

Minutes of the Perennial Ryegrass Bargaining Council
March 15, 2006
Prepared by Brent Searle, OR Dept. of Agriculture (ODA)

In attendance:

Dealers: Mike Baker, Trevor Abbott, Leon Strait, and Terry Ross, Pennington; Aaron Kuenzi, AMPAC Seed; Duane Klundt, Turf Seed, Inc.; Blaise Boyle, Barenbrug, USA; John Cochran, Turf Merchants; Steve Tubbs, TMI; Bill Gallagher and Greg Riches, Turf Care Supply; Bill Dunn, Seed Research of Oregon; Dick Olson, ProSeeds Marketing; Scott Harer, Columbia Seeds; Gary Cooper, Production Service; David Lundell, Ultra Turf, Inc., Greg Hagen, Cascade; Willow Coberly, American Grass Seed Producers; Ken Strahan, Lewis Seed Co.; Bryan Muntz, Integra Seeds, Inc.; Steve Rusconi, Simplot-Jacklin Seed; Rich Underwood, Innovative Seed Marketing; Dave Bandick, Jewett-Cameron (observing).

Growers: Ralph Fisher, Ex. Director; Ron DeConick, President; PRBA Board or member growers: Jack Sayer, Mike Freeman, Mark Reiling, Phil Hawman, Dave Vanasche, Don Fisher, Dan Sandau, Tim Butler, Alfred Pohlschneider, Daniel Heuberger, Terry Etzel, Russ Hayworth, Bob Vanderzanden, Ryan Clark, Harry Stalford, Jamie Olsen.

Brent Searle, Special Assistant to the Director, represented ODA as designated by the director of the Oregon Department of Agriculture to supervise the discussions and negotiations of the Perennial Ryegrass Bargaining Council pursuant to HB3811 (2001) and rules adopted by the department.

The meeting was initiated at 9am.

An agenda was distributed and Brent Searle provided an overview of “state-action immunity” and the role of the department with respect to pricing discussions.

Brent updated the Bargaining Council on the work of the three subcommittees that have been meeting to address issues charged to them by the Bargaining Council. (A more detailed summary of all three is inserted at the end of these minutes.)

PROCESS SUBCOMMITTEE:

A “declaration of participation” form was developed that provides the participation role of each dealer and dealer-grower. All of these entities have completed the form that is on record with ODA. This addresses conflict-of-interest concerns and provides ODA a clear indication of participant roles.

The process subcommittee also expressed interest in encouraging any interested perennial ryegrass grower or dealer to attend the Bargaining Council process as observers.

Finally, the subcommittee in earlier meetings made recommendations on timing of price negotiations. These recommendations were discussed at length later in this meeting. The Bargaining Council felt the process subcommittee should take up the issue of grow-out testing as a future item for consideration.

LONG-RANGE SUBCOMMITTEE:

The subcommittee has met twice and considered a wide range of issues related to market development, certification programs, new uses, value-added efforts, and industry trend analysis. The subcommittee recommended that a program be considered by a few dealers working with growers on an “eco label” or some “sustainable” product program. Further, the subcommittee recommended a comprehensive industry market analysis is needed to determine trends and consumer interests in various grass products.

The subcommittee will continue working on these items.

Minutes of the February 24, 2006 meeting of the subcommittee are attached.

DATA SUBCOMMITTEE:

The data subcommittee was charged with development of common definitions of inventory, which has been done and recommended to the Council and reporting dealers. Reporting was recommended to be conducted quarterly to ODA. This has also been implemented, although not all dealers are participating.

The subcommittee also is evaluating various sources of production data, including OSU, USDA Farm Service Agency and Ag Statistics Service, and various private providers. This will continue to be pursued.

The Council charged the subcommittee to gather data, develop some analysis and context, and provide to the Council members prior to the next meeting of the Council.

