

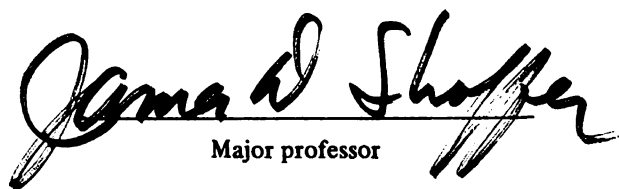
THESIS

This is to certify that the
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THE POLITICAL ECONOMY OF FARMER BARGAINING:
COOPERATIVE AND PROPRIETARY PROCESSOR
RESPONSES TO FARMER BARGAINING
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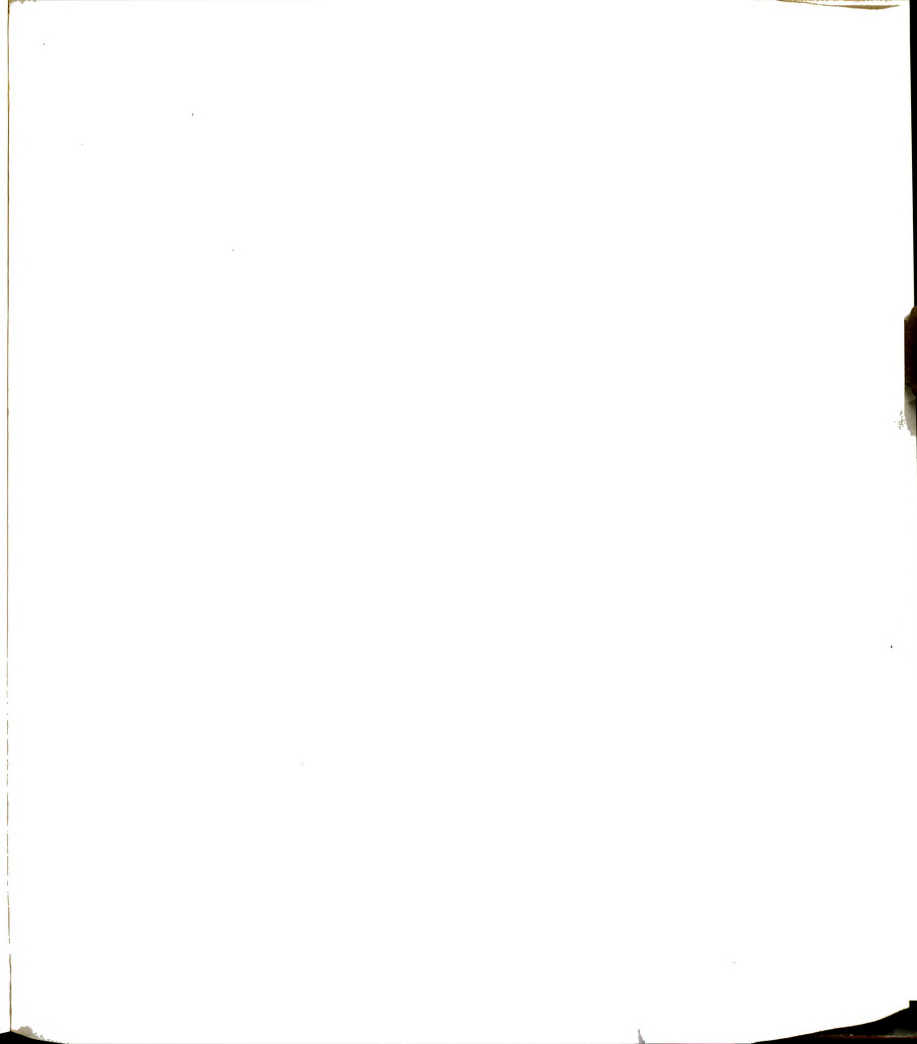
Wilson Compton Chase-Lansdale

has been accepted towards fulfillment
of the requirements for

Ph.D. degree in Agricultural
Economics


Major professor

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THE POLITICAL ECONOMY OF FARMER BARGAINING:
COOPERATIVE AND PROPRIETARY PROCESSOR
RESPONSES TO FARMER BARGAINING

By

Wilson Compton Chase-Lansdale

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of Agricultural Economics

1980

THE POLITICAL
COOPERATION
RESPONSE

411

Production in nur-
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Compiled structure
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ABSTRACT

THE POLITICAL ECONOMY OF FARMER BARGAINING: COOPERATIVE AND PROPRIETARY PROCESSOR RESPONSES TO FARMER BARGAINING

By

Wilson Compton Chase-Lansdale

Production in numerous fruits and vegetables-for-processing industries is currently being affected by farmer bargaining over terms of trade for raw product. Several states have implemented farmer bargaining, others are considering its introduction, and a national farmer bargaining bill is before Congress.

This research analyzes the market interrelations created by the imposition of farmer bargaining. It does so by focusing not only on market interrelations between bargaining associations and proprietary processors but also on the market interrelations between these two participants and cooperative processors.

Compiled structural data indicated a 26.2 percent decrease nationally in the number of canning processing establishments in fruits and vegetables between 1967 and 1977. Statistical tests showed no evidence of a higher rate of decrease in states with farmer bargaining than in states without farmer bargaining. Data also revealed the market share of the cooperative processing sector in farmer bargaining to be above 40 percent in many industries and increasing. In conjunction, these data indicated a decreasing and often low percentage of raw product moving through cash market channels.

A conceptual framework
The framework uses a
of managerial preferences
market conditions, and

The data collection
decision makers in bargaining
cooperative processors
provide a national overview
vegetables-for-processors
of bargaining associations
processors spread over
Lansing, Michigan, New York
state.

The conclusions of
1) distribution; and 3)
interrelations in farm

1) Research revealed
tion about demand and supply
bargaining associations
the subsequent improved
marketing decisions by
relative information on
channels, and bargaining
association of proprietors

2) The research shows
participate in farmer bargaining
value raw product inputs

A conceptual framework was developed to guide the empirical work. The framework uses a model of organizational behavior stressing the notions of managerial preference for discretion, organizational slack, endogenous market conditions, and interest group competition.

The data collection process consisted of interviewing managerial decision makers in bargaining associations, proprietary processors, and cooperative processors. The sample was selected by the researcher to provide a national overview of farmer bargaining in the fruits and vegetables-for-processing industries. Managerial decision makers from 14 bargaining associations, 18 proprietary processors, and 25 cooperative processors spread over the states of California, Oregon, Washington, Idaho, Michigan, New York, Pennsylvania, and Virginia comprise the sample.

The conclusions of this research identify aspects of: 1) coordination; 2) distribution; and 3) structural change that are attributable to market interrelations in farmer bargaining. Certain policy implications follow.

1) Research revealed that farmer bargaining elicited market information about demand and supply conditions from all three participant groups. Bargaining associations can promote this aggregation of information and the subsequent improved coordination of production, processing, and marketing decisions by conducting industry seminars, disseminating comparative information on past performance of alternative marketing channels, and bargaining differential terms of trade with a nonuniform population of proprietary processors.

2) The research showed that numerous cooperative processors actively participate in farmer bargaining and as a result, become obliged to value raw product inputs at the same price as their proprietary processor

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competitors. Such obligation can serve cooperative processor member interests by strengthening the accountability of the cooperative organization to its members. It also serves the interests of proprietary processors by putting cooperative processors on a more similar competitive basis regarding input costs. Commitment of cooperative processors to farmer bargaining can be enhanced by: a) encouraging cooperative processor members also to belong to the bargaining association representing their commodity interest(s); b) introducing single pool multiple commodity accounting in cooperatives; and c) bargaining formally with cooperative processors as is currently done with proprietary processors.

3) The research also revealed that market interrelations in farmer bargaining, primarily that of competition between proprietary and cooperative processors, are contributing to the decline of the numbers of proprietary processors, the increase in the market share of the cooperative processing sector, and organizational linkages between proprietary and grower interests such as joint ventures and participation plans. These structural changes can be attenuated by: a) expanding the formal purview of bargaining to include all processors; b) in the absence of a), bargaining terms of trade that are contingent on the performance of non-bargaining processors; and c) insofar as these structural changes are transferring grower resources to proprietary control, challenging their existence on legal and public policy grounds.

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WILSON COMPTON CHASE-LANSDALE

1980

To

Patricia Lindsay Chase-Lansdale

A dissertation
and this one is no exception
contributed to this research.

Professor James
in his support. His
I thank him for his encouragement.
Donald Ricks has also
through his intimate
with my questions. Thanks to
Allen Schmid and Kenneth
which the research benefited.

Many individuals
Statistics, and Cooper
Agriculture also contributed
to thank Doctors Rand
They and others within
gracious in their support.

Financial support
cultural Experiment Station
Statistics, and Cooper
of Agriculture. I am

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A dissertation is typically the product of numerous individuals and this one is no exception. I would like to thank everyone who has contributed to this research effort.

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Many of my other
Economics at Michigan
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Pat Neumann.

Finally, I would like to
to the research by giving
the appendix. I extend
Agricultural Cooperation
Noel Stuckman, Tom Bu
tor of the Michigan A
their generous partici

Many of my other colleagues in the Department of Agricultural Economics at Michigan State University also aided me in this research. I would especially like to mention Mahlon Lang, Larry Hamm, George Johnston, Philip Wandschneider, Cindy Cordes, Sandy Wellso, Shirley Rabbage, and Pat Neumann.

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CHAPTER ONE. INTRODUCTION

- 1.1 Importance of the Subject
- 1.2 Objectives
- 1.3 Research Methodology
- 1.4 Overview

CHAPTER TWO. DESCRIPTION OF THE ENVIRONMENT

- 2.1 Legal Bases
 - 2.1.1 National Law
 - 2.1.2 State Law
- 2.2 Participants
 - 2.2.1 Barga
 - 2.2.2 Proper
 - 2.2.3 Cooper
- 2.3 Absolute Economic Structure
 - 2.3.1 National
 - A. Basic
 - B. Primary
 - C. Secondary
 - D. As
 - 2.3.2 Structure
 - A. Capital
 - B. No
 - C. Mi
 - D. Ap
 - Per
 - 2.3.3 Summary

TABLE OF CONTENTS

	<u>Page</u>
CHAPTER ONE. INTRODUCTION	1
1.1 Importance and Previous Treatment of the Subject Matter	2
1.2 Objectives of the Research	7
1.3 Research Methods	8
1.4 Overview	13
 CHAPTER TWO. DESCRIPTION OF PARTICIPANTS AND ENVIRONMENTS	 15
2.1 Legal Bases of Farmer Bargaining	15
2.1.1 National Basis	15
2.1.2 State Bases	
2.2 Participants in Farmer Bargaining	24
2.2.1 Bargaining Associations	25
2.2.2 Proprietary Processors	26
2.2.3 Cooperative Processors	27
2.3 Absolute Economic Importance and Select Structural Characteristics	31
2.3.1 National Economic Impact	31
A. Bargaining Association Activity	32
B. Processing Activity in Fruits and Vegetables	39
C. Simultaneous Presence of Bargaining Associations and Cooperative Processors	44
2.3.2 Structural Characteristics of Select States	47
A. California	47
B. Northwest: Oregon, Washington, Idaho	56
C. Michigan	60
D. Appalachia: Apple Industries of New York, Pennsylvania, and Virginia	70
2.3.3 Summary of Economic Setting	76

CHAPTER THREE. A CO
PART
BARG

3.1 Subsystems

3.1.1 The

3.1.2 The

3.1.3 The

3.2 The Process
Management

3.2.1 The
Maxim

3.2.2 Manag

3.2.3 Voice

3.2.4 Organ

3.2.5 Summ

3.3 Areas of Inc

3.3.1 Barga
Proce
to th

3.3.2 Barga
Proce
to th

3.3.3 Coope
Proce
to th

3.4 Summary . .

CHAPTER FOUR. FINDING

4.1 Accommodation
Bargaining As
Processors .

4.1.1 Respon
Associ

A. In
an

B. Di
Pr

C. In
th

	<u>Page</u>
CHAPTER THREE. A CONCEPTUALIZATION FOR ANALYZING PARTICIPANT INTERRELATIONS IN FARMER BARGAINING	77
3.1 Subsystems in Farmer Bargaining	78
3.1.1 The Bargaining Association Subsystem	78
3.1.2 The Proprietary Processor Subsystem	80
3.1.3 The Cooperative Processor Subsystem	81
3.2 The Process of Choice: A Look at Management in a Subsystem	83
3.2.1 The Origins of Non-Profit Maximizing Behavior	85
3.2.2 Management's Concern for Constraints	86
3.2.3 Voice and Information	89
3.2.4 Organizational Complexity	91
3.2.5 Summary	92
3.3 Areas of Inquiry	93
3.3.1 Bargaining Association-Proprietary Processor Interrelations and Accommodations to these Interrelations	93
3.3.2 Bargaining Association-Cooperative Processor Interrelations and Accommodations to these Interrelations	95
3.3.3 Cooperative Processor-Proprietary Processor Interrelations and Accommodations to these Interrelations	99
3.4 Summary	106
CHAPTER FOUR. FINDINGS AND DISCUSSION	109
4.1 Accommodations to Interrelations Between Bargaining Associations and Proprietary Processors	109
4.1.1 Responses of the Bargaining Association Sector	110
A. Investment in Market Intelligence and Scope	110
B. Differential Treatment of Proprietary Processors	112
C. Interest Group Competition in the Association Sector	113

4.1.2 Resi
Proc

A.

B.

C.

4.1.3 Disc

A.

B.

C.

4.2 Accommodati
Bargaining
Processors

4.2.1 Respi
Proc

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A.

4.2.2 Respo
Assoc

A.

P.

4.2.3 Discu

A.

B.

C.

I.

D.

CHAPTER FIVE. STRUCTURE
FINDINGS

5.1 Findings

5.1.1 Motive
Proces

A. Se

B. Pr

	<u>Page</u>
4.1.2 Response of the Proprietary Processor Sector	114
A. Transmittal of Information	114
B. Alternatives in Raw Product Procurement	119
C. Price Uniformity as a Benefit	120
4.1.3 Discussion of Findings	121
A. General Results of the Transmittal of Information	121
B. Varieties of Informational Signals	126
C. Summary	132
4.2 Accommodations to Interrelations Between Bargaining Associations and Cooperative Processors	133
4.2.1 Responses of the Cooperative Processor Sector	134
A. Sensitivity of Cooperative Processor Management	134
B. Sensitivity of Other Cooperative Processor Interest Groups	151
C. Interdependence Between Bargaining Associations and Grower Processors	155
4.2.2 Responses of the Bargaining Association Sector	156
A. Attempts to Enlist Cooperative Processor Support for Bargaining	156
4.2.3 Discussion of Findings	159
A. Cooperative Processor Management	159
B. Other Interest Group Influences	167
C. Bargaining Association Interdependencies	173
D. Summary	175
CHAPTER FIVE. STRUCTURAL RESPONSES OF PARTICIPANTS: FINDINGS AND DISCUSSION	177
5.1 Findings	178
5.1.1 Motivation for Proprietary Processor Exit	178
A. Secondary Data	178
B. Primary Data	182

5.1.2 Tra
of
A.

B.

5.1.3 Prop
A.

B.

5.2 Discussion

5.2.1 Prop

5.2.2 Tran
Proc

5.2.3 Prop
With
A.

5.2.4 Summ

CHAPTER SIX. CONCLUS

6.1 Conclusions

6.1.1 Area
Assoc
Inter
to in
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6.1.2 Area
Assoc
Inter
to in
A. C
B. C
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6.1.3 Area
Respon
Case
Linkag
A. Pr
B. Tr
C. Li

	<u>Page</u>
5.1.2 Transition in Ownership of Processing Facilities	188
A. Proprietary Perception of Resource Availability	189
B. Cooperative Management Perspective	191
5.1.3 Proprietary Linkages With Growers	193
A. Participation Plans	195
B. Joint Venture Case Study	197
5.2 Discussion	208
5.2.1 Proprietary Exit Responses	208
5.2.2 Transition in Ownership of Processing Facilities	212
5.2.3 Proprietary Participative Linkages With Growers	213
A. Joint Venture Case Study	215
5.2.4 Summary	220
CHAPTER SIX. CONCLUSIONS AND POLICY IMPLICATIONS	222
6.1 Conclusions	223
6.1.1 Area of Inquiry: Bargaining Association-Proprietary Processor Interrelations and Accommodations to Interrelations	223
A. Specific Uses of Information	224
6.1.2 Area of Inquiry: Bargaining Association-Cooperative Processor Interrelations and Accommodations to Interrelations	226
A. Cooperative Management	226
B. Cooperative Members	229
C. Grower Processors	231
D. Association Management	231
6.1.3 Area of Inquiry: Structural Responses of Participants and the Case of Cooperative-Proprietary Linkages	232
A. Proprietary Exit	232
B. Transition in Ownership	234
C. Linkage Arrangements	235

6.2 Policy Imp

6.2.1 The

6.2.2 Barg
Proc

A.

B.

C.

6.2.3 Barg
in t

A.

B.

C.

6.3 Final Summa

CHAPTER SEVEN. FUTUR

7.1 Research to

7.2 Related Rese

APPENDICES

A. Glorietta Foo
Considered,"
Membership an
pp. 1-3.

B. Touche Ross ar
Cooperatives,

C. Tillie Lewis F
Explanation of
Program, August

D. Cherry Hill Or

E. Statement of G
Tillie Lewis F
Assembly Commi

F. Statement of H
Curcio-Burns,
New York Socie

G. Pro-Fac Cooper
Letters to the
Apples for Pro

	<u>Page</u>
6.2 Policy Implications	236
6.2.1 The Bargaining Process	236
6.2.2 Bargaining and Cooperative Processors	240
A. Dual Membership	240
B. Accounting Rules	242
C. Bargaining with Cooperatives	243
6.2.3 Bargaining and Structural Change in the Processing Sector	244
A. Cooperative Saturation	245
B. Participative Plans and Joint Ventures	246
C. Grower Processors	247
6.3 Final Summary	248
CHAPTER SEVEN. FUTURE RESEARCH SUGGESTIONS	251
7.1 Research to Complement Policy Implication	251
7.2 Related Research Issues	253

APPENDICES

A. Glorietta Foods, "Special Risk Factors to be Considered," in Disclosure Statement Concerning Membership and Marketing Agreement, January 10, 1978, pp. 1-3.	259
B. Touche Ross and Company, Financial Planning for Cooperatives, January 11, 1979	262
C. Tillie Lewis Foods, Inc., Simplified Explanation of TLF Tomato Grower Participation Program, August 24, 1978, and Rider.	274
D. Cherry Hill Orchards, Inc., Participation Plan	287
E. Statement of George Visgilio, President, Tillie Lewis Foods, Inc., Before the California Assembly Committee on Agriculture, May 3, 1978.	288
F. Statement of Hugh E. Cumming, President, Curtice-Burns, Inc., A Presentation Before the New York Society of Security Analysts	292
G. Pro-Fac Cooperative, Inc., Management and Member Letters to the Bargaining Association for Michigan Aples for Processing, March 9, 1979; January 26, 1979.	298

H. Hunt-Wesson
California
December 12

I. Contadina F.
Tomato Grower
to Participate

J. Interviews:

BIBLIOGRAPHY . . .

	<u>Page</u>
H. Hunt-Wesson Foods, Inc., Index Pricing - California Tomatoes, Participation Plan, December 12, 1979	302
I. Contadina Foods, Inc., Letter to California Tomato Growers Association Explaining Move to Participation Plan, December 18, 1979.	307
J. Interviews: Organization, Person(s), Date	312
BIBLIOGRAPHY	327

Table

- 2-1 Total Volume and Bargaining Associations of Vegetables and Fruits Fiscal Year 1977
- 2-2 Geographic Incidence of Associations:
- 2-3 Commodity-State Identification of Cooperative Production of Earliest Bargaining Vegetables, Sugarcane
- 2-4 Value, Percentage Extrapolation of Sales Under Collective Fruits and Vegetables
- 2-5 Total State Production Processed Use as Production of Corn for those States Activity for those Vegetables, Sugarcane
- 2-6 Incidence of Fruit Processors by State
- 2-7 Cooperative Production Total Volume: 1977
- 2-8 Processing Establishments With Canning Fruit Select Years, SIC
- 2-9 States With Simultaneous and Cooperative Production and Vegetables
- 2-10 California: Selected and Select Other C
- 2-11 1978 Processor Total

LIST OF TABLES

<u>Table</u>	<u>Page</u>
2-1 Total Volume and Sales Represented by Bargaining Associations in Major Fruits, Vegetables and Sugar Beets for Processing: Fiscal Year 1971	33
2-2 Geographic Incidence of Bargaining Associations: Fiscal Year 1971	34
2-3 Commodity-State Matrix on Current Identification of Bargaining Activity, Cooperative Processing Activity, and Date of Earliest Bargaining Efforts: Fruits, Vegetables, Sugar Beets	35
2-4 Value, Percentage Change in Value, and Extrapolation of Value of Commodities Sold Under Collectively Bargained Contracts: Fruits and Vegetables and Sugar Beets	37
2-5 Total State Production of Commodities for Processed Use as a Percentage of Total U.S. Production of Commodities for Processed Use for those States Having any Bargaining Activity for those Commodities (Fruit, Vegetables, Sugar Beets) for the Year 1978	38
2-6 Incidence of Fruit and Vegetable Cooperative Processors by State: Select Years	40
2-7 Cooperative Processing Volume as Share of Total Volume: 1969	42
2-8 Processing Establishments for Reported States With Canning Fruit and Vegetable Capacity: Select Years, SIC 2033	43
2-9 States With Simultaneous Bargaining Activity and Cooperative Processing Activity in Fruits and Vegetables	46
2-10 California: Select Statistics on Bargained and Select Other Commodities: 1978	48
2-11 1978 Processor Tomato Tonnages	52

Table

- 2-12 Processor Cha
- 2-13 Proprietary Pl
- 2-14 SAMI Market St
2/11/78 - 3/9/78
- 2-15 Almond Process
- 2-16 Northwest: Se
Bargained and
- 2-17 Michigan: Sel
Bargained Comm
of Select Mark
- 2-18 Michigan Tart
- 2-19 Michigan Apple:
Channels for 15
Tonnage Which In
Processing)
- 2-20 Pennsylvania:
Apples for Proc
- 4-1 Proprietary Pro
Whether or not
Information to
- 4-2 Bargaining Asso
on Receipt of I
Proprietary Pro
- 4-3 Characterization
Associations of
Managements' Vie
- 4-4 Extent of Simul
In Bargaining As
Processors: Dua
- 4-5 Select Percentag
Member Volume Th
Processed: 1978
- 4-6 Bargaining Assoc
Extent of Cooper
Bargained Prices

<u>Table</u>	<u>Page</u>
2-12 Processor Characteristics	52
2-13 Proprietary Processor Market Shares	53
2-14 SAMI Market Shares for Period 2/11/78 - 3/9/79	54
2-15 Almond Processors	55
2-16 Northwest: Select Statistics on Bargained and Select Other Commodities	57
2-17 Michigan: Select Statistics on Bargained Commodities and Description of Select Market Channels: 1978/1979	61
2-18 Michigan Tart Cherry Market Channels: 1979	66
2-19 Michigan Apples for Processing Market Channels for 1978-1979, (Net of Brokerage Tonnage Which Equals 20% of the Crop for Processing)	71
2-20 Pennsylvania: Select Statistics on the Apples for Processing Industry: 1978/1979	74
4-1 Proprietary Processor Manager Responses on Whether or not they Contributed Market Information to the Bargaining Association(s)	116
4-2 Bargaining Association Managers' Responses on Receipt of Information From the Proprietary Processing Sector	118
4-3 Characterization by Managers of Bargaining Associations of Cooperative Processor Managements' View of Bargaining Activity	137
4-4 Extent of Simultaneous Grower Membership in Bargaining Associations and Cooperative Processors: Dual Membership	143
4-5 Select Percentages of Bargaining Association Member Volume That is Cooperatively Processed: 1978/1979	145
4-6 Bargaining Association Characterization of Extent of Cooperative Processor Support for Bargained Prices	157

Table

5-1 Select Reason
Processors to
Processors .

5-2 Comments by P
Managers on W
Reason for Ex

<u>Table</u>	<u>Page</u>
5-1 Select Reasons Cited by Proprietary Processors to Explain Exit by Proprietary Processors	183
5-2 Comments by Proprietary Processor Managers on Whether Bargaining is a Reason for Exit by Proprietary Processors	186

Figures

2.1 Distribution of
Freezing Plants

3.1 Comparative Im-
Versus Coopera

LIST OF FIGURES

<u>Figures</u>	<u>Page</u>
2.1 Distribution of Canning and Freezing Plants	45
3.1 Comparative Impacts: Proprietary Versus Cooperative Processor Cost Curves	101

Collective bargaining
is expanding in the
bargaining, others are
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The widespread presence
for a careful study of
this market process.

This study focuses
on the aspects of bargaining
in farmer bargaining
for raw product. These
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analyzed; second, part
be identified and analyzed
interdependencies
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analyzed in order to identify

- 1) the coordination
- 2) the accounting
- 3) distribution
- 4) structural

¹ See Chapter Two for

CHAPTER ONE

INTRODUCTION

Collective bargaining between farmers and handlers of raw products is expanding in the United States.¹ Several states have implemented bargaining, others are considering introducing bargaining laws, and a national farmer collective bargaining bill is now before Congress. The widespread presence and expected growth of farmer bargaining argues for a careful study of the nature of market interrelations created by this market process.

This study focuses on the interrelations among principle participants in farmer bargaining as they interact to determine terms of trade for raw product. These interrelations will be addressed in two parts: first, interdependencies among participants will be identified and analyzed; second, participant responses to these interdependencies will be identified and analyzed. The classification and analysis of participant interdependencies and responses to interdependencies constitute the exploratory dimension of this research. These findings will be further analyzed in order to identify their import for select performance issues:

- 1) the coordination of economic signals;
- 2) the accountability of decision processes;
- 3) distributional impacts; and
- 4) structural change in raw and processed product markets.

¹See Chapter Two for economic importance.

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product transactions.

¹ Lang, M., 1977.

² National Commis

The inquiry will limit itself to bargaining in the fruits and vegetables for processing industries.

1.1 Importance and Previous Treatment of the Subject Matter

As noted by Lang in his comprehensive inquiry into farmer collective bargaining in fruits and vegetables the antecedents for current bargaining activity date from the 1870s and the efforts of the Grange.¹ Since the latter 19th century, bargaining efforts by producer groups to influence terms of trade for raw product have grown in various commodity groups including dairy products, fruits, vegetables, and sugar beets. The 1966 National Commission on Food Marketing noted the organization of 109 fruit and vegetable associations since 1919 with 70 still active as of 1964.² Antitrust exemptions for such activity contained in the Clayton Act of 1914 and the Capper-Volstead Act of 1922 served to support bargaining activity. The Agricultural Fair Practices Act of 1967 and similar state initiatives as described in Chapter Two below, have been instrumental in promoting bargaining activity between producers (called growers, farmers, or producers interchangeably in this study) and proprietarily organized first handlers (called proprietary processors in this study). To date, bargaining activity in certain commodity groups, notably fruits and vegetables for processing utilization, is widespread and influences a significant value and percentage of raw product transactions.

¹Lang, M., 1977, p. 1 citing Tweeten, Luther, 1970.

²National Commission on Food Marketing, Technical Study No. 4, p. 273.

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¹ Coddington, A., 1971

² Garver, W.A., 1966

³ Roy, Ewell P., 1971

Notwithstanding this impact, understanding of the bargaining process is limited. One theorist has attempted to mathematize bargaining strategies.¹ Other theorists have studied bargaining by focusing on impacts using welfare economics methodology.² Another student has listed specific economic benefits to a producer and first handler bargaining population.³ However, these contributions to an understanding of bargaining have not explored the variable impacts of farmer bargaining as a function of diversity in the processing and production sectors and a multiplicity of participating groups.

A better understanding of the bargaining process warrants expansion of the scope of inquiry to include all the primary participants who, by virtue of their responses to farmer bargaining activity, may influence and shape that process. The variability in the production and processing sectors needs to be directly addressed. Accordingly, this means focusing not only on the organization of the bargaining association but also on the processing sector consisting of its proprietarily and cooperatively organized parts.

Some researchers in the subject matter of farmer collective bargaining have attempted to broaden the scope of the analysis to include more participants and to sort out relationships in farmer bargaining environments. In their seminal study Helmberger and Hoos begin to address the broad boundaries of bargaining when they briefly acknowledge a cooperatively as well as proprietarily organized processing sector and the existence of an interdependence between the bargaining

¹Coddington, A., 1968.

²Garver, W.A., 1964; Ladd, G.W., 1964; Knutson, R., 1968.

³Roy, Ewell P., 1970.

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¹Helmlinger, P.

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⁴Abrahansen, M.

association and cooperatively organized processors.¹ Williams, in addressing the organization of the milk industry, identifies the coexistence of bargaining and cooperative processing functions within a single organization and how this may result in conflicts of interest.² A suggestion of conflict of interest between coexisting bargaining associations and cooperative processors is also taken up briefly by Knutson and Abrahamsen.³ Knutson goes so far as to suggest that in bargaining environments where bargaining takes place between the association representing producers and the proprietary processor, the presence of competing cooperative processors who wield influence over the association may result in a price squeeze against the proprietary processor. In the following quote by Abrahamsen, another conflict scenario is developed:

A commodity bargaining association, for example, may look upon a fruit or vegetable-processing cooperative in much the same way that it views any other processor. The result could be an attempt to bargain with such a cooperative. Since the operating cooperative already is committed to returning to patrons all proceeds above operating costs, obviously confrontation with such a bargaining group could be a very disruptive experience. It is reported, in one instance, that a bargaining association 'infiltrated' the board of directors of an operating cooperative in an effort to achieve its price objectives.⁴

Garoyan and Torgerson have also acknowledged the presence of a cooperative processing sector within the boundaries of farmer bargaining activity.

Garoyan has spoken briefly to interactions between the bargaining association and the cooperative processor in bargaining with proprietary

¹Helmlberger, P. and S. Hoos, 1965.

²Williams, S.W., 1970.

³Knutson, R., 1974, p. 904-912; Abrahamsen, M.A., 1976.

⁴Abrahamsen, M.A., 1976, p. 359.

processors.¹ Torgerson's dual structure and California fruit industry delineation of the has raised numerous of participant interest specific attention its impact on the distribution sectors. The of this study.

Paralleling the bargaining reflected and discussion of bargaining Conference industry contributors have raised questions relationships in farm variability in the production of the existing bargaining environment between the bargaining processing sector. S

¹ Garoyan, L., and

² Torgerson, R.,

³ Lang, M., 1977.

⁴ National Conference of 1957-1980.

processors.¹ Torgerson recognized this relationship earlier calling it a dual structure and noted its presence in the dairy industry and some California fruit industries.² Most recently, Lang has contributed to a delineation of the boundaries of bargaining activity.³ In so doing, he has raised numerous questions about the nature, extent, and importance of participant interrelations in farmer bargaining. Lang has also given specific attention to the role of the cooperative processing sector and its impact on the competing proprietary processing and bargaining association sectors. The questions Lang has raised constitute part of the scope of this study.

Paralleling the evolution of sensitivity to the boundaries of bargaining reflected in the literature above has been the identification and discussion of bargaining issues within the framework of the National Bargaining Conference annual meetings.⁴ Dating from as early as 1960, industry contributors, primarily in the fruit and vegetable industries, have raised questions and made arguments about the nature of participant relationships in farmer bargaining environments. Sensitivity to variability in the processing sector has been indicated by extensive mention of the existence and impact of a cooperative processing sector in bargaining environments. Numerous conferees have argued interdependencies between the bargaining association sector and the cooperatively organized processing sector. Some have contended that such interdependence

¹Garoyan, L., January 1976.

²Torgerson, R., 1970.

³Lang, M., 1977.

⁴National Conference of Bargaining Cooperatives, see Proceedings of 1957-1980.

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¹ Hedlund, F., 1978

² Klotzbach, W., 1978

³ Goldberg, R., 1978; Kautsky, S., 1978; Kautsky, S., 1978

⁴ Garoyan, L., 1978

strengthens bargaining with proprietary processors.¹ Others have noted the impact of bargaining association activity on decisions of the cooperative processing sector.² Recently concern has been expressed about the possibility of negative impacts on the proprietary processing sector attributable to close relations between the bargaining association and the cooperatively organized processing sector.³ The conference has also provided a forum for addressing structural change and emerging trends in the bargaining environment, some of which have been related to the interrelations suggested above.⁴

The issues raised by these observations and the perceptions of students of farmer bargaining argue the need for in-depth study of participants and their interrelations. In order to respond to the above, this research will focus on those commodity environments having the richest experience in farmer bargaining activity, the processing fruits and vegetable industries, in order to afford the clearest identification of the structure of participant interrelationships. Notwithstanding this commodity orientation, much of the conceptualization and findings should be generalizable to other commodity groups. Generalization is desirable given the breadth of commodity populations that would be within the jurisdiction of national bargaining legislation.

¹Hedlund, F., 1963; Whybark, C., 1965; Knutson, R., 1974.

²Klozbach, W., 1960; Owen, R., 1973; Collette, F., 1974.

³Goldberg, R., 1971; Bailey, J., 1979; Lang, M. and Shaffer, 1977; Filice, B., 1978; Kautz, J., 1978.

⁴Garoyan, L., 1961; Filice, B., 1978; Collins, R., 1978.

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1.2 Objectives of the Research

First, it is the objective of this research to construct a conceptual framework for addressing the subject matter. The conceptual basis needs to be sufficiently broad to accommodate the boundaries of the topic and sufficiently rich in scope to maintain its relevancy under application. Moreover, the conceptualization should serve to guide the inquiry by offering a systematic representation of behavioral expectations. That is, the logic of action in the conceptualization should provide a schema with which to organize the empirical observations. Finally, the conceptual framework should be able to encompass permutations of the subject matter under analysis. Given the timeliness of this research, catholicity of argument is important.

Second, this research is an exploratory effort. The objective is to describe interrelations among the primary participants in farmer bargaining environments. This requires probing the boundaries of participant interdependencies and exploring the responses of participants to interdependencies. Such exploration will permit the identification of dynamic elements in farmer bargaining systems. Attention to elements of change will enhance the study's descriptive validity and will enrich the informational basis of ultimate conclusions and specified implications.

The third objective is to organize the discussion of findings by certain performance issues. These issues may be broadly defined as coordination, accountability, distribution, and structure. Attention to the issue of coordination means relating observations to the content of economic signals produced by bargaining interrelations. Accountability as a performance issue means identifying which interests are served by decision making processes. This issue might also be called preference

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¹ Shaffer, James
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² Simon, H., 1974.

articulation.¹ The distributional aspect of performance will focus primarily on the distribution of risk and revenues. Focusing on structure as a performance issue means identifying the impact of interrelations on exit decisions and organizational responses such as vertical integration. These performance issues will be selectively treated in the discussion of findings. They will also, when warranted, be combined with a time dimension; some performance discussions will be qualified by short term versus longer term.

Finally, this research will specify certain policy implications to aid participants and policy makers in farmer bargaining.

1.3 Research Methods

Among the reasons for the relative neglect of such studies (organizational decision making) . . . is that they are extremely costly and time consuming, with a high grist-to-grain ratio, the methodology for carrying them out is primitive, and satisfactory access to decision-making behavior is hard to secure.²

As will be developed in the conceptual framework to be presented in Chapter Three, the macro unit of observation, the farmer bargaining environment, can be envisioned as a political system. Furthermore, the macro system may be segmented into three or more subsystem processes. Attempting inquiry and analysis at either level is complex and challenging to realize. The research strategy of this study has nevertheless, attempted to be comprehensive in scope.

The research began with a literature search. The intent of such a search was to gather background materials that could offer both a

¹Shaffer, James D., "Preference Articulation and Food System Performance," in Farris, P., forthcoming.

²Simon, H., 1974, p. 501.

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¹ Salter, L., 194.

description of the environment and identify questions of interest. Census, directory data, and various statistical calculuses were reviewed. Furthermore, perceptions of students of bargaining were catalogued and organized into issue areas. These efforts permitted the initial construction of an empirically relevant model describing the organizational process of the subject matter. In light of secondary empirical observations and conceptual formulations, a background was established on which to conduct primary data collection.

Based on the compiled secondary information, it became evident that the web of processes and variables contained in the subject matter warranted a case study approach. Hence it was decided to focus on the inner workings of the various subsystems comprising farmer bargaining. This meant looking at the organization and behavior of three participant subsystems: bargaining associations; cooperative processors; and proprietary processors. The goal of such a focus was to bring detail to the analysis of decision making processes and thereby provide higher empirical relevance.¹

The process used to collect primary data consisted of conducting interviews in different farmer bargaining environments with managerial decision makers from the units of analysis comprising each participant subsystem. Thus interviews were held with managers of bargaining associations, cooperative processor organizations, and proprietary processor organizations. The task in each interview was to obtain a description of the organization's interrelations with the other two participant subsystems in farmer bargaining. The content of each

¹Salter, L., 1942.

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¹ See Chapter Two
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interview corresponded to hypothesized interdependencies and behaviors emanating from the conceptual framework. Therefore, there was great consistency in the interview process conducted within each subsystem. In light of the focus on interrelations among participant subsystems there was also a high degree of such consistency among the subsystems. Thus, a highly similar interview format was used with all units of analysis with variation being a function of different perspectives on equivalent subject matter.

The sample was selected on the basis of several criteria. First, from the researcher's vantage it was important to select bargaining environments in which the three participant subsystems were present. Second, environments were selected with varying degrees of bargaining maturity. The states of California, Oregon, Washington, Michigan, New York, and Pennsylvania constituted the primary bargaining environments selected for cross sectional analysis.¹ Limited observations were also made of some participant subsystems in Idaho and Virginia. It was also deemed desirable to select for variation in units of analysis within each participant subsystem. Thus bargaining associations bargaining terms of trade for annuals and those bargaining terms of trade for perennial crops were sampled. Cooperative processing organizations of numerous varieties were sampled including ones that were single product or multiple product and used single pool accounting or multiple pool accounting. In sampling the proprietary processing organizations as the third participant subsystem, both single state and multiple state operations were studied. Finally, a concerted effort was made to gain

¹See Chapter Two for a description of state environments, both legal and economic.

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Within each state bargaining environment a sample of bargaining associations, cooperative processors, and proprietary processors was selected on the basis of managerial self selection. This is to say that managers of specific organizations in these participant subsystems were contacted and the research was briefly explained to them. No bargaining association or cooperative processor managements denied access to the researcher. Only a few managers of proprietary processor organizations refused to meet the researcher. Thus, in general, the researcher was successful in persuading managers of respective participant organizations to agree to interviews that averaged one and one-half hours in length. These interviews were conducted with the understanding that no direct personal attributions would be made without the express permission of the individual. Many managers expressed avid interest in the subject matter of the research and a desire to offer their insights.

In summary, managerial decision makers from 14 bargaining associations, 25 cooperative processors, and 18 proprietary processors comprise the population studied. For many of the 57 organizations, several representatives of management were interviewed. Numerous other interviews were conducted with individuals having a relationship with or perspectives on farmer bargaining. This group included grower-processors, administrators of bargaining rules, other industry interests, and knowledgeable observers. A total of 118 different individuals contributed

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interviews to the study.¹ The bulk of these interviews took place during the six month period from December 1978 to May 1979 and almost all were recorded on tape cassettes.

Having conducted the interviews according to the issues developed in the conceptual framework, the aggregate information was similarly organized. Hypothesized interdependencies and behaviors were grouped into three areas of inquiry corresponding to the three basic relationships among the participant subsystems:

- 1) Bargaining Association with Proprietary Processor
- 2) Bargaining Association with Cooperative Processor
- 3) Cooperative Processor with Proprietary Processor

Observations on the units of analysis comprising each subsystem are first presented in aggregate pools. Certain stratifications or segmenting of pools are then presented. The segmentations are variable and are on the basis of 1) history of experience with bargaining, 2) geography, 3) single versus multiple pool accounting, and 4) single versus multiple state operations.

Specific observations on the units of analysis were organized by collapsing information into an attribute. This process constituted the coding task. Information relevant to certain interdependencies and behavioral responses was assembled and, according to a tolerance of variability, assigned a coded form. Some of these forms were of the present or absent, yes or no variety. Others exhibited a scale such as good to fair to poor. Reporting these coded findings within the context of the attribute was then done on the basis of numbers of respondents

¹See Appendix for a full listing.

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In addition to reporting on findings from primary data certain statistical tests were conducted on secondary data from the Census of Manufacturers² and The Directory of the Canning, Freezing, Preserving Industries.³ These tests were tests of differences between means and were used to gain indications of structural change in the environments relevant to the research. The findings from these tests are presented at the beginning of Chapter Five.

1.4 Overview

The following sequence of chapters corresponds to the actual research process. Chapter Two is primarily descriptive, emphasizing the legal and economic environments explored by the study. It also describes the various economic actors comprising the participant sub-systems. The chapter is based on both secondary and primary data and provides an overview of the bargaining environments under study. Chapter Three is the theoretic chapter and offers a conceptual framework for exploring the subject matter. It consists of two parts. The first is a theory of behavior with emphasis on the managerial decision process. The second is an applied conceptualization in which the general subject matter is integrated with the theoretical construct. Hypotheses about

¹Chapters Four and Five.

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Following the conceptual statement are two chapters of findings and discussion of findings. The first (Chapter Four) focuses on interrelations between the bargaining association and the two processing sectors: that which is proprietarily organized and that which is cooperatively organized. The second (Chapter Five) addresses issues of structural change in bargaining environments and the impact of competition between the cooperative and proprietary processing sectors. Each chapter first presents findings and then offers discussion of the findings according to selectively advanced performance issues.

Chapters Six and Seven build on the earlier work. Chapter Six, as the penultimate chapter, presents first an integration of overall discussion in the form of summary conclusions. Building on this statement of conclusions is a presentation of policy implications. The final chapter consists of related research topics that, on the basis of this inquiry, warrant attention. The appendix consists of supporting materials not deemed central to the text.

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CHAPTER TWO

DESCRIPTION OF PARTICIPANTS AND ENVIRONMENTS

Introduction

This chapter outlines the major descriptive parameters of the research subject including the characteristics of the participants and the environments in which they perform their economic activities. The chapter will first outline the legal bases of bargaining. The summary of the legal bases will be succeeded by a description of the three classes of participants which constitute the population of the study. This will be followed by a presentation of information indicating both the economic importance and structural characteristics of bargaining environments. Such information will be presented first in aggregations and then stratified by select geographic dimensions. These dimensions will be by state or region.

2.1 Legal Bases of Farmer Bargaining

2.1.1

National Basis

The legal basis for bargaining by farmers derives from specific legislation in the beginning of the 20th century directed towards permitting farmers to act as groups in various market activities. The varied and numerous organizations collected under the rubric farmer cooperatives, of which bargaining cooperatives are a variant, stem from these legislative edicts. The two statutes are the Clayton Act

of 1914 (38 stat., 730, 731, 15 U.S.C.A., 17.) whose section 6 addresses agricultural organizations and the Capper-Volstead Act of 1922 (42 stat., 388, 7 U.S.C.A. 291-292). Both statutes provide limited exemptions for agricultural producer organizations from the antitrust laws contained in the Sherman Antitrust Act of 1911 (26 stat., 209, 15 U.S.C.A.) and elsewhere in the Clayton Act of 1914. Various legal challenges to the anti-trust exemptions accorded agricultural producer organizations in these acts, especially those exemptions contained in the Capper-Volstead Act of 1922, have produced case law defining the nature of the exemption and the type of producer organizations covered. Currently, the Treasure Valley suit settled in 1974 provides the clearest affirmation that agricultural producer bargaining groups constitute a form of producer cooperative covered by the jurisdiction of the Capper-Volstead Act.¹ For a fuller enumeration of legal challenges to agricultural producer cooperatives in general² and to bargaining-type cooperatives specifically³ see the literature cited below.

Though not addressing bargaining type cooperatives directly, the Agricultural Marketing Agreements Act of 1937 (50 stat. 246, 7 U.S.C.A., 1937) has relevance for them. Among other things, the Agricultural Marketing Agreements Act provides for the control of volume of product

¹Treasure Valley Potato Bargaining Association, et al., vs. Ore-Ida Foods, Inc. and J.R. Simplot Company, U.S. Court of Appeals for the Ninth Circuit on Appeal from the U.S. District Court, Idaho, No. 71-2742, April 11, 1974, p. 9.

²See: U.S. Department of Justice, Report of the Task Group on Antitrust Immunities, January, 1977;

Ibid., The Attorney General's National Committee to Study the Antitrust Laws, 1955;

Federal Trade Commission, Staff Report on Agricultural Cooperatives, prepared by the Bureau of Competition, September 1975.

³Lang, M. 1977. pp. 151-186.

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moving to market. Such control can alter the value of product expected by producers in their transactions with buyers. Realization of enhanced values can be attained through collective action to complement supply controls. As stated by Abrahamsen:

Marketing orders for fruits and vegetables and tree nuts control the volume marketed through specific provisions as to quality and size of produce authorized for fresh markets. . . . in most instances, after the marketing orders and agreements establish a favorable institutional setting and provide the necessary control and regulatory tools, cooperatives become the implementing agency of producers. Thus, the tie-in between market-order programs and bargaining cooperatives is very close.¹

Associations of producers utilizing the provisions of this act would also be exempted from antitrust liability.²

The Agricultural Fair Practices Act of 1967 (Public Law 90-288, 7 U.S.C.A., April 16, 1968) is the next chronological explicit legislative statement addressing bargaining activities by producer groups. Its thrusts are to declare illegal certain impediments, specifically discriminatory policies by buyers against producer members of bargaining-type cooperatives, to bargaining activity by cooperatively organized producer groups. The events leading to the promulgation of this Act have been detailed at length by Torgerson.³ Succeeding this legislative effort have been efforts to establish a more detailed national bargaining bill to remedy the shortcomings of the Agricultural Fair Practices Act of 1967 in providing adequate delineations and sanctions for the support of bargaining-type producer cooperatives. The Sisk Bill (HR 6372), the Ammerman Bill (HR 13869) and the National Agricultural

¹Abrahamsen, M.A., 1976, pp. 219-220.

²United States v. Borden Co., 308 US 188, 198 (1939).

³Torgerson, R., 1970.

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¹Lang, M., Supra.

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Bargaining Act of the 96th Congress (HR 3535) introduced April 10, 1979 are all highly similar and are directed towards specifying the following: 1) delineating unfair practices; 2) defining bargaining in good faith; 3) specifying procedures for the accreditation of associations of producers; 4) specifying the assignment of association dues, fees, or retains; and 5) stipulating provisions for mediation and arbitration, administration, and enforcement of the act's provisions. The current act would also repeal the Agricultural Fair Practices Act of 1967.

Paralleling national legislative efforts to promote the establishment of bargaining-type producer cooperatives has been a plethora of initiatives by individual state legislatures. State laws of varying specificity exist in the states of California, Colorado, Idaho, Maine, Michigan, Minnesota, New Jersey, North Dakota, Ohio, Oregon, Washington, and Wisconsin. Proposed state laws are currently being considered in the states of New York and Pennsylvania. The following section will briefly review the state initiatives in the states comprising the study's sample: California, Oregon, Washington, Idaho, Michigan, New York, and Pennsylvania. For a fuller review of state initiatives the reader is referred to the comprehensive enumeration by Lang.¹

2.1.2

State Bases

California has a tradition of state support for bargaining activity dating from the California Agricultural Code of 1961.² This and the amendment of 1974 (SB 1941) specify unfair practices, certain responsibilities of the Director of Agriculture and sanctions, and also impose good

¹Lang, M., *Supra*.

²California Agricultural Code, Chapter 2, Articles 1-3, 1961.

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faith bargaining stipulations. Under good faith bargaining, it is an unfair practice for handlers to "refuse to negotiate or bargain for price, terms of sale, compensation for commodities produced under contract, and other contract provisions relative to any commodity which a cooperative bargaining association represents."¹ Handler is defined as processor, handler, distributor or agent of any such person.² Under this law some bargaining groups, called associations, have developed voluntarily and have attempted to conduct negotiations with handlers. The absence of funds with which to enforce the law and the lack of guidelines for enforcement have meant that the effectiveness of the legal basis for bargaining activity is questionable. However, the history of bargaining activity in the cling peach and bartlett pear industries indicate that bargaining efforts can arise without more explicit state support.

Washington, Oregon, and Idaho also have state initiatives. They are, however, more limited than California's good faith bargaining law. The Washington State Code³ addresses discriminating practices by handlers to weaken efforts of bargaining associations to establish terms of trade. Though the state code is limited in scope, a much more comprehensive legislative effort is under consideration. The proposed bill, termed the Washington State Agricultural Marketing and Bargaining Act of 1979, states that:

the intent of the legislature (is) to establish standards of fair practices that shall be observed by handlers and associations of producers in their dealings in agricultural products, to provide standards for the accreditation

¹California Agricultural Code, Chapter 2, Article 2, Section 54431, (e).

²California Agricultural Code, Chapter 2, Article 2, Section 54432.

³Washington State Code, Title 20 Commission-Merchants Ag. Products.

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of cooperative associations of producers of agricultural products for the purpose of bargaining, to define the mutual obligations of handlers and associations of producers to bargain with respect to the production, sales and marketing of agricultural products, and to provide for the enforcement of such obligations.¹

The specific provisions of this act closely reflect the existing Michigan bargaining law which will be discussed below. The Oregon Code² provides some general statements as to unfair practices with respect to bargaining associations and remedies for such practices. Its impact is, evidently, negligible.³ The state of Idaho has a law⁴ providing for the collection of association revenues but goes little further than existing national legislation in promoting bargaining activity. Bargaining activity, nevertheless, has evolved in the potato industry. Efforts to introduce a more comprehensive bargaining law have yet to be successful. Provisions being discussed are as follows:

to provide for unfair practices; to provide for good faith bargaining; to provide for accreditation of associations of producers; to provide for final offer selection; to provide for administration of (the) act; to provide for independent enforcement authority; to provide for judicial review; to provide for enforcement; to provide for civil remedies; to allow the Director of the Department of Agriculture to have investigative powers; and to provide severability.⁵

Such state initiatives to promote bargaining association activity go little beyond national legislation. The result is that the success of bargaining association activity in conducting bargaining is more a function

¹Proposed Washington State Agricultural and Marketing Act of 1974, New Section, Section 1.

²Oregon State Statutes, 646., 515, 525, 535, 545.

³Lang, M., Supra, p. 169.

⁴Idaho Code, Chapter 39: 22-3901. 6.

⁵Proposed Idaho Agricultural Bargaining Bill.

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¹Michigan Act No

of factors such as control of raw product supply than legal coercion. Such bargaining activity might be termed voluntary.

The state of Michigan has enacted and promulgated a comprehensive bargaining bill to strengthen historical efforts of bargaining. The Michigan law is termed the Michigan Agricultural Marketing and Bargaining Act of 1972.¹ It is by far the most specific state initiative and goes far beyond extant national legislation in designing the environment within which bargaining activity shall take place. The central provisions of the act are an exclusive agency provision and a compulsory, binding, final offer arbitration provision. In the former, an 'accredited' association becomes the sole representative of all growers in the designated bargaining unit. Fees are paid to the accredited association. The latter provision stipulates a course of action for ensuring the determination of terms of trade if neither the accredited association nor the handler elect to decline to bargain within a specified period. This course of action is binding arbitration. The act also provides for an administrative body to oversee the implementation of the act. This board, among other things, holds hearings to determine accreditation and to define bargaining units. It also conducts grievance proceedings related to unfair practices and breaches of good faith bargaining. Such grievance proceedings may culminate in exercise of the binding arbitration provision of the act.

To date, the accredited associations are all organized within the Michigan Agricultural Cooperative and Marketing Association (MACMA) which is an affiliate of the Michigan Farm Bureau. Bargaining units have been defined for apples, tart cherries, asparagus, cabbage, cucumbers, plums, and potatoes. Accredited associations have also been recognized in all the above commodities except for plums and potatoes. Bargaining

¹Michigan Act No. 344, Public Acts of 1972.

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¹Michigan Canner
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under the act currently takes place in cabbage, apples, and asparagus and has seen one year of activity in tart cherries. Bargaining under the act in tart cherries and potatoes has been stayed by court action.¹

The Appalachian states of New York, Pennsylvania, and Virginia in the study's sample have no state bargaining legislation and thus activity there relies on national legislation. However, both New York and Pennsylvania have proposals for state legislation and both proposals are influenced by Michigan's act. Notwithstanding the absence of state legislation, New York, Pennsylvania, and to a very limited extent Virginia, are engaging in what might be termed nascent bargaining efforts. These efforts are, at best, informational, the purpose being to disseminate information to members of respective bargaining associations. The Pennsylvania association for apple marketing does attempt to address handlers but its efforts have had very limited impact on determining terms of trade for raw apple product.

The bargaining environments that constitute the study's sample of eight states can be grouped into three categories: voluntary, including California, Washington, Oregon and Idaho; mandatory bargaining in Michigan; and nascent bargaining in New York, Pennsylvania, and Virginia. It can also be noted that California and, by close proximity, Washington, Oregon, and Idaho, have the longest historical experiences with state bargaining initiatives. Moreover, California bargaining activity predates its Agricultural Code. Michigan has the most recent state initiative and the Appalachian states have pending initiatives. Historical experience

¹Michigan Canners and Freezers, et al., vs. Agricultural Marketing and Bargaining Board and the Michigan Agricultural Cooperative Marketing Association (Red Tart Cherry Case - Court of Appeals No. 20750).
Bargaining for tart cherries continues outside of the act.

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with bargaining activity may help explain differences in participant behaviors in the different states in the sample.

