.

Eventually, after 6 hours of meeting, the parties reached an impasse, and discussed whether to make a recommendation to the director of the department to set the price.

The department's rule applicable to the supervised price bargaining (603-076-0016) 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 parties agreed to option 1, asking the director for a suggested price which they would then consider under a continuation of the negotiations set for one week away, Wednesday July 6, 2005.

The meeting was adjourned at 3pm with the subsequent meeting set for 9am on July 6th at the Oregon Department of Agriculture building in Salem, Oregon.

Brent Searle, ODA representative and supervisor of the discussions, will summarize the negotiations, data, and all relevant information and present them to ODA Director Katy Coba for consideration of a pricing recommendation back to the Council. According to the ODA rule, this must be completed within 2 days and thus will be provided to the Council members by Friday, July 1, 2005.