Data distributed to the Bargaining Council:

- Inventory data for the 1st and 2nd quarters of the 2005 crop marketing year as reported by 15 dealers. Inventory dropped from 128.7 million lbs. to 104.4 million lbs. for this group of reporting dealers.
- Oregon Ryegrass Commission Assessment Report (movement from growers to dealers) for 1st and 2nd quarters of the 2005 crop marketing year. Movement during the 1st quarter was 78.1 million lbs. and 48.6 million lbs. during the 2nd quarter. Total movement for the first two quarters equals 126.8 million lbs. compared to 145.3 million lbs. movement in the same period last year.
- OSU Crop Estimates for 2003, 2004 and 2005. According to these estimates, acreage for perennial ryegrass increased from 167,130 to 193,470. Yields in 2005 were average to slightly lower than average at 1,386 lbs./acre. Total grass seed production in the state was down over 60 million lbs. due to significant losses in annual ryegrass and reduction in tall fescue, orchardgrass, and other species due to voles and weather conditions.
- USDA Farm Service agency reported acreage for growers enrolled with USDA programs. Acreage for perennial ryegrass is 139,294, about 72% of the acreage estimates of OSU. This data source is known to be incomplete as all growers are not enrolled in USDA programs; however, the percentage is increasing over time and this can serve as a check or benchmark for additional data verification.

- Acreage under contract as reported by dealers to ODA. This is not comprehensive and represents only a portion of the production under contract. The Council is working to build participation so the trends will be more accurate and usable by the Council.
- Seed certification by OSU: new fields and new acres are both down substantially from a few years ago.
- Perennial Ryegrass seed imports and exports. Imports appear to be flat at 5.7 million lbs. for the first half of the 2005 marketing year compared to 11 million lbs. for the entire prior year. Exports, at nearly 3 million lbs. for the first half the marketing year, appears on a good pace compared to 4.4 million lbs. for the prior year (entire year).
- Gross revenue per acre for perennial ryegrass is lower than the previous year (for the 2005 crop), despite higher costs to produce the product.

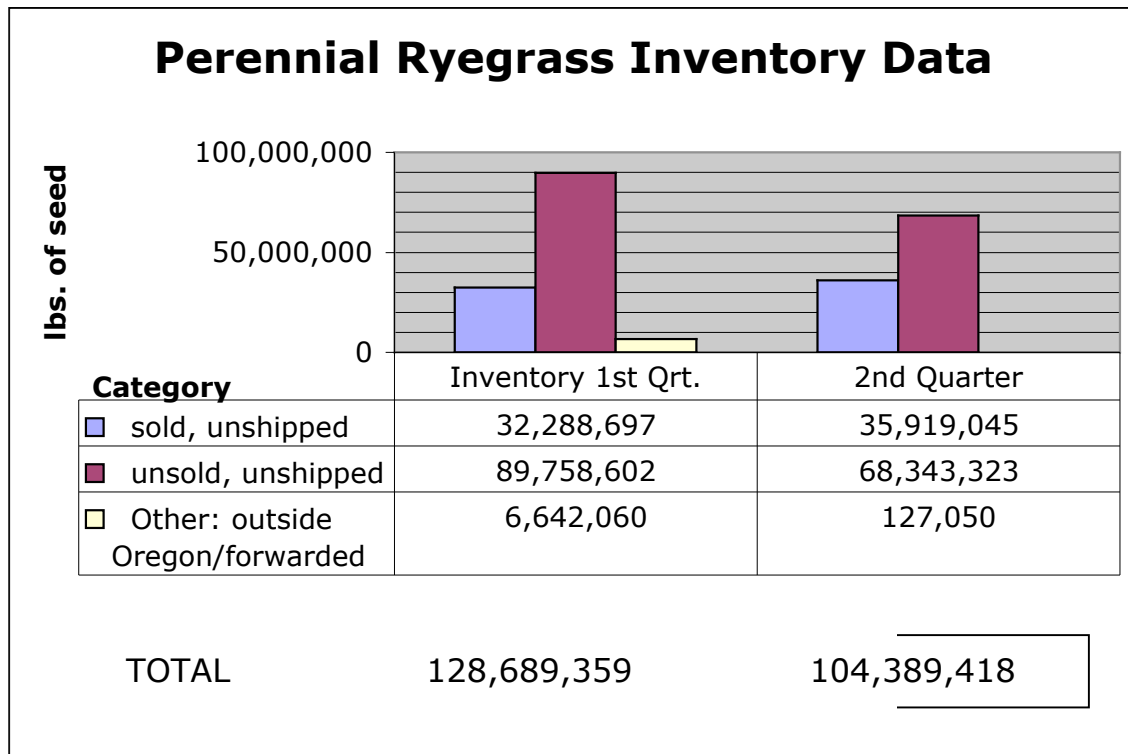
Inventory Data 2005 Crop / 2005-2006 Marketing Year

