

Minutes of the Bargaining Council, Perennial Ryegrass Price Negotiations
Supervised by the Oregon Department of Agriculture
June 3, 2002

The meeting began about 10:00 am on June 3, 2002 at the Oregon Department of Agriculture (ODA) in Salem, Oregon.

Brent Searle, Special Assistant to the Director, acting as the Director's designee, supervised the negotiations.

In attendance:

Perennial Ryegrass Bargaining Association (PRBA): Jim Carnes (Ex. Director); Board Members -- Ron DeConinck (President), Wendell Manning (Vice-President), Steve Glaser (Sec./Tres.), Mike Freeman, Phil Hawman, Dave Malpass, Jack Sayer, Robert Kennel, Mark Reiling, Dave Vanasche,

Seed Dealers:

Rich Underwood (Simplot Turf/Jacklin Seed), Steve Tubbs (Turf Merchants), Roeland Kapsenberg (Barenbrug USA), Jon Odenthal (LESCO), Harry Seifert and Troy Rodakowski (Forbes Seed and Grain), Dick Olson (ProSeeds Marketing), Gary Cooper (Production Service International), Pat McClain (Burlingham Seeds), Jay Burr (Scotts Company), Mike Berger (AMPAC Seed), Bill Dunn (Seed Research of Oregon), Mike Baker (Pennington Seed).

David Buck, AKT Accounting, guest presenting data.

Minutes:

Phil Ward, Director of the Oregon Department of Agriculture, welcomed the participants and made a brief statement outlining the framework of the legislation (HB 3811) which allows for price negotiations exempt from anti-trust laws. He encouraged the parties to take full advantage of this unique opportunity to cooperate for mutual benefit.

Brent Searle provided a brief overview of ODA's role in supervising the negotiation process and referenced a flow chart that explains the statute and rules. Ground rules for the discussions were presented.

An opening statement from the PRBA was read by Jim Carnes, PRBA Executive Director, as follows:

"Representatives of the PRBA are attending this bargaining session, to negotiate a PRBA member grower price on 50% of the Tournament®Quality perennial ryegrass seed crop under various seed production service agreements for the crop year 2002, in accordance with legislation (HB 3811, 2001), and in compliance with the PRBA Bargaining Plan.

That Bargaining Plan was reviewed and approved by the Board of the Oregon Seed Trade Association. The PRBA was notified on September 10, 2001 that the Oregon Seed Trade Association, on the basis of the results of a vote by its members, will not participate in the Bargaining Council's negotiations for the 2002 crop year.

Under the legislation, the Oregon Department of Agriculture is directing the bargaining between the PRBA and dealer representatives, who represent those companies producing [contracting] and marketing the majority of the production of TournamenT®Quality turf type perennial ryegrass seed production by members of the PRBA; and the Department of Agriculture is directing the negotiating parties to use criteria which the Department has drawn from the Bargaining Plan."

Brent Searle noted that the Department supervises the negotiation process in compliance with state and federal law, not the Bargaining Plan; however, aspects of the Bargaining Plan can be addressed in the negotiations if so desired by the participants.

The accounting firm of AKT, LLP, Salem, Oregon, presented information for cost of production as submitted by 20 PRBA growers. These production costs included the establishment costs for the initial crop year (2001) and the annual cost of production for each of the first three crop years, including 2001. AKT tabulated and summarized the grower cost information and computed the regular (mean) average and weighted average (based on acreage/size). AKT did not perform an audit on the information provided by growers.

The 20 growers represent approximately 8,500 acres of production, ranging from 80 to nearly 2,000 acres per operation. Overall annual average cost/acre of production, according to this data, was \$779, with the weighted average of \$794/acre. Establishment costs, which were included 1/3 per year in the three years of annual costs, is \$394/acre and weighted at \$371/acre. Growers reporting data included farm units in Washington, Marion, Clackamas, Polk, Yamhill, Linn, Benton, Lane and Umatilla Counties.

The Bargaining Council generally agreed that costs would be higher in the north end of the Willamette Valley compared to the south end.

Utilizing the cost averages in this data, along with yield data, PRBA provided calculations of estimated cost per lb. of production, ranging from 77.9 cents/lb. at 1,000 lbs. per acre yield, to 41.45 cents per lb. cost at 2,000 yield if overall costs are \$779/acre. At \$794/acre overall costs (using the weighted mean), production costs were estimated at 79.4 cents/lb. for 1,000 lb. yields, and 42.2 cents per lb. for 2,000 yields.