All of the extant state initiatives concentrate on the raw product transaction between associations representing producers and a population of handlers but fail to delineate the precise role of producer controlled handlers such as producer cooperatives and grower processors. A partial exception is the Michigan Act where some mention of cooperative processors and grower processors is made; under P.A. 344, the Michigan Act, the raw product volume of cooperative processors and grower processors is excluded. However, the precise meaning of this exclusion, e.g., does exclusion in the act pertain only to the determination of volume to be used for awarding accreditation to an association, is not clearly delineated. Furthermore, the precise obligations and definitions of cooperative processors and grower processors in the act are not well specified.

Imprecision in regard to these issues has been the basis of current litigation in Michigan. A major question of concern to administrators of and participants under the Act is the meaning of the clause "grower-owned-and-controlled" cooperatives. The presence of a significant handler organization having components that are cooperatively and proprietarily organized has forced consideration of the meaning of this clause. Resolution of this question could contribute to the very basic issue of who the handlers are in bargaining; that is, what are the characteristics of the organizations with whom bargaining associations shall bargain terms of trade? Of interest to this study is the following query: if not all handler organizations are bargained with, what difference does it make? Estimates of the relative importance of the cooperative processing sector, i.e., the sector that competes with the proprietary

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¹ Galbraith, John

processing sector yet which is not formally bound to the terms of trade bargained between the association and proprietary processors, in the states observed in this study can be found in the separate regional overviews in this chapter.

Extant national legislation also fails to address the population of handlers with any precision. This inattention and indiscrimination is further reflected in current legislative initiatives, both state and federal. The result is that the existing and proposed law in this area is essentially silent on such things as the relationship of cooperative processors and grower processors to bargaining activity. Before exploring this issue more at length in Chapter Three, this chapter will offer a taxonomy of participants in the bargaining environments under study and provide some indication of the economic characteristics of those environments.

2.2 Participants in Farmer Bargaining

Farmer bargaining consists of the determination of terms of trade between agricultural producers and buyers, commonly called handlers or, in this study, processors. It is a collective effort by such producers representing an aggregation of raw product. It is a collective effort to countervail¹ the economic power of processor buyers. Among the purposes are the enhancement of economic returns to agricultural producers and the eliciting of information from the production and processing sectors. Such information is needed for planning agricultural production and raw product marketing decisions. Thus, the primary relationship in farmer bargaining environments centers on the transaction

¹Galbraith, John K., 1952, Chapter 9.

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¹Galbraith, John

between processors and producers. This section will first look at these transacting entities. It will then treat another entity, the cooperative, and outline its relationship with the primary actors.

2.2.1 Bargaining Associations

The structure used for collective action by agricultural producers as they address processors in order to determine terms of trade for raw product is the bargaining association. The bargaining association consists of general grower membership, a directing committee such as a board composed of grower members, and management. Though the population of general membership may consist of diverse types of growers, the association is typically oriented toward the marketing of a single commodity. There are cases of bargaining associations that market more than one commodity though with each commodity being addressed separately. In the Michigan bargaining environment, for example, the Michigan Agricultural Cooperative Marketing Association (MACMA) encompasses bargaining activity in several commodities but each on a separate basis.

In regard to the diverse characteristics of grower membership in the bargaining association, growers may, for example, market strictly or partially in cash markets for raw product; that is, growers may be vertically integrated into processing for all or part of their crop and still, for various reasons to be addressed later, belong to the bargaining association. Growers may also be multiple commodity producers or specialized in one commodity.

The directing committee, called variously the board, the bargaining committee, the steering committee, or the executive committee, works with

¹Galbraith, John K., 1952, Chapter 9.

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management of the association to set policy and bargaining strategy. This group may reflect the diversity of the general grower membership.

Grower membership in bargaining associations is generally voluntary. The exception is bargaining in the state of Michigan when it takes place under the state bargaining law. Submission of dues (marketing fees) which constitute the source of revenue for the operations of the bargaining association is also generally voluntary. In Michigan, bargaining legislation can oblige the payment of marketing fees by the legally defined relevant population of growers whether they are members of the bargaining association or not.

2.2.2 Proprietary Processors

Facing the bargaining association is the processing sector, or more specifically, the proprietary processing sector. This sector consists of privately organized processing firms that use raw product as an input in the production of processed products. Since this inquiry is limited to bargaining environments in fruits and vegetables, it will constrain its exploration of proprietary processors to include only those involved in the processing of fruit and vegetable raw products.

The proprietary processor sector in bargaining environments exhibits considerable variation in organizational characteristics. One variable of interest to the study is captured by the term geographic reach. Some proprietary processors procure and process raw product strictly within a single state. Many such firms are small manager-owned operations processing a few fruits and/or vegetables. These single state firms also tend to sell processed products in private label markets; that is, they sell in undifferentiated finished markets. Other proprietary processors may be able to avail themselves of geographic reach; they

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procure and/or process in more than one state and thus may exceed the geographic boundary of a specific bargaining environment. Many such proprietary processors have differentiated their processed products by brand identity and sell in brand as well as private label markets.

Typically the manager of the bargaining association and a representative of management of the proprietary processor meet prior to harvest (prior to production of annuals) to discuss and come to agreement on terms of trade, the major component of which is the transfer value. As the bargaining association tends to bargain terms of trade one on one with individual proprietary processors, there may be variability in said terms among the population of proprietary processors. There are no legal stipulations that uniform terms of trade shall prevail in bargaining environments.

The bargaining association and the proprietary processor sectors constitute the primary components of the bargaining environment. However, other sectors, in particular the vertically integrated grower-processor sector consisting of cooperative and grower processors, may also be important to bargaining.

2.2.3

Cooperative Processors

The cooperative processor sector is of interest to the proprietary processing sector because it competes both for raw product supplies and for sales of processed products. However, the competing cooperative processor sector is not bound, as is the proprietary processing sector, to abide by the terms of trade determined by bargaining. The result, then, is a difference in raw product input costs sustained by the proprietary processor in comparison with the cooperative processor.

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The cooperative processor sector is important to the bargaining association for several reasons. One is that because of its competitive role in processed product markets, cooperative processor behavior may influence relations between the bargaining association and proprietary processors. Specifically, proprietary processors' uncertainty as to competitive behavior of cooperative processors may influence the willingness of proprietary processors to bargain terms of trade with the bargaining association.

The bargaining association may also be sensitive to the cooperative processor sector because it competes with it for grower member clientele. Such competition may resolve itself somewhat by virtue of growers who belong simultaneously to the bargaining association and a cooperative processor. This group of growers, called dual members, and the motivations for their existence will be explored at length in Chapter Four.

The cooperative processing sector consists of organizations exhibiting appreciable variability. However, all the cooperative processor organizations consist of a general membership, a board of directors, and management. The general membership may be comprised of a diverse group of growers having various size production operations and producing variable numbers of commodities. Furthermore, grower members may market all their production through the cooperative or market some in cash markets and some through the cooperative. Similarly, the cooperative processor organization may process only member product or a combination of member and non-member product. The latter mix raises the question of whether non-member product that is processed by a cooperative organization is within or beyond the purview of the bargaining association and what difference it makes to the participants in bargaining.

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The board of directors of the cooperative processor organization may reflect the diversity of the general membership. Some boards are organized to ensure that all commodities processed by the cooperatives are represented. Others base board election on other criteria.

The board typically has ultimate responsibility for the performance of the cooperative. It thus works closely with management to set policy and conduct reviews of managerial performance. Some managers are more independent of the board of directors than others depending on the organization of the cooperative and the controls available to the board of directors.

There are two other organizational characteristics of cooperative processor organization that are of special relevance to this study: commodity diversity and the accounting system. Some cooperative processors are involved in processing only one commodity. Cooperatives such as SunMaid Cooperative, Lindsay Olive Growers, and Red Cheek, Inc. are examples of single commodity cooperative processors. Others process more than one commodity. The result is the possible existence of interest groups within the cooperative processor organization aligned by commodity orientation.

The accounting system used by the cooperative processor to determine allocations is another dimension of cooperative organizations. The systems of particular interest to this study are multiple pool and single pool varieties. In multiple pool accounting each commodity is handled separately, incurring its own processing costs and earning its individual returns. Such individual treatment poses problems in the allocation of shared costs and shared returns; when certain costs or earnings are

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In partial response to such difficulties, some cooperative processors utilize a single pool accounting system. In such cooperatives, costs of processing all commodities are co-mingled as are the various returns to sales of processed products. Disbursements are then made according to some accepted decision rule. For example, a raw product value from cash markets, e.g., the proprietary processor purchase price, may be used to determine the relative positions of commodities in reference to commodity returns. A mathematical representation of this particular decision rule can elucidate the distribution mechanism. Let the raw product price P_r be the basis for allocating net returns to each commodity then:

$$TR_i = \frac{Q_i P_{ri}}{\sum_{j=1}^n Q_j P_{rj}} \quad * \quad \sum_{j=1}^n TR_j$$

Where TR_i is total net returns to commodity i .

Where Q_i is total quantity of commodity i delivered.

Where Q_j is total quantity $1 \dots n$ delivered including i .

Where P_{ri} is cash raw value per unit commodity i .

Where P_{rj} is cash raw value per unit commodity $1 \dots n$ including i .

Where n is the number of commodities processed including i .

Where TR_j is total net returns to each commodity $1 \dots n$.

Thus, each commodity's share of net returns will be affected by the cash raw product value of the other commodities within the single pool as well as its own cash raw product value. This interdependence extends to payment of raw product input value as well in that net returns from the single pool are net of input payments. Thus, as in the above mathematized representation, Total Product Returns (TPR) to commodity i are as follows:

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$$TPR_i = Q_i P_{ri} + \frac{Q_i P_{ri}}{\sum_{j=1}^n Q_j P_{rj}} * \sum_{j=1}^n TR_j$$

2.3 Absolute Economic Importance and Select Structural Characteristics

This section of the chapter will provide descriptive information on the absolute and relative economic importance of the farmer bargaining economy. To do so it will present a series of tables indicating the incidence and impact of farmer cooperative fruit and vegetable activity in the national economy. This activity derives from two organizational varieties: bargaining cooperatives, commonly termed bargaining associations, and cooperative processors. Their separate and combined incidence will be documented below. This section will also provide descriptive information on select structural characteristics of the individual states that comprise the sample of this study. Accordingly, certain data on market shares, number of organizations, and concentration ratios will be presented in a state by state treatment. Not all fruit and vegetable industries will be addressed; only those industries germane to the study will be outlined.

2.3.1 National Economic Impact

In order to describe the national economic impact of farmer bargaining activity this section will draw on past compilations as well as compilations developed by this researcher. In some cases, the tables presented will be a combination of primary and secondary data. This will be true for the national information as well as for state information.

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¹Lang, M., S

A. Bargaining Association Activity

Table 2-1 based on information applicable to the 1971 fiscal year has been developed from secondary sources. This table records the volume of product and absolute sales represented by bargaining associations in a variety of major fruits and vegetables, including sugar beets. In this table the grand totals for physical volumes and sales volumes equal 27,687,500 tons of product bargained at a sales value of \$662,198,200. These figures represent commodities sold for processing.

From the same secondary source used for Table 2-1 can be derived the geographic incidence of bargaining associations for the 1971 fiscal year. Table 2-2 lists the states with bargaining activity broken down by major commodity groupings of fruits, vegetables, and sugar beets. There are 53 bargaining associations including 29 American Agricultural Marketing Association (AAMA) bargaining entities involved in fruit, vegetable, livestock, or poultry bargaining. Out of these 29 entities there are 11 fruit associations, 8 vegetable associations, and 5 sugar beet associations, for a total of 24. Of the total 53 bargaining entities identified in 1971, the 8 states of this study's research sample (California, Oregon, Washington, Idaho, Michigan, New York, Pennsylvania, and Virginia) represent 23 or approximately 43 percent of this population.

Lang¹ conducted a census of bargaining activity in fruits and vegetables and sugar beets for the year 1976. The following table, Table 2-3, is presented using information from the Lang study and other industry sources. Where available, dates have been included to indicate the year in which bargaining first appeared in that commodity in that state. Based on identified bargaining activity in 13 states, in

¹Lang, M., Supra.

Bargained C

Asparagus

Beans

Beets

Cabbage

Cucumbers

Peas

Pop Corn

Potatoes

Sweet Corn

Tomatoes

Other

Subtotal

Apples

Berries

Cherries

Citrus

Grapes

Peaches

Pears

Prunes

Other

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Table 2-1

Total Volume and Sales Represented by Bargaining
Associations in Major Fruits, Vegetables and
Sugar Beets for Processing: Fiscal Year 1971

<u>Bargained Commodity</u>	<u>Physical Volume '000 tons</u>	<u>Sales Volume '000 dollars</u>
Asparagus	21.8	9,263.6
Beans	62.3	5,994.8
Beets	17.1	355.1
Cabbage	37.7	657.7
Cucumbers	49.8	4,750.5
Peas	70.6	6,766.8
Pop Corn	12.8	671.8
Potatoes	2,341.9	90,304.0
Sweet Corn	205.4	5,240.6
Tomatoes	258.7	5,310.6
Other	21.9	1,565.6
Subtotal	3,100.0	130,881.1
Apples	265.4	14,899.6
Berries	3.8	1,771.0
Cherries	44.7	8,573.1
Citrus	283.6	16,541.5
Grapes	310.6	22,921.2
Peaches	402.7	31,033.0
Pears	88.5	10,146.0
Prunes	30.0	9,000.0
Other	7.2	641.7
Subtotal	1,463.5	115,527.1
Sugar Beets	23,151.0	415,790.0
Grand Total	27,687.5	662,198.2

Source: Farmer Cooperative Service, USDA,
Information 90, 1973.

States

California
 Washington
 Florida
 Oregon
 Idaho
 Utah
 Illinois
 Colorado
 N. Dakota
 Michigan
 Texas
 Indiana
 Ohio
 Wisconsin
 Pennsylvania
 New York
 Virginia
 New Jersey
 Maine
 Other

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Table 2-2

Geographic Incidence of Bargaining
Associations: Fiscal Year 1971

<u>States</u>	<u>Fruit</u>	<u>Vegetable</u>	<u>Sugar Beet</u>	<u>AAMA</u> ^{1/}	<u>Total Number of Bargaining Entities</u> ²
California	6		1	1	8
Washington	3	3			6
Florida	2			1	3
Oregon		2			2
Idaho		1		1	2
Utah		1			1
Illinois		1		1	2
Colorado			1	1	2
N. Dakota			1	1	2
Michigan			1	1	2
Texas			1	1	2
Indiana				1	1
Ohio				1	1
Wisconsin				1	1
Pennsylvania				1	1
New York				1	1
Virginia				1	1
New Jersey				1	1
Maine				1	1
Other	0	0	0	13	13
Subtotal	11	8	5	29	
Grand Total					53

Source: Farmer Cooperative Service, USDA,
Information 90, May 1973.

^{1/} AAMA (American Agricultural Marketing Association) is a multi-commodity (fruit, vegetables, livestock, poultry) organization.

^{2/} Given the multi-commodity nature of many AAMA organizations these numbers understate the total number of bargaining entities.

Table 2-3

State
Community

Apricots

Cling Peaches

Freestone Peaches

Canning Pears

Raisins

Apples

Strawberries

Tart Cherries

Oranges

Pineapples

Peaches

Strawberries

Red Raspberries

Sweet Cherries

Lemon Seeds

Pineapples

Peaches

Pears

Tomatoes

Lemon Seeds

Lemon Cabbage

Asparagus

Lemon Beans

Lemons

Cauliflower

Cucumbers

Potatoes

Beets

Cabbage

Peas

Sweet Corn

Plums

Notes:

B : Bargaining Activity
 CP : Cooperative Process
 E : End of Activity

Notes:

1/ Bargaining since 1975

2/ Bargaining under Public Law

3/ Bargaining under Public Law

Table 2-3

Commodity-State Matrix on Current Identification of
Bargaining Activity, Cooperative Processing Activity, and Date of
Earliest Bargaining Efforts. Fruits, Vegetables, Sugar Beets

State	CA	CO	ID	IN	ME	MI	MN	ND	OH	OR	UT	WA	WI
Commodity													
Apricots	B,CP 1974												CP
Cling Peaches	B,CP 1922												CP
Freestone Peaches	B,CP 1960											CP	
Canning Pears	B,CP 1953					CP						B,CP 1954	
Raisins	B,CP 1967												
Apples	CP					B,CP 1961 1975 ^{1/}						CP	CP
Blueberries						B,CP 1940							CP
Tart Cherries						B,CP 1958 1975 ^{2/}				CP		B,CP	
Grapes	CP					BE,CP 1967 1968			B			B,CP 1960	
Filberts										BE			
Prunes	B,CP 1968												
Strawberries	CP					CP				BE,CP			
Red Raspberries										CP		B	
Sweet Cherries	CP					CP				CP		CP	CP
Sugar Beets	B	B	B				CP			B			
Broccoli	B,CP									CP		CP	
Popcorn				B									
Beans	B,CP					CP			B	B,CP		CP	
Tomatoes	B,CP 1974			B		CP			B			CP	
Bush Beans										BE			
Kraut Cabbage						B 1967 1974 ^{2/}					B		CP
Asparagus	B,CP 1960					B,CP 1967 1974 ^{3/}						B,CP 1958	
Lima Beans	CP											B	CP
Carrots	CP											B,CP 1967	CP
Cauliflower	B									CP		B,CP	
Cucumbers	B											B	
Potatoes	B	CP	B		B,CP	B	B	B,CP		B		B,CP 1960	
Beets										CP			CP
Cabbage									B				CP
Peas							B				B	B,CP 1960	B,CP
Sweet Corn			B				B		B		B	B,CP 1967	B,CP
Plums						CP				BE,CP		CP	CP

Notation:

B : Bargaining Activity
CP : Cooperative Processing Activity
E : End of Activity

Sources:

Lang, M., 1977;
Groyan, L., and E. Thor, 1978;
Directory of Canning, Freezing, and Preserving
Industries, 1978-1979;
McMillan, M., 1958;
Industry Sources.

Notes:

- ^{1/} Bargaining since 1975 under Public Law 344.
^{2/} Bargaining under Public Law 344 only in 1975.
^{3/} Bargaining under Public Law 344 since 1974.

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¹Lang, M., Su

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1976 there were 33 commodities being bargained. If each state commodity paring represents a bargaining entity then this population consists of 55 active entities in 1976.

Some recent information on the absolute value of commodities affected by bargaining activity in fruits and vegetables is presented in Table 2-4. Table 2-1 above presented absolute values for bargained commodities identified in a study of fiscal year 1971. Lang¹ has also provided some indication of the absolute value of commodities sold under bargained contracts. Table 2-4 is extrapolated from Lang data and other secondary sources. Based on these findings and the assumptions noted on the table, there was a 77 percent increase in the value of bargained fruits, vegetables, and sugar beets for the period 1971 to 1974.² Without doing an updated compilation of such commodity marketings it is difficult to argue unequivocally that percentage increases represent a continuing trend. An update is currently being prepared by the cooperative unit of the Economics, Statistics, and Cooperatives Service.³

An additional indicator of the impact of farmer bargaining activity may be garnered from a presentation of the relative importance of state production of bargained commodities compared to total U.S. production of those commodities. This information is summarized in Table 2-5 and consists of percentages indicating the percentages of total U.S. commodities for processing produced by various states in which there is bargaining activity. The aggregated stated percentages which represent the total percentage of national product originating in states with bargaining by commodity are presented in the end column of the table.

¹Lang, M., Supra, Table 3.

²Undeferred values.

³Update in process by Gilbert Biggs, ESCS, USDA.

Value, Percentage Change in Value, and Extrapolation
of Value of Commodities Sold Under Collectively
Owned Co-ops, 1950-1959, and Value of Goods

Table 2-4

Value, Percentage Change in Value, and Extrapolation
of Value of Commodities Sold Under Collectively
Bargained Contracts: Fruits and Vegetables and Sugar Beets

Year	% of Bargaining Asso- ciations Reporting	Total Value Contracts Reported '000 dollars	Extrapolation of Value if 100% of As- sociations Reported: '000 dollars	% change in Value Year to Year	% Change in Value 1971-1974
1971	-	662,198.2 ^{1/}	662,198.2 ^{2/}	22	
1972	45	362,450	805,444.4	23	77
1973	54	535,462	931,605.5	18	
1974	58	679,848	1,172,151.7		

Notes:

^{1/}Farms Cooperative Service, USDA,
Information 90, May 1973.

^{2/}Assuming 100% reporting in 1/.

Source: Lang, W., 1977, Table 3.

Table 2-5 Total 1977
Beginning

Commodity	State	
Sugar Beets ^{1/}	27	
Broccoli	95	
Pop Corn		
Snap Beans ^{1/}	2	
Red Beans		
Cabbage		
Asparagus	22	
Carrots		
Cauliflower	65	
Cucumber	9	
Potatoes (Fall) ^{1/}	2	
Beets		
Pears		
Sweet Corn		
Tomatoes	63	
Abricots	37	
Ching Peaches	50	
Free-store Peaches	12	
Canning Pears	65	
Raisins	100	
Grapes		
Blueberries		
Strawberries		
Red Raspberries		
Filberts		
Prunes (Dried)	100	
Plums		
Tart Cherries		
Sweet Cherries		
Apples		

Notes:
^{1/} Based on 1977 ES
 - - - Not available
 * : at least

Table 2-5 Total State Production of Commodities for Processed Use as a Percentage of Total U.S.
Production of Commodities for Processed Use for those States Having Any
Bargaining Activity for These Commodities (Fruit, Vegetables, Sugar Beets) for the Year 1978

Commodity	State	CA	CO	ID	IN	ME	MI	MN	ND	OH	OR	UT	WA	WI	Aggregate % of U.S. Production
Sugar Beets ^{1/}		23.4	5.5	8.5							.8				38.1 ^{1/}
Broccoli		95.3													95.3
Pop Corn															N/A
Snap Beans ^{1/}		2.3					N/A			20.7	N/A		N/A		23.0 ^{1/}
Lima Beans													N/A		N/A
Cabbage							N/A				N/A				N/A
Asparagus		22.6					19.7						49.2		90.5
Carrots													1 ^{1/} .1		19.1
Cauliflower		85.1											N/A		85.1*
Cucumber		9.0											N/A		9.0*
Potatoes (Fall) ^{1/}		2.0		29.1		9.6	2.9	4.0	6.6		8.5		1 ^{1/} .9		78.6 ^{1/}
Beets														42.5	42.5
Peas								18.0		N/A		N/A	2 ^{1/} .7	23.6	67.3*
Sweet Corn				6.5				26.4		N/A	13.2	N/A	12.7	20.8	79.6*
Tomatoes		83.0			3.1					6.5					92.6
Apricots		97.7													97.7
Cling Peaches		80.1													80.1
Freestone Peaches		12.3													12.3
Canning Pears		63.9											24.7		88.6
Raisins		100													100
Grapes										.5			7.9		8.4
Blueberries							27.5								27.5
Strawberries										16.6					16.6
Red Raspberries													57.1		57.1
Filberts										97.6					97.6
Prunes (Dried)		100													100
Plums										64.1					64.1 ^{1/}
Tart Cherries							70.9								70.9
Sweet Cherries															N/A
Apples							12.1								12.1 ^{1/}

Notes:

^{1/} Based on 1977 Estimates.

N/A Not available.

* : at least

Sources: Noncitrus Fruits and Nuts Annual Summary,
USDA; Fruits Situation, CAS, USDA.

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8. Processing

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¹ FCS, USDA,
1971.

² FCS, USDA,
researcher's data

It is assumed that all of the commodity produced for processing is influenced directly or indirectly by bargaining. This assumption will be truer in some market environments than others as a function of the structure of raw product markets. The percentages are offered, accordingly, not as a precise measure but as an indication of the relative impact of bargaining in the U.S. fruits, vegetables, and sugar beets for processing economy.

B. Processing Activity in Fruits and Vegetables

This section will look at the incidence of fruit and vegetable processing activity in the U.S. economy. It will first review the incidence of cooperatively organized processing, and second, it will review certain aspects of the total processing sector with its cooperatively and proprietarily organized components.

Cooperative Processing. The data on the incidence of cooperative processing to be presented here comes from several sources. The 1970-1971 data comes from an earlier mentioned study¹ and the 1976-1977 data from a combination of sources.² By paring the 1970-1971 data with the 1976-1977 tabulation in Table 2-6 and acknowledging that both tabulations enumerate cooperative processors headquartered in that state, estimates of the extent of cooperative processing organizations can be obtained. Some information as to the numbers of cooperative processing plants is also reported. Whereas the total number of cooperative processing organizations in 1970 and 1971 was 50 and 47 in that order, the

¹FCS, USDA, Service Report 119, 1970; FCS, USDA, Service Report 123, 1971.

²FCS, USDA, Special Tabulation (B. Swanson), NCFC data, and researcher's data.

Table 2-4

Prevalence of Fruit and Vegetable Consumption in Selected Years.

Year	1970	1971	1976	1977	States With Bargaining Activity
5,104,125					

Table 2-6

Incidence of Fruit and Vegetable
Cooperative Processors by State: Select Years

States	Year				States With Bargaining Activity	
	1970		1971 ^{1/}		Yes	No
	Organizations	Plants	Organizations	Plants		
California	12	34	12	24	41+	X
Florida	9	11	7	8	8+	X
Maine	2	2	2	1	1+	X
Massachusetts	1	1	1	3	5	X
Michigan	3	3	3	7	10+	X
Minnesota	1	1	1	2	7+	X
New York	7	16	7	3	12	X
Oregon	6	13	6	5	12	X
Pennsylvania	3	8	3	4	6	X
Washington	4	12 ^{2/}	4	3	6	X
Illinois	---	12 ^{2/}	---	0	---	X
Indiana	---	12 ^{2/}	---	0	---	X
Idaho	---	32 ^{2/}	---	0	---	X
Arkansas	---	22 ^{2/}	---	0	---	X
New Jersey	---	---	---	0	---	X
Virginia	---	---	---	0	---	X
Utah	---	---	---	2	2	X
North Dakota	---	---	---	1	1+	X
Montana	---	---	---	1	1	X
Colorado	---	---	---	1	1	X
Nebraska	---	---	---	1	1	X
Texas	---	---	---	0	---	X
Ohio	---	---	---	0	---	X
Wisconsin	2	8	1	1	1+	X
Total	50	122	47	67	105+	

Notes: 1/ Based on replies from 47 cooperatives

2/ Plants of 47 cooperatives

(+) notation: at least

Sources:

Service Report 123, FCS, USDA, 1971; Service
Report 119, FCS, USDA, 1971; Special Tabulations,
FCS, USDA, 1977; Directory of Farmer Cooperatives,
National Council of Farmers Cooperatives; Land,
N. 1977; Industry Sources

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¹Goldberg, R.

1976-1977 tabulation identified 67 such organizations. The 1970 and 1971 tabulations are based on respondents to questionnaires prepared by the researchers. Due to nonrespondent errors these numbers are likely under-estimates. The 1976-1977 data constitutes a census of cooperative processing organizations in the commodity groups of fruits and vegetables for processing.

Some indications of the relative aggregate importance of cooperative processors in specific commodities may be garnered from a 1969 compilation by Goldberg.¹ This table is reproduced here as Table 2-7. For several processed commodities, the market share accounted for by cooperative processing exceeds 20 percent of total industry volume. Attention is called to raisins, prunes, beans, peas, corn, apples, cherries, tomatoes, peaches, and pears because these commodities are relevant to the sampled environments of this study.

Total Processing. Table 2-8 shows the distributions of canning processing organizations in fruits and vegetables based on preliminary reports of the Census of Manufacturers data for the most recent year 1977 and the earlier census years of 1972 and 1967. Revealed by the data is a widespread decrease in the number of canning processing establishments by state; in the aggregate there is a 26.2 percent decrease in these numbers from 1967 to 1977. In the reported states with bargaining activity this decrease is 24.2 percent and in the reported states without bargaining this decrease is 37.1 percent (see Chapter Five for statistical testing on this and other data).

¹Goldberg, R., 1971, p. 16.

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Source: Farm

1/ Based upon
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Table 2-7

Cooperative Processing Volume as Share
of Total Volume: 1969 ^{1/}

Commodity	:	Co-op Share of Industry Total
	:	(Percent)
Cottonseed processing		25.9
Soybean processing		15.0
Dairy processing		30.7
Livestock		1.6
Frozen citrus concentrate		40.0
Canned citrus and juice		43.0
Dried raisins		34.0
Dried prunes		63.0
Dried figs		58.0
Frozen green & wax beans		18.0
Frozen corn		21.0
Frozen peas		14.0
Frozen white potatoes		8.0
All other frozen vegetables		5.0
Frozen apples		16.0
Frozen cherries		22.0
Frozen berries		9.0
Frozen all other fruits		31.0
Canned green & wax beans		20.0
Canned corn		7.0
Canned peas		6.0
Canned tomatoes		7.0
Canned white potatoes		3.0
All other canned vegetables		13.0
Canned apples		31.0
Canned cherries		20.0
Canned peaches		21.0
Canned pears		32.0
Canned grape juice		72.0
All other canned fruit		38.0

Source: Farmer Cooperative Service, U.S. Department of Agriculture

^{1/}Based upon volume data supplied by cooperatives, total industry volume, and the personal knowledge of FCS commodity specialists.

Prepared by: Goldberg, R., 1971.

Total 2-11

Presenting Establishments for Reported States
With Canning Fruit and Vegetable Capacity: Select Years, SIC 2013

	Year		States With Bargaining Activity ¹		Year	Percentage Change 1967-1977	States With Bargaining Activity ¹
	State	1967	1972	1977			
By Year	19	13	40	8	15	12	36
Arkansas							

Table 2-8
Processing Establishments for Reported States
With Canning Fruit and Vegetable Capacity: Select Years, SIC 2033

State	Year			States With Bargaining Activity ^{1/}	State	Year			States With Bargaining Activity ^{1/}
	1967	1972	1977			1967	1972	1977 ^{2/}	
Maine	19	13	--	x	Arkansas	15	12	16	
Massachusetts	18	20	16		Louisiana	19	13	9	
New York	106	87	77		Oklahoma	12	10	7	
New Jersey	35	34	29		Texas	36	25	26	
Pennsylvania	59	50	42		Idaho	8	11	--	
Ohio	58	49	43		Colorado	10	5	--	x
Indiana	49	36	27	x	Utah	11	8	--	x
Illinois	58	34	30		Washington	35	32	26	
Michigan	53	52	47	x	Oregon	35	32	28	
Wisconsin	91	91	80	x	California	170	160	144	x
Minnesota	24	26	24	x	Hawaii	18	15	12	
Iowa	9	--	--		Other	32	27	89	x
Delaware	15	12	9		Total	1223	1038	903	-26.2
Maryland	65	48	37		Total in States With Bargaining Activity	563	515	419	-24.2
Virginia	40	33	30		Total in States Without Bargaining Activity	628	496	395	-37.1
N. Virginia	7	2	--						
N. Carolina	17	8	--						
S. Carolina	--	8	--						
Georgia	17	12	--						
Florida	69	58	44						
Tennessee	8	10	11						
Alabama	5	5	--						

Notes:

^{1/}Lang, M., 1977.^{2/}Preliminary Census Estimate.

Sources: Census of Manufacturers, Various Years.

Notation:

N: Nascent Bargaining Activity

A schematic
freezing plants
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C. Simultaneous Processors

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¹The Directory

A schematic representation of the distribution of canning and freezing plants prepared by the National Food Processors Association based on data in The Directory of the Canning, Freezing, and Preserving Industries¹ offers a very general view of numbers of processed plants by state (Figure 2-1). This schematic representation includes all products canned or frozen, not just fruits and vegetables. Nevertheless, the majority of these plants are processors of fruits and vegetables. No attempt is made in this map to indicate relative importance of states by volume or sales.

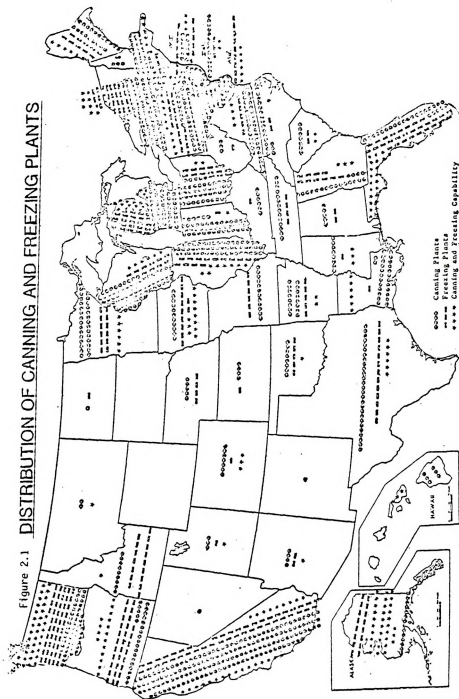
C. Simultaneous Presence of Bargaining Associations and Cooperative Processors

Table 2-3 above documents the simultaneous presence of bargaining association activity and cooperative processing by specific commodities. Table 2-9 presented below summarizes this data by listing those states with bargaining activity, those states with cooperative processing activity, those states with simultaneous activity in one or more commodity, and the number of simultaneously bargained and cooperatively processed commodities. Evidenced is widespread simultaneous bargaining association activity and cooperative processing in the U.S., much of which is located in the important fruit and vegetable production states of this study's sample: California, Oregon, Washington, Idaho, Michigan, New York, Pennsylvania, and Virginia.

¹The Directory, 1978-1979.

Figure 2.1 DISTRIBUTION OF CANNING AND FREEZING PLANTS





Source: National Food Processors Association, Washington, D. C.

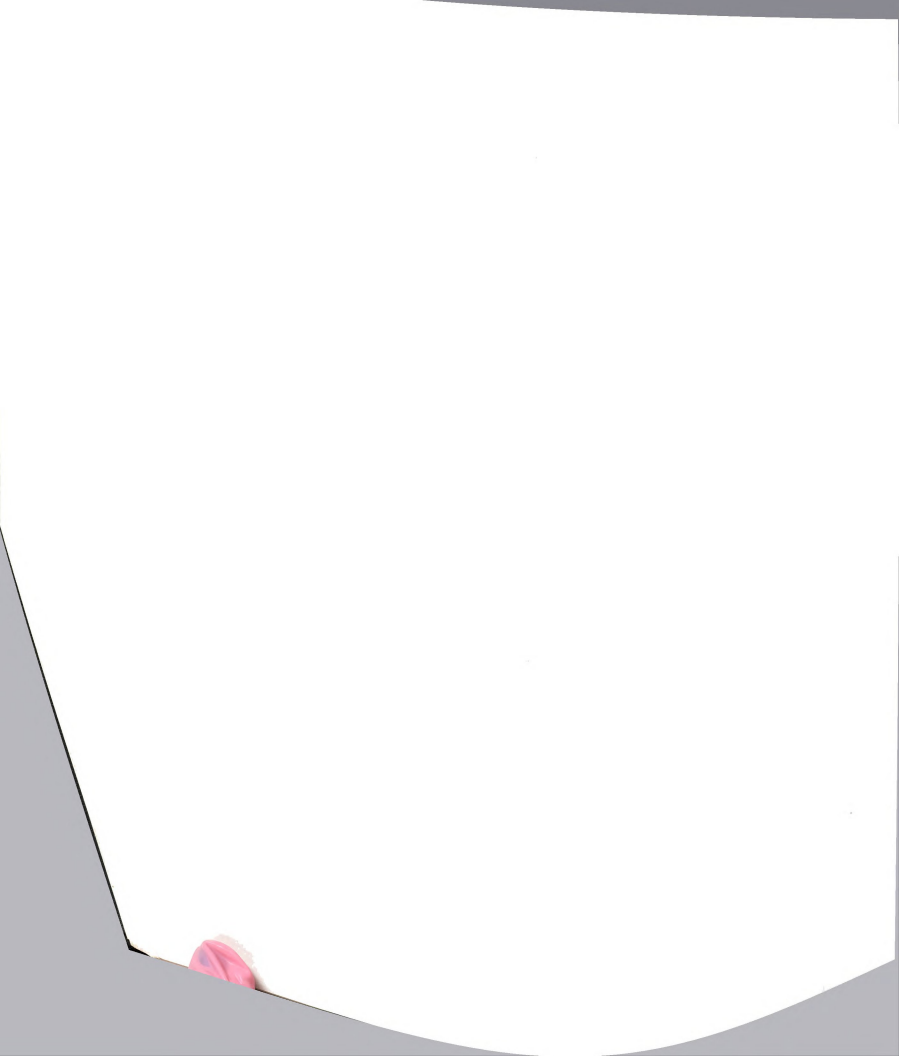


Table 2-9 States with Simultaneous Bargaining Activity and Cooperative Processing Activity in Fruits and Vegetables.

State	Number of Commodities Bargained	States with Simultaneous Activity in One or More Commodities	Number of Commodities with Simultaneous Activity	Number of Processing Cooperatives
California	14	Yes	10	24
Maine	1	Yes	1	1
Michigan	6	Yes	5	7
Minnesota	3	No	0	1
Oregon	7	No ^{1/}	0 ^{2/}	4
Washington	11	No	6	4
Wisconsin	5	Yes	3	1
Utah	4	No	0	1
N. Dakota	1	Yes	1	1
Colorado	1	No	0	1

Notes: ^{1/} Yes in recent past
^{2/} Positive in recent past

Sources: Lang, M. 1977;
 Industry Sources

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2.3.2 Structural Characteristics of Select States

The presentation of structural information will be by geographic area. This section will look first at the California environment before turning to the Northwest states of Oregon, Washington and Idaho. Following this will be a focus on Michigan fruit and vegetable industries. Description of the market structure of the Appalachian states of New York, Pennsylvania, and Virginia is limited to the apples for processing industry.

A. California

Statistics describing the structure of California markets for select fruit and vegetables relevant to the organizations studied in California have been organized in Table 2-10. These commodities are apricots, pears, peaches, tomatoes, grapes (raisins), plums (prunes), olives, and almonds all sold for processed use. Some statistics on a variety of other California commodities are presented as well. Table 2-10 indicates that for the 7 sampled commodities with active bargaining, the total number of handlers has been decreasing for the period of 1960 to 1978. The market share accounted for by cooperatives is generally greater than 40 percent, except in tomatoes, and is increasing except for prunes. In all of these commodities, except for freestone peaches, the California share of national production is large and uniformly above 60 percent.

Apricots. Apricots for processing have been bargained by the Apricot Producers of California since 1974. In 1979, there were 12 canners of which 4 were cooperative processors. The canners dominate the processing with approximately 60 percent of the utilization in 1977-1978. There were also 6 freezer handlers and 28 drier handlers including 1 cooperative processor. In total, there were 46 handlers

Table 2-10

California: Select Statistics on Bargained and
Selected Other Commodities, 1978

Number of	Percentage Crop	Number	Percentage of Crop
Represented by	Represented by	Represented by	Represented by

Table 2-10

California: Select Statistics on Bargained and Select Other Commodities, 1978

Commodities	Advent of Bargaining	Number of Handlers 1960-1978	Percentage Crop Represented By Bargaining Association 1974	Number Cooperative Processors 1978	Percentage of Crop Volume Cooperatively Processed 1978	Trend	Concentration of Processing All Crops ³	Dual Membership Volume as % of State Crop	California Share of U.S. Production in 1978 ⁴		
Apricots	1974	39	12	-	40-50	5	55-60	up	C ² -45	24-30	97.7
Cling Peaches	1922	37	13	55	62	4	40-50	up	C ³ -63	C ² -38	24
Free-stone Peaches	1960	21 ^{1/2}	11	65	-	3	75-85	up	C ⁴ -95	-	12.3
Canning Pears	1953	26	13	65	63	4	60-65	up	C ³ -50	C ² -45	40
Tomatoes	1974	41	27	65	70-72	4	25	up	C ⁴ -43	C ² -17	20
Raisins	1967	21	1d	46	42	2	42	up	C ² -55	0	83.0
Prunes (dried)	1963	24	16	-	6-12	2	43	down	-	-	100.0
Asparagus	1960	229	N/A	-	-	3	35	-	-	-	100.0
Beans	--	-	-	-	-	2-3	-	-	-	-	22.6
Peas	--	-	-	-	-	-	-	-	-	-	2.3
Cucumbers	--	-	-	-	-	-	-	-	-	-	9.0
Broccoli	--	-	-	-	-	1	-	-	-	-	96.6
Sugar Beets	--	-	-	-	-	-	-	-	-	-	18.5
Cauliflower	--	-	-	-	-	-	-	-	-	-	85.1
Onions	none	24 ^{1/2}	7	-	-	2	55	up	C ¹ -50	10-12 ^{1/2}	100.0
Almonds	none	-	4*	-	-	1	55	down	C ³ -93	C ¹ -55	100.0

Notes: 1/1965.

2/Only Council recently organized, not yet bargaining.

3/Concentration of the cooperative processing sector: itself.

*: at least.

N/A: Not available.

Sources:

Garayau, L., 1976, Memo, 2, p. 15, Table 1;
 Garayau, L. and E. Thor, 1977, Memo, 4, p. 135-148;
 BHT, Tech. Study 4, p. 256;
 Bureau of Agricultural Economics, and Processing Industries,
 Domestic Fruit and Nuts, 1976, Summary.

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of which 5 were cooperative processors. The two dominant proprietary processors are Del Monte Corporation and Libby, McNeill and Libby, Inc. The dominant cooperative processors with 45 percent of the state tonnage are California Cannery and Growers and Tri-Valley Growers. Structural change in the industry is marked by an increase in the cooperative processor market share and a decrease in the total number of processors.

The association bargains for 40-50 percent of the state's tonnage. Of the total tonnage that the association represents, 60 percent goes to cooperative processors and 40 percent goes to proprietary processors. Hence dual membership volume accounts for 24-30 percent of state tonnage.

Cling Peaches. The California Canning Peach Association has been bargaining for cling peach terms of trade since 1922. According to its 1978 report there were 13 processors including 4 cooperative processors. The number of processors is decreasing.

In 1978 the association represented approximately 62 percent of the state crop or about 380,000 tons. Of this 380,000 tons, 150,000 was cooperative processor member tonnage. Hence, the association actually bargained with proprietary processors for 230,000 tons or 37 percent of the state crop and 150,000 tons or 24 percent of the state crop was dual membership tonnage. The association represents 85 percent of California Cannery and Growers Cooperative's cling peach tonnage and 50 percent of Tri-Valley Growers Cooperative's cling peach tonnage.

The two major cooperative processors, California Cannery and Growers and Tri-Valley Growers, accounted for 37.7 percent of the state crop in 1976. The total cooperative processor market share is increasing.

On the proprietary processor side, Del Monte Corporation purchases 25 percent of the California crop, making it a substantial if not the

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largest processor of cling peaches in the state. Using this figure, the three-firm concentration ratio corresponds to 63 percent of the state crop. Several of the major proprietary processors are part of conglomerates or multinational firms; Nestle owns Libby, McNeill and Libby, Inc.; R.J. Reynolds owns Del Monte, Corp.; Ogden Corporation owns Tillie Lewis Foods, Inc.; and Sacramento Foods, Inc. is a division of Borden Foods, Borden, Inc.

Bartlett Pears. Bartlett pears have been bargained for since 1953. The current name of the association is the California Canning Pear Association. The association notes that in 1953 there were 26 canner processors of which 2 were cooperative processors. In 1979 there were 13 canner processors of which 4 were cooperatively organized. The number of processors is decreasing. The association represents 63 percent of the state canning pear crop. Of this 63 percent, 65 percent goes to cooperative processors. Thus, dual membership accounts for about 40 percent of the state canning crop.

In the cooperative processing sector overall, California Cannery and Growers Cooperative and Tri-Valley Growers Cooperative have approximately 45 percent of the state tonnage though this varies year to year. As approximately 60 percent of the state crop moves through cooperative processor market channels the remaining two pear-processing cooperatives account for the remaining 15 percent.

On the proprietary processing side, which accounts for 35-40 percent of the state crop, the big brand packers are Del Monte, Corp., and Libby, McNeill, and Libby, Inc. Libby accounts for about 15 percent of the state crop. Tillie Lewis Foods, Inc. as a private label packer accounts for another 15 percent, with Sacramento Foods of Borden, Inc.

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accounting for 5 percent. Several other proprietary processors make up the remaining percentage.

Tomatoes. The California Tomato Growers Association (CTGA) has been bargaining terms of trade for raw product since 1974. Currently, the association represents 70-72 percent of the California tonnage. Of this aggregate percentage, approximately 29 percent goes to cooperative processors. Hence, the extent of dual membership is about 20 percent of the state crop of tomatoes for processing. CTGA represents approximately 75 percent of the 800 tomato growers in California and interacts with 27 processors, bargaining formally with the 23 that are proprietary processors. Table 2-11 presents a breakdown of tonnages processed by major processors based on 1978 data. The ownership and characteristics of some of the major proprietary processors in this list are noted in Table 2-12. Structural change in the industry is marked by a decrease in the numbers of processors and the proprietary processing market share. The percentage of raw product moving through cooperative processor market channels is increasing.

Raisins. The Raisin Bargaining Association (RBA) has been bargaining terms of trade for raisins since 1967. There are 18 packers (processors) of raisins of which 2 are cooperatively organized. The total number of processors has decreased by 14 percent from 1960 to 1979. RBA represents 42 percent of the state production and none of this goes to cooperative processors as there is no dual membership. RBA represents 2,000 growers, each having an average acreage of 35 acres. The RBA share of state production has been decreasing from 46 percent in 1973 to 42 percent in 1978.

Table 2-11

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H.J. Heinz Co
Tri-Valley Gr
Contadina Foo
Del Monte Cor
Tillie Lewis
Glorietta Coo
Pacific Coast
Sungarten
Stanislaus Fo
Kern Foods
Others

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Table 2-12

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Contadina Foo
H.J. Heinz Co.
Campbell Soup
Del Monte Corp
Tillie-Lewis F

Table 2-11 1978 Processor Tomato Tonnages

<u>Name</u>	<u>Tonnage</u> <u>000</u>	<u>% Total Crop</u>
Hunt-Wesson Foods	900	16.4
Campbell Soup Co.	500	9.1
California Cannery & Growers Co.	490	8.9
H.J. Heinz Co.	480	8.7
Tri-Valley Growers Cooperative	440	8.0
Contadina Foods	420	7.6
Del Monte Corporation	350	6.4
Tillie Lewis Foods	325	5.9
Glorietta Cooperative	300	5.5
Pacific Coast Prod. Coop. (PCP)	125	2.3
Sungarten	125	2.3
Stanislaus Food Products Co.	120	2.2
Kern Foods	110	2.0
Others	815	14.8
	<u>5,500</u>	<u>100¹</u>

¹Does not sum to 100 due to rounding.

Table 2-12 Processor Characteristics

<u>Name</u>	<u>Owned By</u>
Hunt-Wesson Foods	Norton Simon
Contadina Foods	Carnation Co.
H.J. Heinz Co.	H.J. Heinz Co. (multi-national)
Campbell Soup Co.	Campbell Soup Co. (multi-national)
Del Monte Corp.	R.J. Reynolds Industries
Tillie-Lewis Foods	Ogden Corporation

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According to industry sources, the largest proprietary packers (processors) are Del Monte Corp., Enoch Packing Co., West Coast Growers and Packers, Inc. and Bonner Packing Co. The largest cooperative processor is SunMaid Growers of California with 42 percent of the state's production up from 34 percent in 1973. The largest proprietary processor is Bonner Packing Company with about 11 percent of the state's production. Thus a two-firm concentration ratio corresponds to approximately 53 percent, and the five-firm concentration ratio for all processors is about 80 percent (SunMaid and the 4 largest proprietary processors). The total cooperative processor market share is about 42 percent of the state crop.

Prunes. The Prune Bargaining Association (PBA) began bargaining in 1961 and currently represents between 6 percent and 12 percent of the state production. It bargains with 11 handlers out of a total of 16 which includes 5 cooperative processors. Recently there have been three new entrants into the industry: Bonner Packing Co., Tenneco West, and SunMaid Growers of California. The largest processor is Sunsweet Growers, Inc., a cooperative with about 43 percent of the state crop. This share has decreased from 52 percent in 1976 to 43 percent in 1979. The largest proprietary processor buyers are as follows:

Table 2-13 Proprietary Processor Market Shares

Mayfair	with	25%	of the state crop
Valley View	with	16%	of the state crop
Del Monte	with	8-12%	of the state crop

Thus the three-firm concentration ratio for proprietary processors is about 50 percent and the industry four-firm ratio is about 90-95%. There are currently no dual members in the Prune Bargaining Association.

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Olives. The California olive industry currently has no bargaining for terms of trade of raw product and is dominated by a cooperative processor, Lindsay Olive Growers. However, there are efforts to organize a bargaining association. The efforts are being managed by A. Hester of the Olive Council. This nascent organization claims to have membership representing 20-25 percent of the state crop. Half of this 20-25 percent is delivered to cooperative processors, primarily to Lindsay Olive Growers. Lindsay, according to industry sources, has about 40 percent of the state's production, 25 percent of the California acreage, 425 members, 12,200 acres, and markets 80 percent of its product under its own brand. Lindsay's share of the olive tonnage is increasing. There is another cooperative processor in the industry, Tri-Valley Growers, with approximately 15 percent of the state tonnage. Thus the aggregate cooperative market share is about 55 percent and increasing. The total number of packers has decreased from 29 in 1965 to 7 in 1979. Lindsay's major competitors are Oberti brand of Tri-Valley Growers and Bell-Carter Olive Co. The rest of the competitors are quite small. The SAMI figures on market shares in the olive industry provide an indication of Lindsay Olive's relative position in the national industry:

Table 2-14 SAMI Market Shares for Period
2/11/78 - 3/9/79

<u>Processor</u>	<u>Current National Market Share (%)</u>
Lindsay Olive Growers Cooperative	30.61
Early California	20.18
Oberti of Tri-Valley Growers Coop.	7.04
Libby, McNeill, and Libby, Inc.	1.93
Other	<u>40.24</u>
	100.00
Private Label	31.53

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Almonds. The major processor in the almond industry is a cooperative, The California Almond Growers Exchange (CAGE). There is no bargaining in the almond industry. CAGE dominates the industry with 55 percent of the California crop and 30 percent of the world supply. In the early 1960s CAGE's share was 70 percent of the California industry. CAGE's current share of 55 percent represents a larger volume in absolute terms but a smaller relative share given 300 percent growth in California production from 79 million pounds in 1965 to 313 million pounds in 1977. Other processors in the industry worthy of mention are all proprietary processors:

Table 2-15

Almond Processors

<u>Name</u>	<u>Share California Crop (%)</u>
Tenneco West	20
Buchet	5
Pet, Inc.	3
Continental	3
(10 smaller entities)	14
CAGE	<u>55</u>
	100

The major proprietary processor, Tenneco West, owned by Tenneco of Houston, Texas, has recently embarked on a campaign to increase its market share of California production. It is doing so by directly challenging CAGE for growers. The challenge has taken the form of criticisms of CAGE's cooperative financing and payment mechanisms. Notwithstanding this criticism, Tenneco West's payment to growers are, like CAGE, also a function of the organization's performance in

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processing and sales of processed products. Hence growers delivering to Tenneco West would share in the risk of Tenneco West's performance.

B. Northwest: Oregon, Washington, Idaho

The bargaining environments explored in the Northwest states of Oregon, Washington, and Idaho dealt with vegetables in Oregon and Washington, pears and asparagus in Washington, and potatoes in Idaho. Table 2-16 presents a summary of structural findings. In this section each commodity group studied will be reviewed looking first at Oregon, then Washington, and then Idaho.

Oregon-Washington Vegetables. Bargaining activity by the Oregon-Washington Growers Association began in 1960 but has been defunct since 1975. The bargaining by the association was in beans and sweet corn. Ten years ago they dealt with ten processors. Currently there are only six processors, of which two are cooperative organizations. The major proprietary processors with whom the association bargained were Del Monte Corp., Green Giant Co., Stokely-Van Camp, Inc., Castle and Cooke, Inc., and Seabrook Foods, Inc. The two cooperative processors, Agripac and Stayton Canning Co., however, were the principle packers in these commodities.

Washington Pears. The Washington Canning Pear Association works closely with its analogue in California and has been bargaining raw product terms of trade since 1954. According to association management they currently represent 50 percent of the total Washington and Oregon crop and 900 growers. This 50 percent breaks down into bargaining for 67 percent of the crop grown in the Hood River area, 61 percent of the crop grown in the Winatchee Valley, and 50 percent of the crop produced in the Yakima Valley. Bargaining takes place with six proprietary

Table 2-16

	Northwest:		Select Statistics on Bargained and Select Other Commodities: 1978			
	Advent of Bargaining	Number of Handlers	% Crop Represented by Bargaining Assoc. 1978	Number Cooperative Processors 1978	% Crop Volume Cooperatively Processed 1978	Concentration of Processing All Co-op ¹ 2/ Northwest Share of U.S. Production % 1978
Canning Peas 1/		17				

Table 2-16 Northwest: Select Statistics on Bargained and Select Other Commodities: 1978

Advent of Bargaining	Number of Handlers	% Crop Represented by Bargaining Assoc.	Number Cooperative Processors	% Crop Volume Cooperatively Processed	Concentration of Processing All	Concentration of Co-op ^{12/}	Northwest Share of U.S. Production % 1978
Canning Pears ^{1/}	1954 31 ^{1/}	9	50	3	25	- C ³ =25	25
Beans and Corn ^{2/}	1960 12 ^{8/}	6	-	2	- 13 [/]	-	25
Asparagus ^{3/}	1958 -	5	40-50	0	0 ^{11/}	C ² =40	49
Farm Crops ^{4/}	1966 -	5	50-90 ^{9/}	0	0	-	-
Potatoes ^{5/}	1966 -	15	45-50	0 ^{10/}	0	C ² =40	29
Apples ^{6/}	none	-	-	3	50-60	- C ¹ =60	14
Grapes ^{6/}	none	6	-	4	70	- C ¹ =50	8

Notes:

^{1/}Washington-Oregon Pear Association^{2/}Oregon-Washington Vegetables Association: defunct^{3/}Washington Asparagus Growers^{4/}Central Washington Farm Crops Association^{5/}Potato Growers of Idaho^{6/}Washington^{7/}1950's^{8/}1965^{9/}Variable by Crop (Lima beans, Carrots, Peas, Sweetcorn)^{10/}Last Coop exited 1972^{11/}Last coop exited 1976^{12/}Concentration of the Cooperative Processing Sector Itself.^{13/}Two cooperatives process beans and corn.