1st Quarter Reporting:

Barenbrug, LESCO, Ultra/Turf Production Services, AMPAC, Columbia Seeds, Mt. View Seeds, Scotts, Intl. Seed, CHS, SMI, Turf Seed, Turf Merchants, Pennington, Production Services, Burlingham = 15 reporting dealers

2nd Quarter Reporting:

Barenbrug, LESCO, CHS, Seed Research, SMI, Mt. View Seed, Pennington, Scotts, Columbia Seed, AMPAC, American Grass Seed Producers, Turf Merchants, Turf Seed, International Seed, Production Services = 15 reporting dealers



Commission Assessment Movement

78,139,629

48,635,299

The wet weather in January and February have caused substantial damage in some perennial ryegrass fields. Many felt that yields and total production will be down substantially in 2006.

The point was made that growth regulators have not substantially increased yields as some had predicted. Some of this may be due to changing weather patterns.

The discussion turned to the timing of pricing negotiations. Most felt that given the uncertainties about the crop, it was too early to set pricing.

The rationale for the process subcommittee timing on pricing was discussed. The recommendation for the 2006 crop was 100% of the crop pricing negotiated on August 15, 2006. The reason for this is that any window for a pricing signal for growers has already passed and the result is simply determining the crop production available. The 2007 pricing recommendation is to negotiate 50% of the pricing in August or September 2006 prior to planting so growers can make planting decisions, and the other 50% by August 15, 2007.

The intent of this approach was to give some certainty to the market prior to planting, and to adjust or finalize the price once the crop is known.

Some expressed the opinion that pricing the entire crop on a single date is too difficult and only leads to frustration if the price isn't "right" or within a close margin of the VNS or open-market production.

Others expressed the view that the industry should stop treating proprietary contracted seed as a commodity based on "after the harvest" evaluation of the production. This view holds that the crop should be priced before planting and let the market forces fall where they may, but give certainty to contracted proprietary prices.

Growers expressed interest in long-term contracts, up to three years, as a way to stabilize pricing and take the swings out of the marketplace.

Alternatively, some dealers and growers view these swings as opportunities to maximize their returns or margins – if they can hit it right.

A dealer explained that the rapidly growing market for grass seed during the early 1990s allowed for longer-term contracts because demand pulled production along. The industry evolved away from long-term contracts in the past 8-10 years. The question was raised about whether a mature market would support longer-term contracts again, especially if the prices proved significantly different than the market price for the seed – would growers and dealers honor the contracts?

A proposal to move forward was put forward by a dealer for pricing discussion on May 15 and August 15 and the groups broke into caucuses to discuss timing of price negotiations.

Upon reconvening, the dealers proposed June 1 and August 15 as dates for the Bargaining Council to meet and determine some portion of the price for a percentage of the crop to be determined at those times with information available.

Growers proposed to meet on August 15 to negotiate the entire crop and to discuss multi-year contracts as part of the pricing discussion.

The Council again separated for causing to discuss the proposals.

Upon reconvening, after considerable discussion, growers proposed to meet June 15 and August 15 to negotiate some portion of the pricing as determined at that time.

After further discussion, the Bargaining Council agreed to meet next on June 7, 2006 and by no later than August 15 (unless determined differently at the June meeting) for pricing discussions. The meeting time was set at 9am, location to be determined.

The Bargaining Council adjourned at 11:45am.

Perennial Ryegrass Bargaining Council Subcommittee Workgroups

1. Data Subcommittee:

Objectives:

- a) Develop **definitions for reporting inventory** and discuss need to validate data;
- b) examining the need for **additional sources of data** and potential partners in gathering data, such as the USDA Farm Service Agency, Oregon State University, or the Oregon Agricultural Statistics Service;
- c) discussions of **other data issues** the parties feel appropriate, e.g., cost of production/operation for grower & dealers, etc.).

