Minutes of the Perennial Ryegrass Bargaining Council
Conducted Under the Active Supervision of the Oregon Department of Agriculture
May 17, 2001

Parties Present:
<u>Representatives of the Perennial Ryegrass Bargaining Association (PRBA):</u> Jim Carnes, Don Fisher, Ron DeConinck, Dave Malpass, Wendell Manning, Dave Vanasche (excused).
<u>Representatives of the Oregon Seed Trade Association (OSTA):</u> Brad Dozler, Rich Underwood, Mike Baker, Dick Olson, Steve Tubbs, Dennis Combs.

Brent Searle, Oregon Department of Agriculture, provided active supervision of the negotiations.

The meeting was convened at 1:00pm.

ODA welcomed the parties and provided a brief description of the framework provided by HB 3811 and advice from the Attorney General's (AG) office regarding negotiating prices for perennial ryegrass in a manner to attain anti-trust exemption. Portions of a letter from the AG were read to the Council, as follows:

> "One of (ODA's) roles of these meetings will be to keep the price negotiations limited to the price of (TournamenT® Quality) perennial rye grass seed. The Bargaining Council may, of course, discuss any issues unrelated to price that do not raise antitrust concerns. But if the Bargaining Council intends to expand the scope of the agenda beyond price negotiations on perennial ryegrass seed, it would be a good idea for the representatives to review the complete agenda with their antitrust counsel before they proceed. This will allow the parties to assess their risk on whether and to what extent they want the Bargaining Counsel negotiations to include matters other than the price of (TournamenT® Quality) perennial rye grass seed..."

ODA also quoted from the AG letter in encouraging good faith efforts by all parties to reach a negotiated price:

> "At the conclusion of this process, we hope and expect that the Bargaining Council can arrive at an agreed-upon price recommendation for (TournamenT® Quality) perennial rye grass seed, which would then be submitted to the Department of Agriculture for its review and approval. In that situation, the Department of Agriculture must formally approve that price before it goes into effect, or arrive at a price that is different than the recommended price submitted by the Bargaining Council. If the Council cannot reach an agreement, then the Department of Agriculture must set and publish a minimum sale price for (TournamenT® Quality) perennial rye grass seed."

ODA went over the ground rules of the process and agenda, indicating that the PRBA would first present their position and supporting data, followed by response from OSTA and its position on price and supporting reasons. Negotiations would then follow.

Jim Carnes, PRBA, read a statement from the PRBA legal counsel, Jim Mountain, as follows:

> "Representatives of the PRBA are attending this bargaining session in accordance with legislation (HB 3811, 2001), and in compliance with the PRBA Bargaining Plan, which was developed in recent settlement of litigation between PRBA and two seed dealers.
>
> That bargaining plan was reviewed and approved by the Board of the Oregon Seed Trade Association. Under the legislation, the Oregon Department of Agriculture is directing the bargaining between the PRBA and dealer representatives appointed by the OSTA (membership); and the Department of Agriculture is directing the negotiating parties to use criteria which the department has drawn from the Bargaining Plan."

(In review of these minutes and subsequent response to the above statement, Brad Dozler, OSTA president, noted that the OSTA board actually approved of the bargaining plan in principle but declined to support it as written. The plan was submitted to the general membership for vote, where it was approved. The OSTA board of directors then acted on the wishes of the membership and selected the bargaining council representatives.)

Jim Carnes proceeded to provided cost of production analysis for perennial ryegrass seed from Chemeketa Community College Farm Business Management Specialist Philip J. La Vine (document attached).

This data showed that, on average, for the 2000 crop year, variable costs were $414.20 per acre, fixed costs averaged $265.39 per acres, and establishment costs were approximately $117 per acre, totaling $796.60 per acre. Depending on a grower's yields, the cost per unit (cwt) would vary accordingly. At 1,000 lbs. per acre, cost of production would by 79.7 cents per lb. At 2,000 lbs. production per acre, cost of production would be 42.35 cents per acre.

An example production cost enterprise summary of 1,300 lbs. per acre showed variable costs at 31 cents per lb., and fixed costs at 20 cents per lb. Growers in this scenario were losing approximately 8 cents per lb. on total cost of production with a 2000 price of 43.5 cents per lb.

Ron DeConinck, Prince Farms and PRBA president, provided per acre cost of production data on his operation that closely paralleled the Chemeketa data.

Jim Carnes provided the Council with 12-year production data of perennial ryegrass in Oregon, including acreage, yields, total production, movement from grower to dealer, grower's average price received from dealers, grower's average cost of production, and total farm gate value. Sources of this data included OSU Extension, Oregon Ryegrass Growers Commission, and Chemeketa Community College (document attached).

This data shows acreage increases of nearly 72% from 1989 (106,000 acres) to 2000 (181,890 acres). Average yields over this period increase nearly 27%, from 1,150 lbs. per acre to 1,456 lbs. per acre. Total production increased from 121.5 million lbs. to 264.9 million lbs.