- : not available

Source: Noncitrus Fruits and Nuts Annual Summary,
ERS, USDA;
Industry Sources;
Agricultural Statistics, USDA.

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processors: Del Monte Corp., Libby, McNeill and Libby, Inc., Castle and Cooke Inc., Truitt Brothers, Inc., Independent Food Processors, and Northwest Packers. Of this group Del Monte Corp. is the big buyer by a ratio of 4 to 3 and the others, though smaller purchasers, all buy about the same volumes. Del Monte Corp. bargains for approximately 50 percent of its area procurement.¹ In the 1950s, the association bargained with 31 processors. Currently there are only nine processors, including three cooperatives.

The association claims to work closely with the three cooperative processors, Diamond Fruit, Snokist and Rouge River. It estimates that about 25 percent of the crop (35,000 tons) moves through the cooperative processing market channel. Of this, Snokist canned 20,000 tons of pears in 1978. This represents about 16 percent of the total pear crop. Though the pear acreage is expanding industry sources feel that market channels are stable.

Washington Vegetables. The Central Washington Farm Crops Association has been active in vegetable bargaining since 1966 but in a different geographic area than the Oregon-Washington Growers Association discussed above. Most of its activity has been in baby lima beans, carrots, green peas and sweet corn. The area relevant to the association is the Northwest part of the Columbia Basin and the Kitikass and Yakima Valleys. The association represents 50-90 percent of the grower deliveries to the

¹With a total processed tonnage of 126,344 tons in 1978 and the association representing 50 percent, the approximate percentage purchased by the major proprietary processor, Del Monte, can be calculated: with 6 proprietary processors and Del Monte Corp. being the largest user by 4 to 3, Del Monte's purchases about 10,000 tons from the association or about 8 percent of the total pear crop. If the other 50 percent of its needs are purchased outside of the association then Del Monte Corp. represents about 16 percent of the Northwest pear crop.

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5 proprietary processors in each of the 4 major commodities. The association representation in each of these crops is increasing.

The five proprietary processors that the association bargains with are Northwest Foods, Libby, McNeill, and Libby, Inc., Del Monte Corp., Twin City Foods, and Cedargreen Foods. There are no cooperative processors in the relevant market area. The structural trend, according to an industry source, is towards concentration with "big firms buying up the small firms."

Washington Asparagus. The Washington Asparagus Grower Association has been bargaining since 1958 and currently represents about 50 percent of the total state acreage. The association bargains with five proprietary processors. The number of proprietary processors is increasing as is the asparagus acreage. Del Monte Corp. and Birds Eye of General Foods Corp. are the major proprietary processors each taking 20 percent of the association's volume and thus each representing 10 percent of the total state acreage.¹ There has been no cooperative processing of asparagus since approximately 1970.

Idaho Potatoes. The Potato Growers of Idaho (PGI) have been active as a bargaining association since 1966. The association currently represents 50 percent of the growers in the state and about 45 percent of the production. Potatoes are sold for fresh, frozen, and dehydrated uses. The association represents 85-95 percent of the potatoes sold for processed use. It deals with 10 proprietary processors out of 15 contract buying processors. The french fry processors consist of J.R. Simplot Co. and Ore-Ida Foods, Inc. of H.J. Heinz Co., each with

¹This is assuming 50 percent state acreage = 50 percent volume produced in the state.

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30 percent, and Lamb Weston of Am Fac, Inc. with 15-20 percent of the volume purchased for french fry utilization. Fifty-five percent of PGI's french fry tonnage is sold to J.R. Simplot Co. and Ore-Ida Foods, Inc. In dehydrated potato utilization American Potato Co. has a 50 percent market share in the state. The concentration of potato processing has increased significantly in the last five years. There has been no cooperative processing in Idaho since 1972.

C. Michigan

Michigan is another bargaining environment explored by this study. Bargaining is currently active in five commodities but under different legal systems. Apples, asparagus, and kraut cabbage are being bargained under the Michigan Agricultural Marketing and Bargaining Act of 1972 (P.A. 344). Bargaining in tart cherries and potatoes for processing is voluntary and a function of the association's control of supply (periodically facilitated by the use of the Federal Marketing Order) and the provisions of the federal Agricultural Fair Practices Act of 1967. Of these commodities this section will concentrate on tart cherries, asparagus, and apples. Kraut cabbage bargaining since 1967 and under P.A. 344 since 1974 consists of setting the raw product terms of trade for 11 growers selling to the 1 processor, a proprietary processor named Vlasic and owned by H.J. Heinz Co. Potato bargaining consists of negotiating pre-planting contracts with the major processor, Ore-Ida Foods Inc. also owned by H.J. Heinz Co. An overview of the structure of the Michigan industry in these select commodities is afforded by reference to Table 2-17.

Tart Cherries. Among the Michigan industries explored in this research the tart cherry industry has the longest history of bargaining

Table 2-17

Michigan: Select Statistics on Bargained Commodities and Description
of Select Market Channels: 1978/1979

Advent of Bargaining	Number of Employees	% Crop Represented by	Number Cooperative	Dual Membership Volume, %	Michigan Share
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Table 2-17 Michigan: Select Statistics on Bargained Commodities and Description of Select Market Channels: 1978/1979

Commodity	Advent of Bargaining	Number of Handlers	% Crop Represented by Bargaining Assoc.	Number of Processors	Dual Membership Volume as % of State Crop	Michigan Share of U.S. Production
Tart Cherries	1958, 1967 ^{1/}	20 ^{6/}	60-65	9	30-33	70.9
Asparagus	1967 ^{2/}	17	90	2	14-18	18.7
Apples	1967 ^{3/}	27	60-65	5	12-17	12.1
Kraut Cabbage	1967 ^{4/}	1	100	0	-	-
Potatoes (freezing)	1974	1	-	0	-	-

Market Channels	Tart Cherries (%)	Apples (%)	Asparagus (%)
	1970	1974	1970
Proprietary Processor	83-88	42	20
Cooperative	12-15	29	35
Grower	5	15	20
Joint-Venture	0	14	25

Notes:

- 1/Various Bargaining Efforts; Bargained Under Public Law 344 for 1975 only.
- 2/Includes 2 Joint-Ventures
- 3/Bargaining Under Public Law 344 since 1975
- 4/Bargaining Under Public Law 344 since 1974
- 5/Projected Estimates
- 6/Proprietary and grower processors net of some 15 grower processors

Source: Michigan Agricultural Cooperative Marketing Association (MACMA); Michigan Dept. of Agriculture, MSU; Michigan State University; Cherry Administrative Board

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dating from the initial activities of the Great Lakes Cherry Producers Marketing Cooperative (1958-1966). In 1967 bargaining under the aegis of the Michigan Agricultural Cooperative Marketing Association (MACMA) began and continues to date. Since 1967 bargaining has been conducted on the basis of federal legislation, the Agricultural Fair Practices Act. In 1975, and only for that year, bargaining took place under P.A. 344. Since 1975 a court stay has obviated P.A. 344 bargaining in tart cherries. The association, called the Tart Cherry Marketing Committee, has returned to the Agricultural Fair Practices Act as its legal basis.

Complementing the bargaining efforts of the Tart Cherry Marketing Committee has been the periodic implementation of the federal marketing order for the stabilization of supplies. The federal marketing order has been used by the tart cherry industry two times, 1972-1973 and in 1975-1976. From the standpoint of growers, the use of the federal marketing order has resulted in stronger raw product prices than would have been obtained without the use of a storage pool for the control of raw product supplies being sold to processors.

The tart cherry industry consists of numerous proprietary processors, cooperative processors, and grower processors as well as combinations of these organizational forms. The Tart Cherry Marketing Committee bargains raw product terms of trade with 22 proprietary processors. The proprietary processing sector is estimated to currently process 42 percent of the tart cherry crop. This percentage has been decreasing from the estimated 83-88 percent of the crop that was proprietarily processed in 1970 and is projected to be only 20 percent in the mid 1980s.¹

¹Ricks, D. Department of Agricultural Economics, Michigan State University.

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The largest proprietary processor volume in 1979 was processed by Silver Mill Frozen Food.

The four-firm concentration ratio for proprietary processor packs in 1979, comprised of the packs of Silver Mill Frozen Food, Wilderness Foods of Jeno's, Inc., Smeltzer Orchards, and Traverse City Canning Co., equals 21 percent. Of these four firms, Silver Mill Frozen Food with plants in more than one state has recently filed for bankruptcy¹ and Wilderness Foods has been sold by Jeno's Inc. to Cherry Central Co-op Inc. Smeltzer Orchard and Traverse City Canning Co. remain as single state processors.

The Tart Cherry Marketing Committee bargaining association, a unit of MACMA, claims membership representing 60-65 percent of the state crop. However, 50 percent of this production is delivered to cooperative processor organizations and is cooperatively processed. Based on association figures,² this means that 30-33 percent of the state crop belongs to growers who are simultaneously members of the bargaining association and a cooperative processor organization (dual members).

Competing with the proprietary processing sector is the cooperative processing sector consisting of nine cooperative processor organizations including two joint venture cooperatives. Cherry Growers, Inc., Pro-Fac Cooperative which is closely aligned with Curtice-Burns Foods in a joint venture, and the next 2 largest cooperative organizations sum to a four-firm concentration ratio among just cooperative processor

¹Silver Mill Frozen Food, Inc. on January 4th, 1980 filed a petition for relief under Chapter 11 of the Bankruptcy Code in the United States District Court at Grand Rapids, Michigan.

²Michigan Agricultural Cooperative Marketing Association (MACMA), Tart Cherry Marketing Committee.

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organizations of 26 percent. The total cooperative processing share of the tart cherry pack (net of the packs of the 2 joint venture organizations) has been increasing from 12-15 percent in 1970 to 29 percent in 1979. In the mid 1980s this figure is estimated to be 35 percent.¹ The market share for joint ventures is currently 14 percent and is projected to be 25 percent in the mid 1980s.² The internal structure of joint ventures is discussed at length in Chapter Five.

The grower-processor sector, consisting of growers who own their own processing facilities but are not cooperatively organized, currently accounts for 15 percent of the tart cherry pack. This figure was .5 percent in 1970 and is estimated to reach 20 percent in the mid 1980s.³ This sector competes in processed markets with both proprietarily and cooperatively organized processors.

Compounding the organizational variety of processing organizations are cooperative processors who mingle their own production with raw product production of other growers. Such mingled raw product may be bought for cash or processed on some participatory basis. The net result of co-existing and competing varieties of processing organizations in tart cherries is that a substantial percentage of the pack is beyond the purview of the bargaining association. In the industry this is called "excluded" product. The full extent of potentially excluded product is estimated to be approximately 50 percent of the Michigan

¹Ricks, Supra.

²Ibid.

³Ibid.

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tart cherry pack.¹ This figure approximates the figures reported in this section.

A full enumeration of the market channels through which raw product is processed is presented in Table 2-18. This information, by variety of processing organizations in 1979, has been compiled by the Cherry Administrative Board operating under the aegis of the federal marketing order.

A large share of the marketing of processed tart cherry products is performed by a cooperative marketing organization called Cherry Central CO-OP, Inc. It consists of a group of both cooperatively and proprietarily organized processors and accounts for more than 25 percent of Michigan's marketed processed product. Recently this organization purchased the Wilderness Brand Label from an exiting proprietary processor.² The two-firm concentration ratio in the marketing of processed products, both with access to brands, is now approximately 37 percent. Given that Michigan production represents about 70 percent of the total U.S. crop, 2 organizations account for 25 percent of national marketings of processed tart cherry products. The bulk of these marketings currently go to remanufacturers.³

Asparagus for Processing. The Asparagus Marketing Committee bargaining association, another unit of MACMA, has been bargaining raw product terms of trade since 1967 and bargaining under P.A. 344

¹Moore, Administrator, P.A. 344.

²Jenos.

³For a full description and discussion of tart cherry marketing see Ricks, D., L. Hamm and C. Chase-Lansdale, The Tart Cherry Subsector of U.S. Agriculture, North Central 117 Monograph, University of Wisconsin, Madison, forthcoming.

Table 2-18 Michigan Tart Cherry Market Channels: 1979

<u>Market Channel</u>	<u>% of State Crop 1979</u>	<u>Number of Handlers Processing in State 1979</u>
Proprietary Processor	42	19
Cooperative Processor	29	7
Grower Processor	15 ^{1/}	15
Joint Venture	14	2

Notes:

^{1/} 8% is own production and 7% is purchased production. Sources: Cherry Administrative Board; Industry Sources.

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since 1974. Of the population of 17 processing organizations, the association bargains with the 15 that are proprietarily organized. The remaining two processing organizations are the cooperative processor, Sawyer Fruit and Vegetable CO-OP, and the joint venture cooperative-proprietary processing organization, Pro-Fac/Curtice-Burns. The 15 organizations constituting the proprietary sector are estimated to account for 65-75 percent of the processed pack. The 4 largest proprietary processors, Honey Bear Canning, Silver Mill Frozen Food, Chase Farms, and New Era, account for 35-45 percent of the processed pack.¹ The number of proprietary processors has been stable and consists primarily of family owned processors processing raw product only in the state of Michigan.

The bargaining association claims to have membership representing 90 percent of the state crop. Of this membership product, 15-20 percent goes to cooperative processors, principally to Pro-Fac/Curtice-Burns Foods.² Dual membership in this crop is thus 14-18 percent of the state crop.

The cooperative processing sector consists of Pro-Fac/Curtice-Burns Foods and Sawyer Fruit and Vegetable CO-OP. Thus, approximately 25-35 percent of the Michigan pack is potentially "excluded" product, i.e., beyond the purview of the bargaining association. If 1 proprietary processor, Michigan Quality, implements the joint-venture arrangement that it has under consideration, the percentage of potentially excluded product could reach 35-45 percent.

¹Moore, T., Supra, and Foster, H., MACMA.

²Industry Source.

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¹Ricks, D

²Butler,

³Ibid.

Apples for Processing. The Michigan Apple Committee bargaining association, also a unit of MACMA, has been bargaining raw product terms of trade since 1961 and bargaining under P.A. 344 since 1975. The association bargains with 22 proprietary processors. The current proprietary processor share of the pack is 70-75 percent, down from 92-94 percent in 1970 and is expected to decrease further to 40 percent in the mid 1980s.¹ The 2 largest proprietary processing organizations, Speas Co. owned by Pillsbury Co. and Michigan Quality, owned by Quality Brands Inc., account for 32-34 percent of the Michigan pack. The four largest proprietary processors are Speas Co., Michigan Quality, Silver Mill Frozen Food, and Cherry Hill.

The bargaining association claims membership representing 60-65 percent of the Michigan crop for processing. Of this percentage, 20-25 percent is cooperatively processed for a dual membership of about 14 percent of the state crop.² The large majority of this dual membership is comprised of dual members belonging to the Pro-Fac/Curtice-Burns cooperative and proprietary joint venture.³

The total percentage of the state pack accounted for by the 5 cooperative processors (not including Pro-Fac/Curtice-Burns) is 12-17 percent. Cherry Growers, Inc., cooperative is the principle contributor to this share of the state pack. The cooperative processor share has been increasing from 8 percent in 1970 to 12-17 percent currently and is

¹Ricks, D., Supra.

²Butler, T., MACMA, Manager Apple Committee.

³Ibid.

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¹Ricks,

²Ibid.

³Moore,

expected to rise to 40 percent in the mid 1980s.¹ The pending bankruptcy of Silver Mills Frozen Food and the purchase of Wilderness Foods by Cherry Central CO-OP, Inc. validate expectations of growth in the cooperative processor share.

The grower-processor sector has also seen growth in share of the pack from a negligible share in 1970 to 5 percent currently and a projected share of 10 percent in the mid 1980s.² In conjunction with the cooperative and joint venture sectors, industry sources estimate the potentially excluded raw product, i.e., that raw product which is beyond the purview of bargaining under P.A. 344, to be nearly 40 percent.³

Apple raw product being processed by the 27 proprietary and cooperative processors in Michigan is used for producing frozen slices, canned sauce, or juice. In 1979 there were 20 processors who sliced and 9 who canned sauce. Both figures have been stable in the last five years, though noting the recent application for bankruptcy by Silver Mill Frozen Food. Comprising the juice pack are about 14 processors. The juice processing sector is sustaining an increase in numbers of processors, volume, and processing capacity. Included in this sector of the processing industry are such firms as Speas Co. owned by Pillsbury Co., Michigan Quality owned by Quality Brands, Inc., Gerber Products Co., Michigan Fruit Canners of the Pro-Fac/Curtice-Burns joint venture, Murch Co. of Coca-Cola Co., and numerous single state processing operations.

¹Ricks, D., Supra.

²Ibid.

³Moore, T., Supra.

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The accompanying Table 2-19 provides a representation of market channels accounted for by the 16 largest volume processors of apples in the state of Michigan. These figures are net of the approximately 20 percent of the Michigan crop for processing that is controlled by brokers. The top 16 volume processors account for 87 percent of tonnage, of which the proprietary processing sector represents 67 percent, and the cooperative and joint-venture sectors represent 4 percent and 16 percent respectively. The 4 largest proprietary processors process 35 percent of the volume.

D. Appalachia: Apple Industries of New York, Pennsylvania, and Virginia

New York Apples for Processing. Bargaining activity in the apples for processing industry is conducted by an association operating within the New York Farm Bureau Marketing Cooperative. Since 1977 this activity has been conducted under the aegis of the Michigan Agricultural Cooperative Marketing Association as provided for in its contract with the New York Farm Bureau Marketing Cooperative. The New York association consists of approximately 270 apple growers or two-thirds of the growers in the 4 county area of Wayne, Monroe, Orleans, and Niagara Counties. The association activities are strictly informational, i.e., providing information to growers, with no current dealings with processors. In 1947 there were 40 plants obtaining raw apple product for processing in New York state.¹ In 1965 and 1978, according to industry sources, there were, respectively 25 and 20 processors procuring raw product supplies in New York state. The number of processors thus declined by 25 percent between 1965 and 1978. The 20 current processors include 5 cooperatively

¹Helmlberger, P. and S. Hoos, 1965, p. 82.

Table 2-19 Michigan Apples for Processing Market Channels for 1978-1979,
(Net of Brokerage Tonnage Which Equals 20% of Total)

Table 2-19 Michigan Apples for Processing Market Channels for 1978-1979,
(Net of Brokerage Tonnage Which Equals 20% of the Crop for Processing)

Market Channels for 16 Largest Processors	% of State Volume 1978-1979	Number of Handlers in Top 16
Proprietary Processors	67	13
4 Largest	35	-
Cooperative Processors	4	1
Grower Processors	0	0
Joint Ventures	16	2
Other	13	-
Total	100	

Source: Michigan Agricultural Cooperative
Marketing Association (MACMA)

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organized processors purchasing input in New York state. In 1978 the cooperative sector accounted for 24 percent of raw product purchases. This would represent about 5 percent of national processed production based on 1977 distribution.¹ Within the total processing sector are two joint venture organizations, each consisting of a cooperatively and proprietarily organized component. These 2 joint ventures, Pro-Fac/Curtice-Burns and Seneca/Agco, constitute about 18 percent of New York purchases and about 74 percent of cooperative processor purchases. The four-firm concentration ratio of all processors in New York is about 40 percent.

The structural changes in the industry have been marked by a loss of processors during the 1950s and 1960s. Currently, both the cooperative and proprietary sectors are increasing juice production. Industry sources expect the cooperative processor market share to continue to increase.

Pennsylvania Apples for Processing. The Pennsylvania Agricultural Cooperative Marketing Association (PACMA) has been promoting bargaining activity in apples for processing for several years. This activity is strictly at the informational stage, with limited success in getting the major proprietary processors to even discuss market conditions.² Of the six processors in Pennsylvania, three cooperatively and three proprietarily organized, the PACMA association has only four in its market area. Two are nationally known proprietary processors, Duffy-Mott Co., Inc. and Musselman Fruit Products, and two are nationally known cooperative processors, Knouse Foods Cooperative, Inc. and Red Cheek, Inc.

¹Non-Citrus Fruits and Nuts, Mid Year Supplement, CRS, USDA.

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According to USDA statistics, in 1977 64 percent of the state crop went for processed use with Pennsylvania representing 11 percent of national processed production.¹ Based on numbers provided by various industry sources the estimated percentage packed by cooperatives varies between 60 percent and 70 percent. This leaves a 30-40 percent share of the processed pack to the proprietary processors. The share of the pack being processed by cooperative processors is increasing.

Seventy percent of the association's membership also belongs to cooperative processors. This means that dual membership constitutes 21-25 percent of the state production.² See Table 2-20.

Virginia Apples for Processing. Bargaining activity in Virginia is even more undeveloped than in Pennsylvania or New York. In the Winchester, Virginia area about 20 percent of the crop is represented by the Virginia Apple Growers' Marketing Association. The association faces four proprietary processors (Bowman, Zeropack, National Fruit Products Co., Inc., and Musselman Fruit Products), and three cooperative processors (Shenandoah Apple Cooperative, Inc., Knouse Foods Cooperative, Inc., and Red Cheek, Inc.) purchasing in the area. Shenandoah Apple Cooperative, Inc. is the one Virginia based cooperative processor. The percentage of the Winchester area crop that is estimated to go through the cooperative processing market channel is 15 percent and increeasing. Virginia represents about 12 percent of the Eastern states' processing production and about 8 percent of the national processing production.

¹Non-Citrus Fruits and Nuts, Mid Year Supplement, CRS, USDA.

²This assumes that % growers = % production.

Table 2-20

Pennsylvania: Select Statistics on the Apples
for Processing Industry: 1978/1979

Market Channels	% State Pack Processed By:	Number of Processors	% State Pack Represented By:
Proprietary Processors	30-40	3	
Cooperative Processors	60-70	3	
Total		6	
Bargaining Association (Nascent)			30
Dual Membership			21-25

Source: Industry Sources.

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A Greater Appalachian Aggregate. In one aggregate, the Appalachian apple industry covers the states of New York, Pennsylvania, Virginia, Maryland, West Virginia and North Carolina. Based on figures provided by industry sources, the 3 cooperative processors (Knouse Foods Cooperative, Inc., Shenandoah Apple Cooperative, Inc., and Red Cheek, Inc.) constituted 37 percent of the volume processed in 1978 in this area. This percentage does not include the volumes processed by the 2 joint ventures in the Appalachian region.¹ Aggregating the cooperative and joint venture volumes results in 49 percent of Appalachian processed production being cooperatively processed. These states in 1977 represented 45 percent of national processed utilization.² Therefore, aggregate Appalachian cooperative processing, including joint ventures, accounts for 23 percent of national processed utilization. This percentage is said by industry sources to be increasing.

Concord Grapes. Another crop of interest to this study because of the importance of the cooperative sector is the concord grape industry. National Grape Cooperative and its Welch Foods marketing arm has 40-50 percent of the national concord grape business. There are ten other cooperative processors nationally with the major ones being Keystone in Pennsylvania, Grower's Cooperative in Westfield, New York, and Valley Cooperative in Yakima, Washington. In the New York, Pennsylvania, and Ohio production areas, cooperatives have 80 percent of the production for processing. The remaining 20 percent is accounted for by three proprietary processors. In Michigan, National Grape Cooperative is the only

¹Pro-Fac/Curtice-Burns and Seneca/Ag. Co.

²Non-Citrus Fruits and Nuts, CRS, USDA.

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cooperative processor and controls 45-50 percent of the acreage. The one other processor is a proprietary processor. In the state of Washington 3 cooperatives, including National Grape, Valley Cooperative, and U.S. Grape, control 50 percent of the acreage with National Grape alone having 35 percent of the concord grape acreage.

2.3.3 Summary of Economic Setting

The above sketches of conditions of market structure in the geographic areas constituting the sample of this research indicate several primary aspects of the organization of grower-first handler transactions and the processing industry in fruits and vegetables. These aspects will be briefly summarized here:

(1) Bargaining efforts by grower bargaining associations are influencing the terms of trade for a significant percentage of raw product volume in select fruits and vegetables;

(2) The proprietary processing sector is undergoing a widespread diminution in numbers and a concomittant concentration;

(3) The cooperative processing sector which competes with the proprietary processing sector yet which is beyond the formal purview of bargained terms of trade has substantial relative importance, is often itself concentrated, and is increasing its market share in fruits and vegetables.

Some of the principle issues to be explored in the analysis of this study are the relations, if any, among these various structural aspects of the fruits and vegetables for processing industries.

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CHAPTER THREE

A CONCEPTUALIZATION FOR ANALYZING PARTICIPANT INTERRELATIONS IN FARMER BARGAINING

Introduction

The introduction of farmer bargaining over terms of trade for raw product suggests a reordering of relationships among participants. To understand this reordering, a system can be envisioned consisting of bargaining associations, proprietary processors, and cooperative processors interacting with one another as they respond to perceived opportunities in order to satisfy their various goals. Bargaining associations sell member raw product to proprietary processors. Proprietary processors buy raw product input from associations at fixed terms of trade and sell processed products. Cooperative processors take raw product inputs from members at nonfixed terms of trade and sell processed products in competition with proprietary processors.

A study of participant interrelations in this system might employ a maximization model with its assumptions of perfectly informed and monolithic decision making; bargaining associations, proprietary processors, and cooperative processors would all be cast as maximizing entities responding to a perfectly known market where the market is defined by a specification of rights of transaction in a context of demand and supply conditions. However, where the information available for decision making is imperfect, where the entity contains multiple and conflicting goals, where the entity is complex in its organization, and where market conditions may be endogeneous rather than given, the use of a

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maximization model to study participant interrelations in farmer bargaining is too unrealistic in its assumptions. It may thereby lead to inaccurate hypotheses about the issues of interest to this study:

1) the impact of bargaining on the cooperative processor decision making process; 2) the impact of cooperative processor behavior on the bargaining transaction between the association and proprietary processors; and 3) the impact of bargaining on structural change in the processing industry.

The purpose of presenting an alternative conceptual framework for analyzing participant interrelations is not to refute the maximizing of a self-interested objective function as a behavioral argument but, rather, to expand the argument to accommodate the presence of imperfect information, conflicting goals, organizational complexity, and endogenous market conditions. Accordingly, this chapter will first outline the major characteristics of the participants that, in light of apriori study, need to be accommodated by the conceptual framework. It will then develop that conceptual framework by focusing on decision making processes of organizations with emphasis on management.

3.1 Subsystems in Farmer Bargaining

3.1.1 The Bargaining Association Subsystem

The bargaining association can be envisioned as a political system with interest groups responding to goals and opportunities in a partially variable environment as they attempt to satisfy their self-interested objective functions. There are, typically, three major components to this system and, in one particular case, a fourth component consisting of an administrative authority. The three major components are association management, the primary decision committee or

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board, and general membership of the bargaining association. Management tends to be a single individual with personal goals such as maximizing revenues to the association and organizational goals such as increasing returns to membership and expanding markets for member product.¹

The general membership may also reflect these organizational goals. However, membership and its primary decision committee, may be disaggregated into groups which have variable goals. An example may be dual members, i.e., those that have simultaneous membership in other farm organizations such as cooperative processors or grower processors. Product specialization may also delineate certain interests within the membership as may size of farm operations.

Given diversity of goals, interest groups in the association may be motivated to influence organizational choice. For example, managers may promote courses of action to maximize revenues to the association. Dual members in the association may argue interpretations of market conditions to enhance their individual position in the cooperative or to strengthen the cooperative's competitive position. As a result of variable goals, the influences exerted may be toward competing ends.

The addition of an administrative authority as a fourth component of the bargaining association subsystem introduces another set of goals and motivations to respond to opportunities in the bargaining environment. An administrative authority may be utilized by bargaining association management to serve bargaining association organization goals or, equivalently, the administrative authority may respond to opportunities that it faces by trying to influence the decisions of participants in

¹See Lang for fuller enumeration of professed goals of management, 1977.

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farmer bargaining. The inspection of characteristics of subsystem components may be relevant to comprehend certain behaviors in specific cases. In summary, a delineation of components comprising the bargaining association subsystem suggests the possibility of conflicting goals and the attendant behaviors to influence outcomes.

3.1.2 The Proprietary Processor Subsystem

The proprietary processor can also be envisioned as a complex organization. This study will focus on some select characteristics which may affect decision making in farmer bargaining.

Management of the processing organization is the organization's primary decision maker. In light of select market and financial uncertainties managerial responsibility to maximize expected profits may yield to satisfying behavior.¹ There are also numerous production characteristics of the proprietary processing firm that may affect decision making by management. This study will draw on the following: the diversity of products produced by the firm; the number of geographic regions in which the firm procures and processes raw product, i.e., single state or multiple state; and the extent of product differentiation, i.e., private label sales or branded product sales. Such characteristics will be addressed insofar as they influence the responses of participants to the interrelations created by farmer bargaining. For example, management of multiple product proprietary processors may find relations among its products affected by the activity of bargaining associations. Or, management with access to processing

¹Simon, H., 1954. This point will be developed below for the class of management in general.

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facilities in alternative geographic areas may find that the costs imposed on it by farmer bargaining may be alleviated by recourse to those alternative resources. Similarly, management may find that the degree of product differentiation affects both its relationship to competitors in sales of processed products and its interrelations with the bargaining association. Along these lines, the possibility for differential costs of bargaining on a) proprietary processors processing product in one state as contrasted with b) multiple state processors is of interest. In summary, these organizational characteristics may affect the abilities of proprietary processors and other participants to respond to the exposures and opportunities afforded by farmer bargaining.

3.1.3 The Cooperative Processor Subsystem

In the vein of the above, the cooperative processor consists of multiple groups contributing to decision-making as they simultaneously attempt to satisfy their goals. By focusing on the behaviors exhibited by these components, indications about control over the decision process and, consequently, which component interests are being served can be assembled.

As a subsystem, the cooperative processor consists of management, a board of directors, and general membership. The goal of general membership is multifaceted but tends to be a combination of improving returns on the crop and having a secure home for raw product. As far as the incentives facing management are designed to serve the interests of general membership, management will be constrained to guarantee

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members a home for their raw product and then to maximize the expected return on the sale of processed products; that is, the degree to which management behavior conforms to these interests will be a function of availability and control of evaluative information (sanctions) on the managerial process.

The board of directors typically has closer access to sources of information relevant to the operation of the organization than does general membership. As a result, board members potentially have more influence over management decision-making. This suggests the need for an inquiry into the composition of the board of directors. Commodity dominance of multicommodity board or unequal distribution of authority among the members of the board can lead to policy decisions in favor of some interests over others. A specification of the interests that dominate decision making by the board may provide indications as to control of the cooperative.

Management may have its own goals that diverge from either the interests of general membership or the board. Pursuit of such divergent goals as suggested above, will be influenced by the control of evaluative information within the organization. For example, the manager who works to return members only as much as they could earn elsewhere may control information to persuade the board that market conditions dictated his/her own performance. Equivalently, a board interest group wanting to maximize the returns to one commodity at the expense of others may use information to influence management's sales and cost allocation decisions. Enumeration of select organizational decision rules, such as those used for accounting, may provide additional insight into the control of information and whose interests are being served.

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3.2 The Process of Choice: A Look at Management in a Subsystem

Select contributions to a body of theory termed theory of the firm provide insight to the decision-making process of organizations. The thread that will be pursued at this juncture is decision-making by the party (ies) that have de facto or de jure control of the organization. De jure control warrants attention given the potential for its emergence as de facto decision-maker. This distinction is an allusion to the discussion in this literature of the separation of ownership and control of the firm.¹ The manager of the firm is the central figure; the process by which goals are established, strategies of choice developed, and performance assessed concentrates on the motivation of management and the context in which decisions are made. The general behavioral condition of management has been summarized as constrained profit maximization. However, an assumption of maximizing behavior may be misleading given the introduction of decisions made over time under conditions of imperfect information, organizational complexity, conflicting goal functions, and endogenous market conditions. H. Simon,² Oliver Williamson³ and other economists have probed the assumption of profit maximization and have contributed alternative conceptualizations of firm and managerial decision-making. Simon's important insight was that of management "satisficing" as it devised goals and strategies to achieve those goals. The idea of satisficing suggests management discretion in making decisions, as well as management goal functions which may not align with

¹ Berle and G. Means, 1932.

² Simon, H., 1959.

³ Williamson, O., 1975.

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Building on the concept of "satisficing" decision-making and greatly expanding the understanding of the process is the work of Cyert and March.¹ Cyert and March explored the notion of satisficing, and the discretion in decision-making that it suggests by, among other things, developing the idea of standard operating procedures. Standard operating procedures, commonly referred to as SOPs, are set responses adopted by management to address certain conditions. The use of SOPs is a means of addressing the imperatives of choice under conditions of imperfect information and bounded rationality. Management is, in this view, less than the all-knowing, profit maximizer.

The satisficing arguments of Simon and Cyert and March contribute to a notion of organizational looseness: the presence of slack or opportunity for inserting subgoals into the organization's goal function. Such slack is the result of two major elements. One is decision making in an imperfectly known environment. The second is the existence of conflicting interests within the organization and, hence, the need to delegate authority in order to reduce decision costs. However, the delegation of authority under imperfectly known conditions invites pockets of discretion in decision making and permits management to have flexibility in making allocative decisions. The results of this capacity are two:

¹Cyert and March, 1963.

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⁴Ibid.

- 1) Management can use slack¹ to influence internal organizational conditions affecting decision-making; and
- 2) Management can use slack to affect the organization's relation to conditions external to the organization.²

3.2.1 The Origins of Non-Profit Maximizing Behavior

Leibenstein's article of 1966 takes the satisficing thread proposed by Simon and builds upon the possibility of less than profit maximizing behavior in firms.³ He offers an explanation of the conditions under which management of a firm may elect to pursue goals and strategies that result in less than optimal behavior from the point of view of maximizing a certain goal function such as profits or revenues.

Leibenstein suggests that the presence of suboptimal allocative choice is due to environmental conditions which fail to motivate efficient behavior on the part of management.⁴ Tight "motivational efficiency," as Leibenstein terms it, means closer attention of management

¹The notion of slack bears some similarity to the idea as developed by Hirschman, 1962.

At any point of time, an economy's resources are not to be considered as rigidly fixed in amount, and more resources or factors of production will come into play if development is marked by sectoral imbalances that galvanize private entrepreneurs or public authorities into action... The crucial, but plausible assumption here is that there is some 'slack' in the economy; and that additional investment, hours of work, productivity and decision-making can be squeezed out of it by pressure mechanisms.

²It should be noted that some slack can be elemental to the survival of an organization by allowing it to withstand the costs of some uncertain events; slack can provide insurance thereby reducing adjustment costs in light of unforeseen events.

³Leibenstein, H., 1966.

⁴Ibid.

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to certain, say organizational, goal functions. Looser motivational efficiency suggests discretion on the part of management in making its allocative decisions. The question then becomes how to alter management allocative discretion. Remedies based upon the Leibenstein conceptualization would derive from adjustment of the environmental conditions which shape management's discretionary arena.

If a suboptimal disequilibrium exists at any time, then it would seem reasonable that under proper motivations managers and workers could bestir themselves to produce closer to optimality, and that under other conditions they may be motivated to move farther away from optimality.¹

The actual definition of those optimal conditions is the more primary issue that, although unaddressed by Leibenstein, can also be altered by adjustment of environmental conditions.

3.2.2 Management's Concern for Constraints

In 1976, Leibenstein tenders a further contribution to a theory of organizational decision making.² In pressing for precision in focus, he points out that whereas conventional micro theory envisions households and firms as decision units, that in fact these units can and should be disaggregated to reveal the actual basic units of a decision process. Leibenstein summarizes by calling for an atomistic rather than molecular economics and gives his attention to the situational calculus of management in a firm context. With this focus, Leibenstein identifies and argues the possible existence of management choice that does not maximize the utility of the organizational unit. The possibility for atomic particle behavior that fails to maximize the utility of the

¹Leibenstein, H., 1968, p. 398.

²Leibenstein, H., 1976.

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molecular unit is shaped by four elements which can be readily divided into three which are internal and one which is external to the organization. The internal elements are: 1) individual motivational efficiency, 2) nonmarket input efficiency, and 3) intraplant motivational efficiency. An emphasis on internal factors suggests the role played by the use of information, insofar as it has authority, within the organization. The external element that Leibenstein focuses on is termed external motivational efficiency. For purposes of this essay the term competition or more generally, regulation, captures the content of the external element. Thus, there is separation of motivational factors into those that are internal and those that are external. In application to the subject matter of this study, the separation will not always remain so clear nor will it be desirable to maintain such separation. Internal information flows, for example, can be affected by changes in external market conditions. Similarly, nonmarket input valuation can influence competition in the external environment producing, for example, change in market structure.

Marc Roberts advances a similar argument in addressing the evolution of organizational choice processes in comparing the behavior of public and private companies.¹ Roberts divides the factors that influence individual choice and collective action in companies into the categories of: 1) external environmental variables, 2) organizational structural variables, 3) control system variables, and 4) individual

¹Roberts, May 1975.

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objectives and beliefs.¹ Over time, he argues, the latter three categories of variables change in response to the changes in the external environment. This study's conceptualization envisions not only the impact of external factors on internal management behavior but, concurrently, the possible impact of internal behavior on external factors. External conditions can become endogeneous to the organization.

How do internal and external elements affect managerial choice? To answer this, Leibenstein presents his theory of Selective Rationality which might also be termed a theory of constraint concern. Briefly, Leibenstein observes the behavior of the decision unit and argues that the calculatedness or tightness of the decision techniques in achieving ends given certain means is a function of the pressure contained in both the internal and external environment. In general, representative individuals "would like to move toward lower levels of anticipated pressure and toward more casual (less calculated) decision making."² Notwithstanding the proclivity of the individual to seek discretionary decision-making, this can be altered (constraint concern can be enhanced) by pressure signals from within or without the decision unit. Moreover, the very goals that management is pressured to respond to can be similarly altered; environmental variables do more than set the pressure

¹The identification of individual objectives and beliefs, call them ideology, can be especially relevant to organizations based on ideological tenets. All organizations have ideological foundations and such foundations may be crucial to the functioning of organizations and, in democratically constructed organizations such as farmer cooperatives, may plan an important role in determining control of the organization. An inquiry into the ideological basis of organization may yield insights as to organizational process and outcomes. Roberts (*Ibid*) has argued the value of such inquiry.

²Leibenstein, H., 1976, p. 74.

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² Ibid.,

levels that Leibenstein restricts his attention to. They also decide toward what ends the pressure will be applied.

3.2.3 Voice and Information

Hirschman has also developed some arguments about the inner workings of organizations.¹ His emphasis is on certain responses of consumers to firms, members to organizations, and citizens to states in light of deterioration of the product, service, or benefits of the organization. The suggestion of deterioration implies less than perfect information and less than perfect decision-making in the organization. Hirschman recognizes the possibility for lapses in management performance or, more specifically, lapses in maximizing behavior which result in a deterioration of quality. The questions then are two: 1) What are the responses to deterioration in, say, services from membership in an organization or product quality; and 2) What is the comparative efficiency of the responses as mechanisms of recuperation or, it might be added, improved performance? The market option, to buy or not, offered by the presence of competing firms is what Hirschman refers to as the exit mechanism. Appeal to complaints or filing of grievances is the political option termed the voice mechanism.

To resort to voice, rather than exit, is for the customer or member to make an attempt at changing the practices, policies, and outputs of the firm from which one buys or of the organization to which one belongs. Voice is here defined as any attempt to all to change, rather than escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests...²

¹ Hirschman, A.O., 1970.

² Ibid., p. 30.

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Of relevance to the efficiency of either mechanism as a motivator of recuperation is the informational content or the force of the sanction communicated by the response and the concern of the decision-maker with this content. Thus, for example, where demand is highly inelastic with respect to quality demanded, the revenue losses from the practice of exit will be small and management will receive weak signals.¹ In such cases, the voice mechanism, insofar as it can impose stronger sanctions, may be a more effective initiator of recuperation than the market mechanism.

The Leibenstein conceptualization can embrace the Hirschman concept of voice by viewing it as a pressure creating condition. Thus voice becomes a factor of the internal environment of the decision-making process. Similarly, exit can be viewed as an external factor constraining the decision making process.

Voice within the organization can alter management behavior. It can do so by checking management discretion and challenging operating procedures. A heightening of voice within the organization can affect internal motivational efficiencies by presenting sanctions that make management more concerned for certain constraints or organizational interests over others. In this Leibenstein and Hirschman integration, voice becomes a key to the workings and performance of the organization's decision-making process.

However, voice on the part of membership in an organization may be misguided. This is to suggest that voice may be powerful and yet naive. Ignorant voice can do damage to organizational goals by modifying management discretion in ways that do not enhance the quality of

¹Ibid., p. 129

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organizational choice. Ignorant voice may, for example, lead management to pursue short run ends that defeat longer run goals of the organization or even of the source of voice.

Furthermore, information may be impacted; management or certain sub-groups in the organization may control the distribution of information to their own ends. Control of information is a property right that will affect internal motivational efficiencies. For example, management may control information in an organization to shift the risk of poor marketing choices onto ownership. Similarly, where ownership has an input identity, some input interest groups may impose costs on other input interest groups. Using a Leibenstein-Hirschman synthesis, one can begin to explore means to endow nonmanagement groups with informational parity with management or with other interest groups in the organization.

Paralleling the intra-organizational distribution of information is the distribution of information in the external environment: e.g., the market. An impacted distribution of information in the market may offer competitive advantages to some market participants over others. Responses to impacted information may take several forms. Some, as noted earlier, may be internally directed such as in the control of information on managerial performance. Others may be extra-organizationally directed such as in the development of new organizational forms¹ or the exercise of a legal process.

3.2.4 Organizational Complexity

Given the argument of extra-organizational responses, it can be asked how organizational combinations affect the internal and external

¹Galbraith, J.K., 1967, and O. Williamson, Supra.

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environments facing both managements, e.g., what happens to managerial constraint concern as one organization is combined with another?

Leibenstein offers a conceptualization of agent-agent exchange. This appellation is a response to the general micro-theory approach which emphasizes exchange between principals with mutual gain. The Leibenstein view of management as an agent preferring discretion in responding to principal interests, suggests that principals may not necessarily gain from the interaction of organizations. The assumption of principal-principal exchange is replaced by a model of agent-agent exchange.¹

Leibenstein's model of agent-agent exchange can be further developed to probe the effects of the interaction of managerial preference for discretion. Where one agent can influence the pressure faced by the other agent, i.e., impose sanctions, then the decisions of one agent may be directed by another. The results of such influence are at least two: 1) any sources of discretion utilized by one agent can be transferred to the other; and 2) where the environmental pressures facing one agent are controlled by another, the former's accountability to its principal is confounded. These results may be the very goals of certain organizational combinations.

3.2.5

Summary

In summary, management's preference for relief from constraint concern, the constraint concern enhancing effects of internal voice, and decision-making under conditions of imperfect information can combine to form a web of goals and behaviors in the organization. It is

¹Leibenstein, H., Supra, p. 161.

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expected that management will behave in ways to increase its discretion in meeting organizational goals. Management behavior can be modified by the existence of voice in the organization. Where interests are not identical, voice may be used to attempt to modify such behavior, i.e., threaten sanctions, for preferential ends. The collection of management responses to its organizational environment will reflect the interaction of competing interests. Areas of inquiry to focus on in order to understand this interaction are operational procedures and responses by the organization and/or its components to external conditions.

3.3 Areas of Inquiry

This section will reconstruct the tripartite system in farmer bargaining environments and will draw on the conceptualization developed in this chapter to probe participant interrelations. It will first look at interrelations between each pair of participants: Bargaining Association - Proprietary Processor; Bargaining Association - Cooperative Processor; Cooperative Processor - Proprietary Processor. It will then devote some discussion to organizational responses involving proprietary-cooperative linkages. The effort in all these discussions is to identify the principal interrelations and participant responses to be explored and analyzed in empirical work.

3.3.1 Bargaining Association-Proprietary Processor Interrelations and Accommodations to these Interrelations

The principal interrelation between the bargaining association and the proprietary processor is to set prices for raw product transfer. The total bargaining process, however, embraces terms of trade generally

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and deals with a spectrum of nonprice and price issues of raw product transfer between growers and processor handlers.

As outlined earlier, the bargaining association consists of interest groups, of which the executive committee and management are the most important. The interests of these influence their behavior in bargaining. Typically the unifying goal is to establish terms of trade that maximize returns to members in light of an elastic demand for raw product. A primary uncertainty that association management faces is in correctly assessing market conditions, including those in competing markets, and in assessing proprietary claims. A fear is that terms of trade that are too severe will put proprietary buyers at a competitive disadvantage. Given these uncertainties, one should expect to find associations concerned with having sufficient information with which to participate in the terms of trade decision process with proprietary processors.

Having noted the existence of interest groups in the association subsystem with each manifesting an objective function based on self-interest, a diversity in goals entering the terms of trade decision process is expected. Association management is concerned not only with serving membership interests but also in preserving its job security. Interest groups represented on the association executive committee may pursue their own goals as they participate in the terms of trade process. Such competition among interest groups may coalesce around production and organizational characteristics of the membership. For example, mono-crop producers may have goals that differ from those of diversified producers. Similarly producers who are all or in part vertically

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integrated into processing may have different goals than nonvertically integrated producers. Such differences may manifest themselves in the decision process that determines raw product terms of trade with proprietary processors.

The proprietary processor organization satisfices to certain goals such as achieving a target in rate of return and/or attaining a level of control over input and output markets. Uncertainty as to the realization of goals may motivate the proprietary processor management to attempt to influence if not control its environment. Insofar as the relationship with the bargaining association is a partial determinant of the success of the proprietary processor in attaining its goals, the proprietary processor may be motivated to use means, such as informational threats, to persuade the bargaining association of market conditions. Given the variability in the structure of proprietary processors, certain characteristics, such as whether the processor is a single or multiple state processor, may affect how information is used and how persuasive it is. Other differences in proprietary behavior may reveal themselves as a function of the alternatives that proprietary processors can use to influence their interrelations with the bargaining association.

3.3.2 Bargaining Association-Cooperative Processor Interrelations and Accommodations to these Interrelations

The market interrelation between bargaining associations and cooperative processors that is of most interest is the setting of price terms of trade. Though the cooperative processor is not formally involved in pricing of raw product by the bargaining process, the impact of such pricing may affect the environmental, say market, conditions that cooperative processors face. The result, then, is an interdependence.

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The cooperative processor, as developed above, consists of self-interested groups such as management and commodity interests each having certain goals which may or may not align with the overall organizational goal of home for raw product and maximized returns to membership. For example, management may want to maximize the net returns on sales of processed product. Commodity interest groups may be willing to affect internal transfers in order to maximize their individual returns. This suggests focusing on the following: management's and commodity interest groups' responses to bargaining association efforts to establish raw product price.

Management is responsible for achieving the organizational goals of providing a home for raw product and then selling the processed products so as to maximize returns to membership. To carry out these functions management, presumably under a degree of guidance from the board of directors, makes implicit pricing and allocation of cost decisions. When the information for such decision-making is controlled by management, management may be afforded a substantial degree of discretion in responding to organizational goals. Discretion can be used by management to satisfy personal goals, such as in reducing constraints involved in maximizing net returns to the organization. Such discretion may also be used to respond to select interest groups within the cooperative at the expense of others.

The external establishment of a raw product value by bargaining associations can alter the discretion that cooperative management has in making its implicit pricing and allocative decisions by introducing an external constraint on management choice. Bargained price discovery produces information which serves to enhance the informational content of cooperative members' voice and thus membership's ability to evaluate

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management performance. That is, membership can use bargained prices as an indicator of how much of their net return is raw product value and how much is value added defrayed by the allocation of processing costs.

Production of this external good can also cause a redistribution of uncertainty within the cooperative organization. Management may have to meet the bargained price if not perform somewhat better for the affected raw products delivered to the cooperative. Such establishment of a performance indicator alters but does not necessarily eliminate management discretion. For example, not all raw products delivered to the cooperative may have attendant bargained prices. Furthermore, cost allocation rules may still provide management sources of discretion in decision-making to satisfy management goals and/or goals of other interest groups.

Since bargaining determines input prices and may thereby affect management's discretion in decision-making, it can be hypothesized that management will be motivated to respond to an altering of discretion, in two ways. First, management may respond to the constraint introduced by bargaining association activity through external efforts. For example, cooperative management may try to persuade the bargaining association of appropriate raw product price levels. Where cooperative processors are an important segment of the processing industry, the bargaining association management's own dependence on cooperative sector response may produce opportunities for persuasion by cooperative processor interests. Secondly, cooperative management may respond internally to the potential sanctions that bargaining imposes on its goal function by making accommodations and/or utilizing alternative sources of discretion.

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Likewise, interest groups, say by commodity, within the cooperative organization, may have an interdependence with bargaining activity. Such interdependence would exist if bargained price levels affected the returns to those groups. If so, one would hypothesize interest group strategies to influence bargained price levels. One such strategy is to work through cooperative processor management to try to influence the bargaining association's pricing decisions. It can also be hypothesized that interests within the cooperative will try to influence pricing decisions by bargaining associations through means of a direct channel such as representation within the bargaining association. Such dual membership could provide commodity interests in the cooperative processor with voice in both organizations. The motivation for such dual representation, to restate the above, may be to increase the return that can be expected from delivering raw product to the cooperative processor.

Management of the bargaining association faces uncertainty in the pricing process which can be exacerbated by the response of the cooperative processor sector. Where cooperative processors respond negatively, the bargaining association's efforts to establish prices with proprietary processors is hindered. To mitigate the threat of negative cooperative processor response, one would expect association management to try to enlist the support of the cooperative processor sector. The success which bargaining association management has in gaining the support of the cooperative processor sector may be confounded, of course, by the goals and strategies of interest groups in both the executive board committees of the bargaining association and the executive board committees of the cooperative processors.

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There is also a financial interrelation between the association and cooperative processors. Since raw product deliveries to the cooperative processor are not directly covered by bargaining association activities, such product is typically not assessed a marketing fee to defray the operating costs of the bargaining association. Thus, it might be hypothesized that there will be some movement to cooperative processor organizations as a haven from bargaining fees.

3.3.3 Cooperative Processor-Proprietary Processor Interrelations and Accommodations to these Interrelations

The primary interrelation between cooperative processors and proprietary processors is one of competition for raw product input and markets for processor product. Both organizations are involved in producing and selling a processed product, in either or both private label and brand market channels. Proprietary responses to this competition may be influenced by product and geographic diversity and extent of vertical integration of the processing organization. Furthermore, proprietary responses to this competition may involve changes in organizational structure. The presentation here will focus on competition in sales of processed product between cooperative and proprietary processors.

The primary aspect of market interrelations in this competition is that bargaining takes place with the proprietary sector, not with the cooperative sector. Thus, the proprietary processor is constrained by bargaining to pay a raw product input price and its competitor, the cooperative processor, is not. The degree to which this difference offers a competitive advantage to cooperatives is partly a function of the difference between what quantity of raw product deliveries cooperative management would accept if it were not constrained to accept

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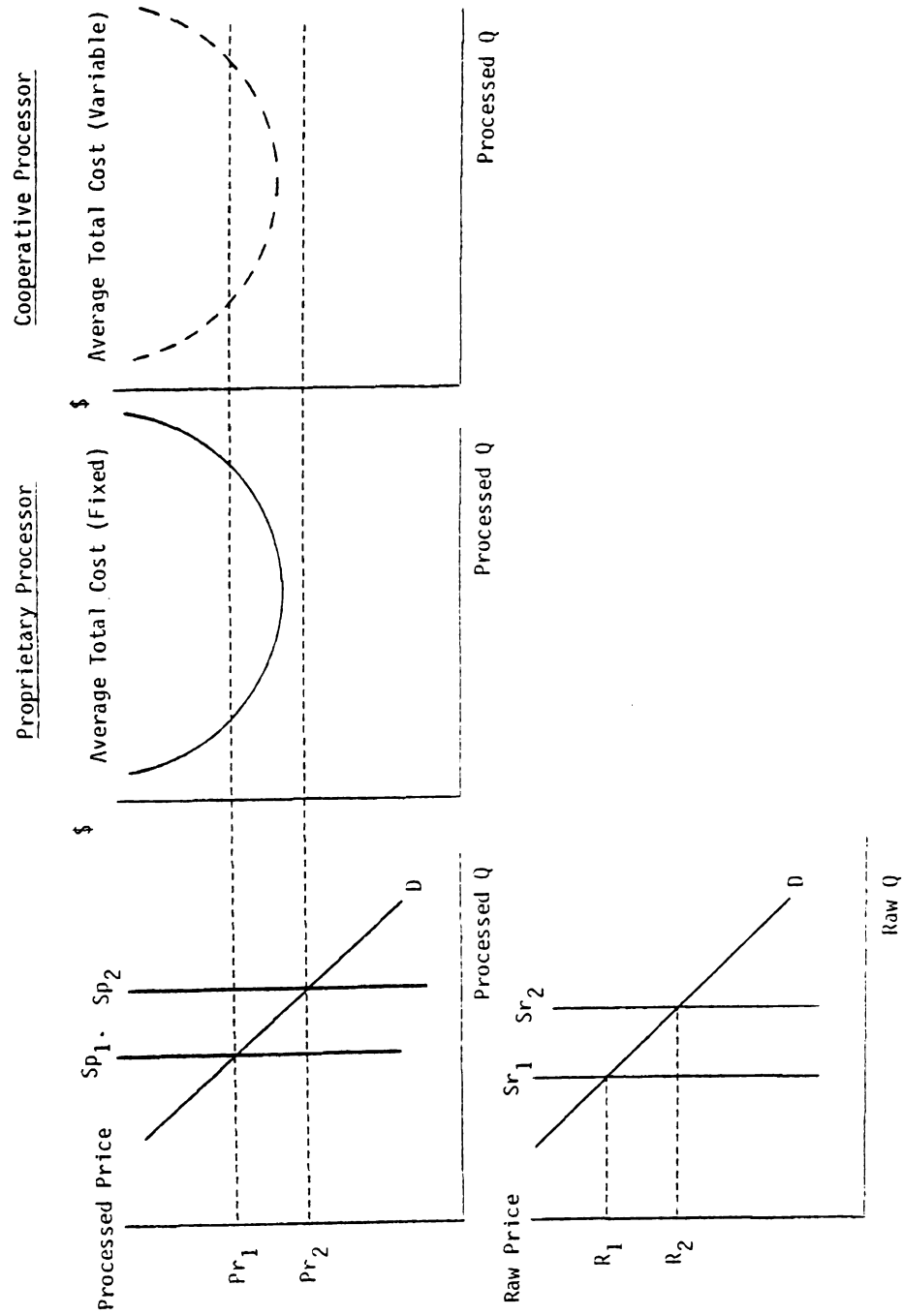
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delivery of all members' raw product and what quantity, in fact, the cooperative accepts. Where cooperative processor management can apply input supply restrictions on membership, a competitive advantage argument in reference to the proprietary sector is more compelling.