Subcommittee Membership:

Bill Gallagher, Lesco
Troy Kuenzi, Mt. View Seeds
Duane Klundt, Turf-Seeds
Steve Tubbs, TMI
Jack Sayer, PRBA Grower
Mark Reiling, PRBA Grower
Ron DeConnick, PRBA Grower
ODA staff assisting: Jim Cramer, Brent Searle

The Data Subcommittee developed the following recommendation for reporting of inventory seed by dealers:

Parameters/Guidelines:

- applies to all contracted seed
- dealers have "ownership" of all contracted seed
- "ownership" is transferred once a lot has been invoiced
- applies to all dealer transactions

Reporting categories:

1. sold, unshipped
2. unsold, unshipped
3. Other: outside Oregon/forwarded, including imports and distribution centers

These three categories should capture seed, whether at the farm level, at the seed dealer warehouse, or further out in movement to the distribution center level.

Inventory data would be reported in conjunction with filing of movement/assessment data to the Ryegrass Commission, i.e., quarterly.

Inventory as of September 30, 2005 should be reported to ODA by October 28, 2005.
Inventory as of December 30, 2005 should be reported to ODA by January 27, 2006.
Inventory as of March 31, 2006 should be reported to ODA by April 28, 2006.
Inventory as of June 30, 2006 should be reported to ODA by July 28, 2006.
Inventory as of September 29, 2006 should be reported to ODA by October 27, 2006.

2. Process Issues Subcommittee:

Objectives:

- a) Evaluate options (pros and cons) for **when** pricing negotiations might occur, and bring recommendations back to the Council;
- b) evaluate **participation** of grower-owned seed dealers in PRBC and possible guidelines for participation;
- c) examine options for **communicating with growers and dealers** who are not involved in the Council bargaining process.

Subcommittee Membership:

Mike Baker, Pennington Seed
Rich Underwood, Innovative Seed Marketing
Chris McDowell, Pickseed West
Scott Harer, Columbia Seeds
Al Pohlschneider, PRBA Grower
Dan Sandau, PRBA Grower
Ron Quiring, PRBA Grower
Tim Butler, PRBA Grower
ODA staff assisting: Brent Searle

The discussions were broad ranging and several items will be carried into the Long-range Subcommittee meeting. Recommendations of the subcommittee:

1. Timing

Negotiate 100% of the 2006 crop around August 15, 2006.

Negotiate 50% of the 2007 crop prior to planting in August or September 2006.

Negotiate 50% of the 2007 crop by August 15, 2007.

The subcommittee felt that pricing is best set prior to planting or after harvest; the "prior to planting" window is past for this year, so best to leave the negotiations to post-harvest when we have good inventory data from the improved reporting and we know production info. Then, moving into 2006 crop, set half the price prior to planting and half again after harvest.

This is only a recommendation and should be discussed by the full Bargaining Council in the not-too-distant future.

2. Grower-dealer participation: the subcommittee believes that inclusion and participation is a desired part of the Bargaining Process (the more parties involved, the better). The committee developed recommendations for a "participation declaration" to ensure there is no conflict of interest and to clearly delineate how the parties are participating. This was distributed to all dealers and grower-dealers.

3. a. Invite any growers and dealers (whether they have PRBA membership or not) to attend the Bargaining Council meetings as observers if they so desire.

b. Distribute the minutes of the Bargaining Council more widely, including through OSTA, the Ryegrass Commission, PRBA's website and distribution to its membership, and any other method that has merit.

3. Long-range Market Structure Subcommittee:

Objectives: Evaluate long-term industry structural issues, such as various options to balance production needs with demand, new marketing initiatives, new product uses, alternative cropping options, etc., with the goal of increasing demand and economic viability of the industry.

Subcommittee Membership:

Greg Riches, Lesco

Trevor Abbott and Terry Ross, Pennington

Bill Dunn, Seed Research

Jay Burr, Scotts

Bob Vanderzanden, PRBA Grower

Terry Etzel, PRBA Grower

Dave Vanasche, PRBA Grower

ODA staff assisting: Dalton Hobbs (or other ADMD staff), Brent Searle

Have met twice with several invited guests.