The Council was in general consensus that production was ahead of demand and that several factors had contributed to this, including:

- High prices between 1996 and 1998;
- The ABT bankruptcy left a build-up of inventories, perhaps as much as 50 million lbs.;

• Poor market prices for other commodities, as well as problems with vegetable seed processors (AgriPac and AgriLink) has increased production acreage in grass seed.

PRBA provided data on imports and exports of ryegrass seed. For 1999-00, total imports were 20.4 million lbs., with exports of 16.4 million lbs. July 2000 through February 2001 imports were 11.6 million lbs., with exports of 9.6 million lbs. Canada accounted for about one-half of the 2001 imports to date, up significantly from about 8.3% of 1999-01 imports. Imports from New Zealand and Australia were off substantially in 2000-01, although there was still 5-6 months left in the marketing year.

In summary, imports account for less than 8% of Oregon's total production, and exports nearly off-set imports in most years. While international production is having an impact on local prices, including blended products, imports are not the driving factor for Oregon prices.

The group had general consensus that Oregon acreage (production) and surplus inventories are the two primary items that need addressed.

Jim Carnes reported that certified acreage has dropped from 95,000 acres in 1999 to 73,000 in 2001. He noted that growers are beginning to cut back on production. Some dealers reported that discussions with pesticide dealers seemed to indicate that acreage wasn't changing much. No one had any conclusive data on current acreage in production.

PRBA suggested that the 49 cent range was realistically what growers needed, but understood the situation with production exceeding demand and that the price signal needs to be appropriate to discourage some production.

ODA asked OSTA representatives to respond to any data or issues raised by PRBA and to proceed with its position.

OSTA representatives stated that acreage/production needs to be consistent with demand. OSTA asked PRBA what level of acreage they feel is appropriate to get price back to a reasonable level. PRBA responded that 150,000 is probably a good guideline given the past few years of movement of product.

Some PRBA representatives suggested that strict payment provisions in contracts would encourage dealers to cut back on over-subscription of contracted acreage and thus help correct the situation. OSTA pointed out that many growers are producing without a contract and that is what is pushing the production up and prices down.

The Council consented that acreage restrictions were beyond the scope of the bargaining process and that these would be left to other avenues of discussion (pending legislation, individual dealer-grower contract negotiations).

The parties discussed that in the past fallowing grass seed acreage was a common practice and resulted in better yields on acres in production and also helped in keeping total production in check. The parties discussed an educational need to get producers thinking more about such practices and the need to cut back on acreage. ODA offered to include some educational materials on the topic in it future newsletters, in addition to the efforts by PRBA and OSTA.

The parties discussed general concerns developing in the industry, such as too many varieties available, growers becoming dealers and bidding the price down, some dealers over contracting, etc. General agreement was reached that growers need dealers, and dealers need growers -- all are part of one industry that is very important to Oregon agriculture, and the problem is too much production at the present.

The parties briefly discussed the potential of pricing more than once per year to react to market changes. It was felt this could potentially be something for discussion at a later date and that the HB 3811 does provide for the parties to petition the director to amend the price if the industry felt the need.

The parties moved into discussions about what price level was necessary to discourage production and bring it in line with demand over the next year to work the surplus out of the system. Prices between 36 to 47 cents per pound were discussed. It was pointed out that some growers will not get financing below 43 cents; that will determine the fate of some acreage.

The question was asked of whether a negotiated price set through this process is only applicable to PRBA members or if it applied to all growers. Some of the dealers felt that the negotiation process set a price for all growers. The bill (HB 3811) indicates that the prices is for "products to be produced by PRBA members or under control of its members..." The Council was unclear on the issues, but PRBA would seek to enforce the price for its members. ODA has a general mediation program that might be used for disputes, but the answer is unclear on non-members.

General agreement again that non-contracted acres need to be reduced; price needs to discourage increase in production and encourage decrease in production.

PRBA proposed continuation of last year's price of 43 cents/lb. for certified acreage and 41 cents/lb. for non-certified acreage.

The dealers discussed why they felt the price needed to be below last year to discourage production. The OSTA proposed a 38 (non-certified)/40 (certified) cent/lb. price. The parties broke for a caucus.

The PRBA raised the issue that the 41 (non-certified)/43 (certified) cent price wasn't in effect until after production was already committed in the fall (October arbitration set price), and that the price signal hadn't been fully incorporated into production decisions yet. Even so, PRBA acknowledged need to discourage more production.

PRBA proposed 40/41 cents as a compromise. The parties broke for another caucus.

After further deliberations, the Council agreed to the 40/41 cent price for the 2001 crop year and made the recommendation that ODA take the price to the director for certification.

ODA expressed appreciation to the parties for reaching a consensus in a very difficult situation where growers are already below the cost of production and losing money -- but the market cannot accept the volume of production being produced. All are in agreement that production must decrease and inventories must be cleared out. It is hoped that the negotiated price will send the appropriate signal that a correction is required and that growers will respond so that in the near future the price (demand) and supply will be at a more favorable level for all parties.

The meeting adjourned at 4:10pm and a price certification statement was drafted for the director's signature that would enable the negotiated price to become effective.