Thus, in pricing processed product, the proprietary processor faces competition from the cooperative processor which has not been similarly constrained to pay bargained prices. The ability of cooperative processor management to undersell its proprietary competitors in processed product markets will be a function of any differences in operating efficiencies, such as capital costs, and its ability to value raw product inputs at a level lower than the bargained price.

The competitive status of proprietary processors with respect to cooperative processors can be graphically demonstrated (see Figure 3.1). The situation to be described will be one in which an unexpected increase in supply of raw product and hence processed product occurs in the industry. This situation can be generalized to represent a bargained price level that is too high to return positive profits to processors. In this demonstration, processing efficiencies are assumed to be equal between the proprietary and cooperative organization. Let the bargained price level be R_1 based on an expected supply of S_{r_1} and the expected processed product price level be P_{r_1} . Under these conditions, both show positive profits. However, with an unexpected increase in raw product supply from S_{r_1} to S_{r_2} the processed product supply curve moves from S_{p_1} to S_{p_2} and processed product price P_{r_1} drops to P_{r_2} . With this drop in processed product price, the proprietary processor's margin has disappeared and the processor sustains a loss. The proprietary processor's average total cost curve is invariable and reflects a fixed bargained raw product input cost. The loss sustained by the proprietary

Figure 3.1 Comparative Impacts: Proprietary Versus Cooperative Processor Cost Curves



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The impact of the supply increase on the cooperative processor is different. Under loss conditions, as Pr_1 drops to Pr_2 , the cooperative can lower its average total cost curve by adjusting the value of raw product inputs downward. Similarly, the cooperative can pass losses onto membership by drawing on member capital. In the short run, such adjustments may keep the cooperative in business by drawing on grower resources. In the longer run, the use of grower resources to support loss operations will encourage grower exit from the cooperative and perhaps from raw product production.¹ Such exit will depend on grower access to information with which to evaluate the performance of the cooperative and ability to find alternative market outlets.

The force of these advantages may produce changes in the market structure of the processing sector. The descriptive information presented in Chapter Two notes a general decrease in the number of processing organizations. Such change may have occurred because the opportunity cost of remaining in processing is too high given opportunities in other markets.

The consequences of exit decisions by proprietary processors will be analyzed in this research. If resources are freed by proprietary organizations, different distributions result. Similarly, the coordination of supply and demand decisions may be affected by a diminishing proprietary processing sector; insofar as cash

¹Under conditions in which processed prices are higher than expected, cooperative growers will share in the larger margins as their input deliveries are valued more highly. With invariate input costs, proprietary processors enjoy higher profits.

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A. Proprietary Processor Transformations and Linkages

The hypothesis that proprietary processor exit can be explained by the competitive impact of farmer bargaining and/or cooperative processor competition is one argument to be studied against alternative explanations. Of similar interest to this study is the increase in the number of cooperative processors and the increase in the cooperative processor market share of the processed market in fruits and vegetables. A hypothesis to explain these trends is that farmer bargaining is forcing the exit of proprietary processors and obliging the formation of cooperative processing organizations to replace them. This basic hypothesis may be advanced as a critical argument against farmer bargaining as a market institution and thus merits close analysis to ascertain its validity. To achieve such an analysis several variant hypotheses for proprietary processor organizational responses in bargaining environments might be advanced. They will concentrate on two types of organizational responses, transformations and linkages as organizational accommodations to the opportunities and exposures facing proprietary processors.

Transformation of Ownership of Processing Facilities. Proprietary processor management behaves, it has been assumed, to satisfy its profitability requirements. Where proprietary processor operations are performing poorly, management may make decisions to exit from processing and pursue investment opportunities elsewhere.

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The national downward trend in numbers of processing establishments supports such an explanation. The existence of farmer bargaining over terms of trade may serve to hasten the exit decision. The simultaneous increase in the cooperative processor sector may be due to grower need to maintain an outlet for their raw product. However, transition of ownership does not guarantee the viability of cooperative processors. Vertical integration into processing by growers may just represent a shift of processing costs onto the grower sector with little remuneration on capital investment.

Transition of ownership may also be motivated by proprietary processor recognition of the fixed assets of growers that deliver to it and thus the severity of adjustment costs facing growers. Such recognition may encourage management of the proprietary organization to respond to poor performance by forcing its grower suppliers to buy out management's (or stockholder) investment. An alternative buyout strategy, it can be hypothesized, is to involve growers in a dependent relationship by encouraging them to invest in fixed assets, such as orchards and specialized machinery, and then decrease returns to growers until growers' marginal value product is below acquisition price but above salvage price. Such extraction of rent from grower investments may, depending on alternative outlets, end in an easily accomplished transfer of ownership.¹

In such organizational responses by proprietary processors, grower capital is replacing proprietary capital to finance the costs of processing. Insofar as proprietary interests reallocate their freed

¹This point has been argued elsewhere by James D. Shaffer, Ag. Economist, Michigan State University.

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investments to higher return activities such as merchandizing processed fruits and vegetables, their processed product needs may be attained by contract specifications with the processing organization now under grower ownership. The ability to free low return investments and yet maintain product quality through contract specifications may offer such merchandizers competitive cost advantages over other merchandizers. Advantages provide incentives for more transformation of ownership in the processing industry.

Linkages Between Proprietary and Cooperative Interests. Linkages, such as joint ventures or participation plans, between proprietary and cooperative interests are other varieties of organizational responses by proprietary processors. Their relevance to this study is a function of the following: 1) their relation to, i.e., motivation from bargaining; and 2) their consequences for the distribution of costs and risks between the grower and proprietary sectors.

Based on a model of self-interested management motivated by a preference for discretion in meeting organizational goals, management will be impelled to seek out and control sources of discretion in the external environment. Such control may manifest itself in linkages between organizations which make the resources of one organization available to management of the other. For example, proprietary organization management may be able to advance its desire for discretion in decision-making by taking advantage of sources of discretion contained in a cooperative organization. The use of another organization's potential discretion can result if control of that organization's management can be realized. By influencing cooperative processor management's incentives in a linkage agreement, management of

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a proprietary organization may be able to: 1) use cooperative grower member capital at low cost; 2) influence internal transfers within the cooperative; and 3) benefit from certain legal opportunities accorded grower organizations.¹ The cumulative resources that linkage with a cooperative organization can provide to proprietary interests are lower cost capital and, perhaps, extraction of rent on that capital, a guaranteed (controlled) supply of raw product inputs, and the shifting of risk to the grower membership by controlling the inherent discretion within the cooperative organization. These competitive advantages over non-linked proprietary processor organizations may be of sufficient weight themselves to encourage such linkages; that is, entry barriers may be achieved. The fact that proprietary-cooperative linkage can also exclude the organization from direct exposure to farmer bargaining activity may be no more than an additional dividend.

Institutional lenders such as the Bank for Cooperatives system can also influence interrelations between proprietary and cooperative interests. Study of the role of institutional lenders in bargaining would lend itself to a participant subsystem conceptualization of the type advanced above. However, for the purpose of this research, their role will be selectively treated and, essentially, subsumed under the rubric of grower resources.

3.4 Summary

In summary, this chapter has developed a conceptual framework envisioning participant interrelations and accommodations to interrelations

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in farmer bargaining environments. Emphasis has been given to hypothesizing participant responses to various opportunities and exposures afforded by market and financial conditions in bargaining.

In addressing bargaining association and proprietary processor responses to interrelations, it was hypothesized that these participant groups, and perhaps subgroups within, would respond by attempting to influence the terms of trade decision process to their advantage. One specific behavior hypothesized was the use of information to influence the terms of trade determined by bargaining.

In order to address interrelations and accommodations to interrelations between bargaining associations and cooperative processors and between cooperative processors and proprietary processors, much use was made of a conceptualization of managerial behavior. Management was argued to have a preference for relief from constraint concern and to seek such relief. It was also argued that management constraint concern could be influenced by variables that are internal or external to the organization. Management of cooperative processing organizations was hypothesized to be both sensitive and responsive to the bargaining terms of trade determination process. Other interest groups in the cooperative organization were also hypothesized to be responsive to this process. The responses of all these groups were hypothesized to be directed towards seek advantage among the opportunities and exposures afforded by bargaining. Similarly, interest groups in the bargaining association were hypothesized to respond to the cooperative processing sector in ways that would promote their interests.

The treatment of interrelations and accommodations to interrelations between cooperative processors and proprietary processors focused first on possible competitive advantages between the sectors. It was

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hypothesized that competitive advantages, i.e., lower costs for cooperative processors, produced by bargaining and the recognition by proprietary interests of the rights and resources upon which such advantages are based could explain various changes in market structure in bargaining environments. Emphasis was given to hypothesizing a relationship between proprietary-cooperative organizational linkages and resource availability in the grower sector.

Having developed the primary interrelations among the three principal participant subsystems and having hypothesized responses in light of opportunities and exposures in farmer bargaining, some variability as a function of institutional differences can be expected. Differences such as history of interrelations, the structure of markets, variable bargaining frameworks, and accounting rules may introduce variability in the empirical observations that will constitute the basis of research findings to be presented and discussed in Chapters Four and Five. In these succeeding chapters, selective treatment will be given to such institutional differences. Chapter Four will report on the first two sets of interrelations treated in this chapter. The third set of interrelations will be reported on in Chapter Five. These three sets of interrelations will each be treated as areas of inquiry and will be guided by the major hypothesized behaviors generated in this chapter.

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CHAPTER FOUR

FINDINGS AND DISCUSSION

Introduction

This chapter will present and discuss findings from the research which correspond to two of the three areas of inquiry addressed by this study: 1) accommodations to interrelations between bargaining associations and proprietary processors; and 2) accommodations to interrelations between bargaining associations and cooperative processors. The presentation of findings within each area of inquiry will relate to the hypothesized behaviors developed in Chapter Three. Furthermore, findings will be reported first by pooled observations and, when relevant, by stratified observations in order to identify variability in responses. Following each presentation of findings by area of inquiry, the study will discuss the findings by select performance dimensions. Attention will be given to the following: 1) the flow of information as related to the coordination and planning of decisions; 2) distributional issues such as risk, equity, and accountability; and 3) impacts on industry structure.

The third area of inquiry comprising the study, structural responses of participants, will be addressed separately and in like fashion in Chapter Five.

4.1 Accommodations to Interrelations Between Bargaining Associations and Proprietary Processors

As developed in the applied conceptualization in Chapter Three, the primary interrelation between the bargaining association sector and

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the proprietary processor sector is the terms of trade determination process in which each faces incompatible interests with respect to raw product price. This incompatibility is complicated by uncertainty as to supply and demand conditions for finished products thereby providing a motive, it was proposed, for each sector to persuade the other of the validity of the asking or offer price. Accordingly, the result of such incompatibility and uncertainty would be to produce a flow of information between the sectors. The presence and characteristics of this flow are the subject of this first section. The section will first address findings pertaining to uses of information by the bargaining association sector by reporting on: 1) investment in market intelligence; 2) differentiation in treatment of proprietary processors by the bargaining association; and 3) association interest group uses of information. Next, the section will address findings pertaining to uses of information by the proprietary processor sector by reporting on: 1) proprietary transmittal of information to the bargaining association; 2) proprietary alternatives in procurement; and 3) proprietary recognition of uniform terms of trade as a benefit from bargaining. Following these statements of findings will be an integrative discussion. This discussion will address the flow of information, uniformity of terms of trade, and substitutability in procurement.

4.1.1 Responses of the Bargaining Association Sector

A. Investment in Market Intelligence and Scope

Bargaining association management was questioned at length on the gathering and uses of information by the association in the terms of trade determination process. All association management reported that they invested in market intelligence in order to perform their bargaining

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function. In discussing the market level or levels to which attention was given 8 of the 15 association managers interviewed voluntarily mentioned that attention was given to processed product market conditions such as carry-over stocks, consumer preferences, and rate of return on investment in processing, as well as to raw product market conditions such as expected production and grade. This finding is largely paralleled by the 7 of 15 association managers who, in discussing their market analysis, mentioned the survival of proprietary processors as a relevant variable to be concerned with. Though more association managers might have mentioned such concerns if specifically asked to by the researcher, a certain scope of market analysis that is deemed relevant to association managers is suggested by these findings.

If this data is stratified by geographic region there is some variability. In the Northwest data set, only one out of five association managers interviewed mentioned attention to processed market conditions. This respondent was one of two perennial associations interviewed in the Northwest data set and works closely with its commodity analogue in California. In the California sample, all five association managers mentioned market analysis of processed markets and, specifically, concern with proprietary processor survival, as a relevant variable. The Michigan sample of three was split with two association managers mentioning market analysis of processed markets but not mentioning concern with proprietary processor survival. The remaining association manager reported the reverse; that is, he mentioned concern with proprietary processor survival but stated that he did not give attention to analysis of processed markets. This particular respondent faces significant geographic competition from nearby states of New York, Pennsylvania, and Virginia.

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As further indication of the quality of information brought to the bargaining arena by bargaining associations, managers of proprietary processors were asked to characterize the quality of this information. The characterizations were evaluated according to a gradient scale of good to adequate to poor. By stratifying the sample by geographic location, variability in proprietary processor characterization was revealed. Of the California sample of five proprietary processors interviewed, three characterized the association information as good with two characterizing it as adequate. The Michigan sample of 13 proprietary processor characterizations produced a different distribution: 2 proprietary processors characterized the association information as good, 6 characterized it as adequate, and the remaining 5 characterized association information brought to the bargaining arena as poor. All proprietary processors who characterized association interpretation of market information indicated that the associations interpreted the information differently than they did.

B. Differential Treatment of Proprietary Processors

Some specific uses of information by associations that went beyond market analysis were also mentioned by select respondents. Two of five bargaining association managers in California and all three bargaining association managers in Michigan mentioned differentiation in their treatment of proprietary processors. The Michigan associations characterized their differential treatment of proprietary processors as 'favours' such as tolerating less than immediate payment of bargained prices at delivery.

In California the differential treatment revealed by one association manager was the threat of higher prices to be settled as the

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calendar progressed for late signers of bargaining agreements. Early signatories were promised most-favored-nation status. Three of the five California associations either used or were working on negotiating a price-quantity sliding scale with proprietary processors. One annual association in California was trying to negotiate an indexed, multiple year, sliding scale as a basis for setting terms of trade.

C. Interest Group Competition in the Association Sector

Evidence was found of inter-bargaining association competition along commodity lines. California bargaining association managers of fruit crops, especially those used for fruit cocktail, were very sensitive to raw product substitutability. The general perception was that an inter-dependence existed as a function of proprietary processor budget constraints. As stated by an association manager, the manager of the California Canning Peach Association "can sell the hell out of me if I get too high."¹

In the Michigan sample the two fruit associations also acknowledged a substitute relationship and revealed a perception of proprietary processors purchasing under a fruit-input budget constraint. However, although some 90-100 grower members of the Tart Cherry Association also belonged to the apple association, no internal competition of interests by commodity were evident to either association manager. Furthermore, though all Michigan associations are housed under the same commercial marketing apparatus, the Michigan Agricultural Cooperative and Marketing Association (commonly called MACMA), no joint strategizing to deal with proprietary processors buying multiple raw product inputs was evidenced.

¹Association Manager, California.

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The apple association management, in particular, denied any such joint strategizing against proprietary processor buyers.¹

There is, however, inter-association competition for representation on the overall administrative board of MACMA. The purpose of such representation is, according to one association manager, to prevent the use of some membership fees to subsidize the needs of other commodity programs. Managerial desire to be in control of revenues can be served by such representation. Moreover, there is precedent for influence from the multi-commodity overall MACMA board on individual commodity groups: in 1976, according to association management, the association subcommittee (the steering body) "got a tremendous amount of pressure from the big board (as to price offers) but we had no choice but to continue on our course."²

4.1.2 Response of the Proprietary Processor Sector

A. Transmittal of Information

The conceptual work on how proprietary processors would respond to an interdependence with bargaining associations hypothesized the transmittal of information for the purpose of persuasion. It was also suggested that this response would vary as a function of certain proprietary processor characteristics. In order to establish the presence or absence of a flow of information from the proprietary processor sector to the bargaining association sector, proprietary processor managers were asked whether they transmitted information to the bargaining

¹Notwithstanding these findings, the existence of such joint strategizing is contended by informed sources.

²Industry Source.

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association. No attempt was made to assess the veracity of the information contributed; see Table 4-1.

In the total sample of 20 proprietary processor respondents, 11 stated that they did contribute information. Nine stated that they did not and of these nine, five indicated that it would be useless to do so. Proprietary processor managers were also asked to characterize the communication they had with the association(s) with whom they dealt. These answers were applied against a scale of good, fair and poor. Of 21 respondents who offered a characterization, 3 characterized the communication as good, 4 characterized it as fair, and 14 characterized it as poor.

Stratifying these 2 sets of responses by geographic regions of West Coast, Michigan, and Appalachia reveals that 5 out of the 11 proprietary processor managers who contribute information to the association(s) operate in West Coast bargaining environments. All West Coast respondents contributed information. Furthermore, of these five respondents, three characterized the communication with the association as good with the remaining two characterizing it as fair. In the Michigan sample the responses were different; of 11 Michigan respondents, 6 responded that they did not contribute information and of these 6, 5 added that they did not contribute information to the association because it was useless to do so. Two of the respondents in Michigan who contributed information also felt their contributions were useless. As to characterization of the communication in the Michigan sample, none of the 12 respondents characterized it as good, 2 characterized it as fair, and 10 characterized it as poor. The Appalachian sample of four respondents, which included three respondents also purchasing

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Table 4-1
 Proprietary Processor Manager Responses on
 Whether or Not They Contributed Market
 Information to the Bargaining Association(s)

	<u>Stated That They Did Contribute</u>	<u>Stated That They Did Not Contribute</u>	<u>Total Respondents</u>
West Coast	5	0	5
Michigan	5	6	11
Appalachia	<u>1</u>	<u>3</u>	<u>4</u>
Total	11	9	20 ^{1/}

Characterization By Proprietary Processor
 Managers of Communication With the
 Bargaining Association(s)

	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Total Respondents</u>
West Coast	3	2	0	5
Michigan	0	2	10	12
Appalachia	<u>0</u>	<u>0</u>	<u>4</u>	<u>4</u>
Total	3	4	14	21 ^{1/}

Notes: ^{1/} Includes 3 proprietary processors
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raw product in Michigan, tended to reflect the Michigan responses. Some specific responses by proprietary processor managers indicated a poor relationship between the association and the proprietary processor sectors in Michigan and Appalachia: 1) "Processors won't communicate. They throw their hands up and give up;" 2) "Processors have not tried to use the system;" 3) "The industry has not adapted yet to bargaining;" and 4) "Processors underinvest in information."¹

As an additional indicator of the presence or absence of a flow of information between the sectors, bargaining association managers were asked to comment on the receipt of information from and to characterize the communication with the proprietary processing sector. Out of 15 respondents all indicated getting at least some information from the proprietary processing sector with 4 stating that they received little information. These four respondents were the Potato Growers of Idaho, the Michigan Apple Association, and the apple associations in New York and Pennsylvania. The bargaining association managers' characterizations of communication with the proprietary processing sector reflect the findings above; of the five Northwest associations, four characterized it as good with the Potato Growers Association characterizing it as poor; all five California respondents characterized it as good; in the Michigan sample of three associations, one saw it as good, one saw it as fair, and one characterized it as fair to poor; the two respondents from the Appalachian sample, New York and Pennsylvania, characterized the communication as poor. These findings are summarized in Table 4-2.

¹Industry Sources.

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Table 4-2

Bargaining Association Managers'
Responses on Receipt of Information
From the Proprietary Processing Sector

	<u>Received Information</u>	<u>Did Not Receive Information</u>	<u>Total Respondents</u>
West Coast			
Northwest	5	0	5
California	5	0	5
Michigan	3	0	3
Appalachia	<u>2</u>	<u>0</u>	<u>2</u>
Total	15	0	15

Bargaining Association Managers'
Characterization of Communication
With the Proprietary Processing Sector

	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Total Respondents</u>
West Coast				
Northwest	4	0	1	5
California	5	0	0	5
Michigan	1	1	1	3
Appalachia	<u>0</u>	<u>0</u>	<u>2</u>	<u>2</u>
Total	10	1	4	15

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B. Alternatives in Raw Product Procurement

Data was also gathered on proprietary processor access to alternative geographic operations, such as plants in other states, and on proprietary processor conglomeration. Of 19 respondents, 15 proprietary processors managers said that they had access to geographic reach in procurement of raw product needs or benefited from conglomeration. The remaining four respondents were single state, single line operations. Four of the respondents in the total sample of the study were conglomerates according to a recent compilation of statistics on food and tobacco processing firms by University of Wisconsin economists.¹ Almost all (14 of 15) of the respondents having geographic reach to alternative sources of raw product stated that they would avail themselves of raw product procurement in alternative geographic areas in response to market conditions affecting availability of raw product.

Stratifying this data by geographic region revealed that three out of four respondents in the West Coast sample stated that they made use of geographic reach in procuring raw product. In the Michigan and Appalachian sample, 11 out of 15 respondents indicated use of geographic reach. The four respondents who stated that they did not use geographic reach are characterized as single line privately owned firms operating solely in Michigan. These four commonly felt that they were at a competitive disadvantage as compared with multi-state food processors. The Michigan sample also revealed that numerous firms processing apples were buying a significant amount of raw product needs outside of the state because of bargaining in Michigan. Some specific explanations

¹Directory of the 200 Largest U.S. Food and Tobacco Processing Firms, 1975, North Central Regional Project 117, Special Report No. 2.

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given by such Michigan proprietary processor managers are as follows:

- 1) "We want to be able to get along without Michigan supplies;"
- 2) The New York plant has been geared up to relieve us of Michigan marketing conditions;" and 3) "We might buy outside of that state to weaken the apple association."

C. Price Uniformity as a Benefit

Out of 15 proprietary processor respondents on the issue of price uniformity, 9 acknowledged that price uniformity was a benefit from bargaining with the remaining 6 not acknowledging price uniformity as a benefit. Of the five West Coast respondents representing four different proprietary processors, all acknowledged price uniformity as a benefit from bargaining. The Michigan sample of nine respondents contained four acknowledging and five not acknowledging price uniformity as a benefit from bargaining. The one respondent from the Appalachian region explained that in its processing industry price lists of prices paid to growers were circulated among processors to encourage parallel pricing. As stated by this respondent, "We are competitors not enemies."

Bargaining association managers were also asked if it was their perception that uniform prices were recognized by proprietary processors as a benefit from bargaining. All nine respondents to this issue argued that this was their perception. Furthermore, several association respondents mentioned that proprietary processors had threatened to use legal sanctions against the association if uniform prices were not enforced. According to one manager, a proprietary processor specifically argued the desirability of uniform prices and said it would "sue the association if we allowed one proprietary processor to break its contract

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and buy at a lower price." Such reports by association managers are paralleled by some responses from proprietary processor managers. One proprietary processor, in light of a participation plan being implemented by a competitor in the tomato industry in California, stated that it would react "violently and legally" to any discrimination by the tomato association which favored its competitors. This particular proprietary processor has also worked very closely with the California Tomato Growers Association to develop an indexed, sliding scale, multiple year pricing formula to serve as a basis for setting terms of trade on raw product. The understanding between the two parties was that commitment to this mechanism was contingent on its acceptability by other large proprietary processors in the industry. Hence, uniformity of treatment among processors took priority over the certainties offered by an alternative terms of trade determination mechanism.

4.1.3 Discussion of Findings

This section will discuss the characteristics of the flows of information observed and reported above. First it will address the intersectoral flow of information in general terms with some stratification by geographic area. Then it will focus on some of the specific uses of information observed by both sectors or groups within the two sectors. Again stratified discussion will be developed where relevant.

A. General Results of the Transmittal of Information

Looking at bargaining associations and proprietary processors as two groups one can begin by saying that a pooling of information from both sectors has been observed. Thus information that was previously unavailable or unorganized is being contributed to the terms of trade

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decision process. The terms of trade produced should be better able to carry the economic information necessary for coordination and planning of production, processing, and marketing decisions by the participants in this process. In summary, a pooling of economic signals can be expected to move the participants to the bargained transaction closer to terms of trade that reflect accurate demand and supply conditions.

The general results of the pooling of information addressed above have been argued, though briefly, in the literature on collective bargaining by producer groups. These results have been grouped by Ladd under the rubric Opponent-Gain type results.¹ Terms with similar meanings have been coined by others: see, for example, inductive impacts² and integrative effects.³

Knutson's explanation of the term integrative effects captures the basic thrust of all the above terms. He describes such effects in welfare economics terminology as movement from a point off the contract curve to a point on the contract curve. This movement is contrasted with motion along the contract curve. Motion along the contract curve is termed by others as Opponent-Pain⁴ and Coercive.⁵ Such aggregated impacts might also be demonstrated through the theoretical apparatuses of marketing margin analysis where the supply curve shifts downward, in consumer surplus analysis with a similar shift in the supply curve, or in risk analysis. In the latter, for example, one type of risk to

¹Ladd, 1964.

²Garver, 1964.

³Knutson, 1968.

⁴Ladd, Supra.

⁵Garver, Supra.

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both producers and processors is the risk of a change in raw product price. Prices to producers will be discounted to reflect this risk. Where the effect of a bargained transaction on risk is to reduce the possibility for and degree of a price change, the discount factor can be reduced accordingly to the benefit of both producers and processors.

As to specific integrative impacts identified in bargaining literature, some are more general than others. The reduction in marketing costs¹ and diminution of risk of price change² that can be effected by collective bargaining are phrases used to capture aggregate impacts. More current work by Ladd³ and contributions of other students of farmer collective bargaining offer more precise breakdowns of the integrative impacts. Mentioned are such effects as the establishment of stable and dependable supplies and outlets, the standardization, uniformity, and improvement of product quality, the per unit costs of administering bargaining, savings from the performance of services by the party with lowest costs, the potential for pooling the costs of mechanization, cost savings from improved scheduling, hauling, and routing, and the cost savings from direct sales.⁴ These represent more specific examples of how farmer bargaining can influence cost considerations and investment plans and, therein, the risks and uncertainties faced by both producers and handlers in their production and handling decisions.

¹Ladd, Supra.

²Dahl and Hammond, 1977.

³Ladd, Supra.

⁴Garver, Supra; Roy, 1970; Ladd, 1974.

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Helmberger and Hoos in their seminal work of 1965 address themselves closely to the coordination impacts of bargaining on producers and handlers involved in bargaining in perennial crops.¹ In perennial crop production and processing, many of the costs are incurred prior to the negotiation of bargained terms of trade. What bargaining in such crops can offer are both short run cost effects, as in administrative costs for the producers and transaction costs for the handlers, as well as longer run impacts on costs and investment considerations. For example, in the longer run, reduced procurement costs, guaranteed supplies, and guaranteed handling can induce cost reducing adjustments in the investment decisions of both producers and handlers.

In general, the pooling of information process that can result from bargaining interrelations results in a potential for terms of trade decision making with a higher informational endowment. As stated by Helmberger and Hoos:

A result is that the participants in the market, through the introduction of cooperative bargaining, are made more aware of the economic relationships which should be taken into account in price negotiation and determination. Growers and processors become acquainted with and more appreciative of notions of demand, supply, elasticities, substitutes, inter-regional competition, and so forth, as well as problems facing both growers and processors, their underlying causes, and possible solutions. As a result of cooperative bargaining, the decision making processes which determine the grower price are based more on analysis of economic-marketing information and on a greater understanding of relevant economic relationships than would otherwise be the case.²

¹Helmberger and Hoos, 1965.

²Helmberger and Hoos, Supra, p. 179.

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Geographic Differences. In aggregate terms this study's findings indicate a pooling of information in light of both association investment in market intelligence and proprietary processor transmittal of information. However, if the results are stratified by geographic region, differences in the pooling of information are evidenced and, accordingly, differences in the ability of the terms of trade decision mechanism to approach accurate market value can be expected.

Looking first at the West Coast data the study found a flow of information to the bargaining association sector indicated by all proprietary processor respondents. Proprietary processor characterization of the communication with the association sector as generally good was paralleled by the association characterization of such communication. Contrasted with this were the findings in the Michigan sample where the proprietary sector characterized the communication as adequate to poor with the association sector characterizing it generally as less than good. The Appalachian association sector characterized the communication as poor.

The Western sample is characterized by the longest history of bargaining activity and voluntary bargaining. The Michigan sample comes from an environment manifesting recently introduced mandatory bargaining. The Appalachian sample reflects only evolving bargaining efforts primarily of an information collection and dissemination nature. The spread in characterizations of communication may largely be explained by the variability in experience with bargaining. The essentially negative indicators of communication between the sectors in the Michigan and Appalachian sample argue less progress in attaining the

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benefits of a good pooling of information discussed above and manifested by the West Coast sample.

B. Varieties of Informational Signals

The general conclusions stated above can be augmented by discussing specific attention to and uses of information reported in the findings.

Difference in Scope of Association Analysis. The types of information generally gathered and analyzed by the bargaining association sector have been discussed by Lang,¹ Garoyan,² and MacMillan.³ These authors stress government publications, in-house market research, and handler information as the resources tapped for conducting terms of trade decision making. This study's findings suggest some evidence of poor association attention to their system environment. With only half of the bargaining association manager respondents voluntarily indicating concern with processed product market conditions and survivability of the proprietary processors, one could argue inattention to the system environment and thus, concomitantly, more myopic analyses with insufficient attention to longer run issues of system viability.

By stratifying these findings, the study found that the only association in the Northwest sample voluntarily indicating such system attention was a perennial association. The higher immobilities of production inputs associated with perennial production may explain this finding as well as this association's link with its well established predecessor

¹Lang, 1977, p. 105.

²Garoyan, L., 1976, pp. 13-28.

³MacMillan, W., 1958, p. 32.

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in California. The California associations all evidenced a system appreciation whereas the Michigan sample indicated some variation in system attention. Of course, bargaining activity in Michigan is more recent than that in California. Where associations attend to conditions beyond the raw product market one can expect to see appreciation of long run consequences as well as short run consequences. The length of run stance taken by association management will affect the informational content and the coordinating impact of the terms of trade decision process.

Threat of Differentiation in Treatment. The presence of differential terms of trade bargained with proprietary processors documented in the findings can have several effects. Insofar as the uncertainty that accompanies the threat of differential treatment disciplines proprietary processors to participate in the bargaining process, such behavior can 'thicken'¹ the market transaction. However, differential treatment can also serve to offer selective competitive advantages. This could invite the legal wrath of proprietary processors in the bargaining process. No current bargaining legislation, either in the several states with their own initiatives or in federal legislation (The Agricultural Fair Practices Act of 1967) contains mention of discriminatory practices. However, there is sufficient case precedent to argue the interest of the Department of Justice on antitrust grounds if sufficiently anticompetitive discriminatory behavior by cooperative bargaining associations can be shown: U.S. Associated Milk Producers, Inc. Civ. Nos. SA 72CA49 and

¹Hurwicz, L., 1969.

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74CV 80-W-1 (4/30/75) and Maryland and Virginia Milk Producers Association v U.S., 362 U.S. 458, (1960).

Desirability of Uniformity in Treatment. The general interest shown by the total proprietary processor sample in uniformity of raw product price argues the sensitivity of the proprietary processing sector to differential treatment by associations. The West Coast sample was willing to credit the bargaining sector for uniform prices. However, the Michigan and Appalachian samples were more negative about crediting the bargaining association sector with producing uniform prices. The more negative response from this latter sample may largely be explained by the historical recency of bargaining efforts there. However, structural differences such as the role of the cooperative processing sector as will be developed in later areas of inquiry may also provide explanation for the difference in these findings and the actual extent of price uniformity.

Other authors have also argued a proprietary processor interest in uniform raw product prices.¹ It might be noted that the existence of uniform raw product prices can contribute to a uniformity of proprietary processor behavior. This is to suggest that the presence of uniform treatment of proprietary processors by bargaining associations could serve to promote active or tacit collusion of those same proprietary processors in raw and processed product markets.

Substitutability in Input Procurement. The data also document the existence of substitute inputs as pressures that discipline the bargaining

¹Shaffer, James D., 1974, p. 87 and L. Garoyan, Supra, p. 24.

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association's stance in the terms of trade decision process. These findings are generally supported by those of Lang.¹

The fundamental competitiveness manifested by bargaining associations in substitute products suggests the alternative of coordinated or joint product strategies by the bargaining associations in regards to proprietary processor buyers. Though no internal control or attempts to control a commodity bargaining association by another commodity were revealed in the data reported above,² the potential for joint raw product bargaining is suggested by virtue of some inter-association relationships. The canning pear association in California works closely with its counterpart in the Northwest. In California, the associations, though in close contact with one another, are administratively separate and quite competitive. In the apple industries of Michigan and Appalachia, the bargaining associations are in close contact by virtue of a close working relationship between the Michigan Apple Committee bargaining association within MACMA and the evolving bargaining associations in New York and Pennsylvania. Conceivably such administrative unity could be utilized to develop multiple product bargaining strategies with proprietary processors buying multiple inputs.

The suggestion of bargaining raw product inputs as joint bundles is not new. Hoos, Torgerson, and Roy have all advanced the idea of coordinated commodity bargaining rather than product by product bargaining.³

¹Lang, M., Supra, p. 107.

²The presence of such internal influence as a result of bargaining association and cooperative processor linkages will be reported and discussed in the second area of inquiry.

³Hoos, S., 1962, p. 23; Torgerson, R., 1970; Roy, E., 1970, pp. 99-100.

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A Bundle approach would reduce competition among bargaining associations. Furthermore, it would necessitate a redefinition of commodity authority; its potential for creating inter-commodity transfers means that an allocative decision rule would have to be formulated and current association managers would have to relinquish absolute commodity control in light of new boundaries of the raw product community. Such a bundle approach might also consider differentiating the treatment of proprietary processors with multi-state alternatives in procurement from those that are single-state operations. Under uniform treatment the latter would face more pressure on profit margins than the former as a function of nonuniform input procurement alternatives.

The Influence of Geographic Reach. A further disciplining pressure on the bargaining association sector reported on in the findings is the issue of geographic reach, i.e., alternatives for raw product procurement by proprietary processors. The widespread willingness and ability of proprietary processors to use geographic reach and the indicated association sensitivity to such reach is a general characteristic of the total proprietary processor and bargaining association samples. Much of the present use of geographic reach, especially as evidenced by the Michigan sample of proprietary processors, was in response to the competitive threat felt by those processors procuring product in the Michigan apple markets when competitors were processing in Appalachian apple markets.

Geographic reach in procurement can also serve other ends. Access to geographic reach beyond the jurisdiction of a given bargaining association can serve to impede the utilization of a bargaining terms of trade decision mechanism. As stated by Jackson in his studies of the sugar beet industry:

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Bargaining strength of the parties to a sugar beet contract varies widely, and depends primarily on the alternatives available to each party . . . A regional bargaining association probably is in its strongest bargaining role when negotiating with a single-plant company which competes with other single plant companies in its territory. It is weakest when negotiating with a multiplant company having factories located in an area where there is no competition with other companies, or with a multiplant company with factories both inside and outside the association's territory, so that the processor can substitute acreage in one area for that in another.¹

Helmberger and Hoos make the same argument in noting the difference in impacts of bargaining deadlocks between large national and regional canners producing a variety of goods in numerous plants around the country and those that are essentially small processors specialized in crops and area.²

The existence of thin cash markets as documented in the descriptive statistics on West Coast states presented in Chapter Two may invite use of geographic reach to influence the bargaining process and thereby wreak damage on competitors; that is, thin cash markets may make it possible for a proprietary processor with geographic reach to pay high prices for a small percentage of its raw product needs in one area, thereby raising input costs to competitors in that area who do not enjoy commensurate alternatives in procurement. That such geographic reach can be used to influence bargained terms of trade to this end has been argued by students of western bargaining environments.³ Geographic reach is clearly playing a role in the Michigan apple market, both as shown by cross hauling and increased out-of-state processing.

¹Jackson, D., 1962, p. 6.

²Helmberger and Hoos, Supra, p. 71.

³Filice, B., 1978; L. Garoyan, 1976, p. 25; and other industry sources.

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As argued above and indicated by the data, proprietary processor access to geographic reach is not uniformly present. Four proprietary processor respondents indicated that they did not use geographic reach and argued that they were at a competitive disadvantage in comparison with proprietary processor competitors who could purchase raw product elsewhere at lower cost. Insofar as these competitive advantages obtain, one should expect to see this sector sustain losses in numbers of operations at a greater rate than the multi-state operations.

C. Summary

In the discussion of responses to interrelations between bargaining associations and proprietary processors, the pooling of information that may result and the impacts on coordination and planning were emphasized. Attention was also given to variability in such pooling behaviors with differences between the West Coast and Michigan samples being most prominent. It was suggested that differences in bargaining experience may explain much of the variation.

Specific types and uses of information revealed by bargaining associations and proprietary processors were also addressed. It was argued that the scope of system analysis used by the association sector would have different consequences in the short run versus the longer run. Again, geographic differences seemed to correlate with historical experience. Disciplining pressures from recognition of raw product input substitutability and access to geographic flexibility in procurement were discussed. Findings tended to parallel other student's discussion of these issues. Emphasis in discussion was given to the differences between single-state and multiple-state processing operations. Certain pressures for structural change were also indicated.

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In conclusion, findings support the general argument that participants in the bargaining environment would respond to opportunities offered therein through the transmittal of information with persuasive intent. The bargaining association and proprietary processor participants are not passive respondents to conditions in their market environment. Rather, depending on the evolved state of the bargaining relationship, they will attempt to modify such conditions in various ways, some of which serve the informational and participative needs of bargaining.

4.2 Accommodations to Interrelations Between Bargaining Associations and Cooperative Processors

As developed in the applied conceptual work in Chapter Three, there are potential areas of interdependence between the bargaining association and cooperative processor sectors. This section will first focus on evidence of the impact of the terms of trade determination function of bargaining associations on the goals of the cooperative processing sector. In order to do so, it will look at cooperative processor management responses to the terms of trade decision process. This will entail identifying both external (toward the extra-organizational environment) and internal (within the cooperative organization) responses of management. This section will also explore other cooperative interest group responses to the existence of a bargaining association-influenced terms of trade decision process. Some attention will also be given to the role of the grower-processor sector.

Second, this section will focus on responses of the bargaining association sector to perceived interdependencies with cooperative processors. Principally it will look for evidence of association management responses to the cooperative processor sector such as efforts

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Given the presence of some linkages between the two sectors, the motives of responses and the interests being served become complex. This area of inquiry will attempt to sort out the primary responses being manifested, to explain their impetus(es), and finally, in the discussion section, to comment on their various meanings for such performance issues as coordination of decisions, distribution, and structural change in agricultural markets. As in the previous area of inquiry, treatment in this section will first report findings in aggregated pools and then, where relevant, by stratifications.

4.2.1 Responses of the Cooperative Processor Sector

A. Sensitivity of Cooperative Processor Management

Questions were addressed to a sample of cooperative processor managers in order to ascertain the meaning for them of bargaining association activity and the nature of their responses, if any, to such activity. The underlying argument guiding the inquiry was that management would respond to external factors that altered its discretion in meeting its goals with both external and internal responses; that is, management would respond extra-organizationally and/or within the organization to relieve itself of challenges to discretion.

Cooperative Management Goal Function. In order to ascertain the sensitivity of cooperative processor management to bargained raw product prices, cooperative processor managers were asked to state their goal function as managers. All 24 cooperative processor respondents including 8 without past or current bargaining activity in their area stated that their performance was evaluated in reference to the raw product cash

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price and indicated that their goal was to maximize the percentage return over raw product cash price. This response means that the difference or margin between raw product cash value and the final returns to growers was a primary indicator of management performance in serving the interests of the cooperative processor organization. Moreover, when cooperative processor management having experience with bargaining activity was asked whether there was a basis for conflict with the pricing decisions emanating from the bargaining association sector, all 16 respondents indicated that such a basis did exist.

Several respondents demonstrated candor by explaining the existence of a performance illusion; they noted that management performance could show relative improvement but absolute decline from year to year. For example, in year one the cooperative processor might return to growers returns totalling 120 percent of the cash market raw product price with a raw product price of \$50 per ton. In the next year the cooperative processor may return only 110 percent based on a raw product price of \$60 per ton. Using percentages as an indicator shows poorer relative performance in year two than in year one while absolute returns in year two are higher. The possibility of cooperative management performance looking good as regards a relative percentage but simultaneously returning poor or inadequate returns to grower members was raised by management of one mono-commodity cooperative processor, Lindsay Olive, which has recently seen very low cash market prices being offered. This commodity, incidentally, does not have a coexisting bargaining association though one is being organized.¹ Two other mono-commodity cooperative processors in the sample, the California Almond Exchange and the National

¹Refer to Chapter Two: California Olives.

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Grape Cooperative, also face a non-bargained raw product cash price reference for calculating management performance. These three organizations are interesting to analyze by virtue of their use of cash prices derived from commercially thin non-bargained cash markets. Some of their responses to the movement of such reference prices will be discussed below.

i. Bargaining Association Corroboration. Bargaining Association management was also questioned in order to determine sensitivity of the cooperative processing sector to bargaining association impacts on cooperative terms of trade for raw product. All 11 respondents covering samples from the Northwest, California, and Michigan contended that cooperative processor management was sensitive to raw product cash prices. In order to corroborate the validity of relating such sensitivity to bargaining associations activity, these association managers were asked to characterize the cooperative processor management's view of bargaining activity. These characterizations are presented in Table 4-3.

Six association respondents characterized the view as perceiving a threat to cooperative processor management performance. Of those respondents, three noted that bargained activity was initially viewed as a threat to cooperative processor management performance but that this view evolved to a more positive one for most of the cooperative processor managers with whom they dealt. These three respondents are located in the Northwest sample which has had some past bargaining activity in vegetables as well as current bargaining activity in pears and asparagus. The three other respondents constitute the Michigan sample. They characterized the view as perceiving a current threat to performance. The remaining five respondents, all from California associations,

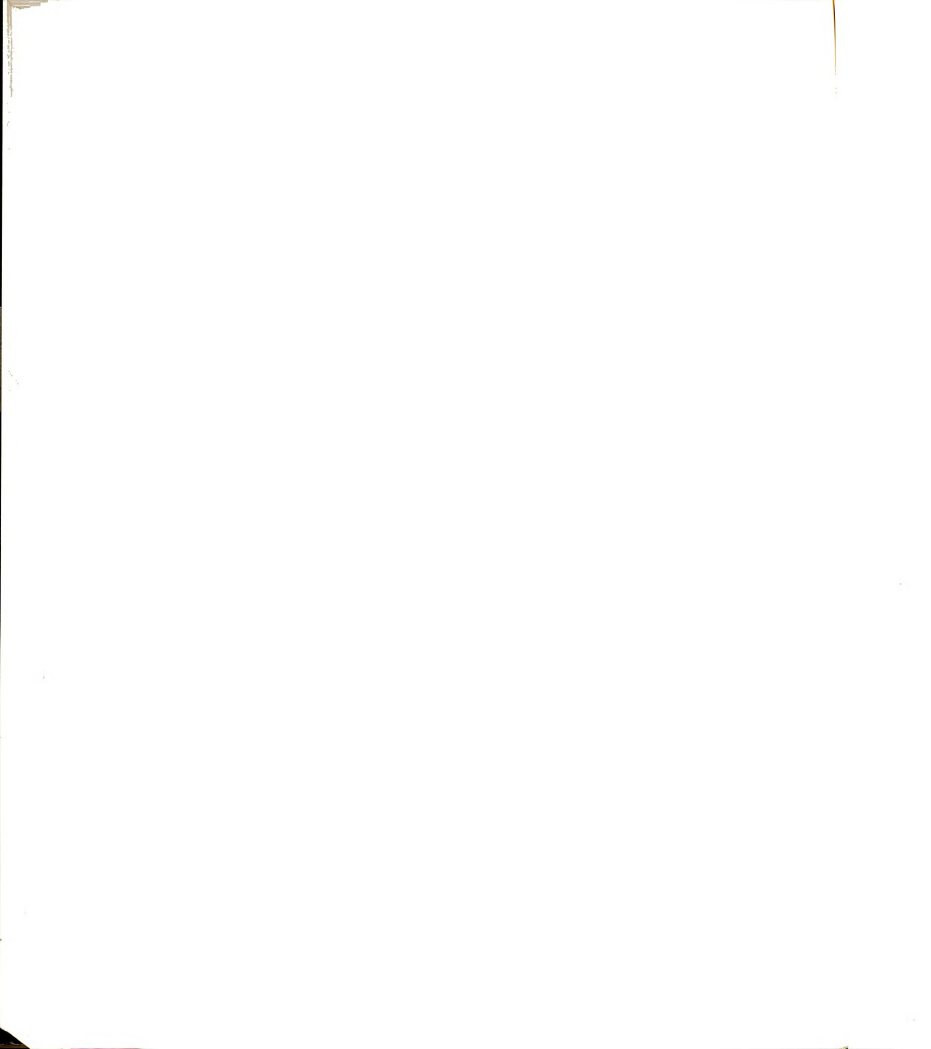


Table 4-3
 Characterization by Managers of Bargaining Associations of
 Cooperative Processor Managements' View of Bargaining Activity

Bargaining Associations:	Characterized the View as Positive	Characterized the View as Perceiving a Current Threat	Characterized the View as Initially Perceiving A Threat	Total Respondents
Northwest	0	0	3	3
California	5	0	0	5
Michigan	0	3	0	3
Total	5	3	3	11

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characterized the view as positive. Given the strictly informational nature of bargaining activity in the Appalachian sample, cooperative processor management sensitivity to bargaining activity was not anticipated. Nevertheless, indications of such sensitivity were found in cooperative processor managements' external responses to their environment.

Externally Directed Behaviors of Management. In order to ascertain the validity of hypothesized externally directed behaviors as developed in the conceptual chapter, cooperative processor managers were questioned at length about their responses to bargaining association activity.

i. Direct Management to Management Communication. In response to being asked whether they communicated directly with bargaining association levels, being determined by the bargaining process, 13 out of 21 respondents indicated that they did. Some comments by these respondents characterize the nature of this type of communication: "We have close contact with association management" (a Northwest Cooperative); "We definitely have an influence on the association" (a major California Cooperative); and "I'll get on the phone and scream at the association" (a Michigan Cooperative); "We communicate closely with MACMA, the N.Y. Association, and PACMA" (an Appalachian cooperative).

If this sample of respondents is stratified by geographic region, variability is revealed. Two out of three Northwest respondents indicated that they communicated directly. The one negative respondent related a very critical view of bargaining association activity. This particular cooperative was characterized by the relevant bargaining association as being tightly run by a dominant producer interest and consistently negative towards the association. In the California sample of multi-commodity cooperative processors, all four managers indicated direct

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contact with the association management. The two larger cooperative organizations acknowledged their potential influence on association decisions while the two smaller organizations questioned the strength of their influence. In the aggregate, six out of seven Northwest and California multi-commodity cooperative processor manager respondents communicated directly with the relevant bargaining association managers. The two California single-commodity cooperative processor managers indicated no direct communication, with one revealing significant antipathy, and the other citing communication through the marketing order.

In the Michigan sample, five out of seven cooperative processor manager respondents indicated that they communicated directly with association management. Several of the cooperative processor managers also indicated having played influential roles in promoting bargaining activity in that state. The two respondents who indicated that they did not communicate directly with the association management are essentially single-crop cooperatives processing tart cherries. However, given the relative stature of the managers of these cooperative organizations in the Michigan Tart Cherry industry, it is hard to believe that no communication flows between them and association management. Though there may not be direct communication there does exist, as will be seen below, other conduits of communication between these two respondents and the association sector. Of the Appalachian respondents, one out of four indicated direct communication with association management. One of the larger respondents was emphatic about not having direct communication.

In an attempt to corroborate the presence of direct management to management communication between the two sectors, bargaining association management was asked to report on such direct communication. All

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associations with bargaining experience in markets having cooperative processing activity cited at least some direct communication. Two of these respondents indicated an evolution to positive management to management communication. The four California associations dealing in markets with multi-commodity cooperative processing activity indicated a great deal of management to management communication between the sectors: "The relationship with the cooperatives was very good; they provided the association with insights as to their costs and market complications;" "We sit down with co-op management and they give us valuable information on costs, expected movements, and finished prices. Co-op management sends the association information to influence our pricing expectations;" "Bob Gibson will also just call me on the phone;" and "The management of cooperatives is motivated to provide information to the association and to be concerned with what the association is doing." In Michigan, though all three association managers indicated some direct communication from cooperative processor management, two association respondents indicated that such communication was light. The two Appalachian apple association respondents, both of which work closely with the Michigan apple association, also indicated some direct communication from management in the cooperative processing sector.

ii. Indirect Management to Management Communication. Cooperative processor management was also asked to specify the existence and use of other conduits of communication through which they could communicate with the bargaining association sector. Several respondents, notably in California and Michigan, noted that they could communicate with association management through their members which also belong to the association. Such members are commonly called dual members and may be

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of two types: either they are simple simultaneous members in both a cooperative processing organization and a bargaining association, or they are simultaneous members who also hold a position of influence in either or both of the organizations. This latter type of dual member shall be characterized as a principal dual member meaning that the grower is a member of the board of directors in at least one of the organizations. The three California cooperative processor manager respondents on this issue indicated that dual members did serve as a conduit. Three out of four cooperative processor manager respondents in Michigan indicated similar use of dual members.

Again, for an indication of corroboration of inter-sector flow of information, bargaining association management was asked to indicate other sources of communication than direct manager to manager communication. All relevant Northwest, California, and Michigan association managers specified the receipt of information about cooperative processor market analyses from dual members. The most active Appalachian bargaining association, PACMA, likewise indicated such receipt of information though essentially only from the one cooperative processor in the region who is willing to communicate with the association.

The nature of such inter-sector communication by means of the dual member conduit is exemplified by the comments of a dual member with both the California Cannery and Growers Cooperative (Cal Can) and the California Tomato Growers Association (CTGA). As to interacting with the association:

Legally, Cal Can sits back and takes it. But in practice, Cal Can becomes a two-way pipeline. Cal Can has a sort of neutral position yet CTGA has direct access to Cal Can via me, and thus Cal Can has an input into the bargaining process far beyond what you can measure. Cal Can will respond as quickly as proprietary processors to schemes by the association. If we tried to get too high a price, Cal Can would respond.

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Another example of use of dual membership by cooperative processor management to influence a bargaining association's decisions is a letter campaign used by a multi-commodity, multi-state cooperative processor operating in Michigan, Pro-Fac Cooperative. Management of the apple bargaining association within MACMA reported receipt of letters from members of Pro-Fac Cooperative "telling us to be cautious about bargaining. The letter asks us to be responsible. This letter from 80 growers is a means of Pro-Fac management to communicate with MACMA through its growers."¹ (The letter and management's cover letter appear in the appendix.)

Pro-Fac management readily admitted its interest in and use of dual members to communicate with respective Michigan associations: "We try to make these dual members aware of the market situation. They can serve as a voice-piece for Pro-Fac to MACMA as well as from MACMA to Pro-Fac." Pro-Fac management stated that it paid particular attention to the "MACMA commodity committeemen in Pro-Fac," or what this section has referred to as principal dual members, arguing that it is in Pro-Fac's self-interest to have its views represented in MACMA. On the topic of the letter campaign, Pro-Fac management indicated that it was organized to communicate Pro-Fac's concern with apple market conditions to the apple association.

iii. The Incidence of Dual Membership. In order to more precisely document the importance of dual members as a potential conduit of communication between the cooperative processing and bargaining association sectors in the total national sample, the following chart, Table 4-4, has

¹Source on the Michigan Apple Committee, the bargaining association for apples within the MACMA structure.

Table 4-4 Extent of Simultaneous Grower Membership in Bargaining Associations and Cooperative Processors: Dual Membership

	Cooperative Processors		Cooperative Processors		Total Cooperative Processor Respondents
	With Dual Members	Without Dual Members	With Dual Members	Who Hold a Board Position in Either Organization	
West Coast					
Northwest	3	0		3	3
California	4	2		4	6
Michigan	6	0		5	6
Appalachia	<u>3</u>	<u>0</u>		<u>0</u>	<u>3</u>
TOTAL	16	2		12	18

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been assembled. The indications of presence or absence of dual members and of what variety, simple or principal, are based on data gathered in both sectors.

As Table 4-4 reports, dual membership is widespread in the Northwest, California, and Michigan samples. Some dual membership is also present in the nascent bargaining environment of Pennsylvania in the Appalachian sample. Documentation of principal duality is also evident in California and Michigan. Moreover, in two large California cooperative processors and in two Michigan cooperative processors there are principal dual members, i.e., dual members who hold board positions in the association and cooperative processor simultaneously. In California there are dual members in all bargained commodities processed by the four multiple commodity cooperative processors. California Cannery and Growers cooperative as the largest California cooperative processor states that 40-45 percent of its members are dual.