- The industry has developed markets for the increase in grass seed production that has occurred over the past decade (GOOD NEWS), but it also appears that the current market segments are getting saturated and that market demand is leveling off due to a number of trends (BAD NEWS).
- Oregon holds the premier status as a grass seed production area (GOOD NEWS), but the industry is fragmented, doesn't have a good sense of broad trends in the consumer/demand areas, and may be subject to similar influences that affected the strawberry industry -- producing a top quality product that the public/food industry tired of -- new trends were leading the market a different direction and the Oregon industry did not respond (BAD NEWS).
- The subcommittee feels there is a need for a **comprehensive industry market analysis** to determine significant market trends, key demand characteristics in different market segments and how the industry matches up to these traits, and to evaluate whether plant breeding programs are in step with these trends.
- The **Bargaining Council could serve as a forum for industry leadership** in bringing the various fragments of the industry together to evaluate opportunities to collaborate, rather than chasing after low-cost production economics. The nursery industry is a good example of an ag sector that is acting as a "cluster," looking collectively at big picture items (like fuel/transportation costs), identifying value-added opportunities, and working collectively to address such.
- One potential **value-added opportunity** with increasing public interest centers around environmental stewardship and products that are "certified" in some manner. While this can be viewed as a niche market, even Wal-Mart and other big-box stores are recognizing the trend and seeking products that evidence good stewardship or "sustainable" production. A program could be developed to enhance the branding of Oregon grass seeds to evidence they are produced in a sustainable fashion.

Perennial Ryegrass Bargaining Council Long-range Subcommittee Notes

February 24, 2006

Envision what you would like a newspaper headline to state about the grass seed industry in 10 years... what would it say?

Do these headlines, developed by the Subcommittee, create any excitement or interest?

SEED PRICES AT ALL-TIME HIGH PROFITABILITY FOR GROWERS AND DEALERS

GRASS SEED STOPS GLOBAL WARMING

MID-WEST USE OF OREGON GRASS SEED AT ALL-TIME HIGH

GRASS SEED INDUSTRY AND NURSERY INDUSTRY MAKE ALLIANCE

GRASS SEED PRODUCTION IS OREGON'S GREEN TREASURE

OREGON WIDENS WORLD PRODUCTION DOMINANCE

PERENNIAL RYEGRASS STRENGTHENS OREGON'S ECONOMY

OREGON GRASS SEED PRODUCERS AND INDUSTRY COLLABORATE TO DOMINATE WORLD PRODUCTION

TURF FROM OREGON SAVES EASTERN U.S.

OREGON GRASS SEED PLANTED ON EIFFEL TOWER GROUNDS

If this is what you want the future to be, how will it come about? Is there a window of opportunity for growers and dealers to unite under a collaborative effort that would bring new economic benefits to the industry?

Inherent challenges:

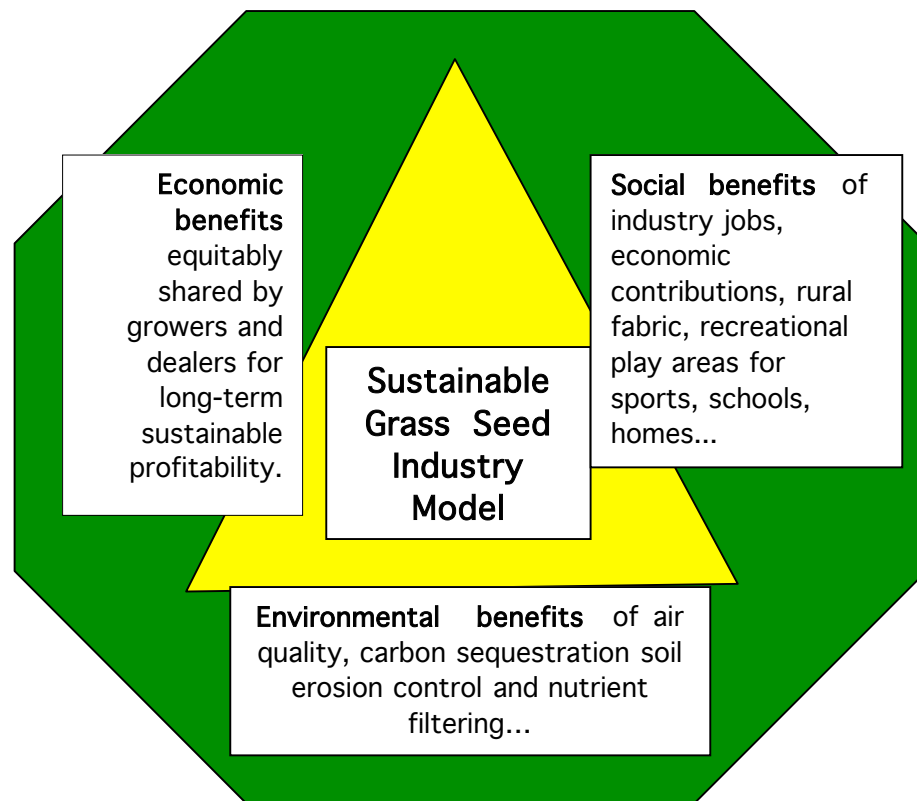
- Grass seed companies are interested in their individual brands and profitability, some with ownership outside Oregon, making them less interested in promoting "Oregon seed" as a key marketing strategy.
- Many varieties of grass seed have led to several separate grower and industry organizations – the idea of a "mega commission" has been around for years but industry can't seem to agree on merging interests into a single grass seed entity (the Oregon Association of Nurseries model).
- Contracted proprietary seeds become commodities at the wholesale level, even while companies market them as proprietary at the retail level. Hence, the "dealer proprietary research has returnable value at the market/retail end; the grower, however, is not realizing economic benefits for producing the 'container' of that value – the seed." – Dr. Virginia Lehman