In most cases, growers who reported data did not include a payment for compensation to management/grower, only hired labor costs. Overhead (storage, cleaning, etc.) was generally included at the commercial rate of paying, whether done by the grower or someone else.

Land costs appear to be the single biggest cost component and account for most of the variability of cost between growers; some reporting as low as \$75/acre, while the high was \$300/acre for land.

Growers generally believe prices being paid for seed are below the cost of production. Dealers acknowledged this point, adding that supply and demand fundamentally determine price irrespective of the cost of production to growers. Dealers voiced concern that raising the price would send the signal to growers to plant more at a time when the supply-demand balance is still unsettled. Overall, the Bargaining Council agreed that the cost of production information is in the realm of reliability and useful in consideration of these discussions, although it is only one component of the pricing issue.

Discussions focused next on acreage in production for the 2002 year, carryover of seed in off-site grower warehouses or dealer warehouses. PRBA submitted data reported by Oregon State University Extension, Seed Certification Program.

Total certified acreage for 2002 is estimated at 69,276, down from 81,233 in 2001, 93,326 in 2000, and 100,439 in 1999. The uncertified acreage is estimated at approximately an equal amount. The Bargaining Council felt this trend was a good sign toward balancing production with demand.

Carryover was estimated at 30-35 million lbs. Dealers provided their assessment of these numbers, and their estimates ranged from 30 to 45 million lbs.

All participants agreed that much of the carryover from the ABT bankruptcy had cleared out of the system. Current carryover is estimated at half of that in 2001.

AKT Accounting provided summary data submitted by 9 dealers for 2001 and 2002 acreage, total pounds of production, production per acre, and carryover. The carryover for these 9 dealers dropped from 39 million lbs. in 2001 to about 11.6 million lbs. in 2002.

Import and export data provided by PRBA (Source: USDA/FAS), indicates approximately 10.9 million lbs. of exported seed, valued at \$4.1 million, compared to 10.1 million lbs. of imported seed, valued at \$4.7 million. Effectively, the import/export influence, while important, is not a driving factor for Oregon perennial seed price determinations.

Seed production and movement estimates were presented by a seed dealer, showing that the total (certified/contracted and non-contracted acreage) would be about 138,000 acres, with an estimate of 1,450 lbs./acre, equating to approximately 200 million lbs. The 30-35 million lbs. of carryover would be added to this. Movement for the first three-quarters of the 2001 shipping season was estimated at 175-229 million lbs. Over the same time period for 2002, movement is estimated at 158-210 million lbs.

Dealers felt the use of growth regulators and irrigation will boost production and yields, while growers felt the reduction in acreage, weather affects, and other factors would not have a substantial increase on output.

The Bargaining Council indicated interest in moving into price proposals.

PRBA presented a proposal that would equate to 41.5/42.5 cent/lb. for the 2002 crop (uncertified/certified, respectively), on average (when combined with the previously negotiated price for 50% of the crop).

Discussion followed about open acres (non-contracted) and reasons growers would continue to plant if prices were below cost of production. Growers indicated they can't leave ground bare, and if they are able to cover variable costs they will produce a crop in some cases. Alternatives are limited with the reduction in vegetable contract acreage. And, prices are sometimes not determined until a year or more after a crop is planted and the anticipated market upswing is something growers look toward.

The Council had some discussion about postponing price determination until later in the fall around harvest time. Most felt that establishing a price now would be better for the market and orderly movement of product.

After caucusing, the dealers presented a counter offer of 41/42 cent/lb. for the entire 2002 crop.

After further caucusing, the PRBA agreed to 41/42 cent/lb. with the understanding that either side may request additional price negotiations if significant changes in market conditions occur. The Bargaining Council discussed meeting again in September 2002. A firm date was not set.

The meeting adjourned about 1:45pm

The negotiated price was presented to the Director, with accompanying information and reports. The Director approved the negotiated price as the established minimum price for Tournament® Quality perennial ryegrass for the entire 2002 crop. An order indicating the Director's decision was announced to growers and dealers on June 4, 2002.