The documentation is not presented as exhaustive identification of the presence of duality and principal duality. However, it does reveal the extent of duality between cooperative processors and the bargaining associations in the various geographic samples. The presence of both simple and principal duality is, based on these findings, quite widespread and represents non-trivial conduits of communication between the cooperative processing and bargaining association sectors. Estimations of the percentage of volume belonging to bargaining association members that are cooperatively processed as opposed to being cash sales have also been gathered and organized in Table 4-5. These percentages are another indication of the extent of dual member volume and thus the linkage between the bargaining and cooperative sectors.

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Table 4-5 Select Percentages of Bargaining Association
Member Volume That is Cooperatively
Processed: 1978/1979

<u>Bargaining Association Name</u>	<u>%</u>
California Canning Peach Association	25-30
California Canning Pear Association	65
Apricot Producers of California	60
California Tomato Growers Association	29
Michigan Asparagus Committee	15-20
Michigan Tart Cherry Committee	50
Michigan Apple Committee	20-25
PACMA Apple Committee	70

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iv. Price Squeeze Strategies Against Proprietary Competitors. Select cooperative processor managers were asked whether they recognized the feasibility of a price squeeze orchestrated by the cooperative processor sector against the proprietary processor sector by means of influence exerted through the bargaining association. Such a squeeze would work by applying price increasing pressure on the association in order to raise proprietary processor raw product input costs above those that the cooperative processor would pay for its inputs. Of the five multiple commodity cooperative respondents, with two each for the Northwest and California and one from Michigan, only one felt the strategy was possible. The other four respondents argued that:

We would not be able to perform in the pools; A price strategy is difficult to pull off. I can try to influence low input prices and hence make good returns on processing and distribute this to members. This makes the co-op look good but would be a difficult strategy to implement. . . and we would see a greater tonnage in co-ops (moving from cash outlets to co-op outlet). Or we would pay as high a price as possible and force Del Monte's input price up, thus dissatisfying its stockholders with low returns. But then my financial institutions would be on my back for not generating sufficient profits for capital improvements. So I have restraints both ways. As to increasing (your) market share by such a strategy I might make short run gains but not in the long run. Everyone is very jealous of their market share and making inroads is very expensive. And there would be retaliation: At firm X we retaliated against firm Y by cutting price in deep brown beans, which was important to them but not to us, when firm Y tried to take our fruit cocktail market away. This taught them a lesson about pricing in fruit cocktail; and (That in the multiple commodity single pool cooperatives) there is too much (inter-commodity) competition to get participation in a conspiracy.¹

These findings argue the presence of disciplining pressures both internal and external to the cooperative processor organization that mitigate the potential for price squeeze strategies. However, some

¹Industry Sources.

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proprietary processor managers revealed sensitivity to the potential. The proprietary processor manager respondents from California argued as follows:

I am suspicious that dual directorship (principal duals) are resulting in price inflating pressure that will put proprietary processors like (us) at a competitive disadvantage; and, A big problem is dual members because this translates into dual board positions as well. . . . Due to dues paid by cooperatives, association management becomes a client of the cooperative interests. The Association may face pressure to satisfy cooperative interests rather than proprietary processors. This (becomes) truer as the cooperative channel increases.¹

These concerns were also reflected by proprietary processor manager respondents from the Michigan and Appalachian samples.

Bargaining association managers essentially felt that such influences were as follows: unlikely or impossible in the California sample, and possible in the Michigan and Appalachian sample. The California association manager respondents argued that the need for competitive performance by cooperative processors disciplines management against such strategies. One Michigan respondent stated that: "Cooperatives can help make a market without committing themselves legally to a price."² The two Appalachian associations in apples conceded the possibility of such strategies.

Internally Directed Behaviors of Management. Earlier conceptual work suggested that cooperative processor management would respond to the imposition of external constraints on its goal functions by internally directed behaviors. One type of behavior, it was mentioned, was to accommodate the external constraint. Accommodation would be exemplified

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by the acceptance or integration of the constraint as the basis for a decision rule in the organization. An alternative type of behavior in light of such challenge to managerial discretion is for management to exercise other sources of discretion in order to relieve itself of the pressure from external constraints. The findings above present evidence of both types of internal responses to external constraints.

As reported earlier, all cooperative manager respondents indicated that their performance was assessed by reference to the cash market price for raw product. Where such cash prices are produced by bargaining, a focus on bargained prices as the performance reference obtains. The great majority (14 out of 16) of respondents in the California and Michigan samples indicated acceptance of the bargained price levels as performance references. However, many of these accommodating respondents also enumerated sources of internal discretion utilized by management to respond to bargained prices. Before reporting these, an organizational characteristic of the cooperative processors in the sample needs to be noted: multiple versus single pool accounting.

i. Choice of Accounting Rule. In multiple pool accounting the cooperative attempts to maintain cost and return accounting commodity by commodity. In single pool accounting, on the other hand, costs and returns are co-mingled. What is of most interest to the findings and later discussion is the allocation of returns under the two accounting systems. In the former, commodity costs and returns have been accounted separately and, hence, are allocated according to commodity accounts. In the latter, costs have been aggregated and returns have been aggregated. Allocation is then based on some decision rule such as a percentage basis where the percentage is a function of raw product values as each commodity

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is introduced to the pool. All multi-commodity single pool cooperatives in the study allocated returns according to the entry value of raw product: for example, if apples represent 50 percent of the value of all raw products delivered to the cooperative processor based on estimates of cash prices, then apples will be allocated 50 percent of the total net returns of the organization.¹ Where the raw product values are determined by bargaining, then each commodity's total returns (raw product input value and share of net return) will be partially a function of bargained price levels.

ii. Alternative Sources of Discretion. Several managers of processing cooperatives, namely those in the California sample, indicated the desirability of having easily identifiable raw product cash values, such as those produced by bargaining, in order to avoid what was termed the "political mess" that would otherwise result as competing commodities tried to influence the allocation of costs and returns in the cooperative. Embracing bargained prices as the decision rule could serve to relieve managers, it was argued, of otherwise difficult allocative decisions in single pool multi-commodity organizations. Notwithstanding this argument, the widespread accommodation to bargained prices as performance and allocative reference points was accompanied by mention of access to alternative sources of internal discretion which could relieve the performance pressure attendant to such accommodation.

In order to identify the internal sources of discretion which management might avail itself of in responding to an externally imposed performance constraint, cooperative processor management was asked to

¹The study's data set contains observations on nine multi-commodity single pool cooperatives and five multi-commodity multiple pool cooperatives.

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specify what recourse it had if it felt bargained prices were too high. In the total sample, numerous sources of internal discretion were mentioned. Some management argued that it could educate the board as to the validity of cash prices. This finding was prominent in the Northwest, Michigan, and Appalachian samples but not in the California sample. Management also mentioned that it could adjust ex-ante raw product values after ex-post conditions were known: "We can adjust ex-post to cover mistakes in management estimates."¹ The mention of ex-post adjustment of the raw product values used by cooperative organizations as a performance and/or allocative basis was most apparent in the Northwest sample where four out of four managers responded accordingly. No mention of such ex-post adjustment was made by managers of the four California multiple commodity cooperative processors in the sample, although the most recently formed of these four was organized with explicitly low performance expectations in reference to bargained price levels.² Several respondents in the Michigan and Appalachian samples also mentioned ex-post adjustment of raw product values or use of alternative sources of flexibility. Noted by several of these respondents was use of a reserve fund financed by retained earnings which enabled cooperative processor management to meet its performance reference points. Three of the four Appalachian respondents mentioned current use of such a fund, called a reserve, contingency, or stabilization fund. One cooperative processor manager in the Michigan sample mentioned that if it were too constrained to abide by

¹Industry Source.

²Glorietta, see formal statement of intent in prospectus, appendix.

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bargained price levels it would create a reserve fund. Subsequently, a reserve fund has been instituted in this cooperative.¹

Cooperative management was also asked to comment on whether it had access to supply controls. Answers revealed that both quantity and quality limitations were widespread throughout the cooperative processor sample. This finding contrasts with the common presumption that cooperative processors guarantee acceptance of all member product.

Other sources of managerial flexibility were also manifest in the responses of cooperative management. Management of multiple commodity single pool California cooperatives was asked whether the existence of bargaining served to focus its attention on bargained commodities over non-bargained ones. The three respondents representing the three major cooperatives provided indications that they did give primary attention to the bargained commodities in the cooperative; however, the bargained commodities also tended to be the most important commodities by volume in the cooperative. Finally, certain cooperative processor managers indicated pressure from institutional lenders and the possible impact of this pressure on meeting performance references.

B. Sensitivity of Other Cooperative Processor Interest Groups

It was hypothesized that cooperative processor interest groups' interdependence with bargaining association activity would motivate them to respond according to their individual interests. The responses suggested were externally directed ones as well as internal ones. Accordingly, cooperative processor management was questioned as to:

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Grower Member Interest Group Interdependence with Bargaining. The sensitivity of cooperative processor members to bargaining activity is a function of the impact of this activity on their interests. Earlier, the sensitivity of cooperative processor management to bargained price levels was documented. Insofar as grower members make use of bargained prices to measure management performance, they also have an interest in their levels. Such interest offers partial explanation for the extensive dual membership found in all geographic samples. That is, some grower members, as revealed by this dual membership, appreciate the performance pressure on cooperative management that can be produced by an autonomous decision process.

The presence of and motivation for dual membership should also be a partial function of the relationship between cooperative member returns and bargained price levels. Where, as reported earlier, bargained prices are embraced as the allocative basis in multi-commodity single pool cooperatives such a relationship is clear. The existence of grower member interdependence with bargaining provides motivation for the use of dual membership as a conduit of influence.

i. Impact of Dual Members on Bargained Prices. In an attempt to ascertain the impact of cooperative commodity interest group influence on the bargaining association sector, managers of bargaining associations were asked to characterize the direction of price pressure communicated from such interest groups. The three California bargaining association respondents indicated neutral or upwards pressure on price from dual members:

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1) Dual members are on the high side; 2) The difference is fine; and 3) Influence from the cooperatives comes due to grower dual member interest and appreciation of need for a strong bargaining association. This makes the co-op grower even more aggressively in support of the association than cash growers.

An upwards pressure from dual membership on raw product pricing was stated by managers of all three Michigan bargaining associations.

Further insights into the origins and impacts of influence from dual membership are provided in the following quotes by growers who have had personal experience in exercising such dual membership:

1) I think I am different than a cash grower due to Cal Can (cooperative) being my home. But this is good; the processor can't threaten to withdraw my acreage. Because I am a Cal Can grower I can't be unduly pressured . . . I can be a little above the battle because I grow for a co-op;
 2) I have also been on the asparagus MACMA committee (bargaining association) and at the same time a (cooperative) grower. I honestly think there is a conflict of interest. A person belonging to a bargaining committee who sits on a co-op board is going to view the pressure he puts on the market place stronger (sic) than a non co-op member because the very nature of a co-op allows that person to push the market high, and even if the co-op doesn't meet that expectation that year he really hasn't hurt himself or his company that bad (sic). I think it is an unfair advantage and I have served in that capacity in Michigan; and
 3) Some of our members are on the MACMA committees. There is an influence as to price level. We channel our marketing knowledge to the price discovery process. We tend to have a position between cash growers and proprietary processors.

ii. Commodity Interest Group Competition Within the Cooperative.

Further evidence of grower member sensitivity to bargained prices is evidenced in the pervasive documentation by managers of single pool

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multi-commodity cooperative processors of internal conflict over issues of commodity returns.¹ One way that internal interest group competition manifested itself was through interest group pressure on cooperative management to respond to the external environment. Numerous managerial respondents, notably those of the two largest California cooperative processors and those of several of the major Michigan cooperative processors, indicated the presence of commodity interest group pressure to get management to address bargaining associations directly either to support one association's pricing efforts or to control another's.

Several quotes from cooperative managers are illustrative:

1) Commodity groups in the cooperative definitely try to get management to refrain aggressive commodities since it affects the allocation of the pool. And association management would like to be responsive to us but it has its own closer pressure from its membership; 2) Due to the single pool, commodity groups want to exert influence on cooperative management to influence the association;

¹Internal conflict or competition among commodity interest groups can also occur in multiple pool cooperatives as a result of the basis used for allocating costs. Where the basis provides for managerial flexibility in allocating costs, commodity groups may be motivated to encourage selectively advantageous assignment of cost. As reported by one board member of a large Michigan cooperative processor in speaking of his past experience, internal transfers did occur:

Say you have \$500,000 worth of overhead to spread on cherries, prunes, apples, and juice. You start out in the spring with \$350,000 allocated to cherries, \$100,000 to apples, and \$50,000 to something else. You get to the end of the year and find that doesn't work. You find your apple deal could take \$150,000 and prunes cost you \$50,000 so you switch over. You have a bottom figure at the end of the year. You make it come out right by making the necessary changes . . . 99% of the growers had no idea what was going on inside the cooperative. That would have opened up a can of worms.

Such flexibility in allocating costs can be a source of discretion not only for management but also for select interest groups in the cooperative who can influence the internal decision process.

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The only cooperative processor in the Appalachian sample which works with the nascent bargaining association there did not evince interest group pressure on management to support the association. This cooperative processor does, however, have a significant number of dual members.

C. Interdependence Between Bargaining Associations and Grower Processors

Grower processors, or growers who are vertically integrated into processing without using a cooperative structure, also have an interdependence with bargaining activity. This interdependence is due to the impact of bargained prices on expectations of returns in processed product markets. These grower processors are in competition with proprietary and cooperative processors. Yet, like cooperatives, grower processors are beyond the jurisdiction of bargaining associations for valuation of their own raw product production. They thus have the flexibility to value their raw product input at whatever level they care to in order to meet the competition in processed markets.

Some of these grower processors maintain membership in bargaining associations. In the California tomato industry and the Michigan tart cherry and apple industries there is grower processor dual membership. Currently, grower processing in Michigan accounts for 15 percent of tart cherry processing volume and 5 percent of apple processing volume. These figures are estimated to increase to 20 percent and 10 percent in the next 5-10 years.¹

¹Donald Ricks, Agricultural Economist, Michigan State University.

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4.2.2 Responses of the Bargaining Association Sector

A. Attempts to Enlist Cooperative Processor Support for Bargaining

In the conceptual work it was suggested that bargaining association management would be motivated to enlist the support of the cooperative processing sector in its bargaining efforts. To explore the presence of such a response, association managers were asked to describe their relations with the cooperative processor sector. All associations co-existing with cooperative processors, except for the raisin association in California which works with cooperatives through the marketing order, said that they solicited information from cooperatives to help them establish price levels. This sample included the four relevant Northwest associations, five California associations, three Michigan associations, and the two nascent Appalachian associations. The asparagus association in Michigan explained little activity in this regard due to minimal cooperative processing of asparagus.

When association managers were asked to characterize the extent of cooperative management support for bargained prices, the findings, applied against a scale of good, some, poor, were variable: see Table 4-6. These findings indicate generally mixed support in the Northwest, good support in California, and moderate support in Michigan and Appalachia. The characterizations tended to correspond to those association manager respondents who mentioned free riders in regards to payment of marketing fees to the association; mixed mention in the Northwest, little mention in California, and general mention in Michigan.¹ In California, the

¹Free rider here means benefiting from the terms of trade decision process conducted by the bargaining association without sharing in the administrative costs of that process.

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Bargaining Association Characterization
of Extent of Cooperative Processor
Support for Bargained Prices

	<u>Good</u>	<u>Some</u>	<u>Poor</u>	<u>Total Respondents</u>
West Coast				
Northwest	1	2	1	4
California	5	0	0	5
Michigan	0	1	1	2
Appalachia	<u>0</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total	6	4	3	13

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largest cooperative processor pays the marketing fees. All other cooperative processor manager respondents indicated that payment of marketing fees was a voluntary decision of the dual membership.

Efforts to Enjoin the Use of Cooperative Processors as a Haven.

Earlier work hypothesized that the use of a cooperative structure to avoid bargaining would elicit some response from the association sector. Select evidence of such use and response was found in the data.

In California, a suit by an association to challenge the use of a cooperative-type structure to avoid bargaining is currently being played out between the California Tomato Growers Association and a proprietary interest named Tillie Lewis Foods. Tillie Lewis Foods has implemented a partial payment participation plan with growers as an alternative to guaranteeing bargained raw product payments.

In Michigan, the Michigan Agricultural Cooperative and Marketing Association (MACMA) entered itself as a co-defendant with the Michigan Agricultural Marketing and Bargaining Board in a suit by Pro-Fac cooperative against the Board for denying it cooperative status and thereby denying it freedom from bargaining obligations under that state's bargaining law. Central to the original denial of cooperative status under the Michigan bargaining law and to the defense of this administrative judgement in the ensuing court case was the argument that Pro-Fac cooperative is not a producer owned and controlled cooperative. Rather, as was argued, it is controlled by a proprietary interest, Curtice-Burns, Inc.

MACMA, as the bargaining association for crops processed by Pro-Fac cooperative, stood to lose claim to marketing fee revenues if the suit succeeded. Thus, MACMA's participation was largely motivated by

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its interest in maximizing marketing fee receipts by the bargaining associations operating within it. Insofar as Pro-Fac membership benefited from the terms of trade process conducted by MACMA bargaining associations, non-payment of marketing fees that would help defray the cost of that process constituted free riding. Recently an out-of-court settlement was agreed to in which legal action was dropped and MACMA settled for payment of claimed marketing fees.¹

4.2.3 Discussion of Findings

Discussion of the inquiry into accommodations to interrelations between the bargaining association and cooperative processing sectors will stress the impacts on coordination of decisions, distribution, and sources of structural change in markets. Corresponding to the sequence used in reporting findings, the discussion will first address cooperative processor management responses, then cooperative commodity interest group responses, grower processor presence, and, finally, bargaining association responses. Each section will discuss the significance of the overall findings and, where relevant, will stratify by certain characteristics within the sample.

A. Cooperative Processor Management

The earlier conceptual work on general managerial behavior in the firm hypothesized that management would be sensitive to factors that challenge its discretion in meeting organizational and personal goals. In that the existence of bargained prices offer a performance indicator over which cooperative management may have little control, it was argued

¹See Chapter Five, Responses to Bargaining.

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that such a challenge to managerial discretion would be felt by management. The implicit suggestion is that without external performance information, management will control information on performance to serve its interest in preserving discretion and relieving constraint concern. Such behavior has recently been addressed by Salamon in an aptly entitled article: "Corporate Control and Management Misrepresentation of Firm Performance."¹ Salamon's purpose in conducting such research was to test the hypothesis that management controlled firms attempt to exert control over information contained in annual accounting reports so as to misrepresent firm performance. Salamon's results support his hypothesis.

Altering Managerial Discretion. This study's results document cooperative management sensitivity to bargained prices as a performance indicator. The findings also indicated variability in the degree of perceived threat that bargained prices pose to cooperative management performance. This variability showed the California sample of cooperative processor managers being the most accommodating in their responses to the performance threat, the Northwest sample mixed in its accommodation, and the Michigan sample being the least accommodating to the performance threat of bargained prices. Such variability may indicate an evolution in bargaining association and cooperative processor relations in that California has the longest history of bargaining and Michigan the shortest. In California, the bargaining association framework also preceded the cooperative processing framework whereas in Michigan cooperative processing preceded the current form of bargaining activity.

¹Salamon, G.L., 1979.

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The presence of an autonomous performance indicator serves to redistribute information within the cooperative processing organization. One result of such a redistribution is to shift more performance risk (cost of performance) from cooperative membership onto management. As noted by a student of bargaining association and cooperative processor relations, the presence of bargaining can induce a reorientation of managerial goals.¹ The sensitivity of management noted in this study's findings and recognized by others elsewhere² supports the conclusion that managerial discretion is being altered by bargaining association activity.

The total sample of cooperative processors also includes three single crop cooperative processors operating in the absence of any bargaining activity. It can be argued that the absence of an external performance indicator affords management considerably more discretion in valuation of raw product and maximizing the margin between raw product value and processed prices. Current activity to form a bargaining association in California olives offers evidence that cooperative processor members recognize the costs to them of such discretion.

The presence of bargained prices was, in some cases, extremely desirable to cooperative management. As documented by observations of single pool multiple commodity cooperatives, especially in California, though also in the Northwest and Michigan, raw product valuation which is external to the cooperative processor freed management from inter-commodity conflicts within the cooperative. In such organizations the threat to discretion from external constraints was preferable to threat

¹Stuckman, N., 1974.

²Ebert, H., 1974.

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to discretion from internal conflict. Based on these findings it can be concluded that cooperative processors having single pool and multiple commodity organizational characteristics will be supportive of bargaining. Cooperative processors with multiple pool accounting do not have the same grounds for inter-commodity competition as single pool operations. Hence, management there will be less in need of external raw product valuation and thus will be less receptive to bargaining.

Modification of Constraints Through Use of Influence.

i. Externally Directed Protective Behavior Produces an Information Flow. The findings document that cooperative processor management does respond both directly and indirectly to bargaining associations. In terms of responding directly to bargaining association management, all multiple commodity California cooperative managers and some of the Northwest cooperative managers did so. In the Michigan sample, most and in the Appalachian sample, only one out of four communicated directly. Such direct channels of communication have been reported by others.¹ The documented responses of management on whether and how they responded to bargaining associations also indicated use of indirect channels of communication, e.g., use of dual members. Managerial respondents from California and Michigan were most explicit in their use of duality as a conduit. The extent of dual membership documented indicates widespread incidence and, potentially, widespread use of such a conduit.

The importance of both direct and indirect communication between cooperative processor management and a bargaining association is similar to that noted in the earlier discussion of communication between

¹Lang, M., 1977, pp. 42-44; L. Garoyan, 1976; R. Knutson, 1974.

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bargaining associations and proprietary processors: information is flowing. In the aggregate, cooperative processor sector information flows to the bargaining association sector thereby increasing the informational endowment from which bargained terms of trade originate. The following version summarizes one view of the process:

Bargaining and marketing cooperatives¹ will sit down together prior to the bargaining season to analyze market situation and outlook. Bargaining between the bargaining association and proprietary processor determines a base price. This base price becomes the market price as long as the operating experience of the marketing cooperative demonstrates that the bargained price was neither too high nor too low. If this is demonstrated, the marketing cooperative becomes an active price force in the market by raising or even lowering the price to its producers. If the price is raised, the proprietary processor will be forced to raise the price to the bargaining association and independent producers to retain its volume the following year. If the price is lowered, the bargaining association makes an agreement with the marketing cooperative about the appropriate price reduction.²

It can be argued that the information communicated by cooperative processor management will be self-serving information rather than that which serves to move the bargaining process towards terms of trade that are representative of demand and supply conditions. Where cooperative processor influence is heavy by virtue of significant informational input, movement toward the representative market value ideal may be impeded. This point will be developed more at length below.

In summary, the self interest of cooperative management in protecting its performance discretion serves to elicit a flow of information from the cooperative sector to the bargaining association sector. The incentives that induce a flow of information from all sectors result in a higher informational endowment with which to produce terms

¹Marketing Cooperative is a cooperative processor.

²Knutson, W.J., 1960.

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of trade decisions. As noted by one observer of the process, "each group . . . can serve as a check and balance on the other and insure for the producer as nearly as possible that he will receive the true value of his crop."¹ Such aggregations can also 'thicken'² otherwise thin market terms of trade decisions. Where cooperative managers are not responsive either directly or indirectly to the bargaining sector one should expect a commensurately poorer informational endowment for bargaining.

ii. Internally Directed Protective Behavior Redistributes Performance Risk. In addition to hypothesizing externally directed responses in light of performance interdependencies, the study also argued the possibility of internally directed responses to preserve managerial discretion. Such behaviors would have the result of spreading or redistributing performance risk from cooperative management to cooperative membership. As noted by one student of cooperative processor management behavior: "The proprietary company . . . has a sense of urgency to make a profit as opposed to a cooperative that feels it always has an available relief valve by turning to its members to offset its losses."³

Numerous and widespread sources of management discretion, some of which were used by management explicitly in response to bargaining as an external constraint, were revealed by the data. All geographic samples indicated sources of discretion that management could make use

¹Klotzbach, W.J., 1960.

²Hurwicz, L., 1969.

³York, J.C., 1973.

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of. The Northwest and Michigan respondents, as samples having shorter histories of bargaining and less aggregate cooperative processing activity than California, argued that they can counter bargaining information with their own information and, if necessary, adjust input values. Such ability to defuse threats to discretion indicates management rather than member control of the cooperative organization. The priority given by California cooperative management to the performance of bargained commodities suggests another impact: constrained discretion in treatment of some commodities may be relieved by exercising discretion in other commodities. The result can be a redistribution of performance risk onto nonbargained commodities in the multi-commodity cooperative.

Though exercise of sources of managerial discretion has not necessarily been linked to performance pressures emanating from bargaining, it can serve to shift performance risk from management to membership and/or from some membership groups onto others. The aggregate result is to reduce the accountability of management to membership goals. Nevertheless, sources of managerial discretion existing in the absence of external performance pressure such as that produced by bargaining would mean even less accountability. Thus, it can be argued, external performance reference points are desirable insofar as they reduce managerial discretion, redistribute the risk of performance, and mitigate the separation of ownership and control of the cooperative processor. These constitute arguments for cooperative processor members' support of bargaining so as to enhance member control over performance of the cooperative.

iii. Price Squeeze Strategies. Another hypothesized behavior of cooperative processor management was use of influence to produce competitive advantages. Envisioned were attempts by cooperative

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management to influence raw product price levels to the disadvantage of proprietary processor competitors. The origin of this notion can be traced to various reports of pricing strategies in the dairy industry. Such strategies, as documented by Boynton and Williams¹ involve use of reblending rights which result in either proprietary competitors paying more for raw product than cooperatives or internal transfers between types of cooperative producer members resulting in cooperatives underbidding proprietary competitors:

A rather unique type of behavior is sometimes found within markets in the region in areas of very dense milk supplies. The practice involves coops with both Grade A and Grade B intakes which serve both as manufacturing coops and as fluid milk suppliers. The particular conduct is based on the cooperative's ability to shift revenues among Grade A and Grade B producers. Several possibilities exist. Where pool plant requirements are sufficiently low, a cooperative can 'ride the pool' by shipping only enough milk to handlers to participate in the distribution of monies out of the equilization fund. This increases the price the cooperative can pay for milk even though most of it is manufactured. This practice involves a transfer of funds from regular fluid suppliers to producers who primarily are supplying milk for manufacturing use. Another possible practice is that of 'robbing B to pay A.' Through repooling receipts, the cooperative can enhance payments to Grade A shippers at the expense of Grade B shippers. This practice has been employed to attract and keep large shippers, by encouraging them to convert to Grade A even though Grade A suppliers are not needed. A cooperative doing this could offer milk to bottlers at lower prices than competitors and still provide Grade A shippers a competitive net return.²

As summarized by Boynton, because of reblending rights "cooperatives need not return the order blend price to their members, while proprietary handlers must pay independent producers or cooperatives through the order pooling procedures the equivalent of the order blend

¹Boynton, R., 1978; S.W. Williams, et al., 1970.

²Williams, S.W., et al., Supra, p. 80.

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price."¹ R. Knutson has referred to such pricing strategies as an "Alcoa Case"² price squeeze.

The study's findings did not reveal intentional price squeeze strategies. Nevertheless, the presence of significant infusions of information from the cooperative sector throughout the national sample provides a means to introduce price enhancing signals to the bargaining process. Proprietary processor sensitivity to this issue was most evident in the California and Appalachian samples. This can be partially explained by the high degree of dual membership in fruit and vegetable industries of these regions. Moreover, in both regions, as opposed to the Northwest and Michigan, the cooperative processing sectors have dominant market shares in most processed products.³

B. Other Interest Group Influences

Dual Membership: Motives, Results. There are two factors that motivate dual membership of cooperative growers and both are interrelated though not extant for all cooperative processors in the national sample. The first is that cooperative members perceive a beneficial interdependence between bargaining and their returns from the cooperative. Strong cash prices affect the opportunities the cooperative organization faces in processed markets in that competitor's input costs are affected. As argued by an observer of the Michigan industry:

¹Boynton, R., Supra, p. 263.

²Knutson, R., 1974. The Alcoa Price Squeeze refers to the ability of vertically integrated firms to implement a price squeeze against non-vertically integrated competitors. This is accomplished by increasing input costs to the competitor and then cutting price in finished markets.

³Refer to Chapter Two: Economic Impacts.

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Members of processing cooperatives generally believe that (the bargaining association's) role in establishing realistic raw product values works to the advantage of their processing cooperative and that they receive a higher return from joint activities of the two organizations. The raw product price established sets a floor for the industry.¹

Second, for single pool multi-commodity cooperatives using bargained prices as a basis for allocation of returns, access to a bargaining association is a means of competing with other commodity interest groups to determine shares of cooperative proceeds. In fact, the motivation for dual membership by members of single pool cooperatives has two parts: first, the higher the bargained price of x in relation to the other input values, the larger percentage of net returns that will be allocated to x ; and, more importantly given the relative size of raw product value compared to net returns, is that net returns are pooled and thus provide intercommodity guarantees that bargained prices will be paid. Study of the algorithm representing total returns to a commodity in a single pool cooperative reveals that there exist two sources of income and thus two motivations to support bargaining activity:

$$TPR_i = Q_i P_{ri} + \frac{Q_i P_{ri}}{\sum_{j=1}^n Q_j P_{rj}} * \left(\sum_{j=1}^n G R_j - \sum_{j=1}^n Q_j P_{rj} - C \right)$$

Where TPR_i is Total Product Returns to Commodity i .

Where Q_i is total quantity of commodity i delivered.

Where Q_j is total quantity 1 . . . n delivered including i .

Where P_{ri} is cash raw value per unit commodity i .

Where P_{rj} is cash raw value per unit commodity 1 . . . n including i .

¹Stuckman, N., Supra, p. 20.

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Where n is the number of commodities processed including i .

Where Gr_j is gross returns from sales of processed commodities $1 \dots n$ including i .

Where C is other costs.

Thus gross returns ($\sum_{j=1}^n GR_j$) will be diminished by $\sum_{j=1}^n Q_j P_{rj}$ before the

net is distributed. This means that if commodity i 's raw valuation increases, say through higher bargained prices, all other commodities' returns are diminished to pay off $Q_i P_{ri}$ before any net returns are allocated. Each commodity thus finds itself competing to drain off the entire net returns from sales of processed products. As documented, such competition leads to externally directed behaviors through both dual membership and internal pressure on cooperative processor management to respond to other commodity bargaining associations in order to restrain them. Inter-commodity competition also serves to strengthen the commitment of the cooperative organization to value its raw product inputs at bargained price levels.

Some association managers reported that the direction of pressure brought to bear on raw product price by the population of dual members tended to be upwards. These findings come principally from interviews with association managers in California and Michigan. In order to understand the source of such pressure on raw product price, the difference in incentives facing the cash grower population as opposed to the cooperative grower population needs to be delineated. In the former, growers are dependent on cash demand. If prices move upwards quantity demanded by proprietary processors is likely to decrease unless there has been a commensurate shifting in demand. Growers belonging to

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cooperative processors do not share this interdependency with proprietary processors. Cooperative growers, rather, have an assured home in their cooperative organization insofar as management does not impose delivery restrictions. Moreover, cooperative growers expect returns that are a function of value added in processing as well as raw product value. As noted above, the cooperative grower's calculus may be further influenced by the accounting system used for allocating costs and returns among commodities in multiple commodity cooperatives.

The result of dual membership, then, is to send economic signals based on incentives that differ from those facing cash growers to the bargaining association. Such combination of economic calculuses can confound economic signals to the advantage of some groups and to the disadvantage of others. The consequence of this combination may be to move the terms of trade produced by bargaining away from those warranted by demand and supply conditions.

Moreover, mixing the incentives of cash and cooperative growers can impact on the structure of raw product production and processing industries. First, proprietary processors will respond to higher input prices by reducing purchases. Producers selling to proprietary processors thereby lose volume. These producers may try to protect their outlets by vertically integrating into processing. Second, insofar as cooperative processors are not pressured to value their raw product inputs at bargained price levels, cooperative processors may price lower than proprietary competitors in sales of processed products. Under bidding can result in, as Goldberg has suggested, reallocation of market shares between the proprietary and cooperative processing sectors.¹ Such reallocation

¹Goldberg, Ray, 1971, p. 18.

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means increased volumes for members of the cooperative processor and, in the longer run, concentration of production and processing in the cooperatively organized sector.

Reallocation can also serve the interests of those who wish to exploit economies of scale in both production and processing. As argued by Thor,¹ the pursuit of efficiencies in production and processing is a driving force behind the participation of cooperative processor growers in bargaining associations. The long run result of such participation will be, according to Thor, the alignment of economies of scale in production and processing.

Considering for a moment the response of the proprietary processing sector to the structural forces suggested above, one can expect a difference in the length of run, though not necessarily the ultimate outcome, for single state versus multi-state processors. As argued in the discussion of interrelations between the bargaining association and proprietary processing sectors, a lesser ability to subsidize internally between markets or to find substitutes in procurement by single state processors in comparison with multi-state processors should mean more competitive pressure from dual membership on the former than the latter. Hence, the single state processing sector should manifest a faster surrendering of market share than multi-state proprietary processors.

Notwithstanding the tendency of dual membership to promote such structural changes, there are other factors that may compete with pressures from dual membership. One of these is that the bargaining association receives conservative pricing pressure from management of

¹Eric Thor, Agricultural Economist, University of California, Personal Interview.

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cooperative processors. This is especially true where the cooperative uses a single pool to account for multiple commodities; the existence of intercommodity competition produces disciplining pressures both internally and externally. In cooperatives organized according to multiple pool accounting, such commodity discipline does not obtain. Arguing thus, one can expect the economic signals coming from management of single pool multiple commodity cooperatives to contain information that more closely reflects accurate demand and supply conditions.

Another factor that competes with dual member influence toward structural change is the role of dual membership in adhering the cooperative processor to bargained prices. Dual membership between the bargaining association and cooperative processing sectors strengthens grower member voice¹ and enhances the pressure on cooperative management to value raw product inputs at bargained price levels. The production of such adherence, as is especially true for cooperatives with single pool accounting, mitigates the possibility of cooperative processor management underselling proprietary processors and thereby increasing its market share.

Grower Processors and Structural Changes. The role of grower processors in bargaining is influenced by their economic interest in achieving economies of scale in production and processing. Satisfaction of this interest under current market conditions requires grower processors to increase their market share of processed product. One way to achieve such an increase is to use dual membership to influence high

¹In conjunction with the impact of strengthened member voice is the threat of member exit. Dual membership, however, is an alternative to exit as a system of grower control.

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bargained prices. When cash producers lose their volumes as proprietary processors decrease their purchases in response to high raw product prices, grower processors can increase their own production and undersell proprietary processor competitors. A combining of scale economies in production and processing permits lower raw product values and/or processing margins to be recouped in lower production and/or processing costs. In summary, grower processors have an economic interest in stimulating a redistribution of production and processing market shares to themselves.

C. Bargaining Association Interdependencies

Revenues from the Cooperative Sector. Characterizations from the California sample of bargaining association managers indicate that California cooperative processors value the terms of trade determination process conducted by bargaining associations. Nevertheless, where the value of this determination process is enjoyed but not supported monetarily by cooperative processors, these cooperatives are free riding on those who do pay for the products of bargaining activity.

Lang, in his exhaustive research into the characteristics of bargaining associations, discusses free rider issues drawing on the conceptual work at Olson's inclusive and exclusive goods.¹ Lang focuses on the use of exclusive informational goods as one factor mitigating free ridership.² This study has revealed cooperative grower cognizance of and response to interdependencies with bargaining activity which can also mitigate free ridership. This cognizance seems especially acute, as

¹Lang, M., 1977; M. Olson, 1965.

²Ibid., pp. 40-42.

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evidenced by the extent of dual membership, in multi-commodity cooperative processors using single pool accounting.

Where bargaining associations are supported monetarily by the cooperative processing sector, the costs of the terms of trade decision process are spread over a larger population of growers. Where such costs are not spread, then one sector bears all the costs of producing the terms of trade products while the other sector can still enjoy the products without defraying the costs. In the long run, such differentials in costs may translate into competitive advantages between sectors.

i. Challenges to Association Jurisdiction. Bargaining association managers in select environments were also revealed to avail themselves of legal sanctions to modify responses to bargaining. Suggested by Lang and briefly probed in this research was the possibility that raw product might be channeled into the cooperative processing sector in order to avoid the constraints of bargaining.¹ Forms of such diversion have been identified in the sample observations from California and Michigan. In both states legal sanctions have been advanced to serve the bargaining associations' interest in preserving jurisdictional authority over transactions between growers selling to proprietary interests. Where such transactions can be subsumed under a cooperative organization or, as in California under a participation plan, the authority of the bargaining association may be diminished. This is because bargaining explicitly applies only to transactions between growers and proprietary interests and not to transactions between growers and cooperatively organized processing organizations or between proprietary interests and growers

¹Ibid., p. 41.

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organized under participation plans. The willingness of bargaining associations to invite legal sanctions in order to preserve their jurisdiction can contribute to a reduction of the rights of former free riders as the opportunities for avoiding the constraints of bargaining are foreclosed.¹

D. Summary

Discussion of findings on the accommodations to interrelations between bargaining associations and cooperative processors has developed the ramifications of participation of cooperative interest groups in the bargaining process. It has also given central emphasis to the co-existence and conflicts of interest of different grower interest groups in bargaining. Some general conclusions were suggested:

- 1) The simultaneous membership of growers in a bargaining association and a cooperative processor can serve to integrate and commit the cooperative processor to bargained terms of trade;
- 2) The choice of accounting system, i.e., multiple pools or single pool, for multi-commodity cooperative processors produces variable incentives for cooperative grower members and their managements to communicate with bargaining associations;
- 3) The combination of economic incentives facing vertically integrated grower groups (cooperative processor growers and grower processors) with those of growers selling raw product through the bargaining association to proprietary processors can produce confounded economic signals in the bargaining process and pressure for structural change. These

¹The performance ramifications of some organizational forms will be addressed in the following chapter.

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results are magnified according to the relative importance of the vertically integrated grower sector in markets where bargaining takes place and the extent of communication between this sector and the bargaining association; and

4) Bargaining associations solicit support from the cooperative processors, have problems with free riders in the cooperative processing sector, and may solicit legal sanctions to deter the use of cooperative organizational forms when used to circumvent the jurisdiction of bargaining associations. These association behaviors mean that the association is open to influence from the cooperative sector, that some cooperative processors enjoy cost advantages over parties to bargained cash transactions by virtue of free riding, and that certain uses of cooperative organizational forms invite the costs of legal challenge.

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CHAPTER FIVE
STRUCTURAL RESPONSES OF PARTICIPANTS:
FINDINGS AND DISCUSSION

Introduction

This chapter will concentrate on the interrelations between cooperative processors and proprietary processors and the identification and explanation of responses by these organizations to their interrelations suggested in the applied conceptual work. Accordingly, it will attempt to explain structural responses by these participants in farmer bargaining. The structural responses of interest are proprietary processor exit from fruit and vegetable processing and a rise in the percentage of raw product moving through cooperatively organized market channels. The chapter will first look at reasons for proprietary processor exit from fruit and vegetable processing as recorded by proprietary processors. Following this, the chapter will look at another type of structural response termed "organizational responses" in the conceptual work. The reporting of these findings will be directed towards addressing both the transition of proprietary processors to cooperative ownership and the development of organizational linkages. The latter area will emphasize the case of joint ventures of variable forms where, essentially, the risks of price movement of processed product are spread onto the grower population involved in the linkage.

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Following the presentation of findings will be a discussion organized around performance issues of distribution, coordination, and structural organization of markets. The intent of this discussion, as in the prior two areas of inquiry, will be to highlight conclusions and set the stage for an integrative concluding chapter and enumeration of select policy implications.

5.1 Findings

5.1.1 Motivation For Proprietary Processor Exit

One of the hypotheses guiding this research was that the observed reduction in numbers of processing establishments in the fruit and vegetable industries could be partially explained by the pressure on processor margins attributable to farmer bargaining. In order to explore this hypothesis, data was compiled from both secondary and primary sources. The secondary data was used to test two null hypotheses: 1) there is no difference in the rates of processor exit between states with bargaining and states without bargaining; and 2) there is no difference in the rates of processor exit between crops with bargaining and crops without bargaining in the same state. The primary data was compiled to document proprietary processor explanations for exit from processing.

A. Secondary Data

Two tests of hypotheses were performed to explore a causal relationship between farmer bargaining and diminution of numbers of processing establishments in fruits and vegetable industries. In the first, data from the Census of Manufacturers was compiled for the years

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1967, 1972, and 1977.¹ Percentage change in total number of processing establishments for Canned Fruits and Vegetables (SIC 2033) was calculated for each state listed. These percentages were stratified into two groups, one of states manifesting bargaining partially or wholly during the period in any fruit or vegetable as identified by Lang,² and the other of states not evincing any bargaining activity. Using the Student T test of differences in means of percentage change, tests were conducted to test for significant difference in means between those states with some bargaining activity for the period and those without.

Test results indicated the inability to reject the null hypothesis for the periods 1967-1977 and 1972-1977 at the .01 level of significance that there is no difference in rates of processor exit between those states with bargaining and those states without bargaining. Furthermore, a test with the percentage change weighted by a factor of two from 1967-1977 in states with bargaining compared to unweighted percentage change for those states without bargaining also resulted in inability to reject the null hypothesis at the .01 level of significance.³

¹Census of Manufacturers, 2033 SIC, 1967, 1972, 1977 preliminary.

²Lang, M., 1977.

³

	Sample Parameters		1967-1977 (weighted*2)	1972-1977	
	1967-1977			B	NB
<u>Status bargaining:</u>					
with=B, without=NB	B	NB	B	B	NB
<u>Statistics</u>					
Mean ($\bar{x}$)	-19	-25	-39	-14	-13
Variance (σ^2)	180	518	722	32	289
Sample size (n)	8	15		8	15
T calculated	.65		1.259	.15	
Ho: Mean B=Mean NB					
d.f. = 21					
result (.01)	not reject Ho:		not reject Ho:	not reject Ho:	

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For the period 1967-1977, the Census of Manufacturers shows a national percentage change in numbers of canned fruit and vegetables processing establishments of -26 percent. For those states with bargaining activity during this period, the percentage change is -19 percent. For those states listed without bargaining activity the percentage change is -32 percent.

Tests performed with data from The Directory of Cannery, Freezing, and Preserving Industries were similarly structured and compared samples of commodities with and without bargaining activity in the same state.¹ Data were sufficient to perform such tests for the states of California, Michigan, Oregon, Washington, and Wisconsin. For each of these states, the researcher was unable to reject the null hypothesis at a .01 level of significance that for the period 1968-1978, there was no difference in the percentage change in numbers of firms processing bargained commodities versus those processing non-bargained commodities.²

¹The Directory of Canning, Freezing, and Preserving Industries, 1968-1969, 1978-1979.

²See following page.

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Wash.

Wisc.

Sample Parameters

Status Bargaining with=B, without=NB	Calif.		Mich.		Ore.		Wash.		Wisc.	
	<u>B</u>	<u>NB</u>	<u>B</u>	<u>NB</u>	<u>B</u>	<u>NB</u>	<u>B</u>	<u>NB</u>	<u>B</u>	<u>NB</u>
Mean ($\bar{x}$)	-32	-1	-22	-56	-33	-35	-16	-44	-21	-39
Variance (σ^2)	375	1570	1015	3148	2235	2936	2516	4652	173	1478
Sample size (n)	11	19	8	21	5	14	9	9	5	12
T Calculated	1.53		1.56		.07		.936		.96	

Ho: $\bar{X}_B = \bar{X}_{NB}$

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There are certain limitations affecting the use of this data, however, that may challenge the meaningfulness of any findings.¹

In summary, using data from the Census of Manufacturers and The Directory of Canning, Freezing, and Preserving Industries, the study found that: 1) there is no evidence that the rate of processor exit in a sample of states with bargaining was greater than the rate of processor exit in a sample of states without bargaining; and 2) there is no significant difference in rates of processor exit from a sample of bargained crops compared with a sample of nonbargained crops in the same states.

B. Primary Data Explanations

Primary data was generated in an attempt to provide more precise findings than those contained in secondary sources. Proprietary processors in all geographic regions studied were asked to cite reasons for proprietary exit from processing in their raw product procurement area. The method for soliciting explanations for proprietary processor exit was to ask the following open question: "How do you explain the exit of proprietary processors from fruit and vegetable processing?" Several reasons were cited, of which two interrelated ones are displayed in Table 5-1.

¹When the directory identifies a firm by state in its commodity listing, this does not necessarily mean that the firm processes that commodity in that state. The directory does not provide a listing of commodities processed by firms by states. Thus in using this data one is assuming for major commodities that the firms listed by state under that commodity do in fact process that commodity in that state. Though this assumption can lead to certain mis-estimates of the numbers of firms by commodity by state, these mis-estimates are likely evenly distributed between the segmented populations of firms.

Table 5-1
Select Reasons Cited by Proprietary Processors
To Explain Exit by Proprietary Processors

	Cooperatives Have Competitive Advantages	Cooperatives Have Lower Raw Product Input Costs	Total Interviewed
California	3	3	4
Michigan	9	8	16 ^{2/}
Appalachia ^{1/}	<u>1</u>	<u>1</u>	<u>3</u>
Total	13	12	23

Notes: ^{1/} Net of 4 processors who replied in reference to their experience procuring raw product in Michigan.

^{2/} The 4 processors excluded in ^{1/} (Duffy Mott, Seneca/Ag. Co., Musselman, and National Fruit) included in the Michigan Sample.

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Cooperative Advantages. Out of 23 proprietary processors interviewed (including 2 processors recently transformed to cooperative ownership),¹ 13 cited cooperative processor competitive advantages with 12 of these 13 stating that these competitive advantages consisted of or included lower raw product input costs. Of this population of 23 proprietary processors, 3 out of 4 California processors cited these advantages and 8 out of 16 total processors with experience in Michigan cited these advantages.

The Appalachian sample of 7 proprietary processors included 5 which had experience in the Michigan bargaining environment as well. Of these 5, only 2 cited cooperative competitive advantages as a reason for proprietary processor exit decisions. Within this Appalachian sample of 7, 3 had themselves exited from processing in the state of Michigan. And of these 3, only 1 cited cooperative competitive advantages as a reason for exit. Furthermore, only 1 of these 3 specifically cited bargaining as the reason for its exit.² The other 2 argued that bargaining was only a partial explanation.³

Notwithstanding the large percentage of proprietary processors who argued the competitive advantage of cooperative processors as a reason for proprietary processor exit, when asked whether cooperatives were the responsible party for price cutting in finished sales, the majority of respondents (9 out of 11) indicated that the cooperative processor sector is no more responsible for price cutting in sales of

¹Bay View Orchards, Sawyer Fruit and Vegetable Cooperative.

²Seneca.

³Duffy Mott, Musselman.

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finished processed products than were proprietary processors.

Bargaining Pressure. The other principle reason cited by proprietary processors to explain exit was bargaining. Of 23 possible respondents (counting the 2 firms that used to be proprietary but who have recently transformed to cooperative ownership),¹ 18 cited bargaining as an explanation for processor exit. Responses as to the importance of bargaining were variable. Hence, an attempt was made to enumerate these responses according to a gradient in order to provide a more accurate assessment of proprietary processor observations. The gradient used was yes, partial, uncertain, and did not cite. These terms approximately correspond to the answers of respondents. This gradient was used to develop Table 5-2. In the California sample of 4 proprietary processors, only 2 cited bargaining as a possible explanation and both indicated that they were uncertain as to its explanatory force. Turning to the sample of 16 proprietary processors with processing experience in Michigan, 4 out of 16 indicated that, yes, bargaining did constitute the explanation for processor exit. Of these 4, 3 were single state operations and 3 have transformed themselves to partial or total cooperative status. Eleven out of 16 possible respondents from this Michigan sample indicated that bargaining was a partial explanation. Of those indicating partial, 8 are multi-state operations. Thus out of the total Michigan sample, only 1 proprietary processor failed to present bargaining as an explanation of processor exit.

¹Bay View Orchards, Sawyer Fruit and Vegetable Cooperative.

Table 5-2 Comments by Proprietary Processor Managers on Whether Bargaining Is A Reason for Exit by Proprietary Processors

	Yes, It Is A Reason	It Is A Partial Reason	Uncertain As To Whether It Is A Reason	Did Not Cite It As A Reason	Total Number Of Possible Respondents
California	0	0	2	2	4
Michigan	4	11	0	1	16
Other ^{1/}	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>3</u>
Total	5	11	2	5	33

Notes: ^{1/} Three proprietary processors headquartered in Appalachia who also purchase in Michigan or have purchased in Michigan.

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Combined findings as to reasons for processor exit from Table 5-1 and 5-2 indicate that though the California sample either did not cite or cited with uncertainty the role of bargaining, that 3 out of 4 California respondents cited cooperative advantages due to lower input costs. In the Michigan sample where the attribution of exit to bargaining was more apparent, 8 out of 16 respondents cited cooperative advantages, and 8 out of 16 cited both explanations simultaneously.

Other Reasons. Various processors also cited the existence of alternative explanations for proprietary exit from fruit and vegetable processing. Of the 23 total processors in the sample with proprietary processing experience, 14 mentioned that there were other reasons than bargaining or cooperative competition which could explain decisions by proprietary processors to exit from the industry. Of these 14, 2 were from the California sample of 4 and 12 were from the Michigan sample of 16. Some of the alternative explanations offered were environmental regulations in disposal of waste, managerial problems, estate planning, desire to consolidate operations closer to certain markets, unacceptable variance in rates of return in fruit and vegetable processing, and high opportunity costs of capital investments. Of course, these latter two explanations may be influenced by interrelations with bargaining associations and cooperative processors. Several processors specifically mentioned the unacceptable distribution of risks in bargaining: "when push comes to shove," cooperative processors will value inputs at lower levels than proprietary competitors thus shedding the risk of too high input prices.¹ Other processors made

¹Industry Sources: California, Michigan.

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certain positive statements such as: "Michigan is a good place to do business;" "We may come back to Michigan," (this comment was by a processor who had exited from Michigan citing bargaining and competitive advantages of cooperatives as partial explanations but also noting that raw product value represents a small percentage of final value of processed sales); and "I don't think any processor has exited due to bargaining. There are other cost reasons. If processors do respond this way it means they haven't used the bargaining tool they have. If Duffy Mott left because of bargaining why didn't they try to use bargaining more than they did? Processors just roll over and play dead. There are other reasons for exit. Musselman was faced with management problems. That is why they left (from Michigan). It was a corporate decision in St. Louis and Musselman wasn't entirely happy with the decision."¹ These findings provide varied indications of the impact of bargaining and cooperative competition on proprietary processor exit.

As an addendum it might be noted that many processors in the sample (9 out of 23) cited inadequate rates of return as the exit decision variable. Low rates of return in fruit and vegetable processing are well documented by Touche and Ross accounting reports.² Of these 9 respondents, all were multi-state operations. No single-state proprietary processing operations developed the rate of return explanation explicitly.

5.1.2 Transition in Ownership of Processing Facilities

This section will report some findings on the process of transition

¹Industry Sources.

²See Touche and Ross, Appendix.

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from proprietary ownership to cooperative ownership of processing capacity. The intent is to present findings that can illuminate the forces behind the increasing cooperative processing market share being evinced in several bargaining environments.¹ The suggested argument is that transition of ownership may be partially explained by proprietary processor perception of and responses to illiquid grower investments in fruit and vegetable production which make growers reluctant to terminate production.

A. Proprietary Perception of Resource Availability

Proprietary processors were asked to cite reasons for the transition of processing to cooperative ownership upon proprietary processor exit from processing. The responses from the proprietary processor sample indicated sensitivity to the adjustment costs of growers. Fifteen out of 20 proprietary processors from the combined samples of California and Michigan acknowledged that: 1) the transition was a function of attempts by proprietary interests to utilize grower resources including shifting risk onto growers; and/or 2) the transition was partially explained by proprietary interest recognition of the adjustment costs of grower production investments. The first explanation was cited by 11 out of a sample of 20, breaking down to 2 out of 5 addressing the California experience and 8 out of 15 addressing the Michigan experience. Of the Michigan sample, 4 single state operations and 4 multi-state operations constitute the 8 respondents.²

¹See Chapter Two: Economic Impact.

²The Michigan respondents included 4 organizations that also operate in Appalachia.

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The second and closely related explanation was cited by 11 out of 20 proprietary processors. The breakdown was 4 out of 5 from California and 7 out of 15 from Michigan. Combining the explanations indicates that 15 out of 20 proprietary processors were sensitive to the existence of resources located in the grower sector. The breakdown was 5 for 5 in California and 10 for 15 from the Michigan sample. Single state and multi-state processors both showed sensitivity to the grower sector resources: in Michigan, 2 out of 5 single state processors with proprietary processing experience and 6 out of 10 multi-state operations revealed such sensitivity.

Proprietary processor perception of accessible grower resources is suggested by various comments from this sample of proprietary interests. Many respondents, 14 out of 20, made explicit comments indicating their perception that going cooperative, i.e., effecting a transformation of ownership, was a readily available alternative. All 5 processors in the California sample and 9 out of 15 in the Michigan sample made comments to this effect. Examples of such comments are as follows: 1) "We could get bailed out by growers;" 2) "A buy out of growers is a feasible strategy;" 3) "We are thinking of going joint venture;" 4) "We are considering imitating cooperatives;" 5) "We may have to respond;" (to the use of competitive advantages or entry barriers).¹ The public comments of the chairman of the board of one large national proprietary processor in response to a question also manifest sensitivity to accessible grower resources:

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¹Industry Sources.