Options: (1) Certification:

Could a certification program of some sort that showcases Oregon's unique production practices, varieties and special growing conditions make a difference in the marketplace? Is the market ready for a "sustainable label" on a grass seed product?

This would require third-party certification, accountability and transparency. Dealers would have to show that the product commands a premium in the market to pass it through to the growers.

The Forest Industry has developed a "sustainability triangle" that focuses on the three primary components of a sustainable industry, including economics, social, and environmental benefits. A model for the grass seed industry might look like this:



NORPAC has developed a sustainable certification program for all its grower members and is using it to address market demand issues. NORPAC is certified through The Food Alliance. See:

<http://www.capitalpress.info/Main.asp?SectionID=67&SubSectionID=792&ArticleID=17125>

<http://www.orsolutions.org/willamette/sustainag.htm>

Oregon Country Beef is another example of "sustainable" certification. Organic certification is another potential; Barenbrug has ventured into this, but the volumes are very small despite the large premiums on price necessary to produce grass seed under organic conditions.

OSU researcher Cathy Durham believes the market for an "ecolabel" or sustainable product is a solid 2-3%, and likely tops out at 10%. Any label effort requires lots of information to be

conveyed to the target audience/consumer. If a chain store adopts the strategy, it can certainly help in the process of market penetration and consumer education.

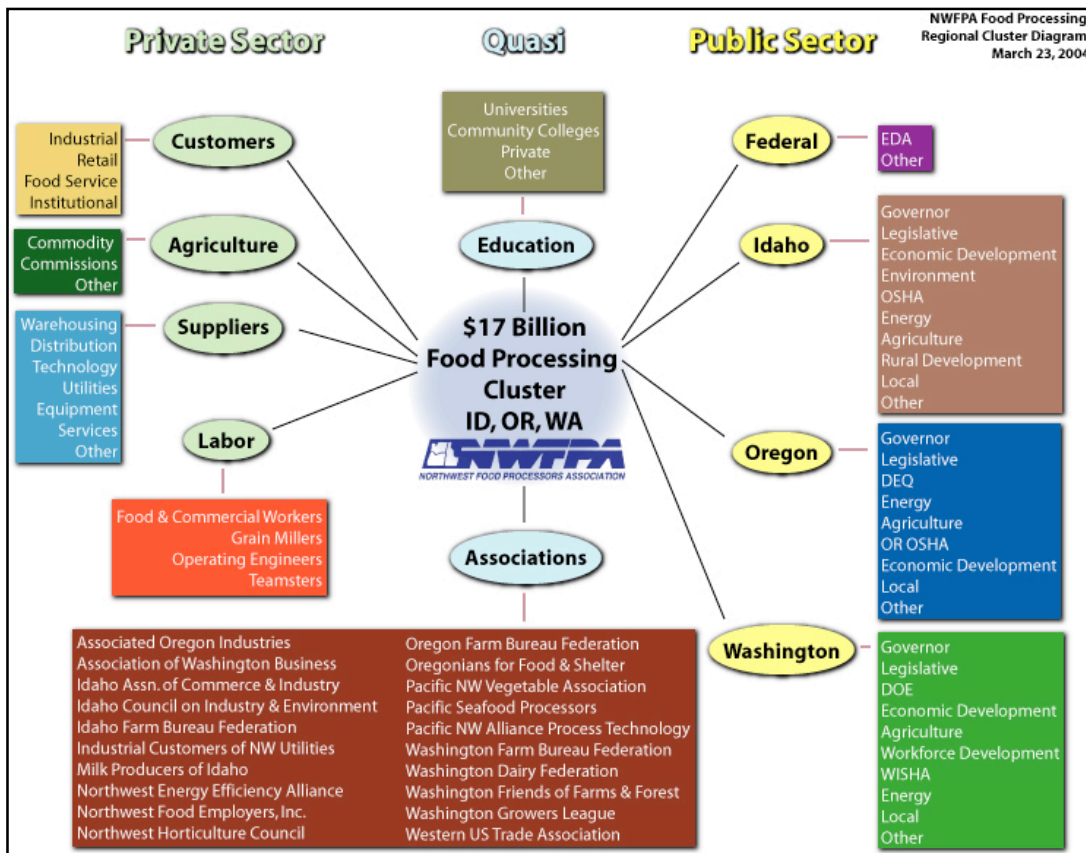
While the certification market likely isn't large enough for the entire industry, there may be merit for a couple dealers to work with an identified grower group on a certification effort.

