PRICE NEGOTIATIONS -- A HISTORICAL DEVELOPMENT IN OREGON AGRICULTURE

by Brent Searle, Oregon Department of Agriculture
(Written in 2001 shortly after the first state supervised price negotiations.)

Oregon farmers are facing record low prices for many commodities. Because farmers have historically been “price takers,” having little influence on the price they receive for the commodities they grow, Congress passed the Capper-Volstead Act in 1922 to allow growers to form cooperatives and collectively pool their products to negotiate with buyers.

The Capper-Volstead Act, signed into law on February 18, 1922 by President Warren Harding, has been called the "Magna Carta" of cooperatives in the agriculture industry, and the act has played and continues to play a vital role in enabling producers to collaborate, while providing legal protection from antitrust laws.

But grower cooperatives have to negotiate with buyers individually — anti-trust laws prevent more than one buyer jointly meeting together with growers to discuss prices — this becomes price collusion.

The only way around this situation is to have a state supervised price negotiation process. House Bill 3811, signed into law by the Governor on May 16, 2001, created the authority for this process in Oregon, but only for one segment of Oregon agriculture at this time -- proprietary perennial ryegrass.

HB 3811 allows grass seed dealers to elect a negotiating committee to meet with the Perennial Ryegrass Bargaining Association (PRBA represents grass seed growers), under the direct supervision of the Oregon Department of Agriculture, to negotiate over seed prices.

The industry was anxiously awaiting the passage of this bill to establish a price for the 2001 crop year. Legislators and industry worked arduously to move the bill through the Legislature as quickly as possible.

On May 17, 2001 — one day after the bill was signed into law — the Oregon Department of Agriculture convened the Oregon Ryegrass Bargaining Council, consisting of 5 representatives of the PRBA and 5 representatives of the Oregon Seed Trade Association.

The negotiations were particularly challenging due to multiple factors affecting the industry, including a glut of grass seed inventory left from the AgriBiotech bankruptcy (ABT); overproduction of grass seed due to limited options for growers as a result of vegetable acreage loss from the bankruptcy of AgriPac and the AgriFrozen closure; and some pressure from international markets.

After three very good price years for perennial ryegrass (1996-98), the ABT situation coupled with overproduction cased prices to collapsed.

With present yields of 1300 to 1500 pounds per acre, the producers' costs are in the range of 45 to 50 cents per pound. The price producers received for their seed in 2000 was approximately 43 cents per pound -- below the cost of production.

The Bargaining Council agreed that the primary problem was excess inventory in stock and too many acres in production. The question became: what price level is appropriate to clear excess inventory and discourage excess production so that demand and supply reach a better balance?

Estimates of excess inventory range from 30 million to 80 million lbs. The Council members generally agreed that the market can handle about 220 to 240 million lbs. of seed. Production in 2000 was over 260 million; that amount of seed added to the excess inventory are the primary reasons for low prices at the present.

The Council was in general consensus that production needs to be in the 150,000 acre range, down from 182,000 acres in 2000.

The parties presented their respective positions on price ranges, and after several hours of negotiation, agreed upon a price of 41 cents per lb. for certified seed and 40 cents/lb. for uncertified.

Both sides recognize the price is substantially below the cost of production and the difficulty this creates for producers. The intent is to create a signal that production needs to be reduced.

This dilemma is the age old situation that economists refer to as the "fallacy of composition." Basically, because any single producer can't affect price, the tendency is to increase production to spread costs over more units and decrease the cost per unit -- producing for volume. While this makes sense individually, collectively it means that all producers are generating more output than the market with take and the price falls further.

The goal of price negotiations between growers and representatives of dealers is to discuss collectively what is in the best interest of the industry as a whole, and to work toward balancing supply with demand through price signals. It's a bitter pill now, but the goal is to bring prices up as supplies diminish over the next one-two years.

The signal to reduce acreage is clear. With other crop options limited at the present, that may be difficult. Some growers may choose to fallow land; others are watching the price of wheat. But acreage must be reduced to turn the price around.

This price settlement is a significant development and the negotiators are to be commended for reaching an agreement in a very difficult situation. Ultimately, if the parties can't reach a price, the law allows the Director of the Department of Agriculture to set the price.

Many observers in the agriculture industry were watching to see if this process succeeded and whether it can be used with other commodities.

The department is encouraged by the progress in this first supervised price negotiation. While the price isn't particularly good news for growers, it does demonstrate that producers and dealers can agree on common interests of the industry and work toward long-term goals for all parties.

For more information on HB 3811 or the process of supervised price negotiations, contact Brent Searle, 503-986-4558.