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Chairman: I think for the business we're in, we've set some fairly ambitious goals. There are a lot of others in the industry that don't have, perhaps, the same number of requirements on return on investment that we have. I think one example is cooperatives, that enjoy certain financial relationships and certain packaging relationships that make our numbers attractive to them. Cooperatives are certainly an area that we would look to in the disposal of assets, or whatever it is that doesn't fit into our guidelines.¹

This particular processor has recently disposed of some of its California processing facilities to a grower cooperative organization called Pacific Coast Producers.

The responses from the proprietary processor sector indicate an appreciation of grower resources in the form of cooperative organizations. Some of the comments are more explicit than others in stating how these resources might be used. In order to gain more insight into how grower resources might be utilized by the proprietary sector, interests who have been involved in transition of processing facility ownership were sampled to ascertain reasons for such transition. These findings follow.

B. Cooperative Management Perspective

Cooperative Processor Management was asked to cite reasons for the transition of the processing sector to cooperative ownership. Their responses essentially reflected grower distress and the need to protect grower investments. All 4 multiple commodity cooperative processor managements in California and 5 out of a sample of 7 cooperative processor managements in Michigan indicated the illiquidity of grower

¹ Alfred J. Stokely, Chairman of Stokely-Van Camp.

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investments, which results in the reluctance of growers to terminate production, as being an explanation for the transformation of ownership.

A number of cooperative processor managers also perceived the transformation of ownership to be motivated, at least in part, by proprietary interest in gaining access to grower resources. This was the perception of 3 out of the 4 multiple commodity California cooperative processors and 5 out of the 7 Michigan cooperative processors. Several cooperative processor managers who were previously managers of the facilities under proprietary ownership provided some interesting comments on the transformation process:

- 1) The growers in Glorietta had no choice but to pick up the processing costs... Tillie Lewis (a proprietary processor) is spreading the risk onto growers. When you can't be sure of profitability, you take growers in to share in the risk... This offers Tillie Lewis competitive advantages that others will study;
- 2) The sale of Elk Rapids Packing Company to growers was a forced buy out with old management running it. This was a grower mistake having put themselves in a dependent position;
- 3) The trend in the fruit industry is that one day the processor tells the grower to either buy them out or the plant will be closed down. Bargaining isn't the reason at all. This is just a transfer strategy to get growers to pick up the costs;
- 4) We went coop in 1974 because we felt the risk of doing business as a proprietary processor (in Michigan) was too great. We felt (that) risk needed to be spread back to the grower if he'd accept it. We also wanted to avail ourselves of farm credit. So growers now bear all the risk and growers share in all the potential gain. My growers also had no alternative but to accept the cooperative transformation.¹

In summary, the immobilities of grower investment in production appear to be an important explanation for the transformation of ownership in the processing sector. The proprietary processor sensitivity to

¹Industry Sources.

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opportunities, i.e., resource availability, as a function of these immobilities has elicited strategic responses by the proprietary sector. These responses are similarly apparent in the findings on motivations for organizational linkages to be explored next. Indeed, transition of ownership and linkages between the sectors seem to be motivated largely by appreciation of accessible resources in the grower sector.

5.1.3 Proprietary Linkages With Growers

Developed in the conceptual work was the idea that proprietary interests would respond to market and financial conditions by seeking out sources of discretion. Envisioned were behaviors to merge the resources contained in both the proprietary and grower sectors. The findings presented here explore the incorporation of grower resources.

In discussing the motivations for the transformation of proprietary organizations to cooperative ownership reported on above, many proprietary processors were also addressing the motivations for linkages between the two sectors. The explanation for linkages generally cited by proprietary processors was the desire to utilize resources in the grower sector. Resources mentioned were the availability of grower capital, the ability to spread risk onto growers, and the institutional resources available to cooperatively organized producers. By looking at the motivations cited for both the transition and linkage of sectors, the study has identified a widespread, almost unanimous proprietary appreciation of resource availability in the grower sector.

It has been suggested by students of structural change in the processing industry that other proprietary motivations for linkages

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(integration) with grower interests are the ability to ensure availability of raw product input supplies and the ability to control quality of raw product in order to conform raw product input characteristics with marketing needs. Insofar as these motivations are realized through linkages, the planning uncertainties faced by both the grower and proprietary interests may be alleviated, and reduced risks and lower costs may be obtained. Nevertheless, the distributions attendant to such integration remains a fundamental aspect of linkage arrangements. Managers of proprietary interests are expected to desire a risk distribution that enhances their discretion in managing.

Extensive interviews were held with 3 organizations currently involved in linkage arrangements with growers. One was a so-called "participation plan" organized and currently being implemented by the Tillie Lewis Foods, Inc. division of Ogden Corporation. Two other linkage arrangements studied are so-called "joint ventures" between a proprietary interest and cooperatively organized growers: Pro-Fac/Curtice-Burns and Seneca/Ag Co. The general interest being manifested by the proprietary processing sectors in organizational linkages suggests some structural as well as distributional impacts. As argued by management in one major California proprietary processor:

To us the Tillie Lewis plan means that Tillie Lewis is getting product cheaper. This will eventually challenge our market share. So I tell the association (California Tomato Growers Association) not to let their barrier down. Don't ever agree to it! If CTGA agrees to Tillie then we'd have to drop our own plan...We can play this game of promising a lot and never delivering also.

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such linkages also portends structural trends.¹ Management of one major processor in the Michigan sample says it is just waiting for the right moment to implement its own joint venture. In an attempt to trace specific motivations for linkages of the above varieties, the next sections will look at findings concerning participation plans and joint venture organizations.

A. Participation Plans

Comments by a processing organization operating in the apple industry indicate that a participation plan can substitute for fixed inputs costs and therein more closely resemble some of the potential discretion afforded management in cooperative processor organizations:

On our participation plan the open pricing clause gives me full flexibility in allocating costs and deciding how profit will be shared. The growers have to trust me. I put a clause into the contract to ensure myself capital payments. Nothing protects the growers but me. Growers sign because they need a home for product.

Comments by management of Tillie Lewis Foods, Inc. show a similar intent to those quoted above:

In our tomato participation plan, the growers put up the tomatoes at the going price and we put up the other costs. If we cover costs plus we split the profit according to grower share in total costs of producing and selling the product ... As to equalizing our status in competing with cooperatives, the coops can lay 100% of profit or less on growers and we can lay only 25% which is (approximately) the grower contribution to full costs...we are after a smoothing effect in returns.

Samples of the agreements on which such plans are based can be found in the appendix to this study.

These two participation plans are seeking to utilize growers as a resource for spreading risks involved in the processing industry.

¹Silver Mill, Michigan Quality Foods, National Fruit Products.

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²Ibid.

Both plans present a cooperative type relationship between growers and the processing organization. However, the control of the organization is, unlike the cooperative analogue, firmly held by proprietary interests.¹

Though relief from bargaining may not be the specific target of such plans, bargaining is, arguably, a relevant factor insofar as it coerces proprietary processors to sustain fixed raw product input costs while competing cooperative processors may exercise raw product input cost flexibility. As argued by the president of Tillie Lewis Foods, Inc., Tillie Lewis is trying to match perceived competitive advantages of the competing cooperative processor sector.²

In summary, participation plans are motivated by managerial interests in increasing their discretion in meeting performance goals. This desire has impelled proprietary management to seek out the available resources and such resources have been located in the grower sector. The major resources being utilized in such participation plans are as follows: 1) use of grower capital by means of deferred payment for raw product inputs; 2) input price flexibility by not guaranteeing meeting cash market value being paid in the surrounding market; and 3) discretion in the sharing of profits and losses by means of proprietary-controlled allocative decision-making. These resources provide potential input price flexibility and a spreading of risks of processing and marketing. The demonstrated willingness of growers to

¹Though the Tillie Lewis plan is seeking to achieve a competitive basis with cooperative processors in California as stated by George Visgilio, President of Tillie Lewis Foods, Inc., the decision processes that will define and allocate costs and determine management performance are controlled by the proprietary interest. See Appendix for transcript of comments.

²Ibid.

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accept such linkages attests to either a grower desire to bear the risk of proprietary discretion in decision making or to limited alternatives for marketing raw product.¹ It is the perception of the California Tomato Grower Association that growers sign up under the Tillie Lewis participation plan in order to protect a home for their raw product and, therefore, to protect on-farm production investments. The Association also noted that the transition to participation plan transactions decreases the volume of raw product that is bargained. Faced with a threat to its jurisdiction, the California Tomato Growers Association has attempted to enjoin such behavior in the proprietary processing sector by both amending the state bargaining statute and bring suit against Tillie Lewis Foods, Inc. under the California bargaining statute, citing interference with membership of an association.² The legislative effort was unsuccessful and the litigation remains unsettled.

B. Joint Venture Case Study

The joint venture is a variant of organizational linkages between proprietary interests and the grower sector. Earlier in this study, it was argued that a joint venture organization was a means of subordinating grower resources to proprietary use. The findings to be presented below, will explore this argument by focusing on a case study of two joint venture organizations. Inasmuch as both of the joint ventures are significantly identical, the section will not treat each separately

¹In growth markets, like apple juice currently, participation plans offer growers an opportunity to share in value added in processing and marketing without making investments in processing facilities.

²Bill Thomas, Counsel CTGA., Exec. V.P., California Food Producers, Inc.

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other than to draw on the pool of managerial responses. Given that one of the joint ventures is modeled on the other and that many other joint venture plans present in the processing industry are similarly modeled, this section will use one organization as the principal paradigm for this merging of proprietary and grower resources.

The joint venture addressed here is an organization comprised of a grower interest (Pro-Fac Cooperative) and a proprietary public stock interest (Curtice-Burns Foods). The grower interest is a farmer cooperative vertically integrated into processing and the proprietary interest provides the management and marketing expertise. The cooperative owns the processing facilities, rents them to the proprietary arm, and supplies, according to well specified agreements, raw product to be processed and marketed by the proprietary firm. The growers' relationship with the organization is to supply the cooperative element with a specified volume of product according to contracted tonnages which, in turn, are a function of the marketing needs of the proprietary firm. The growers are represented in their cooperative by an elected board of directors which works closely with the board of directors of the proprietary organization.¹

¹Agway, a farmer cooperative directly engaged in product manufacturing, processing, distribution, wholesale purchasing, and marketing for its farmer-members, owns approximately 33% of the combined shares of both classes of stock of Curtice-Burns. It also owns 96% of Curtice-Burns' outstanding class B shares which have the exclusive right to vote for the election of 70% of the directors of Curtice-Burns. Agway, by virtue of Pro-Fac by-laws, also is entitled to nominate one of the directors of Pro-Fac Cooperative. Neither Pro-Fac nor all Pro-Fac growers belong to Agway. However, if all Pro-Fac growers did belong, they would constitute less than 1% of the over 122,000 members of Agway. (See Prospectus, Pro-Fac Cooperative, Inc., p. 102).

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¹ Ibid.

² Ibid.

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The terms of trade between the two organizations are specified in a series of four agreements: a lease, a loan agreement, a management agreement, and a marketing agreement. Specifically, there is a guaranteed transfer value of raw product, called Commercial Market Value, which is defined as "the weighted average of the prices paid by other commercial processors for similar crops sold under pre-season contracts and in the open market in the same or competing market area."¹ Inasmuch as the cooperative is a single pool multi-commodity organization which procures and processes raw product in 6 states including New York and Pennsylvania with their nascent bargaining efforts and in Michigan with ongoing farmer bargaining, there exist numerous interdependencies among regional and commodity interest groups. Profits or losses on sales of finished Pro-Fac Cooperative products are split 70%/30% with 30 percent representing the commission to the proprietary arm for its processing and marketing services.² The proprietary arm pays a rent to the cooperative for the use of the plant and equipment.³ The proprietary interest also has the right to defer payments to the cooperative and to utilize cooperative capital sources. Given that the joint venture agreement may produce sources of managerial discretion in performance, the next section will review certain components of the aggregate terms of trade that link the two organizations.

Terms of Trade Determination. Of perhaps central interest is

¹Ibid., p. 9-10.

²Ibid., p. 69.

³Rent equals Pro-Fac's depreciation, interest and other costs which are associated with the operation of the facilities and, since 1977, an adjustment (which may be positive or negative) based on profitability of all products sold by Curtice-Burns. Ibid., p. 27.

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²Ibid

the process for determining the raw product transfer value, termed commercial market value or CMV, between Pro-Fac and Curtice-Burns. As stated in the joint venture prospectus, CMV is determined by the joint CMV committee, consisting of representatives from Pro-Fac and Curtice-Burns.¹ In making the CMV determination, "the joint CMV committee acts on the basis of data supplied primarily by Curtice-Burns concerning open market prices for various crops."² Though market information is also solicited from commodity committees in Pro-Fac, decisions as to CMV are, as reflected in the following comments by a past member of one of the commodity committees, primarily a function of market analysis performed by Curtice-Burns:

Curtice-Burns management has control of information. This was evident when I worked on the commodity committee for the tomato growers. A big part of the committee's work was to establish CMV. But we were dependent on Curtice-Burns management to collect information. It was difficult for us to refute their argument. We had no independent resources to assess management information. This is still true today. When the company is so large that it has a substantial percentage of the market, the CMV has little meaning.

Another aspect of the CMV price determination process is its timing; CMV is established ex post. This price following stance was noted by the Pro-Fac grower quoted above:

Curtice-Burns plays no role in establishing CMV. It just responds. CMV is established after the fact so it is safe for management... My gripe with the CMV is that it doesn't put the monkey on management's back. Management won't have to work very hard to make CMV back to Pro-Fac.

¹The joint CMV committee consists of two members appointed by the chairman of Curtice-Burns, two members appointed by the president of Pro-Fac, and a fifth member appointed by the other four.

²Ibid., p. 52.

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In the Seneca/Ag Co. joint venture, a similar process takes place. The simultaneous president of Seneca, the proprietary arm, and general manager of Ag Co., the cooperative arm, candidly admits his control over the CMV decision process and his ex post stance as regards raw product valuation:

Growers aren't able to collect information themselves; they don't have resources. If there is disagreement about CMV the Ag Co. board has final say though they ask me for my recommendations. When I disagree with the commodity committee on CMV, I just ask them to prove their position. I don't have veto power but in the management agreement I am manager of Ag Co. and this gives me a lot of flexibility...Growers are negative about the fact that we merely reflect cash price and thus do not help strengthen it. We do just follow.

Related to the CMV process, it can be argued, is the influence of supply controls that may be implemented in the joint venture organization. In both joint ventures, the proprietary arm has the right to dictate supply cutbacks. In Seneca/Ag Co., management has the right to dictate a 20% cutback with 60 days notice which is less than an annual crop's growing period. In the Pro-Fac/Curtice-Burns organization, cutbacks of up to 100% may be effected with one year's notice and are accompanied by stock repurchases by the Pro-Fac organization if the cutback is a permanent one.² As stated by an individual who is simultaneously vice president of Curtice-Burns and general manager of Pro-Fac:

If we have a consistent loser, Curtice-Burns is the one who says 'we don't want to continue running peas if we aren't making any money.'³

In response to the question of whether any cutbacks had been challenged

¹Don Naeye, Seneca/Ag Co., Interview.

²Pro-Fac Cooperative Prospectus, p. 50.

³Hugh Hill, Pro-Fac/Curtice-Burns, Interview.

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by the cooperative, this individual said that such challenges had been made but that no Curtice-Burns recommendation for a supply cut-back had ever been denied. It was also noted that the one year waiting period may be waived by Pro-Fac to let Curtice-Burns adjust even more quickly. It might be suspected that the power to dictate such supply controls would mitigate any upwards CMV price pressure advanced by the cooperative interest in the joint venture.

Though the joint venture agreement guarantees that Curtice-Burns shall pay the CMV to the cooperative organization, the concomitant ability to share profits or losses with the cooperative organization lessens the risk of such a guarantee. Moreover, the emphasis on a guaranteed CMV does not, as explained in the prospectus,¹ mean that grower members will receive CMV from the cooperative. Rather, losses incurred by Curtice-Burns will be spread onto Pro-Fac thus reducing the proceeds available for distribution. In response to this possibility, an insurance mechanism called the CMV stabilization fund has been implemented in Pro-Fac to, in effect, put away some of the allocable proceeds above CMV in 'fat' years in order to make up deficient allocable proceeds, i.e., below CMV, in 'lean' years. The primary result is to preserve the integrity of the guarantee on CMV.² Comments by a board member of the joint venture indicate that the purpose of the stabilization program is to allow Curtice-Burns management to still look competitive in poor profit years.

¹Pro-Fac Cooperative Prospectus, p. 56.

²Since 1978, the stabilization fund has been amended but still serves the same function. Ibid., p. 55-56.

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The joint venture arrangement also gives Curtice-Burns access to cooperative sources of capital through loans from the Bank for Cooperatives system. Hence, the cooperative organization serves as a conduit for cooperative funds to reach proprietary uses. These funds are loaned by Pro-Fac to Curtice-Burns at essentially the same rate of interest at which the monies were loaned by the Bank for Cooperatives to the Pro-Fac organization.

The cooperative arm is organized on a single pool basis with allocations to commodity groups made on the basis of CMV. The result of single pool accounting for multiple commodity organizations affords, as described in chapter four, opportunities for internal transfers, the degree of which is probably unclear and difficult to calculate.¹ However, the possibilities for transfers in a 6-state, 15-crop organization are numerous and mean that crop performances in terms of patronage to growers are interdependent. In spite of these interdependencies, Pro-Fac members do not tend to be aware, according to management, of relative crop performance. Management's explanation for such ignorance was that management purposely does not disseminate relative profit and loss performance information in order to avoid conflict among commodity and/or regional groups. As argued by a board member of the joint venture, controlling such information makes for a smoother running of the joint venture:

I agree that growers would like to know such comparative performance information but we don't have near as homogeneous a group of people as when they aren't informed. As long as the

¹Proprietary processors accounting for multiple crops also results in internal transfers in the same sense as described here for cooperative processors.

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totals are right we aren't concerned with the above. Such paternalism serves to protect the insurance benefits of pooled performance but can also be expected to conceal the distributive consequences. Curtice-Burn's preference for single pool accounting has been reaffirmed by its refusal to accept grower demands for separate pools in the recent purchase of Comstock Foods which has also been organized on a cooperative basis.

An additional aspect of the joint venture which may impact on proprietary management discretion as it taps the resources of the grower sector are issues of control over management of the cooperative organization. In the Pro-Fac/Curtice-Burns joint venture, the Pro-Fac Cooperative management serves at the behest of Curtice-Burns. This is because the management team which constitutes Pro-Fac management recognizes that its career lies with the proprietary organization. The management structure of Pro-Fac Cooperative is limited and upward mobility is perceived to lie within the Curtice-Burns management structure.¹ This perception can impact on the responsiveness of Pro-Fac management to select Curtice-Burns management goals such as reduced risk, stable rate of return, and less constraint concern. As these goals are served by shifting risk onto the Pro-Fac organization and drawing on the resources of grower membership, the obligation of Pro-Fac management to serve grower interests and proprietary interests simultaneously may be contradictory. In the long run, Pro-Fac management should be rendered accountable to its grower membership by the need to maintain supplies of raw product. However, in the short run, the adjustment costs faced by growers and the lack of information on which to

¹Based on interview with Pro-Fac Management.

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evaluate management's performance impede mobility of resources and the concomitant discipline on management.

The original motivations for the two joint ventures in this case study are also illuminating. As recounted by a director of Pro-Fac, Agway Cooperative in the early 1960's was concerned with the deterioration of the canning industry because it meant a deterioration of Agway's market as a supply cooperative. To protect outlets for both Agway and growers, a joint venture concept was developed wherein growers would contribute capital and a proprietary organization would contribute the management expertise. The desire to have the proprietary arm in control of the organization is attested to by another director when he argued that part of the original intent was to control selfish commodity interest groups; "We wanted management (Curtice-Burns management) to be a disciplining force."

The president of Seneca-Marion Foods and general manager of Ag Co. cooperative is candid in articulating both the intent of his joint venture and the reluctance of the grower members to join:

Being a joint venture offers consistent supply, better financing, and low cost capital...our motive for going joint venture was a desire to expand and that we saw bargaining hurting the little guy...honestly, 50% of the growers accepted the joint venture reluctantly...we knew growers wouldn't have a real choice about going (with a) joint venture cooperative. We felt that we had to protect our stockholders, including myself as the third largest stockholder in S.S. Pierce, the parent company, from state by state bargaining.¹

In summary, the benefits to the proprietary arm of the joint venture organization center around control of raw product prices and supplies and access to low cost grower capital through grower

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investments and Bank for Cooperative capital. These benefits have been explicitly touted by Hugh Cummings, President and Chief Executive Officer of Curtice-Burns.¹

Potential benefits accruing to grower membership in a joint venture organization of the Pro-Fac/Curtice-Burns variety also warrant enumeration. As noted by Hugh Cummings, growers enjoy a guaranteed outlet for their raw product production, they have access to managing and marketing expertise, and share in pre-tax earnings from marketings of products with brand identities.² These benefits, however, need to be qualified by the issues raised in the findings presented above.

Responses To Bargaining. Before turning to a discussion of these findings, some observations on the relationship between bargaining activity and joint venture organizations will be noted. As mentioned above, Seneca Foods, a proprietary processor before it devised a joint venture with Ag Co. cooperative, maintained that it left Michigan in response to the introduction of bargaining over raw product terms of trade. Management stated that it feared the constraints that bargained terms of trade would impose on small proprietary processors such as itself. In addition, management explicitly saw a joint venture arrangement offering protection from the constraints of bargaining if bargaining were to be introduced in New York state.

The Pro-Fac/Curtice-Burns joint venture has responded to the introduction of bargaining in the state of Michigan by claiming

¹ See H. Cummings Speech in Appendix.

² Ibid.

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cooperative status for Pro-Fac Cooperative, Inc. under the Michigan bargaining law, P.A. 344. Such status frees cooperatives from the obligation of paying marketing fees to the bargaining association. It also frees them from handler status and the obligation to bargain terms of trade for raw product with a properly accredited bargaining association. An Assistant Attorney General of Michigan, however, decided in August, 1975 against the request of Pro-Fac Cooperative for exclusion from P.A. 344. The Michigan Agricultural Marketing and Bargaining Board which is the authority for administering the act, accepted the decision of the Assistant Attorney General and denied Pro-Fac Cooperative, Inc. exempted status under P.A. 344. The basis of the denial was that Pro-Fac Cooperative, Inc. was not a cooperative owned and controlled by producers in the jurisdiction relevant to the bargaining law, i.e., in the bargaining unit. In response, Pro-Fac Cooperative, Inc. filed suit against this administrative authority, citing that Pro-Fac Cooperative, Inc. was a cooperative association as defined under the Michigan bargaining law and thus qualified for exempted status. Additional issues, including Constitutional questions, are also raised in the suit.¹

Recently, an out of court agreement has been reached between Pro-Fac Cooperative, Inc. and an intervening defendant, the Michigan Agricultural Cooperative Marketing Association (MACMA),² whereby Pro-Fac Cooperative, Inc. will remit its delinquent marketing fees to MACMA and MACMA will accept the Pro-Fac organization as a Cooperative

¹Case No. 75-2819-CZ, Circuit Court for the County of Berrien.

²MACMA is the bargaining association for Tart Cherries, Apples, Kraut Cabbage, Asparagus, and Potatoes under Michigan's bargaining law, P.A. 344.

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organization. The agreement does not argue that Pro-Fac Cooperative, Inc. is a grower owned and controlled cooperative, merely that it is a cooperative organization. Relevant to this study are issues raised by this suit in regards to the use of joint venture organizations as a means of incorporating the cooperative institution and its resources. The results of such incorporation, if it obtains, will be discussed below.

5.2 Discussion

The following discussion will amplify the above findings by exploring some ramifications of structural responses. The discussion will begin by focusing on simple exit responses of proprietary processors. This will be succeeded by discussion of transformation of ownership in the processing industry. Transformation will be treated in essentially two parts: 1) simple substitution of grower ownership for proprietary ownership; and 2) organizational linkages between grower and proprietary interests.

5.2.1 Proprietary Exit Responses

The findings reported above indicate that there are multiple explanations for decisions by proprietary processors to exit from fruit and vegetable processing. The secondary statistical analysis found no evidence that bargaining influenced rates of exit. Notwithstanding these findings, proprietary processors generally argued that bargaining was a relevant variable influencing exit decisions. The marked uncertainty of California respondents as to the importance of bargaining contrasted with Michigan respondents where both multiple and single state operations argued generally that bargaining was at least a partial

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explanation. The difference in sensitivity between the two major bargaining environments in the study's sample suggests a difference in adaptation to bargained terms of trade. The historical recency of bargaining in Michigan has been developed elsewhere in this study.

Among the sample of three real 'exitees' from the Michigan environment, only one argued that bargaining was the primary constraint that drove them from the state. The other two presented bargaining as only a partial explanation with one of these two saying it was considering returning to Michigan. The variation in emphasis given to bargaining as the impetus behind exit responses suggests other explanations. Indeed, the great majority of the sampled population in both California and Michigan cited competitive advantages of competing cooperative processors. These respondents tended to focus on advantages in input costs arguing that those of cooperatives were lower.

The perception that cooperatives have competitive advantages was prevalent in California even though the California multi-commodity cooperatives evidenced single pool accounting and used bargained price levels as the allocative basis. There are some explanations for this emphasis. First, proprietary processor management is failing to appreciate the impact on cooperative management of:

- 1) single pool inter-commodity competition; and 2) the widespread dual membership between the cooperative processing and bargaining association sectors. These factors, as documented in the data presented in chapter four, can reduce if not negate cooperative management's ability to exercise competitive advantages over proprietary processors by valuation of raw product inputs below bargained price levels. Second, it can be argued that proprietary sensitivity to cooperative

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flexibility in input valuation is not due to a perception of yearly subvaluation but to the ability of cooperative management to shed periodic price risks onto the grower population. The potential ability of cooperative processors to be free of certain price risks can offer them competitive advantages over proprietary processors who are constrained to honor bargained input prices without recourse to reduced or delayed payments to growers. However, such competitive advantages should be less available to cooperatives that are multiple commodity in composition and use single pool accounting. In Michigan where single pool accounting and the use of bargained price levels as a basis of decision making have lesser incidence, the competitive advantages of the cooperative sector over the proprietary sector should be greater. This helps explain the apparent heightened sensitivity of Michigan proprietary processors to the constraints imposed by bargaining than is demonstrated by the proprietary processor sample from California.

Sensitivity to competition from cooperative processors in both environments is exacerbated by the relative importance of the cooperative processing sector. Where as in California and in select commodities in Michigan, the cooperative processing market share is large, decisions by the cooperative sector have accordingly larger impact on the proprietary processors. Furthermore, single state proprietary processors who lack the alternatives in procurement enjoyed by multiple state proprietary processors should be commensurately more impinged upon by competition from the cooperative processing sector.

The enumeration of other arguments for proprietary exit from processing compound the explanation of structural change in bargaining

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environments. Some respondents emphasized that rates of return in processing were inferior to rates of return in marketing and that exit from processing was a function of reallocation of resources to more profitable areas. Garoyan and Thor in a recent study of structural change in the California bargaining environment also offered several explanations:

We must be careful not to attribute structural changes in the number of producers and their scales of operations, and of changes in processing and marketing firms directly or entirely to activities of bargaining cooperatives. There are many economic and technological variables at work which impact on industrial organization.¹

In summary, the presence of multiple forces eliciting structural change in bargaining environments have been argued by proprietary respondents in the sample. It can be concluded that factors attributable to bargaining are contributing to exit by proprietary processors; some of this exit may be because marginal investments in processing are being reallocated elsewhere. The emphasis given by the industry to competitive advantages of the cooperative processing sector, where cooperative management is disciplined to embrace bargained prices for valuation of raw product, is unwarranted. However, the widespread attention given to competition from the cooperative sector argues for focusing more closely on use of grower resources in this sector. Above mention was made of the ability of cooperative processor organizations to shed periodic price risk onto growers. This and other resources, as will be developed below, can constitute sufficient competitive advantage regardless of bargaining to elicit proprietary exit from processing.

¹Garoyan, L., and E. Thor, 1978, p. 143.

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5.2.2 Transition in Ownership of Processing Facilities

The discussion above developed explanations for discrete exit responses by proprietary processors. However, exit by proprietary processors may, as has been shown, also involve changes in ownership of processing facilities.

The findings document proprietary processor cognizance of available grower resources whether as a client to buy out the processing investment or as a resource over which to spread certain risks of processing. This cognizance was manifested by proprietary processors in both the California and Michigan environments and, in Michigan by both single and multi-state operations. Thus, proprietary processor structural responses to opportunities and exposures in markets with bargaining is partially explained by a motivation to capture resources located in the grower sector. Such responses can be motivated regardless of bargaining.

The willingness of growers to use their resources to vertically integrate into processing is an indication of the immobilities of on-farm production investments. Short run immobilities of production investments encourages the grower sector, when faced with loss of market outlets, to integrate into processing and thus assume the costs, risks, and low returns to capital invested in processing. This is to the advantage of owners of processing facilities or to marketing firms who want to reallocate capital to its most valued use.

Grower immobilities can, in the short run, serve to maintain excess capacity in the processing industry. Moreover, with grower control of processing facilities, volumes processed may be increased in pursuit of combined scale economies of production and processing. Evidence of such behavior is offered by recent vertical integration of

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tomato processors in California. These behaviors can be expected to contribute to a reallocation of production and processing market shares.

In summary, there is evidence that structural responses by proprietary interests are motivated by access to resources in the grower sector. Several results of the transformation of ownership of processing have been mentioned. First, the costs of processing are being redistributed to the grower sector. Second, grower immobilities serve to discount the economic signals carried by low rates of return in processing. Moreover, the vertical integration of production and processing introduces a new scale economy calculus. In the short run, these results mean a preservation of processing capacity but now under grower ownership and control. In the longer run, this ownership and control will contribute to a redistribution of market shares of production and processing. Such results are, arguably, somewhat variable by annual versus perennial crops. This would be true insofar as crop production investments are less immobile in annuals like tomatoes than in perennial crops like peaches or apples.

5.2.3 Proprietary Participative Linkages With Growers

The incorporation of growers' resources in the proprietary realm was further explored by studying participation plans and joint ventures. Several students of participation plans have previously noted that the motive for such linkages is to spread the risks of processing and marketing onto the grower sector.¹ For example, by basing returns to

¹ Jackson, D. 1962; M.A. Blum, 1964; E.P. Roy, 1970; Roy A. Goldberg, 1971; E.H. Squire, 1973.

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growers on returns to sales of processed products, the risk of price change is spread among both the grower sector and the proprietary sector according to the allocative rule. In participation plans in the sugar beet industry of the 1950's, as studied by Jackson, the grower share was approximately 58% of the net while they bore 75% of the risk.¹ This distribution reflects the ability of the proprietary interest to allocate the distribution of risk to its advantage. Other participation plans, such as those of the Florida citrus industry, may be designed to assure the proprietary processor that its cost and commission are covered before a net is allocated to producers.² In participation plans generally, grower returns are a function of returns to sale of processed products less whatever costs the proprietary interest assesses against total returns. Such guaranteed coverage of costs provides little or no incentive for proprietary processors to increase their efficiency in processing and marketing.³

The motives for organizing participation plans suggested by others are reflected in this study's inquiry into participation plans; by engaging a grower population in a participating linkage, proprietary interests can shed risks of processing, marketing, and it should be emphasized, raw product valuation. The aggregate result is to afford proprietary interests discretion in performing their processing and marketing function. Such discretion may result in less than efficient processing and marketing decisions thereby reducing potential returns to the grower participants. Growers often have

¹Jackson, D. 1962, pp. 12-15.

²Blum, M.A., 1964.

³Jackson, D., 1962, p. 15.

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little means other than exit to discipline the proprietary interest. Indeed, replacing a fixed terms of trade transaction with a cost-plus-commission guarantee to the proprietary interest can be expected to result in exercise of sources of discretion. The result of the redistribution of risks under participation plans will be to reduce grower returns to the extent that managerial exercise of discretion produces: 1) behaviors that increase costs applied against total returns; and 2) behaviors that reduce the absolute value of total returns.

A. Joint Venture Case Study

As documented in the study of Pro-Fac/Curtice-Burns and Seneca/Ag Co., joint ventures between cooperatives and proprietary interests arise as a means of gaining access to and controlling grower resources. By sharing losses as well as profits, the risks of price change and poor managerial performance are shared by the grower partner. Moreover, by having control of delivery levels, the proprietary arm can influence internal terms of trade such as the valuation (commercial market value) of raw product inputs. Grower dependence on proprietary information strengthens such influence. If grower resources are immobile, this further enhances the ability of the proprietary management to exercise areas of discretion in its transaction with the cooperative arm. In summary, the ability to spread risk over an additional set of resources reduces the risks of conducting processing and marketing operations for proprietary management.

Managerial Performance. Proprietary management's behavior in a joint venture is influenced by its obligation to achieve a satisfactory rate of return. This obligation produces the following results. First,

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costs will be minimized where possible in order to increase the margin of profit. Cost minimization puts the proprietary arm in direct conflict with the cooperative arm which, corresponding to its goal function, wants the raw product input value (the commercial market value) to be as high as possible. The pressure on this margin, for reasons listed above, is clearly in favor of the proprietary interest. Second, insofar as management is either evaluated on the basis of stock performance or itself owns stock, it will have an interest in reducing rate of return variability. This is because stock performance reflects not only the absolute rate of return but also its variability from year to year. A joint venture affords the proprietary arm the ability to shed price and cost risk onto growers and thereby mitigate variability in stock performance. The effects of a joint venture on management, then, are as follows: 1) proprietary management can protect its performance by exerting downward pressure on input costs; 2) the ability to shed risk onto the cooperative partner can enhance the wealth of stockholders; and 3) insofar as the joint venture increases managerial discretion, certain inefficiencies in management may result reducing the potential returns to participants in the joint venture.

Use of Grower Capital. The joint venture also serves to channel growers' capital resources to the proprietary partner. The means are several. First, growers may be making low or no cost loans to the proprietary partner by virtue of deferred payments for raw product. Second, the existence of a stabilization fund can be used to construct an illusion about managerial performance; it can create the illusion that growers are always doing as well in the joint venture as they would be selling in cash markets. Such a fund may constitute an

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intergenerational loan among growers as well. Third, capital resources of growers are being tapped to pay for investments in processing thereby allowing proprietary capital to seek higher valued use. Finally, grower access to capital resources through their cooperative status means proprietary access to the same resources.

Structural Consequences. Joint ventures, or participative linkages generally, have implications for the structure of the processing industry. The incorporation of grower resources can provide competitive advantages in input costs, capital costs, and performance risk. Such advantages have variable impact on the population of competing processors. For those processors unable to mimic these competitive advantages, the competitive pressure will result in exit. Those competitors who survive the competitive pressure will be those who respond in kind. Thus, the competitive advantages attendant to participative plans induce not only concentration of the processing industry but also the proliferation of this variety of organizational structure.

Some recent actions by proprietary processors in the California tomato industry are bearing out the prediction that these sources of competitive advantage will be responded to in kind. Hunt-Wesson Foods, Inc., the largest purchaser of tomatoes for processing with an estimated 16.4% of the 1978 state crop and Contadina Foods, Inc. with 8% of the 1978 state crop have both announced new raw product procurement bases explicitly directed at mimicking the procurement basis of cooperative processors and proprietary processors with participating contracts. As stated by Hunt Wesson Foods, Inc. of Norton Simon Company:

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To protect Hunt-Wesson and our growers for the long term, we must purchase tomatoes on some form of participation in growing profits as well as processing profits, which will reduce the CO-OP and "participating contract" cannners' advantage of being able to pay less than the full raw product price, to make deferred payments, and negotiate for high raw product prices to give them flexibility in finished product selling prices. The alternative to such a concept might be joint ventures with growers, or selected company farming ventures.¹

And as noted by the president of Contadina Foods in a letter to the executive vice president of the California Tomato Growers Association:

It has now become apparent to us at Contadina that we have to be competitive with the other proprietary members of the industry as well as with the CO-OPs. We sell a significant amount of our tonnage in competition with co-ops and smaller cannners who we anticipate will be offering participative types of contracts providing protection² to them should the industry continue to have excess supplies.

Using the 1978 crop percentages, and including the 5.9% of the crop procured by Tillie Lewis Foods on a participation plan basis and the 24.7% of the crop that was processed in the cooperative processing market channel in 1978, a total of 55% of the California tomato crop could be processed on a non-cash basis. These actions to substitute participation plans for bargained terms of trade portend further reductions in the cash market channel and further concentration of processing and marketing of fruit and vegetable products.

Information Impaction. Participative plans and joint ventures also impact on the ability of decision processes to communicate information. This is true for both the organizational decision process and the market decision process. In the participative organization, proprietary management can spread the risk of performance in processing and marketing onto

¹See appendix for full text: Hunt-Wesson: "Index Pricing," California Tomatoes, 12/12/79.

²See appendix for full text, Contadina Foods, Inc. 12/18/79.

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the growers. Thus proprietary management, though it may bear control of the organizational decision process, does not bear full cost of inefficient behaviors. The growers on the other hand, bear a portion of the cost of managerial performance inefficiencies but have little ability to exert control over the decision process. The result is as follows: by failing to conform to the distribution of risk, the distribution of control in participation plans and joint ventures is unable to provide the informational feedback that corrects managerial inefficiencies; growers bear the cost of managerial discretion.¹

In relation to the greater market decision process, the standard procedure of participative linkages such as joint ventures is to conduct raw product input valuation after competitors have valued their inputs.² This lag in valuation removes proprietary management's information from the cash terms of trade determination process; that is, by responding to raw product valuation ex post rather than ex ante, the economic content of price signals produced in cash markets has a thinner basis. Moreover, the absence of managerial informational inputs to the cash terms of trade determination process can result in cash values that diverge from those actually warranted.³ In the context of bargaining, ex post valuation has two primary effects. First, the economic signals carried by bargained terms of trade are thinned, and to the extent that this biases the economic signals, their ability to reduce

¹See Marion, B.W., 1976, for an attempt to chart distributions of risk in joint ventures.

²This is also the input valuation procedure generally used by cooperatives.

³For a discussion of issues related to thin market price determination, see N.C. Project 117, Monograph # 7, University of Wisconsin, Madison, February, 1979.

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the risk in production, processing, and marketing decisions is hindered. Second, by adopting bargained prices ex post, any source of bias in economic signals is reaffirmed rather than corrected. Under conditions of bias, reaffirmation can exacerbate the bias. As participation linkages proliferate, these tendencies are magnified increasing the risks to the residual participants in cash markets.

5.2.4

Summary

This examination of structural responses by proprietary processors in bargaining environments began with a focus on simple exit decisions and ended with a study of close alliances between grower and proprietary organizations. It was found that structural change in farmer bargaining environments is motivated by multiple factors, one of which is bargaining. However, more important than bargaining it was revealed, is the competitive coexistence with cooperative processors. The ability of cooperative organizations to draw on grower resources was perceived to offer significant competitive advantages. Such advantages, though, are less forceful where the cooperative organization uses single pool accounting with multiple commodities and thereby becomes committed to bargained terms of trade. Nevertheless, the ability of cooperative organizations to spread performance risk onto growers and to draw on other grower resources united to elicit an imitative response by the proprietary sector. The first response studied was a transformation of ownership whereby proprietary investments are made liquid and flow elsewhere while growers assume the costs of processing. The next responses studied were participative linkages between proprietary and grower interests whereby grower resources could be incorporated while proprietary control was maintained. Grower willingness to

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accept the consequences of such structural responses by the proprietary sector is explained largely by immobilities of grower resources.

Several performance issues were raised regarding aspects of distribution of risk and returns, structural changes in bargaining environments, and the coordinating impact of economic signals. The grower sector was seen to be sustaining increased costs and risks as compensation for channeling its resources to proprietary utilization. Incorporation of such resources was argued to be affording competitive advantages and inviting other proprietary interests to respond in kind. Finally, the economic information present in proprietary-grower linkages was said to be impacted and thereby jeopardizing the accuracy of production, processing, and marketing decisions.

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CHAPTER SIX

CONCLUSIONS AND POLICY IMPLICATIONS

Summary

This research analyzes the market interrelations created by the imposition of farmer bargaining. It does so by focusing not only on market interrelations between bargaining associations and proprietary processors but also on the market interrelations between these two participants and cooperative processors.

Chapter Two offered a descriptive overview of all states with farmer bargaining with special attention given to the states of California, Oregon, Washington, Idaho, Michigan, New York, Pennsylvania and Virginia. The compiled structural data in Chapter Two indicated a 26.2 percent decrease nationally in the number of canning processing establishments in fruits and vegetables between 1967 and 1977. Statistical tests showed, however, no evidence of a higher rate of decrease in states with farmer bargaining than in states without farmer bargaining. Data also revealed the market share of the cooperative processing sector in farmer bargaining to be above 40 percent in many industries and increasing. In conjunction, these data indicated a decreasing and often low percentage of raw product moving through cash market channels. These structural findings presented many issues to explore in the research, the major one being causality between interrelations in farmer bargaining and change in market structure.

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The description information on the legal and economic characteristics of the subject matter presented in Chapter Two was followed in Chapter Three by the presentation of a conceptual framework for studying interrelations in farmer bargaining. The conceptual framework was designed to offer a systematic representation of participant behaviors. It used a model of organizational behavior stressing the notions of managerial preference for discretion, organizational slack, endogenous market conditions, and interest group competition.

Using this framework, Chapters Four and Five analyzed interrelations among the participants in farmer bargaining. Chapter Six will summarize the conclusions developed in the discussion sections of previous chapters and will specify certain policy implications.

6.1 Conclusions

6.1.1 Area of Inquiry: Bargaining Association-Proprietary Processor Interrelations and Accommodations to Interrelations

This area of inquiry was based on the proposition that bargaining associations and proprietary processors would respond to the opportunities and exposures created by farmer bargaining by using information to influence terms of trade to their individual advantage. The aggregate national sample of bargaining associations and proprietary processors exhibited this response. The result is a pooling of information on market conditions. It can be argued that this aggregation of information provides the potential for generating terms of trade with a different informational content and, accordingly, closer affinity with terms of trade that reflect demand and supply conditions than would be determined in the absence of farmer bargaining.

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Stratification of the sample by geographic location suggested variation in the pooling behavior outlined above; areas with a longer history of bargaining activity, such as the West Coast, revealed better characterizations of communication between the bargaining association and proprietary processor sectors than Michigan and Appalachia with their more limited histories. Insofar as historical experience is an explanation of such variation, bargaining environments can be expected to manifest an evolutionary process in moving from weak to strong intersectoral communication.

A. Specific Uses of Information

The findings also indicated some specific varieties of intersectoral communication related to content and strategic use of information. Bargaining associations generally manifested limited attention to market conditions beyond raw product markets: only 50 percent voluntarily indicated concern with processed product market conditions. This finding suggests a narrow and short run focus that may not serve the longer run interests of bargaining association members and proprietary processors. Stratification by location showed California associations to evince a more complete system view than other associations in other states. Again, this variation can be explained by historical experience. It can also be explained by the existence of close working relationships between California cooperative processors and the respective bargaining associations. This relationship channels processor concerns, e.g., concerns with processed product and consumer markets, to the bargaining association.

As to strategic use of information, the existence of differential terms of trade bargained between an association and the respective

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proprietary processors was revealed to have widespread national incidence. On the one hand, differentiation in treatment can encourage participation in bargaining by proprietary processors insofar as differentiation is used as a threat to late signers. However, it can also produce select competitive advantages and may invite legal challenges.

Related to differential treatment by associations is the general interest shown by proprietary processors in uniformity of raw product terms of trade. Stratification by location revealed that West Coast proprietary processors perceived input price uniformity to be a benefit from bargaining while Michigan and Appalachian proprietary processors would not credit bargaining with producing price uniformity. This difference can be a function of historical experience. It can also be a function of the difference in the extent of involvement of the cooperative processing sector in bargaining. For example, California cooperative processors are generally more closely aligned with bargaining associations and, accordingly, more committed to bargained terms of trade, than are cooperative processors in Michigan and Appalachia. Such alignment serves to produce input price uniformity among processors. Where uniformity in raw product terms of trade does not obtain throughout the processing sector, bargaining may not be capturing the potential reduction in procurement risk to participating processors.

The data also revealed that bargaining associations were sensitive to disciplining economic pressures. For example, the national sample provided evidence of the disciplining impact of input substitutability on association behavior. Such association sensitivity dilutes the argument that bargaining offers associations the opportunity to dictate terms of trade with impunity.

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Related to the disciplining force of substitute opportunities on association behavior in advancing terms of trade is the varying ability of proprietary processors to avail themselves of such competitive force. Information presented in the findings and in Chapter Two indicates that in several states, especially in California and Michigan, there was variation by ownership, i.e., conglomerateness, and by geographic reach, i.e., multiple versus single state operations, among the proprietary processing population. Consequently, uniformity of treatment of proprietary processors by bargaining associations can exacerbate inequality among proprietary organizations; that is, uniform terms of trade can be expected to afford some proprietary processor organizations competitive advantages over others with concomitant structural impact.

6.1.2 Area of Inquiry: Bargaining Association-
Cooperative Processor Interrelations and
Accommodations to Interrelations

The primary proposition in this area of inquiry was that interest groups in the cooperative processor and bargaining association sectors share interdependencies and would respond to them.

A. Cooperative Management

Focus on cooperative processor management as one interest group in the cooperative sector showed management to be sensitive to bargaining activity. However, within the total sample management showed variable willingness to be constrained by this sensitivity, i.e., to recognize bargained terms of trade as a performance goal. Management in California was the most willing, with that in the Northwest mixed in its willingness, and that in Michigan being the least willing. Again, experience with bargaining activity appears to be an important explanatory variable.

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However, the predating of cooperative processing by bargaining association activity in California can also help explain the more accommodating adaptation there. Moreover, the general use of single pool accounting by multiple commodity cooperative processors in California tended, as will be more fully addressed below, to render cooperative management accountable to bargained prices as a performance reference. The samples from Michigan and Appalachia showed less incidence of single pool accounting for multiple products than the California sample.

The import of such sensitivity on the part of cooperative processor management is that it reflects a redistribution of information within the organization; that is, bargaining produces performance indicators, alters managerial discretion, and serves to redistribute risk of performance to management. However, the process of managerial accommodation to a lessening of discretion does not necessarily end with a redistribution of risk and the accompanying heightening of performance pressures on management. Rather, management, it was posited, responds further in order to relieve itself of performance pressures through externally and internally directed responses.

The findings first revealed externally directed responses, especially in the sample from California and Michigan. The responses assumed the character of direct, i.e., cooperative processor management to bargaining association management, and indirect, i.e., cooperative processor management via dual membership growers to bargaining association management, types of communication. (Dual membership consists of growers belonging simultaneously to a cooperative processor and bargaining association.) Such communication produces a flow of information from the cooperative processing sector to the bargaining association sector. This can

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enhance the informational endowment of bargained terms of trade. Where such flows of information are less apparent, as in the Northwest and Appalachian samples, a lesser informational endowment is expected. Furthermore, where the cooperative processing sector is prominent in its market share of raw product processing, as was the case in all bargaining environments sampled, the informational pool used by the bargaining association to bargain terms of trade can be biased toward cooperative processor interests.

Cooperative management in the sample also, it was revealed, had access to internal responses by which to shift performance risk back to cooperative membership. Widespread access to supply controls, internal insurance reserves, and selective treatment of commodities in multiple commodity organizations offers management the means by which to partially counter performance pressures. The result is not only to shift risk of performance back to membership, and not necessarily uniformly among interest groups, but also to reduce managerial accountability to membership. It can be suspected, however, that such ability to shift risk and reduce accountability is less where bargaining is present as an external performance reference point than where it is absent.

It was also posited that cooperative management might try to influence bargained terms of trade in order to win competitive advantages over proprietary competitors. No explicit evidence of such behavior was found in the sample of association and cooperative processor respondents. Various disciplining factors such as single pool accounting, the threat of new entrants, and retaliation were mentioned as deterring such behavior. Nevertheless, arguments can be advanced to question whether or not the economic signals communicated by the cooperative processing sector serve

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to promote cash grower or cooperative grower interests and thereby enhance or distort the ability of bargaining to accurately coordinate production, processing, and marketing decisions.

B. Cooperative Members

Other cooperative processor interest groups, e.g., by commodity lines, were also postulated to respond to interdependencies with the bargaining association. Responses were argued to be motivated by grower sensitivity to the impact of bargaining on 1) total returns to the cooperative, 2) member returns from the pool for single pool multiple commodity cooperatives, 3) member or commodity representation within the cooperative organization, and 4) competition. Commodity interest groups in cooperative processor organizations were revealed to respond by exercising dual representation and/or by prodding cooperative management to be supportive of their bargaining association and, in some cases, to restrain other commodity bargaining associations. This latter behavior was a common characteristic of the California sample with its single pool multiple commodity cooperative organizations.

Some Consequences of Dual Membership. Dual membership and pressure on cooperative management to act as agent in relation to bargaining associations contribute to further the flow of information between the sectors. This communication can mean cooperative support for and commitment to bargained terms of trade; with the bargaining association providing content for cooperative member voice, cooperative management is pressured to respect bargained terms of trade as performance reference points. For multiple commodity cooperatives, the presence of bargaining activity can also provide a basis for allocating returns. This is

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especially desirable for cooperatives utilizing a single pool accounting method rather than a multiple pool accounting method. Once this allocative basis is accepted, the inducement to flows of information between the sectors is stronger. It should also be noted that where not all commodities in the cooperative have bargaining voice, i.e., a bargaining analogue, there may be distributional consequences as cooperative management responds to a diminution of discretion in servicing some commodities by exercising more discretion in servicing others.

An additional issue to raise in summarizing cooperative member responses to bargaining associations is to ask what the impact of this behavior is on raw product price levels. The pressure on price from cooperative members is upwards. This is explainable by recognizing a difference in source of revenues facing cash versus cooperative growers, especially for those cooperative growers belonging to a single pool multiple commodity organization. A difference in source of revenues suggests different goals and thus divergent economic signals entering the bargaining arena. Divergence has import for the association's ability to determine terms of trade with coordinating force, i.e., which reflect demand and supply conditions. An upwards pressure on raw product price will reduce proprietary processor purchases and, over the long run, reallocate production and processing market shares to the cooperative sector as 1) cooperative members expand production to replace that lost by cash growers and/or 2) cooperatives are formed to replace existing proprietary processors. Moreover, such pressure will have different impact on single state proprietary processors and their producer suppliers than on multiple state proprietary processors. The fruit industries of Michigan and Appalachia are especially characterized by such geographic diversity of proprietary processing organizations.

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Moderating these impacts are other factors. The bargaining association may have its own source of information independent of the cooperative processing sector. Moreover, in single pool multiple commodity cooperatives, at least, upwards pressure on raw product price from dual members is disciplined by the influence of cooperative management as agent of other commodities competing for the guarantees afforded by the pool. Such inter-commodity discipline does not occur in multiple pool multiple commodity organizations nor, ipso facto, in single commodity organizations.

C. Grower Processors

Related to the impact of cooperative member behavior as a function of incentives that vary from those of cash growers is the role of grower processors. Grower processors were also revealed by the study to share dual membership with the bargaining association of their interest. Given the incentives of these growers as, primarily, a function of matching scale economies in production and processing and combining profit centers, it is in their interest to induce a reallocation of production and processing market shares to themselves. Accordingly, economic signals to the bargaining association from grower processors will reflect this interest. As with cooperative dual members, variable goals among grower groups will produce divergent interests within the association membership.

D. Association Management

The conceptual work also argued that management of the bargaining association would respond to interdependencies with the cooperative processing sector by trying to enlist support from that sector for bargained terms of trade. All association management in the sample

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solicited information from the cooperative processing sector. However, not all cooperatives were responsive; stratification by location indicated that the responsiveness of the cooperative processing sector to solicitation, as characterized by association management, was good in California, mixed in the Northwest, and moderate in Michigan and Appalachia. Variability in responsiveness can be explained by historical experience and/or whether bargaining or cooperative processing came first. The incidence of single pool accounting in California contributes significantly to the quality of responsiveness there.

6.1.3 Area of Inquiry: Structural Responses of Participants and the Case of Cooperative-Proprietary Linkages

The inquiry into structural responses of participants explored various reasons for and varieties of structural change in the processing sector in farmer bargaining. Specifically, it looked at 1) simple proprietary exit, 2) the transition of ownership from proprietary to cooperative interests, and 3) select organizational linkages between proprietary and cooperative interests. It was hypothesized that competitive pressures and proprietary recognition of resource availability were forces influencing structural change. Both elements were found to have explanatory validity.

A. Proprietary Exit

It was postulated that the constraints imposed by bargaining for terms of trade for raw product could explain decisions by proprietary processors to exit from processing. Proprietary processor respondents generally identified bargaining as one variable explaining exit responses. However, when stratified by geographic location the causality attributed

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to bargaining was less clear. In the California sample, respondents were equivocal about the relation between bargaining and proprietary processor exit. In Michigan, respondents argued that bargaining was a partial explanation. Generally, more emphasis was given to competition from cooperatives; competition from the cooperatives was noted throughout the national sample, especially in California and Michigan, as an important cause of proprietary processor exit. The argument generally advanced was the ability of cooperative processors to value inputs at lower levels by virtue of their freedom from fixed input prices such as those set by bargaining for raw product.

It can be concluded that the pressures contained in bargaining, including competition from the cooperative processing sector, contribute to the forces inviting proprietary processor exit. However, these pressures should be less important in areas like California where, as a function of heavy dual membership and single pool multiple commodity accounting, cooperative management finds itself pressured to value its raw product inputs at the same bargained prices that proprietary processors pay. Notwithstanding this pressure, the cooperative organization still has the ability to shift risk of price changes and performance onto its grower membership by adjusting transfer prices. This risk absorbing resource likely constitutes the real competitive threat that proprietary processors, who face fixed raw product transfer prices (bargained terms of trade), are so sensitive to. (It is worth noting that part of the motivation for collective bargaining by growers has been to keep proprietary processors from shifting this risk onto growers.) In the bargaining environments studied in this research, the cooperative processing share is substantial. Insofar as cooperative processor

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organizations shift risk onto growers, the competitive impact on the residual proprietary processing sector may be substantial enough to elicit exit.