Options: (2) Other Collaboration Models:

The industry has collectively taken on some collaborative issues in the past, like alternatives to field burning and market development in China. Many feel it is time to step up and take on the economic viability issue collectively.

Examples: The Northwest Food Processors have undertaken a “cluster” analysis effort and evaluated the industry competitive strengths and weaknesses, and are developing a strategic plan for the industry.

See:



http://www.nwfpa.org/eweb/DynamicPage.aspx?webcode=landing2&wps_key=f27d8e4f-1b6f-46df-ad9c-2e47ce42460f&site=nwfpa

A highly visible and successful agricultural industry collaboration effort is evident in the Oregon Association of Nurseries: <http://oan.org/>. They have a collective message as Oregon being the “State of Perfection” for production of high quality nursery products, a top quality monthly magazine publication, key trade shows held in Portland for the trade and the public, and sponsor a certification program for producers as “nursery professionals.”

Another initiative is underway to evaluate new business models for assisting middle-size operations and is termed “Agriculture of the Middle.”

This term refers to a disappearing sector of mid-scale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities (because of their moderate size) or sell food directly to consumers (because of the types of crops they grow or because there is no mechanism to do so). Begun as a task force in 2003, the initiative is entering a development and research phase. <http://agofthemiddle.org/>

Options: (3) Collaboration on Broad Message:

Dr. Virginia Lehman poses the broader question to the industry -- what is it the industry is selling and what is the value to the buyers? Which buyers are we targeting?

Grass seed could be sold as safe knees for kids, play areas, green open spaces, golf swinging, air quality benefits, soil erosion control, and so much more.

What are consumers concerned about and asking for? Are they concerned about water usage? Chemical usage? Weed free lawn? Maintenance issues? A perfect putting green? The industry doesn't have good data to collectively make decisions and target a message, research, or any initiative.

There was general agreement that a market analysis study is needed to evaluate consumer trends and sentiments about Oregon grass seed for segmented markets of golf, overseeding, livestock, and consumer interests. Dealers have done some of this research but it is proprietary and they are reluctant to share. Various funding options and strategies are being evaluated for a marketing analysis study.

Web sites with contact information and consumer use Q&As are needed. Some exist, but they need more/better data/assistance for end users.

The Master Gardeners program around the country could be a good partner/target for consumer education as they give lots of advice to homeowners and other consumers of garden and lawn products.

- Action items were not developed but were left to the full Bargaining Council to evaluate.

In attendance:

Oregon Department of Agriculture: Brent Searle, Dalton Hobbs

Oregon State University: Dr. William Young, Dr. Cathy Durham

Other Special Guests: Dr. Virginia Lehman, Scott Exo (The Food Alliance), Dave Nelson

Subcommittee Members: Dealers -- Greg Riches, Lesco; Trevor Abbott and Terry Ross, Pennington; Mick McGregor, Burlingham; Growers -- Bob Vanderzanden, Terry Etzel, Dave Vanasche, Ralph Risher, PRBA Ex. Director.