B. Transition in Ownership

This area of inquiry also explored the proposition that grower and cooperative organization resource availability was contributing to an increase in the cooperatively organized market share of raw product processing. It was hypothesized that this increase was a function of proprietary responsiveness to opportunities in its environment, i.e., proprietary responsiveness to usable grower and cooperative resources. The study's sample of proprietary processor management revealed a widespread recognition of and desire to utilize such resources. Where transition of ownership of processing facilities occurs as a result of such desire, the costs of processing are shifted onto the grower sector and proprietary investments are freed for allocation elsewhere. The willingness of growers to accept these costs tends to be a function of their need to protect outlets for the products of on-farm investments.

The results of transition of ownership of processing facilities can be listed. First of all, the grower-need to protect outlets results in the retention of processing capacity at grower expense. Second, insofar as this transition in ownership occurs, growers will be inclined to expand production in order to coordinate the scale economics in production with those of processing. Over the longer run, this coordination can reallocate raw product production and processing market shares to the vertically integrated grower sector. In summary, proprietary recognition of available resources invites transition of ownership of

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processing facilities and can lead to concentration of raw product production and processing in the vertically integrated grower sector.

C. Linkage Arrangements

Related to the hypothesized responsiveness of the proprietary sector to grower resources was an exploration of select linkage arrangements between proprietary and cooperative interests. The underlying proposition being tested was that such linkages were a manifestation of proprietary management efforts to relieve itself of constraint concern (expand its sources of discretion). Upon examination, linkage arrangements such as participation plans and especially joint ventures, showed proprietary interests seeking sources of discretion. The results of such linkages are numerous. First, certain redistributions are affected by virtue of proprietary-cooperative linkages; this is because 1) performance risk can be spread onto the grower population; 2) the goal functions of the proprietary and cooperative parties to the linkage may be antithetical; and 3) grower resources are channeled to proprietary utilization. The net consequence of redistributions is to offer competitive advantages that constitute entry barriers to non-linked proprietary and grower interests. Raising entry barriers invites concentration of markets in the hands of joint ventures and participation plans.

Second, certain aspects of coordination are affected by the linkage arrangements examined above. The distribution of risk appears separated from the distribution of control inviting distortions in economic incentives; that is, the proprietary interest may not bear the full cost of inefficient behavior. Moreover, the ex-post input valuation as a standard operating procedure characterizing these linkages removes market information from cash transactions. In light of bargaining activity,

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such removal deteriorates the economic information contributed to the bargaining process and impedes this process' ability to produce economic signals that accurately reflect demand and supply conditions.

Third, the removal of market information from bargaining environments serves to thin the bargained transaction and increase the risks of the residual proprietary processing and cash grower markets. That bargained transactions are already thin or thinning is attested to by the market structure statistics presented in Chapter Two. In the longer run, increased risk will invite further attempts to shed risk.

6.2 Policy Implications

6.2.1 The Bargaining Process

This research has explored the responses of bargaining associations and cooperative and proprietary processors to interdependencies in farmer bargaining. Farmer bargaining has been shown to elicit the aggregation of market information from these participants. Accordingly, farmer bargaining provides a means for determining terms of trade that reflect demand and supply conditions.

The consequences, then, of bargaining as a process for determining terms of trade are several. Inasmuch as growers and processors participate in the process, bargaining provides a means for modifying the distributive outcomes which would exist in the absence of bargaining. Furthermore, by providing a framework for organizing arguments about market conditions, bargaining can coordinate economic signals. It can do so by assimilating the aggregate signals contributed to the process and summarizing that information in the terms of trade produced. Additionally, and related to the ability of bargaining to coordinate economic signals, is its ability to respond to dynamic market conditions

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by providing a basis for articulating and arguing the ramifications of change. The findings of this research suggest some means by which to enhance farmer bargaining's ability to produce these consequences. These means will be outlined below.

A.

Processor participation in the information pooling process of bargaining can be expected to evolve over time as participants come to understand their interdependencies in bargaining and how these can be modified by use of bargaining. Certain actions taken by the bargaining association can promote the development of such understanding on the part of proprietary and cooperative processors.

Education. Bargaining associations can promote the participation of relevant groups in bargaining by providing educational products that specify interdependencies and demonstrate ways the bargaining process may be used to respond to these interdependencies. For example, associations can induce participation from cooperatives by providing to cooperative members comparative information on the past performance of alternative marketing channels, e.g., raw product marketing through proprietary versus cooperative channels. Similarly, bargaining associations can promote the participation of the proprietary processing sector by exploring and explaining the full range of terms of trade determination processes that can be accommodated by bargaining. Such processes need not be limited to price and quantity but may also address the innumerable handling, quality, and timing considerations attendant to raw product transactions. Moreover, adjustments for future contingencies and formula pricing can be incorporated in bargaining to reduce sources of risk to

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proprietary processors. Presentation of the broad range of decision variables and processes that bargaining may be used to address would serve to more fully inform relevant groups about bargaining opportunities.

Instrumental Differentiation in Bargained Terms of Trade. Bargaining associations can bargain differential terms of trade with proprietary processors in order to induce their participation. For example, most-favored-nation treatment can be accorded early signatories of bargained contracts. Such treatment imposes the threat of higher input costs on late signatories. Participation can also be induced by bargaining differential terms of trade which negate or at least diminish competitive advantages attributable to geographic reach and brand finished product differentiation. For example, single state processing operations could be offered discounted raw product prices to remove the competitive advantage to those processors who have processing operations in alternative raw product production areas. Such equalization of raw product input costs reduces the incentive for multiple state operations to procure raw product beyond the purview of bargaining. Similarly, equalizing discounts could be offered to those proprietary processors who do not have access to value added through product differentiation. This would relieve the competitive pressure on private label packers and encourage their continuation as processors. In short, the instrumental differentiation in terms of trade bargained with proprietary processors can reduce not only competitive advantages attendant to nonparticipation but can help stem the exit of proprietary processors without geographic reach and/or brand product differentiation. Stemming such exit is fundamental to participation in bargaining.

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Input Substitutability. Input substitutability has been shown to be a factor affecting the willingness of proprietary processors to participate in bargaining. Where raw product inputs being bargained have substitutes in other raw products or in other regions, proprietary processors can attenuate their need to utilize the bargaining process for input procurement by drawing on the substitute. Accordingly, a strategy to counter such substitution would be to define the boundary of raw product(s) being bargained so as to negate the incentive for substitution in procurement. For example, raw product x and its substitute, raw product y, could be marketed under the aegis of a bargaining association as an input bundle rather than marketed in competition with one another. Equivalently, a bargaining association in product x could expand its membership to bring substitute production areas in x into the association. Some difficulties in implementing this suggestion lie in overcoming the incentive to free ride on bargaining, i.e., enjoy the substitute price response without defraying the costs, and in subordinating individual goals to group goals. Moreover, the larger the number of interests included in the association the more difficult it becomes to find an acceptable common denominator. These difficulties may not be overcome without recourse to changes in the distribution of rights to participate or not to participate.

B.

Bargaining associations can promote the production of terms of trade which accurately reflect both present and future demand and supply conditions by investing in market information that goes beyond raw product markets.

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Informational Initiatives. The assessment of economic signals involves consideration of conditions in institutional and retail and final consumer markets as well as conditions in raw product markets. All factors which impact on the profitability and, hence, survivability of the processing sector are relevant to the bargaining process and warrant attention by bargaining associations. To further promote the consideration of such factors, bargaining associations could jointly sponsor outlook seminars with processing, institutional, and retail market groups to facilitate a two-way informational exchange as a means of identifying market issues and eliciting responses from the groups impacted by those issues. Those bargaining associations which restrict their analysis to raw product market conditions may fail to exploit the coordinating opportunities afforded by the interdependencies created by farmer bargaining.

6.2.2 Bargaining and Cooperative Processors

This research has documented conditions under which cooperative processors are pressured to use bargained prices as their values for raw product deliveries of members. Such pressure can serve to commit cooperative management to bargained prices as a performance reference. The consequences of this commitment have import for both the distribution of patronage returns and competition between proprietary and cooperative processors. Several strategies for creating cooperative processor commitment to bargained price levels as both raw product input values and performance references are suggested by the research.

A. Dual Membership

Simultaneous membership by growers in a bargaining association and cooperative processor creates linkages between the organizations. Such

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linkages provide for a two-way flow of information and hence communication of performance concerns between the organizations. Moreover, dual membership offers cooperative processor members the means to construct performance references that are beyond the direct control of cooperative processor management. To the extent that cooperative processor management's attention can be focused on bargained price levels as a performance reference, bargaining can offer cooperative members a means of rendering the managerial process more accountable to member interests.

Though dual membership serves to elicit cooperative processor commitment to the terms of trade incumbent on the proprietary sector, it also faces association management with the task of sorting out price demands that originate from different economic calculus. As argued in the research, bargained raw product prices based on the cooperative processor members' economic calculus can promote a contraction of the proprietary processing sector and an expansion of the cooperative processing sector. A similar result is signaled by the economic calculus of grower processors who also belong to the bargaining association.

To modify pressure toward structural change yet also produce an association-cooperative processor alliance that commits the cooperative processor to bargained prices, association management could cultivate dual membership yet control its influence. One means of control is to restrict dual members from holding influential positions in the bargaining association or in the cooperative processor such as board positions. Insofar as board positions offer incumbents more influence over bargained terms of trade, it is desirable that these influences accurately represent demand and supply conditions in the bargained commodity. Such accurate representation can be confused by the mingling of grower

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interests. However, the ability of the mingling to jeopardize the bargaining of terms of trade which accurately reflect demand and supply conditions can be reduced by excluding cooperative processor growers from board positions in the association.

While dual membership has developed spontaneously in the various bargaining situations studied in this research, there is not complete dual membership between cooperative members and respective bargaining associations. Thus, not all growers are supporting the administrative costs of bargaining. One means of spreading these costs to growers who have not voluntarily shared in them is to use public policy to bestow on all growers the obligation of membership in the bargaining association. Such a rule, of course, imposes unwanted costs on a segment of growers. In the absence of such a rule, however, some growers benefit from the products of bargaining without sharing in their production cost.

B. Accounting Rules

An alternative means of producing cooperative processor commitment to bargained prices is for cooperative processors to use an accounting system which, by virtue of its need for an allocative decision basis, impels the cooperative to adopt bargained prices. This research has explored the comparative inducements of cooperative processors using single pool or multiple pool accounting to embrace cash raw product prices as the allocative decision basis. Cooperatives using single pool accounting for multiple commodities are more likely to adopt bargained prices. This likelihood derives from the structure of inter-commodity competition which results when costs and returns are pooled. In summary, cooperative processor commitment to bargained prices can be

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produced by structuring cooperative organizations to be multiple commodity and to use single pool accounting.

C. Bargaining with Cooperatives

A third means of eliciting cooperative commitment to bargained prices and thereby increase managerial performance accountability and competitive equality between the cooperative and proprietary processing sectors in regards to raw product input valuation is to expand bargaining to cover grower transactions with cooperative processors. Bargaining with cooperatives would be a more direct means of achieving cooperative commitment than efforts to expand dual membership and introduce single pool, multiple commodity accounting. Moreover, bargaining with cooperatives is consistent with dual membership and single pool, multiple commodity accounting.

Bargaining with cooperative processors serves the interests of cooperative growers by strengthening management accountability to competitive performance indicators. It serves the interests of association growers by inducing the cooperative sector to contribute market information to and compete for raw product at definite prices in the bargaining process. It serves the interests of proprietary processors by putting cooperative competitors on an equal basis regarding per unit input costs. Bargaining with cooperatives does, however, impose more constraints on cooperative management thereby limiting managerial discretion in decision making. Under the imposition of such constraints, cooperative management would be expected to exercise alternative sources of discretion such as contingency reserve funds, supply controls on member deliveries, and co-mingled costs and returns to facilitate internal transfers. Utilization of these sources of discretion would not necessarily be in

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conflict with the interests of cooperative or association membership. This will depend, of course, on whether management avails itself of such sources to serve its own goals, to serve selectively advantageous goals of membership groups, or to serve general membership goals.

Under conditions whereby cooperative processors bargain with an association to establish the transfer value of raw product, managerial performance becomes referenced to bargained prices. Accordingly, the efficiency of managerial performance is evaluated more in light of a bargained price rather than on the basis of some managerially controlled performance criterion. The net result of bargaining with cooperatives is to accord members more control over their cooperative organization.

Notwithstanding the above, bargaining with cooperatives does not guarantee successful operations; the cooperative processor can still sustain losses due to uncontrollable market outcomes and these will be passed onto membership. Even the most efficient processor management will fall short of desired performance under some market conditions. This is true for proprietary as well as cooperative management. However, bargaining with cooperatives puts cooperative processor management on a basis that is more comparable to that of proprietary processors; the performance of both varieties of processing organizations would then be constrained by fixed (bargained) raw product costs. Hence, a source of competitive advantage is attenuated.

6.2.3 Bargaining and Structural Change in the Processing Sector

This research has revealed both structural change and forces inducing structural change in the fruits and vegetables for processing industries. Bargaining as a source of input price pressure and cooperative processing

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as a source of competition in sales of processed products are among the forces causing structural change in these processing industries. Also explored by the research were structural changes in the form of cooperative-proprietary linkages that are, in part, the result of proprietary motivations to incorporate grower resources in order to share risks and utilize sources of discretion. Questions as to whose interests these changes serve have been variously addressed in earlier discussions. The role of bargaining given these structural changes is the issue here.

A. Cooperative Saturation

All of the states studied in this research evidenced substantial and often times increasing market shares under control of cooperatively organized processors. When cash transactions, i.e., raw product sales to proprietary buyers, represent a small fraction of deliveries, the effectiveness of raw product bargaining in producing terms of trade that accurately reflect demand and supply conditions can be questioned. However, such structural change does not negate the need for a process by which transfer values are established. Accordingly, bargaining, even in markets saturated by cooperative control, can still play a role. One means of utilizing bargaining to produce transfer values under conditions of cooperative saturation is, as presented earlier, to introduce bargaining between cooperatives and the association. Bargaining with cooperatives can thicken otherwise thinning raw product transactions. Bargaining with cooperatives is also a means of stemming the trend towards a decreasing proprietary market share insofar as competitive advantages for cooperatives are thereby attenuated. An alternative to this suggestion would be to offer proprietary processors the same competitive advantages. An example would be to let proprietary

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processors defer payments to growers as is done by cooperative processors. In addition, bargained terms of trade could be made contingent on the performance of the cooperative processing sector. For example, if the cooperative processing sector returned less than 100 percent of the bargained price to cooperative growers, final payments by proprietary processors to growers could be discounted to reflect this shortfall.

Another possibility is to use the bargaining process to establish transfer values at the processed level. Such bargaining for processed products would raise numerous issues related to the definition of buyers with whom bargaining would take place, the allocation of joint returns to commodity groups, and the responses of groups having interrelations with bargained transactions for processed products. One possible result of processed product bargaining would parallel the current structural change in ownership of processing capacity by inducing further vertical integration into remanufacturing and marketing of fruits and vegetables by growers using either a cooperative or noncooperative organizational framework.

B. Participative Plans and Joint Ventures

This research has also explored the bases for and noted the as yet small but increasing incidence of participation plans and joint ventures in the fruits and vegetables-for-processing industries. It has concluded that these linkages are largely motivated by a desire of proprietary processors to utilize grower resources. This research has further argued that these methods for bringing grower resources under proprietary control raise entry barriers, offer competitive advantages to those who use these methods, invite concentration of the processing industry in the hands of joint ventures and participation plans, and reduce the

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amount of market information available for bargaining. These results can be partially alleviated by keeping the raw product transfer valuation process in participation plans and joint ventures within the purview of bargaining by obliging managements in such linkages to bargain. In the absence of bargaining to determine valuation in these linkages, the allocation of returns will be a function of management agreements between the grower and proprietary interests. Where such agreements produce proprietary dominance, grower resources are likely to be transferred away from growers. For some organizations claiming the right to exercise cooperative property rights, transfer of control contravenes the legal bases of those rights. For example, to the extent that grower control does not exist in joint ventures between cooperative and proprietary interests, utilization of Bank for Cooperative financing and antitrust exemption can be challenged. Such challenges may produce case law attenuating the motivation for joint venture organizations.

C. Grower Processors

In certain fruit and vegetable industries studied in this research, the non-cooperative grower processor sector is increasing. This sector is beyond the jurisdiction of bargaining but enjoys the benefits of a processed price umbrella which results from having proprietary competitors committed to a fixed raw product input value. The inducement for grower processors to undersell this umbrella in order to increase their volume is facilitated by the combination of profit centers and the vertical integration of scale economies. The result may be not only an enlarging of market shares of production and processing under the control of grower processors but also the production of lower cost processed product.

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Some grower processors process the raw product of other growers on a participation plan basis. The results noted above in reference to participation plans also apply here: growers delivering to grower processors on a participative basis may have little control over the spreading of performance risks and the disposition of returns from sales of processed product; and, such processing organizations, though disciplined in the short run by the threat of exit of grower raw product, have competitive advantages which raise entry barriers and contribute to concentration of the processing industry. These results are likely to vary according to the makeup of the participating population. Where only neighbors are involved, positive rewards to participating growers may be produced because of the person to person relationships between the manager and growers. However, where the participating population is more anonymous, the grower processor is likely to resemble the proprietary participation plan.

6.3 Final Summary

This research has examined the interrelations among bargaining associations and processors that are produced by the imposition of bargaining over terms of trade for raw product. To do so, it has gone beyond an inquiry into interrelations between bargaining associations and proprietary processors to include an analysis of interrelations between both of these groups and cooperative processors. What has been revealed is an intricate web of interrelations and responses to interrelations which have import for 1) the ability of bargaining to produce terms of trade which accurately reflect demand and supply conditions, 2) the ability of cooperative processor members to control their

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cooperative organization, and 3) the structure of the processing industry. Specifically, the research showed that:

1) farmer bargaining elicited market information about demand and supply conditions from all three participant groups. Bargaining associations can promote this aggregation of information and the subsequent improved coordination of production, processing, and marketing decisions by conducting industry seminars, disseminating comparative information on past performance of alternative marketing channels, and bargaining differential terms of trade with a nonuniform population of proprietary processors;

2) numerous cooperative processors actively participate in farmer bargaining and as a result, become obliged to value raw product inputs at the same price as their proprietary processor competitors. Such obligation can serve cooperative processor member interests by strengthening the accountability of the cooperative organization to its members. It also serves the interests of proprietary processors by putting cooperative processors on a more similar competitive basis regarding input costs. Commitment of cooperative processors to farmer bargaining can be enhanced by: a) encouraging cooperative processor members also to belong to the bargaining association representing their commodity interest(s); b) introducing single pool multiple commodity accounting in cooperatives; and c) bargaining formally with cooperative processors as is currently done with proprietary processors; and

3) market interrelations, primarily that of competition between proprietary and cooperative processors in farmer bargaining, are contributing to the decline of the numbers of proprietary processors, the increase in the market share of the cooperative processing sector, and

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organizational linkages between proprietary and grower interests such as joint ventures and participation plans. These structural changes can be attenuated by: a) expanding the formal purview of bargaining to include all processors; b) in the absence of a), bargaining terms of trade that are contingent on the performance of nonbargaining processors; and c) insofar as these structural changes are transferring grower resources to proprietary control, challenging their existence on legal and public policy grounds.

By more fully probing the impact of bargaining, this research has been able to identify sources of change and sources of control in the fruits and vegetables-for-processing economy. Many of these identified sources are likely generalizable to other commodity economies and other agricultural organizations. It is hoped that these findings contribute to future initiatives by participants and policy makers in agriculture.

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CHAPTER SEVEN

FUTURE RESEARCH SUGGESTIONS

Introduction

This section will consist of two parts. The first will address research which would be useful to the policy implications listed in Chapter Six. The second will speak to broader research issues that, on the basis of this study, warrant further inquiry.

7.1 Research to Complement Policy Implications

7.1.1

To assist bargaining associations in making decisions that are based on knowledge of system ramifications beyond the immediate grower-first handler transaction, research should be conducted to identify extant and potential sources of relevant market information. Some studies have been done on the secondary informational sources used by existing bargaining associations.¹ However, in light of partial analyses conducted by bargaining associations and potential growth in the incidence of bargaining interrelations, research to identify the extent of the available informational infrastructure is warranted. Such research may ascertain that the incentives to pool information as documented by this study provide a sufficient informational basis for decision making. Research may find, alternatively, that this informational pool is insufficient and/or needs to be augmented by other informational sources.

¹Lang, M., 1977.

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In light of documentation that bargaining associations apply differential terms of trade to a variable proprietary processing sector, research needs to be conducted to estimate: 1) raw product procurement costs for single versus multiple state operations; and 2) revenues from sales of private label processed products versus brand processed products. These estimates could then be used to construct a systematic pricing structure for differentiating the terms of trade bargained with a nonuniform proprietary processing sector.

7.1.3

To implement bargaining for groups of raw product inputs, algorithms have to be developed as bases for pricing strategies and the allocation of revenues among the various inputs. Utilization of such algorithms will necessitate estimates of own and cross price elasticities of demand. Research on both the construction and utilization of such algorithms is central to implementation of group bargaining strategies.

Related to developing algorithms for group bargaining strategies is the use of indexed bargaining, multi-year bargaining, sliding scale bargaining, and combinations thereof. The interest of the proprietary processing sector in these bargaining methods is not well known. However, efforts by select industries in California to implement such methods argue a need to evaluate the interest and, if warranted, to develop means to satisfy the interest. Current efforts by the cling peach, bartlett pear, apricot and tomato industries to bargain deterministic algorithms for defining some terms of trade would provide a starting point for research into the desirability, feasibility, and performance ramifications of utilizing such algorithms.

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Research on comparative performance of competing processing organizations, both cooperatively and proprietarily organized, would be useful to bargaining associations to help them compile and disseminate performance profile information for cash and cooperative growers. A research group at Purdue University is currently attempting to develop comparative bases for evaluating cooperative organizations against proprietarily organized analogues in select industries.¹ In conducting research on the performance of cooperative organizations, attention has to be given not only to final returns to growers but also to the distribution of risk, and, more fundamentally, interest group control within the organization.

7.2 Related Research Issues

7.2.1

The relation between rules for allocating shared costs and patron transfer prices is an area of interest to students of and participants in the cooperative economy. It is suggested that the accounting methods for allocating such costs have impacts on: 1) production, processing, and marketing efficiencies; 2) the distribution of returns and risks in the cooperative; and 3) the cooperative's competitive position in input and finished product markets. Such impacts could be studied by analyzing the various allocative rules in use according to their impact on patron returns and the responses they elicit from patrons and management. Another dimension of this relationship to explore would be its import for the bargaining association sector.²

¹Department of Agricultural Economics, Purdue University, Lafayette.

²Chase-Lansdale, C., "Allocation of Shared Costs and Transfer Prices," Department of Agricultural Economics, Michigan State University, East Lansing, forthcoming.

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The spreading incidence of participative arrangements (called linkages in this study) between proprietary and grower interests argues for more case study research into their performance ramifications. The conceptual model of managerial behavior utilized in this study could provide the necessary theoretical construct for organizing observations. Attention should be given not only to the distributive impacts of such arrangements but also to their impact on competitive conditions and market structure. In addition to an economic inquiry, a legal inquiry into the status of such arrangements within the Sherman Act, Clayton Act, and Capper-Volstead Act should be undertaken.

7.2.3

Institutional lenders often play a central role in influencing the decisions of cooperative organizations. Though not reported at length, this study found evidence of institutional lender influence on the decisions of both bargaining associations and cooperative processors. For example, the imputed values which serve as a basis for pre-production or pre-harvest loans may set a floor value for bargained raw product. Similarly, lenders may apply certain demands, such as the creation of a reserve-insurance fund, or influence retain policies and thereby alter managerial performance in cooperative processors. These sorts of impacts need to be better understood; their significance for the performance of cooperative organizations warrants delineation. Furthermore, influence from institutional lenders may extend beyond a specific organization to affect interrelations among organizations. Such impact is exemplified by the motives of proprietary interests documented in this study for entering

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into linkage arrangements with growers. Research on this topic is warranted in order to understand the relation between institutional lender behavior and participant interrelations and hence performance in farmer bargaining. The conceptualization developed in this study provides an organizational, behavioral, and performance scheme that could serve such a research effort.

7.2.4

Complementary to a behavioral construct for studying cooperative organizations as developed in this study would be the addition of internal organizational ideology as a variable affecting decision making. Ideology is relevant insofar as its characteristics impact on the performance of the organization. Roberts has produced evidence of a relationship between organizational ideology and control and decision costs in publicly regulated industries.¹ An 'ideology variable' could be applied to cooperative organizations in order to test the hypothesis of a relation between it and certain dimensions of performance. Moreover, insofar as an 'ideology variable' has explanatory power for organizational performance, exploration of its role could contribute to comparisons of alternative organizational forms for producing select outputs, e.g., cooperative versus proprietary.

7.2.5

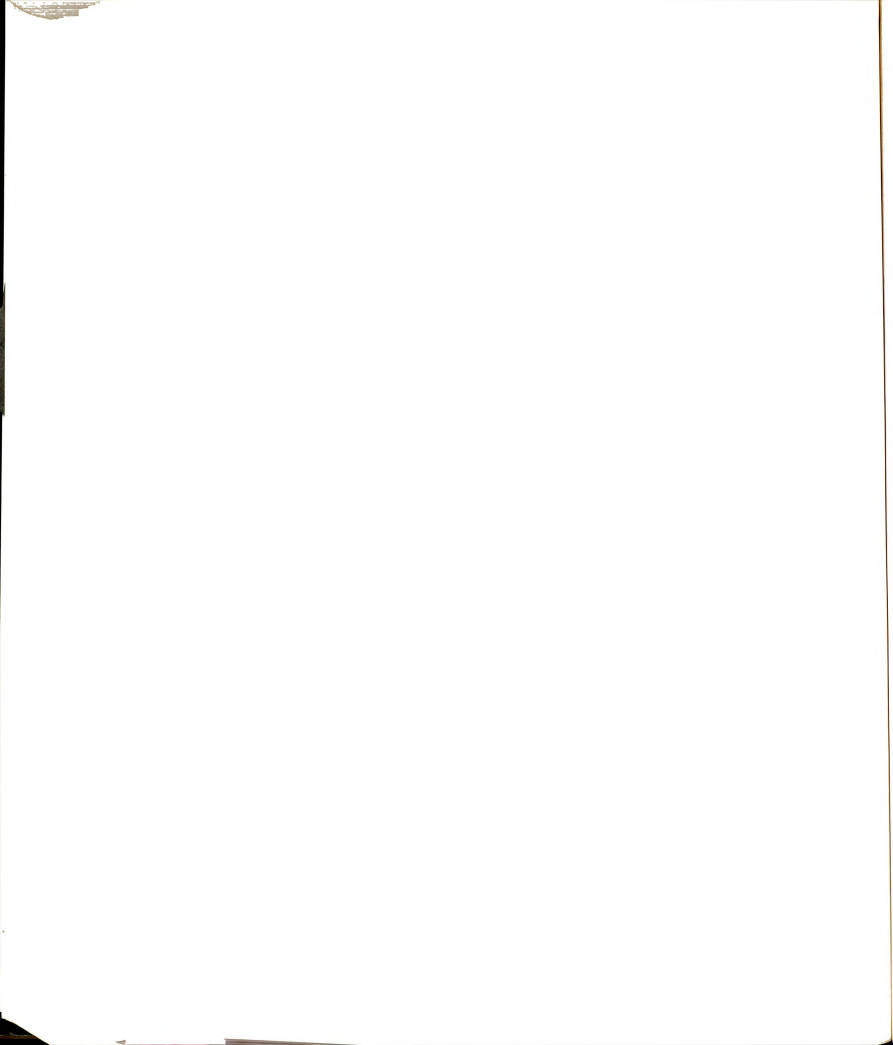
A recent GAO report² and numerous participants in the sample of this study have expressed interest in the liquidity of member investments in

¹Roberts, M., 1975.

²Family Farmers Need Cooperatives--But Some Issues Need to be Resolved, GAO Report to the Congress of the U.S., CED-79-106, July 26, 1979.

cooperative organizations. A research program to explore the status of liquidity, the feasibility of liquidity, and the impact of liquidity on such organizations is warranted. This issue could be addressed within the conceptual framework developed in this study. In conducting such research, attention should be directed towards exploring the impact of liquidity on managerial decision making and, ultimately, the performance of the organization. It is tentatively suggested that illiquidity of member investments relieves management of the disciplining pressure of mobile resources. It may also result in intergenerational transfers.

Related to a focus on liquidity of member investments as a variable affecting managerial decision making would be a more general identification of internal organizational variables affecting management choice and, hence, the performance of the cooperative. Such variables as quantity and quality controls on member deliveries, retain policies, and reserve funds can alter managerial performance as has been argued in this study by providing sources of discretion. Organizational variables of this variety do not necessarily work to the detriment of cooperative performance by virtue of the slack in decision making that they afford; sources of slack can serve to permit adjustment to unexpected costs and changes in market conditions. On the other hand, these variables may serve interests other than general cooperative membership. Accordingly, research is invited to catalogue the various sources of managerial discretion existing in cooperative organizations and to explore their function and, ultimately, their impacts on general performance issues of distribution, accountability, coordination, and structural change.



7.2.6

This study has raised the issue of deteriorating economic signals (thinning markets) taking place in bargaining environments: an expanding vertically integrated grower sector with a concurrent contraction of the cash sector. Within such environments, market information is becoming more and more impacted. Research attention needs to be given to devising means of dislodging impacted market information necessary for the coordination of production, processing, and marketing decisions. Expanding the bargaining decision process to include new and currently excluded participants could induce a dislodging of such information. The task for the researcher is to decide what participants to include and how to include them in a process that will elicit a pooling rather than thinning of market information. This research suggestion is a function of recognition of the evolving structure of interrelations in farmer bargaining environments. Others have also recognized this evolution and have called for alternative pricing mechanisms including bargaining directly with large food retail firms.¹

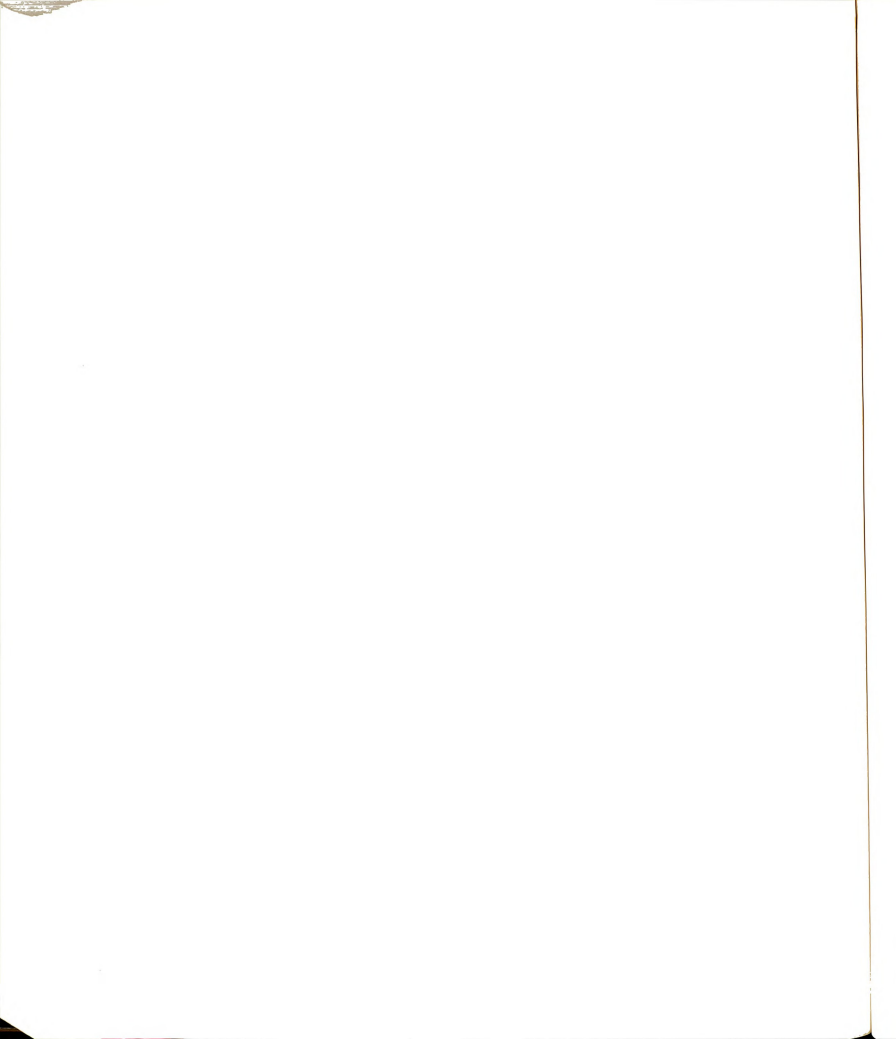
Thinning market conditions argue for research on alternative transfer pricing methods. One mechanism that may offer some remedy to the problems of valuation and coordination in thin and/or thinning markets is a forward deliverable contract market system incorporating desirable contingency provisions. This system could be used by cooperative processors to establish transfer values with buyers such as merchandizers. It could also be used by bargaining associations to establish transfer values with the proprietary processors and/or with merchandizers. Forward

¹Garoyan, L., 1970; p. 10; and Garoyan, L. and E. Thor, 1977.

deliverable contracts between bargaining associations and merchandizers could further involve custom packing contracts between bargaining associations and processors, of either the proprietary or cooperative variety, in order to meet the processed product requirements of merchandizers.

Some advantages of a system of forward deliverable contracts are as follows: 1) they can elicit information about future market conditions, thereby serving coordination and valuation needs of all participants; 2) they are a mechanism for bargaining the allocation of risk among market participants in the vertical market sector and could be implemented under the auspices of a bargaining association; and 3) they can accommodate both sales of processed and raw products, e.g., the bargaining association could have as clients cash growers as well as cooperative processors as it bargains forward deliverable contracts.

APPENDIX A
GLORIETTA FOODS



GLORIETTA FOODS

Glorietta was incorporated in California on November 23, 1977 as an agricultural marketing cooperative. Its temporary address is P. O. Box 50040, San Jose, California (Zip Code: 95150). Glorietta intends to acquire certain assets of NCC Food Corporation, a California corporation ("NCC Food"). If this transaction is consummated, Glorietta intends to continue the fruit and vegetable canning business of NCC Food on a cooperative basis.

Membership is limited to bona fide residents of California actively engaged in the growing of agricultural products which are to be marketed through Glorietta. The initial offer of membership and marketing agreements is being made primarily to growers who sold products to NCC Food in 1977.

Purchase of the assets and operation of the processing and marketing business would be financed by a combination of capital supplied by growers, long- and short-term bank financing (possible combination of long-term bank and other lender financing), a long-term purchase obligation to NCC Food and certain initial short-term financing available from National Can Corporation ("National Can") in connection with can purchases.

The principal crops to be processed and marketed include tomatoes, cling peaches, pears, apricots, grapes, freestone peaches, asparagus and spinach. These products are highly seasonal. Partly for this reason, Glorietta presently intends to continue to pack and market dry beans and to market overseas its own and a variety of other food products.

Glorietta would continue to manufacture a variety of canned fruit and vegetable products from the crops received. These products would be distributed to various consumer markets throughout the United States and to a limited extent overseas. Distribution would be primarily under its customers' brands and also under brands to be acquired from NCC Food.

The growers initially being offered membership and marketing agreements supplied approximately 80% of the raw agricultural products used by NCC Food in its fruit and vegetable canning operations in 1977.

As a condition of becoming a member of Glorietta, a grower must agree to enter into an agreement to market through the Cooperative specified products for at least five crop years, commencing in 1978. In addition, the grower must make an initial contribution equal to 15% of the estimated established value (based on 1977 commercial prices) of products to be marketed through the Cooperative in 1978. Thereafter the grower must continue to make annual additional contributions by retains from amounts otherwise payable to him.

The amount members will receive for products they deliver will depend on the net proceeds realized by Glorietta from all agricultural products delivered by patrons under cooperative marketing agreements. The total net proceeds will be combined in a single pool and apportioned among patrons in proportion to the established value of the products each delivered. From the amount so determined, Glorietta will initially retain 10%-15% of the established value and 50% of the net proceeds in excess of established value, if any. These retains will be allocated to members but not paid in cash until the board of directors determines that the Cooperative is financially able to do so.

SPECIAL RISK FACTORS TO BE CONSIDERED

Members' Share Of Proceeds Less Than Commercial Market Value

The purchase price for raw products to be paid by Glorietta is based on the overall results of operations of the Cooperative from business with patrons on a cooperative basis. There can be no assurance that payment to a member for his crops from the net margins of Glorietta will be equal to or greater than the price he could have received had he sold his crops under pre-season contract to another processor or in the open market.

NCC Food's Canning Business operated at a loss in 1975, 1976 and the first nine months of 1977. See pages 29-33, including in particular Note A. There is no assurance that such losses will not continue. Moreover, Glorietta will have substantially higher interest expense and somewhat higher depreciation expense than reflected in the Statement of Operations of NCC Food. See page 9.

THERE IS A SUBSTANTIAL RISK THAT THE TOTAL AMOUNTS TO BE PAID TO MEMBERS FOR THEIR RAW AGRICULTURAL PRODUCTS (IN CASH AND RETAIN ALLOCATIONS) WILL BE LESS THAN ESTABLISHED VALUE (COMMERCIAL MARKET VALUE).

Retention of Proceeds by Glorietta

In addition to the risk that the member's share of total net proceeds will be less than established value of the products he delivers, from this share not less than 10% of established value must be retained each year. (See pages 22-23 for description of commitment to retain and limits on retains.) Glorietta would initially need to realize net proceeds of at least 120% of established value of the agricultural products delivered before the member could receive cash proceeds (prior to redemption of allocated credits) equal to established value of his crops. Thus, there is a high risk that a member will not receive cash payments equal to established value at least until Glorietta builds up member contributions equivalent to a mature cooperative.

BECAUSE OF THIS HIGH RISK, A GROWER SHOULD NOT APPLY FOR MEMBERSHIP UNLESS PREPARED TO RECEIVE CASH PAYMENTS OF LESS THAN ESTABLISHED VALUE FOR AT LEAST THE FIRST FIVE YEARS.

Inclusion of Proceeds in Taxable Income

Each member of Glorietta must include in taxable income for federal income tax purposes his entire share of the net proceeds of Glorietta, whether paid to him in cash or retained and allocated to his account. For example, if Glorietta realized net proceeds equal to 100% of commercial market value, the member would receive not more than 90% of established value in cash (prior to redemption of allocated credits) but would include in his taxable income the full 100% of established value.

Advantages of Competitors

Glorietta will be committed to purchase not less than 65% of its can requirements from National Can for at least three years. These cans will be purchased at prices and on terms competitive with those available to other canners in Northern California who buy on term contracts from the four major can manufacturers. However, a number of competitors of Glorietta have their own can manufacturing facilities or other arrangements for acquiring cans on terms that are believed to be materially more favorable than those which Glorietta will initially receive.

The proposed initial capital of Glorietta (approximately \$4 million) is substantially smaller as a percentage of sales (4% of 1976 sales of \$100 million) than that of most of its competitors. The additional working capital required must be supplied by borrowed funds. Such borrowings will increase interest costs to Glorietta. This increased expense will adversely affect the returns of Glorietta to growers in comparison with mature competing cooperatives.

Additionally, certain data available to the Growers Committee, although subject to differing interpretations, suggests that in recent years a trend has developed that certain major cooperative competitors of NCC Food may have been able to reduce the financial impact of adverse economic conditions in the industry more effectively than NCC Food. See page 17.

Transferability of Membership and Retains

Membership and allocated credits arising from retains may only be transferred with the written consent of Clonietta. Transfer will be strictly limited. The consent of Clonietta is also required for the transfer of retains. This consent will also be limited. See pages 23-24.

Thus, there is not and cannot be any market for sale of memberships or retains.

Possible Discontinuance or Reduction of Marketing Entitlement

Clonietta intends to continually review the ability of its members to produce a high-quality crop and the ability of the Cooperative to effectively market the products therefrom. If Clonietta determines to cease marketing all or a portion of a particular crop, the Cooperative may reduce or eliminate its right and obligation to market specified products on written notice to members during November of any year effective as to all following crop years. (See Bylaws Section 7.04(f).)

Uncertainties Regarding Closing and Terms of Acquisition

The letter of intent to acquire NCC Food's Canning Business is not binding. The full terms of loans necessary to the proposed acquisition and operations are not presently known. For these and other reasons, material terms of the proposed acquisition may be changed or added.

The transaction may not close if the parties are unable to agree on definitive agreements or if satisfactory financing is not available. In addition, it will not close unless, prior to closing, various factual assumptions are warranted or verified and other conditions of closing are fulfilled to the satisfaction of the board of directors of Clonietta.

By applying for membership, each member delegates to the board of directors of Clonietta discretion to agree to additional or different terms, to decide whether or not to execute binding agreements and to decide whether or not to conclude the proposed acquisition.

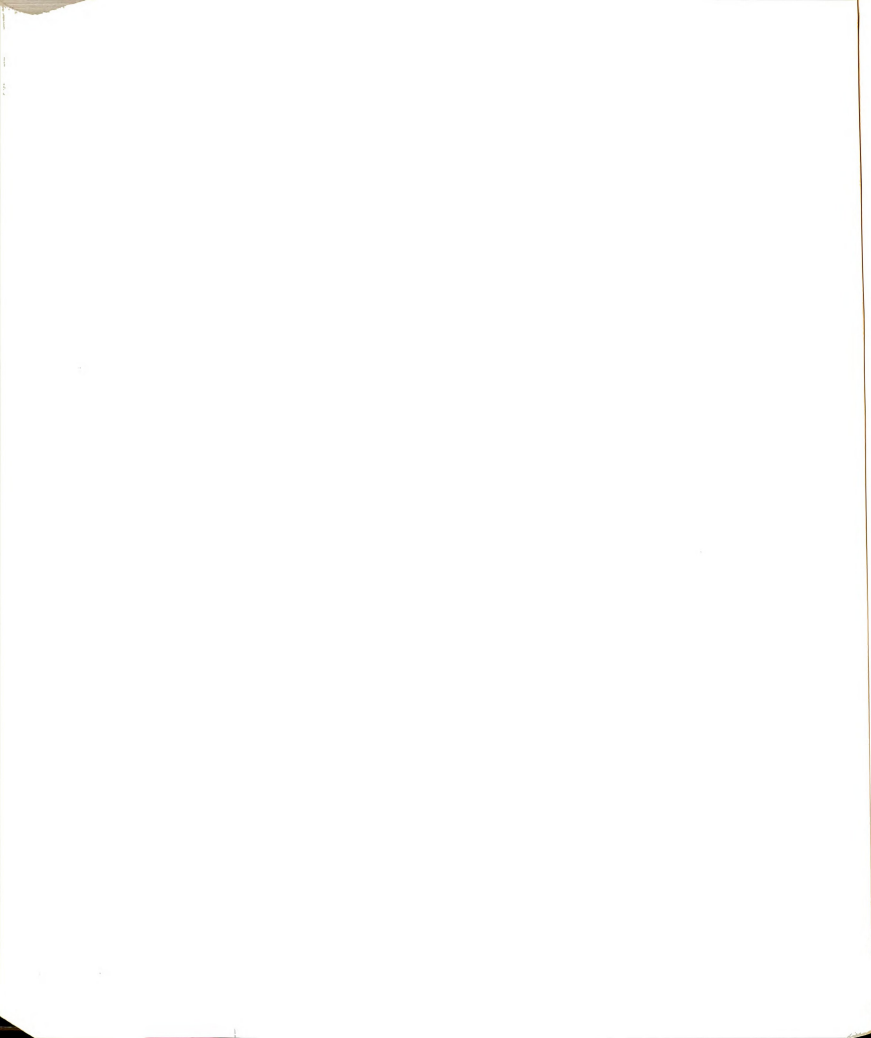
If the transaction is not concluded, the member will not be entitled or obligated to market products through Clonietta. Even though the transaction is not concluded, the deposit accompanying the Application will be used to defray expenses of Clonietta, including pre-incorporation expenses. See page 20.

ADVANTAGES OF MEMBERSHIP

Possible advantages of membership include the following:

1. The primary advantage is that the member obtains a market for the specified portion of his products in advance of the crop season.
2. A member can participate in some benefits of crop and geographical diversity through the single pool concept, though under this concept the member also shares in certain risks related to commodities other than those he delivers.
3. Should Clonietta determine after completion of the initial membership sign-up that it can effectively process and market additional products, it is contemplated that members would be given the first opportunity to provide these products.
4. If the overall cooperative marketing operations are successful, he may receive more than commercial field price for his products, though as previously discussed there is a substantial risk, particularly in initial years, that he may receive less than such value. See page 2.

APPENDIX B
TOUCHE ROSS AND COMPANY





FINANCIAL PLANNING FOR COOPERATIVES

Gail N. Brown
Touche Ross & Co.
San Francisco

At the annual meeting of the Council a few years ago in Freeport, The Bahamas, I spoke to the Legal, Tax and Accounting Committee of the Council on the subject of the importance of adequate financial reporting to cooperative members and the responsibility of the Board of Directors for that reporting.

In preparation for that presentation and with the cooperation of the Council's staff, a study of 145 large cooperatives, representing 27 percent of total U.S. cooperative volume, was made of how they reported to members on their financial affairs. The study indicated that 14 of the cooperatives did not publish an annual report to their members. Further, 53 did not include in any type of report to their members a complete set of financial statements, including an opinion of independent public accountants. Seven of the 57 largest companies did not give their membership the complete set of financial statements. Subsequent to that study, although no formal survey has been made, based on personal knowledge, the situation has improved somewhat.

Although there appears to be improvement in the reporting of financial matters, it has become increasingly apparent that cooperative members want, and indeed expect, improved reporting of the financial affairs of their cooperative. In fact, surveys made on a national basis by the American Institute of Cooperation and in California, under the auspices of the Far Western chapter of the National Society of Accountants for Cooperatives, indicated that inadequate communication of financial matters was among the greatest concerns of cooperative members.

Why are members of agriculture cooperatives becoming so concerned about the financial affairs of their cooperative? Increasingly, farmers are a vital and closely integrated part of a highly organized food production-processing-distribution system. This trend has particular financial management implications for two reasons.

First, as farmers get more involved in the total marketing process, they must invest in marketing facilities and processed product inventories. As an indication of what is happening, investments per farm in cooperatives by farmers increased over 1,000 percent between 1950 and 1976. This represents some \$3.5 billion that had to come out of cash flows of the members of these cooperatives.

Second, in this change in marketing and distribution beyond the farm — whether through cooperatives or not — the farmer has to continue to finance his inventories with payment being received over a longer period of time.

This creates liquidity problems that must be understood by all - the farmer, his cooperative, and the distributor, as well as financing agencies that must design new and different financing methods for all three.

Financial Problems of Cooperatives

Cooperatives also have financial and liquidity problems fueled both by real growth and inflation. The American business system is a capitalistic system. Cooperatives are definitely part of that system, and a capitalist without capital is in trouble. Business needs substantial funds, as illustrated in the following statistics:

- Business used 1.6 trillion dollars in capital between 1965 and 1974.
- In the next decade, it is estimated that over 4.5 trillion dollars in new capital funds will be needed. This will have to come from personal savings and profits of business.
- This need for capital means that we must raise capital at a compound rate of nearly 9 percent annually as compared with a rate of 6.7 percent during the last ten years.
- Debt to equity ratios have been deteriorating. In 1965, business had \$.91 in total liabilities for every dollar of equity. In 1974, the \$.91 had doubled to \$1.89.
- Debt provided 38 percent of new capital obtained in 1965; in 1974, it provided 53 percent.
- American business investment in property, plant and equipment, as a share of national output, is one of the lowest of the western bloc countries.
- All this indicates a slippage in the rate of real growth of American business.

What, then, is the situation for agricultural cooperatives? The capital situation for agricultural cooperatives is no better and, in fact, may be worse than for business in general. Exhibits I through VI compare financial statistics and percentage ratios for a group of food processing corporations with marketing and other types of cooperatives. The information has been extracted from annual published reports. Generally, the statistics for 1978 are for fiscal years ending just before or subsequent to December 31, 1977. Most of the organizations had fiscal years ending after December 31, 1977. Data is also shown for 1977 for the same companies.

The first chart, Exhibit I, shows data for 20 food processing corporations. The groupings are based on sales volume.

Exhibit I

20 FOOD PROCESSING COMPANIES

	<u>1977</u>	<u>1978</u>	<u>8 Above Mean</u>	<u>13 Below Mean</u>
Average Sales (000)	\$895,000	\$959,500	\$2,101,000	\$257,000
Percent of Sales:				
Earnings before taxes	7.0%	6.8%	6.8%	6.5%
Working capital	18.7	17.9	17.5	19.7
Fixed assets, net	16.7	17.3	17.6	15.7
Total assets employed	53.3	54.3	54.3	51.9
Long-term debt	10.0	10.4	10.7	9.1
Equity	28.4	27.6	27.8	26.9
Other Ratios:				
Earnings, before taxes, on:				
Assets employed	13.0	12.5	12.5	12.6
Equity	24.5	24.6	24.6	24.3
Long-term debt to equity	35.3	37.7	38.5	33.7
Equity to assets employed	53.3	50.9	50.7	51.8
Equity, plus long-term debt, to assets employed	72.1	70.1	70.2	69.3

There has been little change in the percentage ratios from 1977 to 1978. Further, the percentages are about the same for large companies as for the smaller companies.

Exhibit II shows statistics for 20 processing and marketing cooperatives with operations similar to the corporations shown in Exhibit I. Most of them operate on a pooling of proceeds basis. They include such organizations as Tri/Valley Growers, California Cannery and Growers, Ocean Spray, Welch, etc.

Exhibit II

20 MARKETING COOPERATIVES

	<u>1977</u>	<u>1978</u>	<u>8 Above Mean</u>	<u>12 Below Mean</u>
Average Sales (000)	\$104,300	\$121,000	\$221,500	\$54,000
Percent of Sales:				
Working capital	6.7%	6.1%	6.3%	5.5%
Fixed assets, net	17.3	15.4	13.9	19.4
Total assets				
employed	56.3	52.2	49.2	60.4
Long-term debt	9.9	8.8	8.4	9.9
Equity	16.6	15.1	14.1	17.8
Other Ratios:				
Long-term debt to equity	99.9	58.3	59.4	55.9
Equity to assets employed	29.5	28.9	28.6	29.4
Equity, plus long-term debt, to assets employed	47.1	45.7	45.6	45.9

The most significant change from 1977 to 1978 has been the decrease in fixed assets measured as a percentage of sales. The smaller cooperatives have more invested in total assets employed, including fixed assets. Earnings data is not shown because many of the cooperatives do not charge members' deliveries of raw product to cost of production. Consequently, net proceeds for those cooperatives are much higher than would be the case if members' raw product had been recorded as a cost.

Exhibit III compares the 20 corporations with the 20 cooperatives.

Exhibit III

	<u>1973</u>	
	<u>Corporations</u>	<u>Cooperatives</u>
Average Sales (000)	\$959,500	\$121,000
Percent of Sales:		
Working capital	17.9%	6.1%
Fixed assets, net	17.3	15.4
Total assets employed	54.3	52.2
Long-term debt	10.4	8.8
Equity	27.6	15.1
Other Ratios:		
Long-term debt to equity	37.7	58.3
Equity to assets employed	50.9	28.9
Equity, plus long-term debt to assets employed	70.1	45.7

There are some striking differences between the corporations and cooperatives. The cooperatives are more highly leveraged with much less equity and substantially less working capital. The marketing cooperatives are able to operate under these circumstances, in part, because of deferred payments to growers for raw product.

Exhibit IV shows data for 18 dairy cooperatives. It was not practical to compare this data with dairy corporations.

Exhibit IV

18 DAIRY COOPERATIVES

	<u>1977</u>	<u>1978</u>	<u>5 Above Mean</u>	<u>13 Below Mean</u>
Average Sales (000)	\$329,500	\$347,500	\$954,000	\$114,000
Percent of Sales:				
Earnings before taxes	.6%	.8%	.5%	1.6%
Working capital	2.8	2.7	2.8	2.4
Fixed assets, net	5.2	5.2	5.2	5.2
Total assets employed	20.3	19.7	19.8	19.6
Long-term debt	3.1	2.9	3.2	2.3
Equity	7.4	7.4	7.2	8.0
Other Ratios:				
Earnings, before taxes, on:				
Assets employed	3.1	3.3	2.5	8.1
Equity	8.5	10.3	6.9	19.9
Long-term debt to equity	42.7	40.0	44.0	28.6
Equity to assets employed	36.3	37.3	36.3	40.6
Equity, plus long-term debt, to assets employed	51.8	52.2	52.2	52.3

It is interesting to note that the smaller dairy cooperatives had greater earnings than the large cooperatives. Further, there was little change in the data from 1977 to 1978.

A group of cooperatives, as listed in Exhibit V, which furnish supplies and services to their members, have been classified as supply cooperatives, even though some of these organizations market various products for their members. Actually there were 22 cooperatives included in the 1977 study, but two of the cooperatives merged, leaving 21 in 1978.

Exhibit V

21 SUPPLY COOPERATIVES

	<u>1977</u>	<u>1978</u>	<u>6</u> <u>Above</u> <u>Mean</u>	<u>15</u> <u>Below</u> <u>Mean</u>
Average Sales (000)	\$580,000	\$641,000	\$1,412,000	\$332,500
Percent of Sales:				
Earnings before taxes	2.8%	2.4%	2.2%	2.6%
Working capital	7.0	6.9	7.1	6.6
Fixed assets, net	19.3	19.0	15.6	24.8
Total assets employed	49.2	49.2	43.5	58.7
Long-term debt	15.5	15.8	12.9	20.7
Equity	17.3	16.7	14.4	20.4
Other Ratios:				
Earnings, before tax, on:				
Assets employed	5.6	4.8	5.0	4.5
Equity	16.1	14.1	15.2	12.9
Long-term debt to equity	89.9	94.8	89.2	101.4
Equity to assets employed	35.1	33.9	33.2	34.8
Equity, plus long-term debt to assets employed	66.6	66.0	62.7	70.1

Total assets employed, including fixed assets, were greater, measured as a percentage of sales, for the smaller cooperatives than for the larger cooperatives. The smaller cooperatives also have more long-term debt and equity to support the total assets employed.

Exhibit VI summarizes the data for 1978 for each of the four groups:

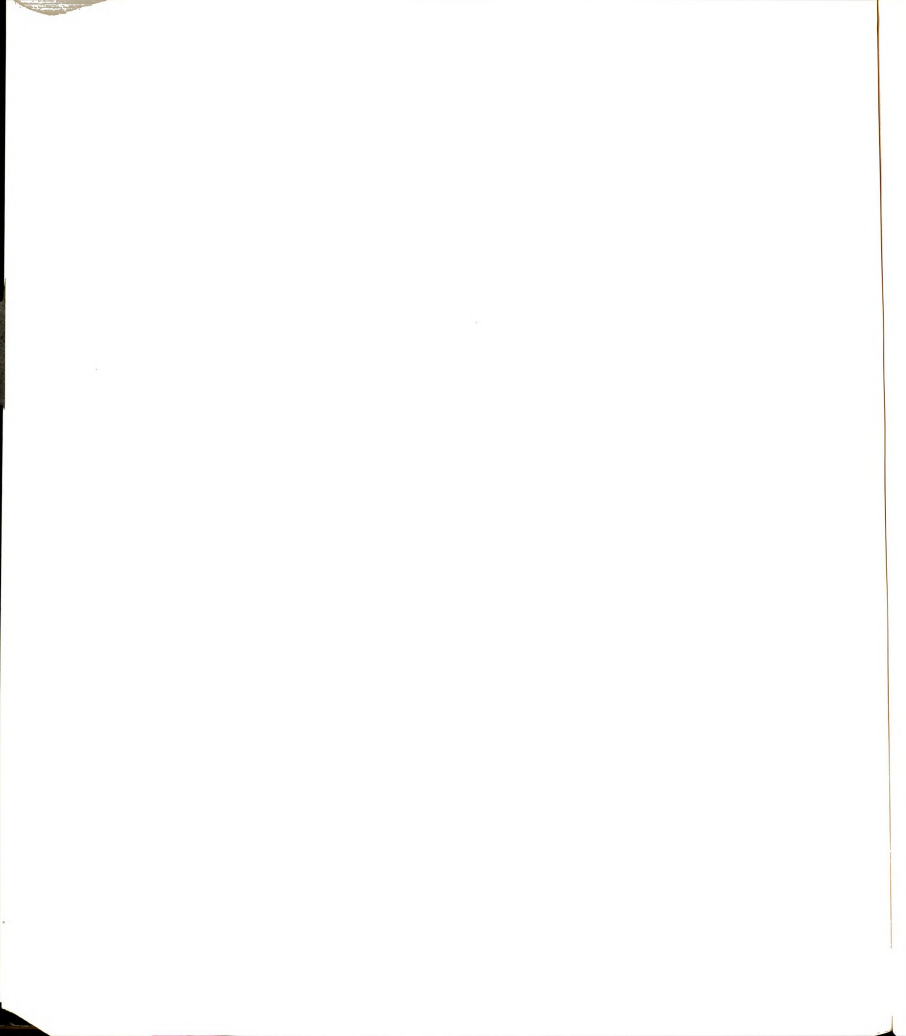


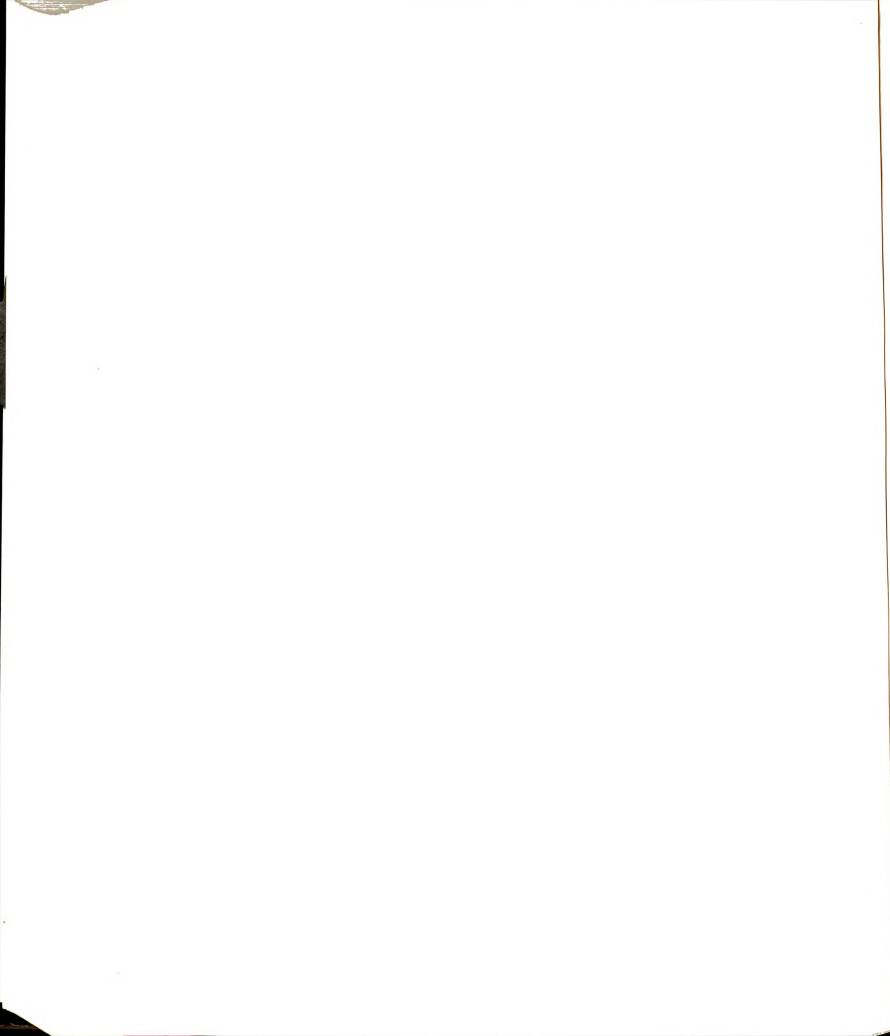
Exhibit VI

1978 FINANCIAL RATIOS

	<u>Food Processing Corporations</u>	<u>Marketing Cooperatives</u>	<u>Dairy Cooperatives</u>	<u>Supply Cooperatives</u>
Average Sales (000)	\$959,500	\$121,000	\$347,500	\$641,000
Percent of Sales:				
Earnings before taxes	6.8%	—	.8%	2.4%
Working capital	17.9	6.1%	2.7	6.9
Fixed assets, net	17.3	15.4	5.2	19.0
Total assets employed	54.3	52.2	19.7	49.2
Long-term debt	10.4	8.8	2.9	15.8
Equity	27.6	15.1	7.4	16.7
Other Ratios:				
Earnings, before taxes, on:				
Assets employed	12.5	—	3.8	4.8
Equity	24.6	—	10.3	14.1
Long-term debt to equity	37.7	58.3	40.0	94.8
Equity to assets employed	50.9	28.9	37.3	33.9
Equity, plus long-term debt, to assets employed	70.1	45.7	52.2	66.0

There are a number of significant conclusions which can be drawn from this data:

- There was not a significant change in the percentage ratios from 1977 to 1978. Further, the ratios are generally the same for large and small organizations.
- Some of the 59 cooperatives included in this study are large organizations. In the last survey of the largest 500 industrial companies made by FORTUNE, eight cooperatives were included. Based on the sales volume of only the cooperatives included in this study, at least 10 additional cooperatives should also have been listed. Even so, the cooperatives tend to be much smaller than their corporate counterparts.



- The cooperatives tend to be much more highly leveraged than the corporations, with resultant lower working capital and greater long-term debt. A study made by Nelda Griffin, an economist with the Economics, Statistics and Cooperative Service, USDA, shows that equity interest for the largest 100 U.S. cooperatives has been decreasing steadily. Equity measured as a percentage of assets employed dropped from 52 percent in 1962 to 39 percent in 1970 and to 34 percent in 1976, very close to the percentages shown in the preceding Exhibits.
- The financial ratios for the dairy cooperatives are significantly different from the other groups. This is largely due, in part, to the fact that a high percentage of milk delivered by members is sold in bulk without further processing.
- In the case of marketing cooperatives, investment in fixed assets is less than the corporations. I suspect the same comparison would be true for dairy and supply cooperatives. Further, for both food processing corporations and marketing cooperatives, the percentage of fixed assets to sales has declined in recent years. Because of inflation, investment in fixed assets has not kept pace with sales. Further, much of the recent investment in fixed assets has been in non-productive facilities required by OSHA and EPA.

The whole business and financial system of cooperatives, which has been developed on the assumption of reasonable price stability, is dangerously vulnerable to the uncertainties resulting from significant inflation. Inflation has created a serious situation for even the strongest cooperatives. Efforts to meet these extraordinary demands for capital have forced some cooperatives into over-extended debt situations. This liquidity crisis and the cost of capital has resulted in some cooperatives having excessive short-term borrowings with attendant high interest costs and increasingly restrictive covenants.

What can cooperatives do to improve their financial positions?

Sale of Securities:

While some cooperatives have issued stock, usually preferred stock, on a patronage basis, a few cooperatives have sold stock on a non-patronage basis. I would expect that more cooperatives will look to the sale of preferred stock to raise capital.

This usually will require registration of that stock with the Securities and Exchange Commission. Only a handful of cooperatives now register securities with the SEC. Cooperative board members should be aware that a new Securities Code, prepared under the sponsorship of the American Law Institute, is now being reviewed by the SEC. Upon conclusion of that review, it is expected that the new Code, as amended by the SEC, will be given to Congress for legislative action. Basically, the Code now provides that securities used as a patronage refund or as a condition of membership, and which cannot be traded except among members to meet membership requirements, will not require registration. It is expected that

the progress of the new legislation to enactment in final form will take several years. In the meantime, the matter will be closely monitored by the Council's staff and members of the Legal, Tax and Accounting Committee.

Debt Financing:

Debt financing can take many forms:

- Cooperative bank financing

Cooperative banks have generally provided the bulk of cooperative debt financing. There are several significant developments in this area. The banks for cooperatives are working more with commercial banks to provide the increased debt financing required by cooperatives. Limitations in lending limits, which are tied to the capital base of the cooperative banks, has accelerated this development. Other developments include a program of risk sharing among the district banks and the Central Bank. Along with this risk sharing will come more uniform credit granting standards and closer monitoring of loans by the banks. In any event, it is my opinion that the cooperative banks will continue to provide the major debt financing for cooperatives.

- Other than cooperative banks

We are now seeing a much greater interest on the part of commercial banks, investment banks and insurance companies in financing cooperatives. For example, such companies as Goldman & Sachs are very active in this area, and a major marketing cooperative has just announced a long-term financing arrangement with a large insurance company.

- Project financing

This involves long-term financing of a new facility built for the purpose of supplying a major customer under a long-term contract. The long-term supply contract, as well as the facility itself, is used as collateral for the loan. Several cooperatives have built new facilities financed under this arrangement.

- Sale of cooperative's own paper

Cooperatives with a very good credit rating may find it possible to sell their own paper with lower interest rates than available under short-term loans from banks. Several cooperatives, including Land O'Lakes and, more recently, SunKist, are now selling their own paper.

- Leasing

Leasing, including leveraged leasing, has been, and continues to be, an important means of financing new capital additions. Cooperatives have used this method because investment tax credits, until recently, were not available in full to most cooperatives. The lessor usually passed the investment credit back to the cooperatives in lower lease rates. However, the Revenue Act of 1973 has made the investment credit available in full to cooperatives and, therefore, leasing may not be as attractive to cooperatives as in the past. However, it will still provide a means of financing capital additions when other financing methods may not be as available or attractive as leasing. It should be pointed out that recent pronouncements of The Financial Accounting Standards Board now require that many leases previously treated as operating leases now be set up on the books as an addition to fixed assets and a corresponding liability recorded.

- Other debt financing methods

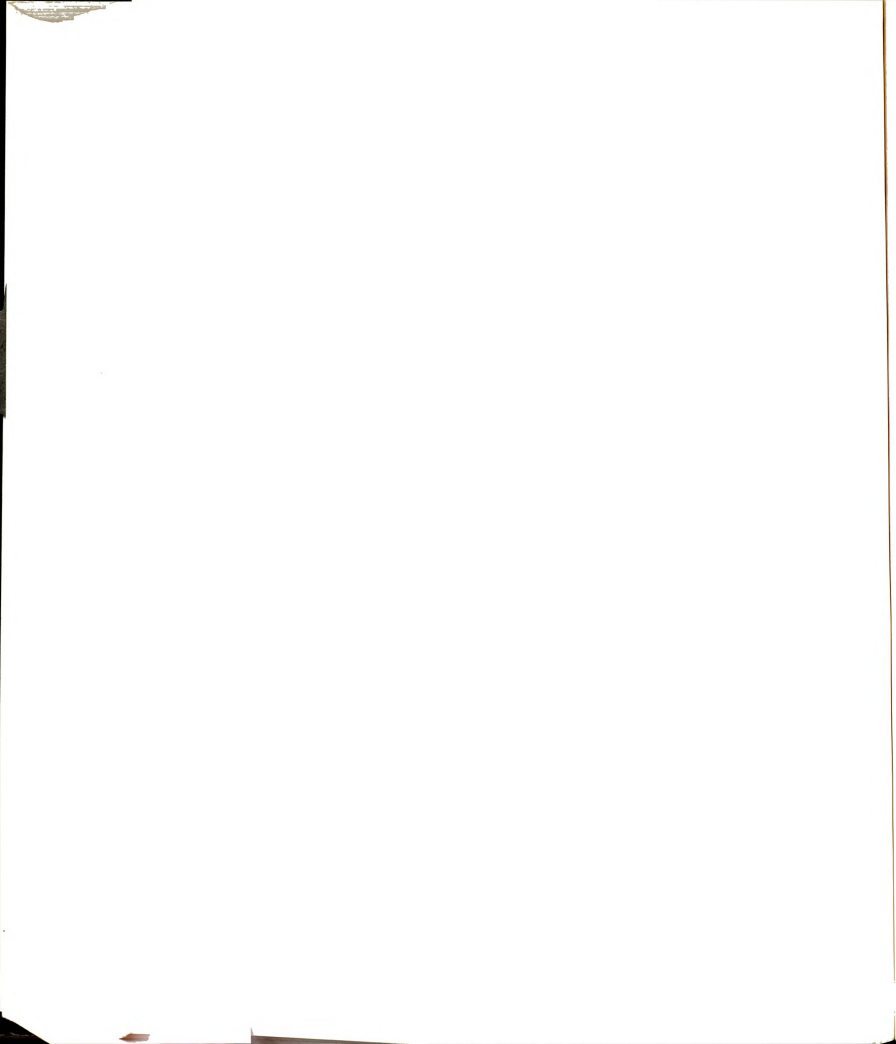
These include industrial revenue bonds, port facility bonds, etc. They offer an excellent means of providing new facilities, particularly in communities where the facilities are desired to help bolster the economy of the area.

There are a number of problems that arise with providing capital with increased debt financing. If such financing is too readily available it sometimes leads to over-expansion. The resulting heavy debt service load, in the form of high interest expense and debt retirement, overtax the earnings power and working capital generation capacity of the cooperative. Just as important, excessive restrictions are often placed on the borrower by the lender.

Cooperative Arrangements with Corporations:

There are several examples of a cooperative making an operating arrangement with a corporation already in existence or with a corporation formed by a cooperative. I believe we may see more cooperatives spinning off a division, forming a corporation and selling participating common stock to the public but still retaining control of the voting stock.

There are several well-known examples of this kind of an arrangement, such as Curtice-Burns/Pro Pac, and S. S. Pierce/AgCo. in New York State. However, another arrangement, Allied/United Vintners/Heublein, in California, has been recently terminated. There are some pitfalls to be considered. There is a loss by cooperative members of a share of the earnings. The objectives of the corporation are often not the same as the cooperative, as in the Allied/United Vintners/Heublein arrangement. If too much of the equity is provided by non-members, members, because of their reduced investment, may find it easier not to support the cooperative, or leave it entirely.



Retained Earnings

In the long run, the basic equity must be provided by the membership of the cooperative, either through retention of patronage refunds, per unit retains or in capital assessments based on patronage. This may mean longer revolving periods for equities. To stabilize capital, some cooperatives have adopted base capital plans where capital required from each member is based on patronage, increasing or decreasing on a scheduled basis as the patronage increases or decreases.

Cooperatives should look to tax-paid earnings as a basis for raising capital. For example, tax exempt cooperatives could retain gains on sale of fixed assets, net of taxes, without allocation to members. Taxable cooperatives could retain all non-patronage net earnings.

One of the most significant tax developments which should facilitate the buildup of unallocated net earnings is contained in the Revenue Act of 1978, which became effective for fiscal years beginning after October 31, 1978. Through the efforts of the Council staff and members of the Legal, Tax and Accounting Committee, the Act included a provision which removed the limitation on various credits for cooperatives, such as Investment Tax Credit, Energy Credits and Job Credits. Formerly, these credits were only available to cooperatives in the relation of taxable income to non-taxable income. The new Act, which applies to all Subchapter T cooperatives, allows cooperatives to use all of the credits. While no carryover or carryback is allowed to the cooperative, allocation of the credits to patrons is permitted when not used by the cooperative. The members may carryback and carryover the credits.

While there are many questions yet to be answered as to tax planning opportunities, it appears that at least \$35,000,000 a year will be available to cooperatives to shelter taxable income or to be passed to members. Management and Boards of Directors will need to study the implications of the Act and its effect on financial planning for their cooperative.

Both short- and long-range financial planning for cooperatives has become increasingly important. Boards of Directors, as well as management, must understand what the needs of cooperatives are, and they must be involved in determining financial planning policies. Finally, they must understand what their responsibilities are, and that these responsibilities are much greater than a few years ago. In fact, lack of attention to these responsibilities could lead to legal action against Board members. Finally, it should be emphasized that the basic equity of cooperatives must be provided by members. All other methods of increasing capital depend, in large measure, on a strong member equity base.

Prepared for presentation
at the Annual Meeting of the
National Council of Farmer
Cooperatives, Las Vegas, Nevada,
January 11, 1979

APPENDIX C

TILLIE LEWIS FOODS, INC.

TILLIE LEWIS FOODS, INC.

~~11/11/78~~
8/24/78SIMPLIFIED EXPLANATION OF ILF TOMATO GROWER PARTICIPATION PROGRAM

- GROWER AND CANNER SHARE THE ACTUAL NET SALES REVENUE RECEIVED FOR THE TOMATO PACK.
- NET SALES REVENUE IS SHARED BETWEEN GROWER AND CANNER IN THE SAME PERCENTAGE THAT EACH CONTRIBUTES TO THE TOTAL COST OF PRODUCING AND SELLING THE PACK.
- GROWER'S CONTRIBUTION IS THE BASE PRICE OF TOMATOES PLUS APPLICABLE INCENTIVES. CANNER'S CONTRIBUTION IS OUTLINED ON PAGES 2, 3, AND 4.
- THE APPROXIMATE CONTRIBUTION PERCENTAGES WOULD BE THOSE SHOWN BELOW HAD THE PROGRAM BEEN IN EFFECT THE LAST 5 YEARS.

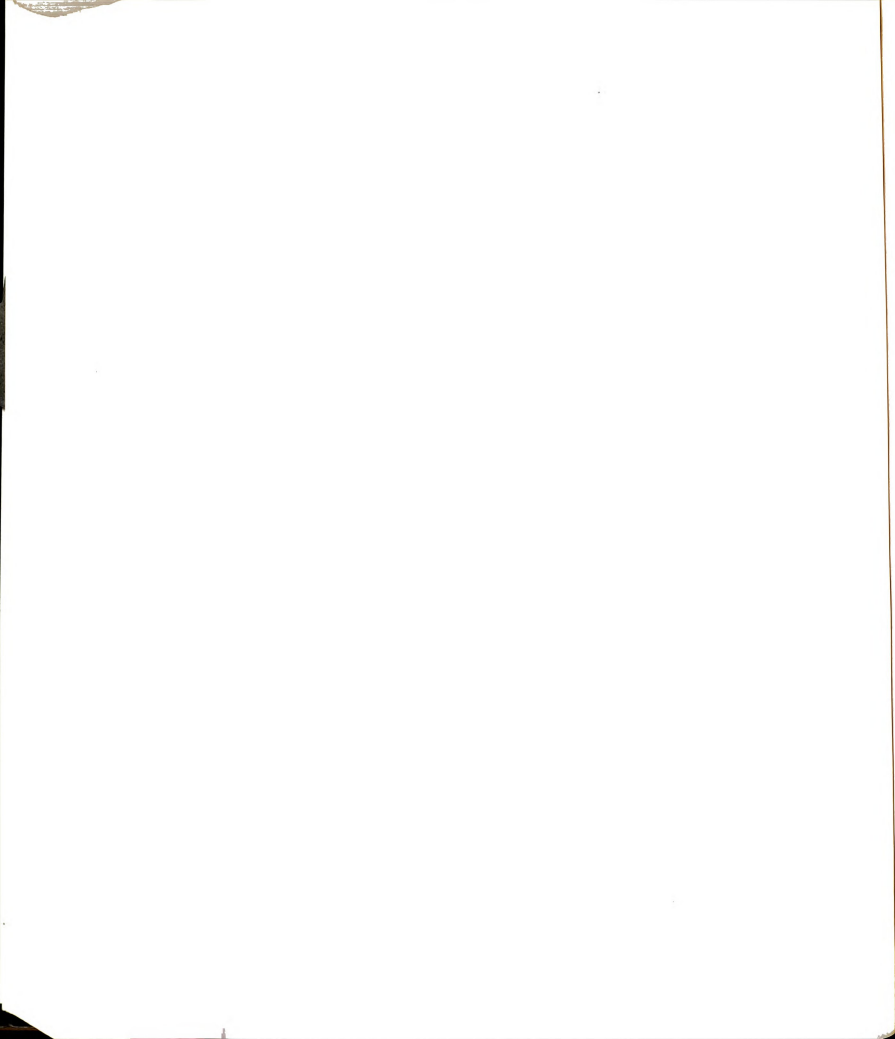
	<u>1972/73</u>	<u>73/74</u>	<u>74/75</u>	<u>75/76</u>	<u>76/77</u>	<u>77/78</u>
GROWER	24.43%	25.89%	33.85%	28.13%	22.07%	28.0%
CANNER	75.57%	74.11%	66.15%	71.87%	77.93%	72.0%

- THE TOTAL PER TON CONTRIBUTION OF GROWER AND CANNER IS TERMED PARITY REVENUE IN OUR PRICING FORMULA.
- FINAL SELLING PRICES HIGHER THAN PARITY REVENUE WOULD ADD INCREMENTAL PROFITS TO BOTH THE GROWER AND CANNER.
- FINAL SELLING PRICES LOWER THAN PARITY REVENUE WOULD CAUSE INCREMENTAL REDUCTIONS IN BOTH THE GROWER AND CANNER PROFITS.
- THE GROWER NEVER RECEIVES LESS THAN 85% OF THE GOING PRICE PER TON (THE INITIAL AMOUNT PAID WEEKLY).
- THE GROWER RECEIVES INTEREST ON ANY ADDITIONAL AMOUNT DUE.
Figures adjusted to discount effect of expired paste term contract.

CANNER CONTRIBUTION TO THE TOTAL COST OF THE PACK INCLUDES:

1. DIRECT OPERATING COSTS

- A. DIRECT LABOR AND BENEFITS
- B. CONTAINERS (GLASS, CANS, DRUMS)
- C. INGREDIENTS
- D. PEELING AGENTS
- E. ROYALTIES (I.E. TOMATO PEELERS, PEEL
REMOVERS, WASHER SYSTEM)
- F. FUEL, POWER, WATER
- G. WAREHOUSE EXPENSE (COST TO PUT THE PACK
AWAY, LABELING, CASING, AND SHIPPING)
- H. FIELD DEPARTMENT EXPENSE
- I. HAULING AND RECEIVING COSTS
- J. SUPERINTENDENT AND INDIRECT (CANNERY
SALARIED SUPERVISION PLUS INDIRECT
HOURLY LABOR)
- K. FACTORY BURDEN (INCLUDES M & R, RENT,
DEPRECIATION, PROPERTY TAXES,
INSURANCE, SEWER, OPERATING
SUPPLIES, REFUSE DISPOSAL, ETC.)
- L. FIBRE
- M. LABELS



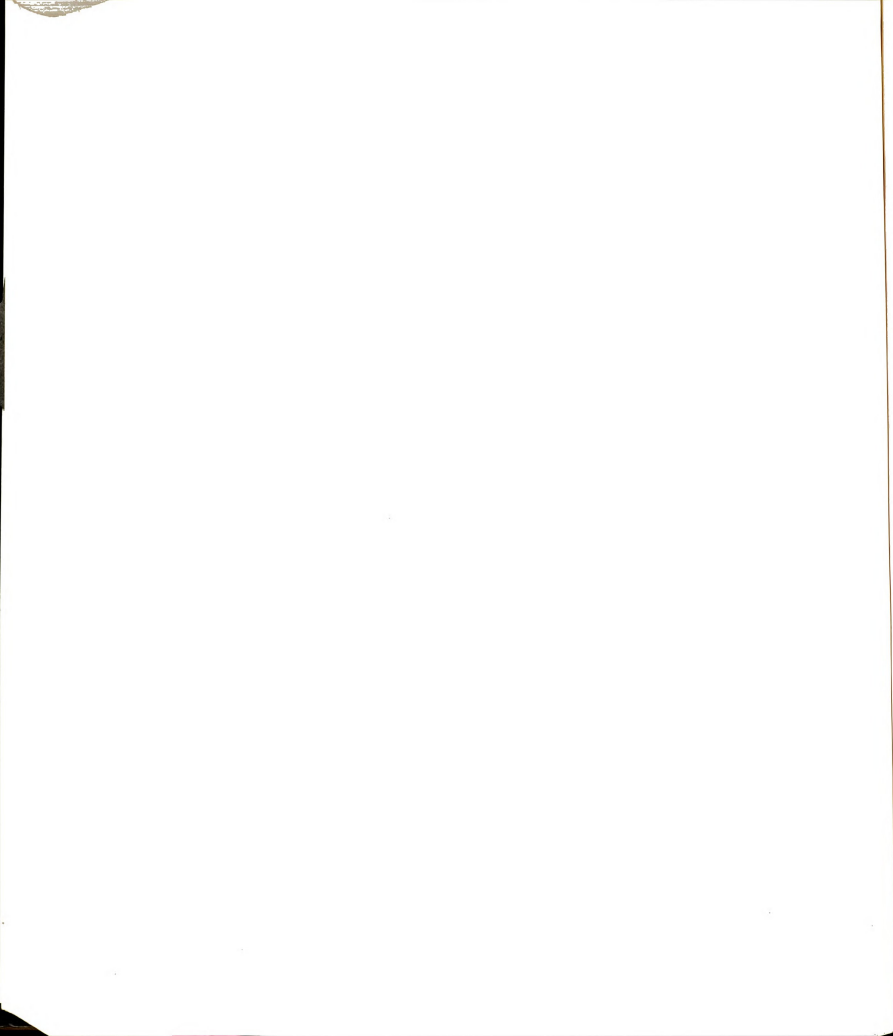
II. SELLING EXPENSES

- A. CONSUMER ADVERTISING
- B. OTHER DIVISION SELLING EXPENSE (SALARIES, PROMOTION, TRAVEL)
- C. SALES ADMIN. EXPENSE (SALARIES, TRAVEL, FORWARD WHSE. EXPENSE)
- D. BROKERAGE

III. ADMINISTRATIVE EXPENSES

- A. HEADQUARTERS DEPARTMENTS ELEMENTS OF EXPENSE - SALARIES, TRAVEL, RENT, DUES, TELEPHONE, SUPPLIES, HOME OFFICE EXPENSE.
- B. CONTRACT SERVICES, LEGAL, INVENTORY AND ADMINISTRATIVE INSURANCE.
- C. RESEARCH AND DEVELOPMENT
- D. DEPRECIATION - OFFICE
- E. INVENTORY TAX

IV. INTEREST EXPENSESV. CALIFORNIA STATE INCOME TAXVI. FEDERAL INCOME TAXVII. NORMAL PROFIT



CANNERS DIRECT OPERATING COSTS OUTLINED UNDER HEADING I CAN BE ACCURATELY APPLIED TO THE TOMATO OPERATION BY DETAILED ACCOUNTING.

THE SELLING EXPENSES, ADMINISTRATIVE EXPENSES, INTEREST EXPENSES AND TAXES OUTLINED UNDER HEADINGS II THROUGH VI CANNOT BE READILY SEPARATED TO APPLY TO TOMATOES, SINCE TOTALS OF THESE COSTS TO TLF COVER ALL OF THE COMMODITIES PACKED. THUS A PRORATION IS MADE OF THESE COSTS PLUS NORMAL PROFIT TO APPLY TO TOMATOES AS A PERCENTAGE PROPORTION OF THE TOTAL COST OF GOODS SOLD. THIS PROPORTION IS REFERRED TO AS BUYER'S PERCENTAGE. FOR THE 1977-78 CONTRACT YEAR BUYER'S PERCENTAGE WAS 17.4%.

ESTIMATED HISTORICAL RESULT::

	<u>72/73</u>	<u>73/74</u>	<u>74/75</u>	<u>75/76</u>	<u>76/77</u>	<u>77/78</u>
BASE PRICE AND INCENTIVES	\$28.11	\$34.81	\$56.31	\$55.37	\$47.73	\$56.27
PARITY NET SALES / TON	\$115.08	\$134.47	\$166.37	\$196.83	\$216.25	\$201.17
SELLER %	24.43%	25.89%	33.85%	28.13%	22.07%	28.0%
ACTUAL NET SALES / TON	\$117.28	\$143.76	\$187.89	\$181.67	\$200.13	\$180.95
FINAL PRICE	\$28.65	\$37.22	\$63.60	\$51.10	\$44.17	\$50.67
CHANGE	\$0.54	\$2.41	\$7.29	(\$4.27)	(\$3.56)	(\$5.60)
INTEREST IN ADDITION TO FINAL PRICE	\$.32	\$.51	\$1.05	\$.27	\$.24	\$.20

* FIGURES ADJUSTED TO DISCOUNT EFFECT OF EXPIRED PASTE TERM CONTRACT.

RIDER TO CONTRACT NUMBER _____

Buyer and Seller agree as follows:

1. Ethephon (Ethrel or Cepha) shall only be applied to the tomato crop upon mutual written agreement between Buyer and Seller. Due to its often undesirable effect on fruit quality, Ethephon shall be used only on fields where there is a distinct advantage to the grower and where canning quality will not suffer, and its use must be considered in relation to Seller's harvest schedule and Buyer's production capacity.

2. Seller will harvest his crop in a careful manner and will avoid excessive speed of the harvester or of the discharge elevator in order to eliminate cracks or breaks in the tomatoes. Care will be given to the elevation of the discharge elevator to minimize fall of the tomatoes from the elevator to the bin or gondola. Seller agrees to endeavor to fill Buyer's double sets of gondola trailers to 48,000 pounds of tomatoes and/or Buyer's bin containers to 950 pounds of tomatoes. Buyer will not be obligated to pay for that portion of any load of tomatoes exceeding 54,000 pounds per double set of gondola trailers, or for that portion of any bin load of tomatoes averaging over 1,100 pounds of tomatoes per bin, or Buyer may, at its option, reject any load of tomatoes exceeding 54,000 pounds of tomatoes per double set of gondola trailers or any bin load of tomatoes averaging over 1,100 pounds of tomatoes per bin.

3. Excepting the last load from a field, Seller agrees to compensate trucker in the amount of the established hauling rate between Seller's field and Buyer's plant for any shortage below 42,000 pounds of tomatoes in a double set of gondola trailers. The rate charged shall not exceed eight dollars (\$8.00) per ton of shortage.

4. Payment Tolerances, Rejection Levels, and Delivery Limitations for each Contract Year shall be the same as those at which Buyer contracts for similar tomatoes in similar regions.

5. For the purpose of regulating the timely maturing of machinable tomato varieties, the following mutually agreeable planting schedule sets forth the terms and conditions governing the planting of the mutually agreeable machinable tomato varieties.

The first planting shall not be made until March 15 or later except by mutual agreement between Buyer and Seller. Its acreage shall be limited to not more than 30% of the total contracted acreage.

The last planting acreage shall be governed by the following:

<u>Percentage of total acreage</u>	<u>Earliest allowable planting date</u>
20% to 21%	May 12th
Over 21% to 23%	May 11th
Over 23% to 25%	May 10th
Over 25% to 27%	May 9th
Over 27% to 29%	May 8th
Over 29%	May 7th

Intermediate Plantings shall not be made until the previous planting is in the third leaf stage (the third leaf is the leaf which emerges after the two cotyledons). The only exception will be when a pear shaped variety (VF 13L, VF 13 L-34, or Peto 13) makes up all of a planting.

6. The term of this Contract shall be for ____ () years commencing July 1, 1978 and ending June 30, 19 __. Each Contract Year shall commence on July 1 and end June 30 of the following year.

7. The following definitions shall apply in determining the price per net #1 ton of tomatoes under the pricing formula set forth below:

Base Price - The price per net #1 ton of tomatoes negotiated by the Buyer and The California Tomato Growers Association ("CTGA") for each Contract Year.

Incentives - The schedule of bonuses and premiums negotiated by the Buyer and the CTGA for each Contract Year.

Deductions - The fees charged to the Seller pursuant to CTGA requirements, or government or other regulations including but not limited to such fees as market order, inspection, curly top virus control and association fees.

Initial Price - 85% of the Base Price, plus 85% of the applicable Incentives.

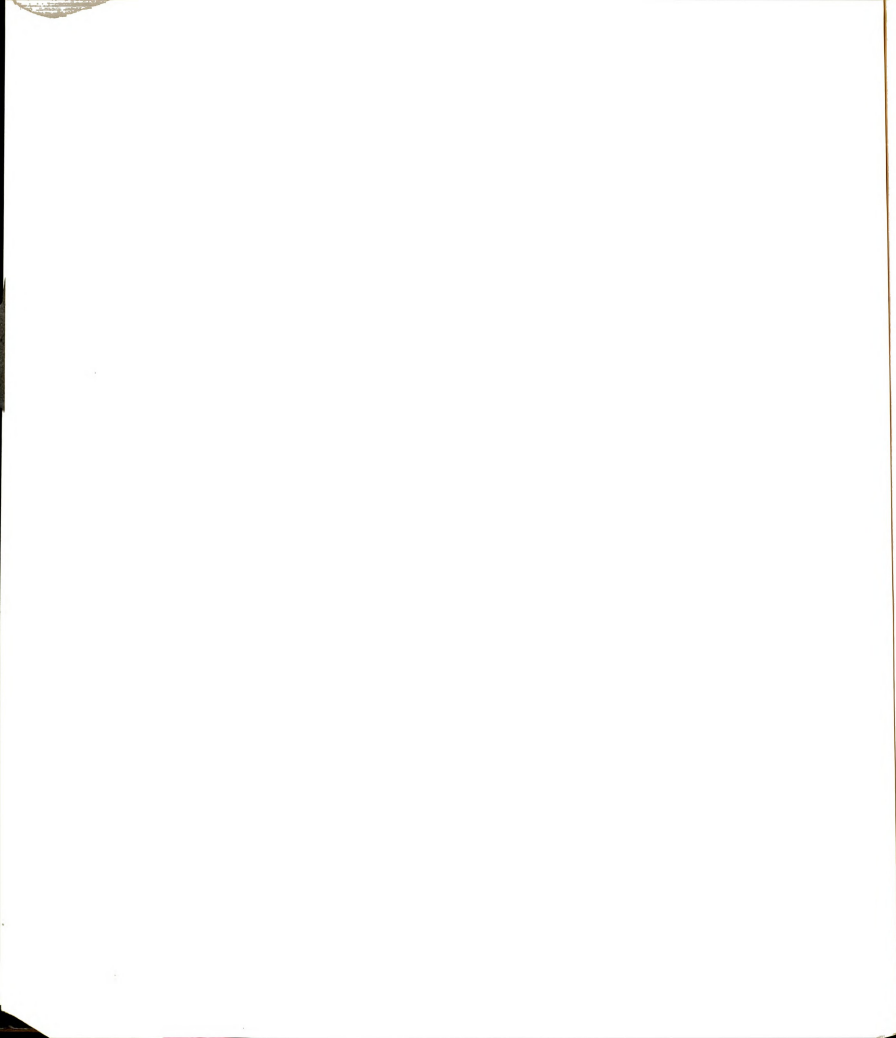
Final Price - The Initial Price plus an additional payment, if any, as calculated in Paragraph 8(b) below.

Tomato Products - All such products produced by Buyer from tomatoes during the Contract Year.

Net Sales Price - The market price from third party customers of Buyer for Tomato Products less sales returns, sales allowances, sales discounts and freight.

Net Sales Revenue - The quantity of Tomato Products sold times the Net Sales Price.

Cost of Goods Sold - The full manufactured cost to produce Tomato Products plus the full cost of labeling, casing and shipping, including warehousing. The Cost of Goods Sold shall include the cost of all tomatoes processed at the Base Price plus applicable Incentives. Cost of Goods Sold as defined will be consistent with Cost of Goods Sold of past periods.



Contract Year Revenue - The Net Sales Revenue for Tomato Products sold during the current Contract Year.

Carryover Pack Revenue - The Net Sales Revenue for Tomato Products remaining in inventory at the end of each Contract Year which will be determined by using the Net Sales Price for each item as of June 30 of the Contract Year and multiplying it times the quantity of such item remaining in inventory.

Prior Pack Revenue - The Net Sales Revenue for Tomato Products remaining in inventory at the commencement of each Contract Year which will be determined by using the Net Sales Price for each item as of June 30 of the prior Contract Year and multiplying it times the quantity of such item remaining in inventory.

8. Buyer and Seller agree to the method of computing prices per net #1 ton of tomatoes ("The Tomatoes") as follows:

a) The Initial Price less any Deductions shall be paid upon delivery of The Tomatoes in accordance with the standard terms of this contract.

b) The Final Price of The Tomatoes delivered hereunder to Buyer shall be computed as follows:

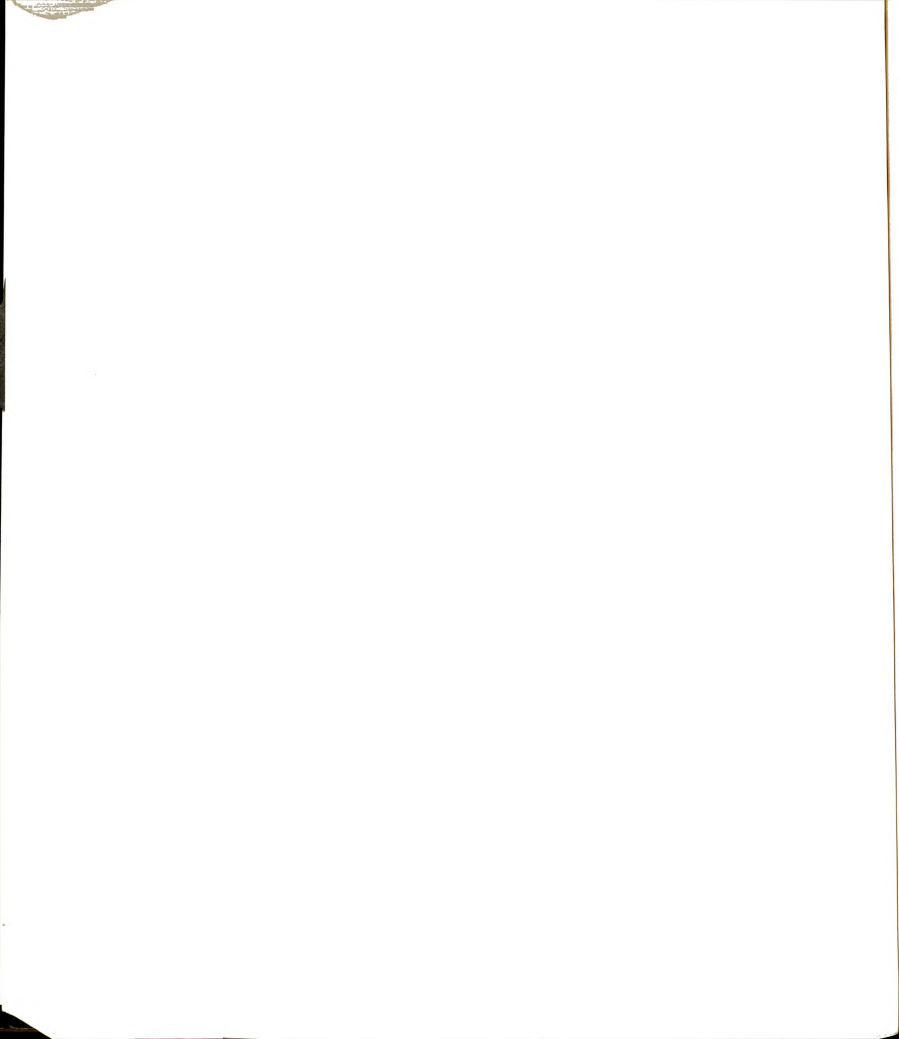
i) Determination of Parity Revenue:

At the end of each Contract Year, Buyer shall determine the Cost of Goods Sold for Tomato Products. The Cost of Goods Sold shall be increased by using, as shown below, an appropriate percentage ("Buyer's Percentage") each Contract Year to calculate the total Net Sales Revenue which Buyer requires in order to cover all selling expenses, administrative expenses, interest expenses, and income taxes and allow for a normal profit to the Buyer after all such income taxes and expenses. The Buyer's Percentage for the first Contract Year shall be 17.4% and the Buyer's Percentage each subsequent Contract Year shall be determined in the same manner by Buyer by February 15 preceding the Contract Year.

The total Net Sales Revenue for Tomato Products required by Buyer for that Contract Year shall be divided by the total net #1 tons of tomatoes processed by Buyer during the tomato packing season of that Contract Year and the resultant figure will be Parity Net Sales Revenue per net #1 ton ("Parity Revenue").

$$\text{Parity Revenue} = \frac{(\text{Cost of Goods Sold}) \div (100\% - \text{Buyer's Percentage})}{\text{Net \#1 Tons Tomatoes Processed}}$$

Within forty-five (45) days after the end of each Contract Year, Buyer shall determine Parity Revenue as described above.



ii) Determination of Actual Revenue

The Actual Net Sales Revenue for Tomato Products for each Contract Year shall be the sum of Contract Year Revenue plus Carryover Pack Revenue less Prior Pack Revenue.

Actual Net Sales Revenue shall be divided by total net #1 tons of tomatoes processed by Buyer during the tomato packing season and the resultant per ton figure will be Actual Net Sales Revenue per net #1 ton ("Actual Revenue") for that Contract Year.

Within forty-five (45) days after the end of each Contract Year Buyer shall determine Actual Revenue as described above.

iii) Determination of Final Price and Additional Payment to Seller

The Final Price of The Tomatoes payable to Seller shall be a fixed percentage ("Seller's Percentage") of Buyer's Actual Revenue each Contract Year.

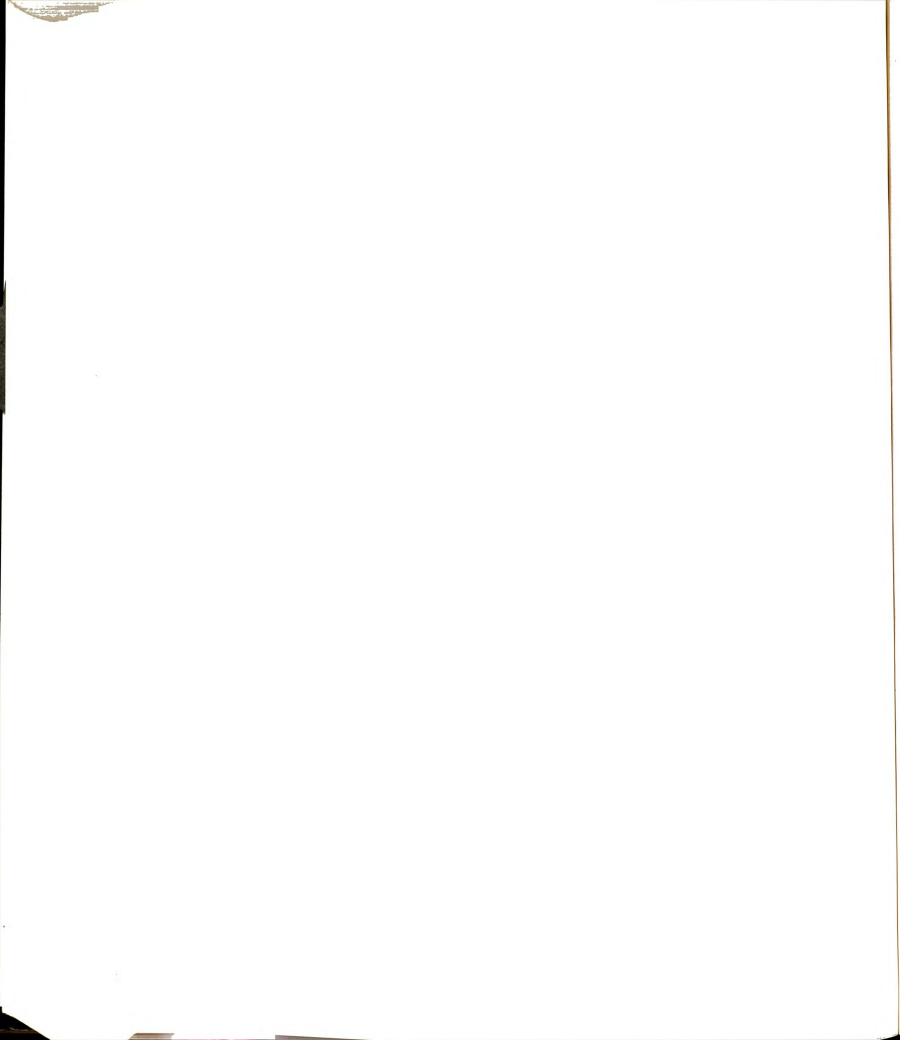
The Seller's Percentage shall be determined by dividing the Base Price plus applicable Incentives by Parity Revenue as determined in subparagraph b(ii) of this Paragraph 8.

$$\frac{\text{Base Price plus Incentives}}{\text{Parity Revenue}} = \text{Seller's Percentage}$$

$$\text{Seller's Percentage} \times \text{Actual Revenue} = \text{Final Price}$$

If the Final Price as determined above exceeds the Initial Price, Seller shall be entitled to that Final Price. In no event shall the Final Price be less than the Initial Price as defined in Paragraph 7.

Any additional payment due to Seller over and above the Initial Price shall be paid to Seller within 15 days of receipt by Buyer of the report required by Paragraph 9. Such additional payment shall bear interest at the average prime rate of interest of the Chase Manhattan Bank for the period November 1 of the Contract Year through the time of payment to Seller.



c) Examples of the above computations and calculations are as follows:

i) Initial Price and Payment to Seller Upon Delivery:

Assume:	Base Price Per Net #1 Ton	= \$	50.00
	Incentives Per Net #1 Ton	= \$	2.50
	Deductions Per Net #1 Ton	= \$	.30
Then:	Base Price x 85%	= \$	42.50
	Plus: Incentives x 85%	=	<u>2.13</u>
	Initial Price	= \$	44.63
	Less: Deductions at 100%	=	<u>(.30)</u>
	Payment to Seller Upon Delivery	= \$	<u><u>44.33</u></u>

ii) Parity Revenue:

$$\text{Parity Revenue} = (\text{Cost of Goods Sold}) \div (100\% - \text{Buyer's Percentage})$$

$$\text{Net \#1 Tons of Tomatoes Processed}$$

Assume:	Cost of Goods Sold	= \$	80,000,000
	Net #1 Tons	=	450,000
	Buyer's Percentage	=	17.4%
Then:	Parity Revenue	=	<u>$\\$80,000,000 \div 82.6\%$</u>
			450,000
	Parity Revenue	= \$	<u>215.23</u>

iii) Actual Revenue:

Assume:	Contract Year Revenue	= \$	105,000,000
	Carryover Pack Revenue	= \$	5,000,000
	Prior Pack Revenue	= \$	11,000,000
Then:	Contract Year Revenue	= \$	105,000,000
	Plus: Carryover Pack Revenue	=	5,000,000
	Less: Prior Pack Revenue	=	<u>(11,000,000)</u>
	Actual Net Sales Revenue	=	<u>\$ 99,000,000</u>
	Divided by: Net #1 Tons Processed by Buyer		450,000
	Actual Revenue		$(\$99,000,000 \div 450,000)$
		= \$	<u>220.00</u>

iv) Seller's Percentage:

$$\text{Seller's Percentage} = \text{Base Price Plus Incentive} \div \text{Parity Revenue}$$

Base Price plus		
Incentives per 8(c)i	\$ 52.50	
Parity Revenue per		
8(c)ii	215.23	
Seller's Percentage		
(\$52.50 $\div$ \$215.23)	=	<u>24.39%</u>

v) Final Price:

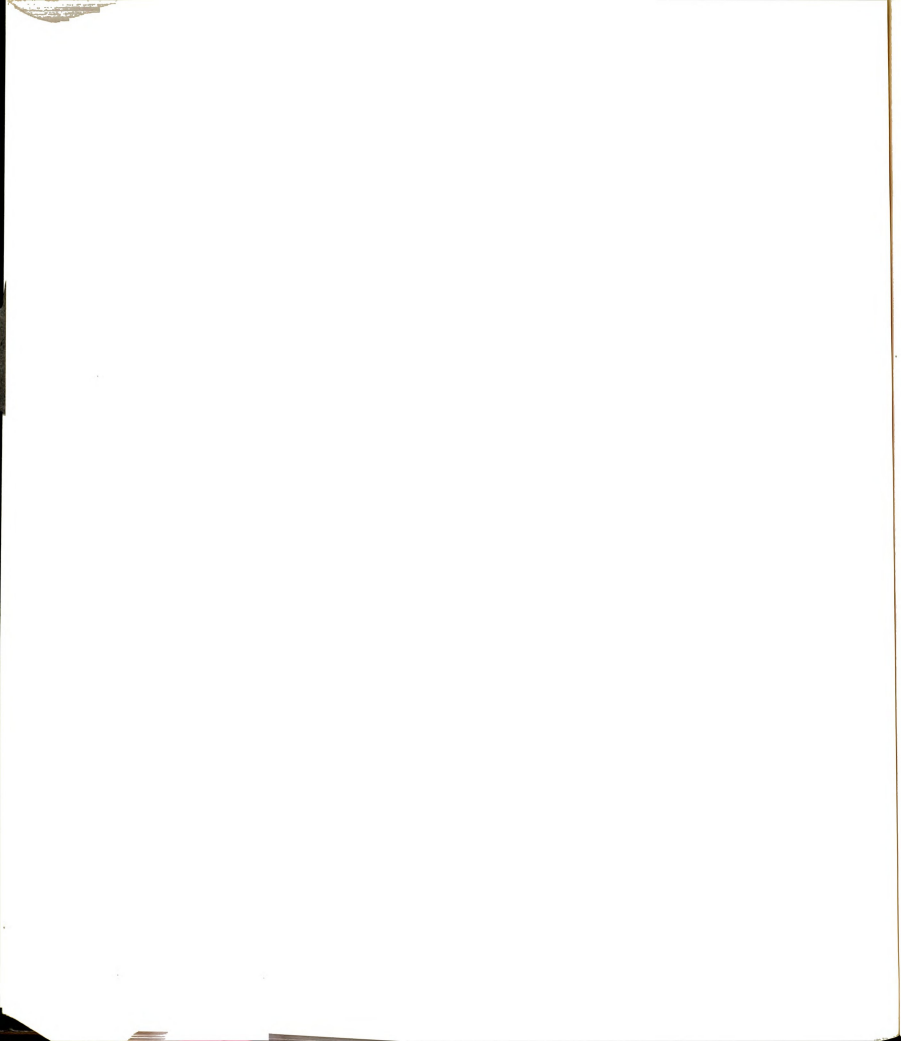
$$\text{Final Price} = \text{Seller's Percentage} \times \text{Actual Revenue}$$

Seller's Percentage per		
8(c)iv	24.39%	
Actual Revenue per		
8(c)iii	\$220.00	
Final Price		
(24.39% x \$220.00)	= \$	<u>53.66</u>

vi) Additional Payment to Seller:

$$\text{Additional Payment} = \text{Final Price} - \text{Initial Price}$$

Final Price per		
8(c)v	\$ 53.66	
Less: Initial Price		
Per 8(c)ii	<u>44.63</u>	
Additional Payment to Seller (plus interest)	= \$	<u>9.03</u>



9. Within forty-five (45) days after the end of the Contract Year an independent Certified Public Accounting firm, selected by the Buyer, shall examine Cost of Goods Sold, Parity Revenue, Actual Revenue, Seller's Percentage and Final Price in accordance with procedures outlined below and issue a report to Buyer and Seller stating that all such procedures have been performed and that no adjustments were required as a result of the examination; such examination to be conclusive.

Procedures to be followed by the Certified Public Accounting firm:

a) Cost of Goods Sold:

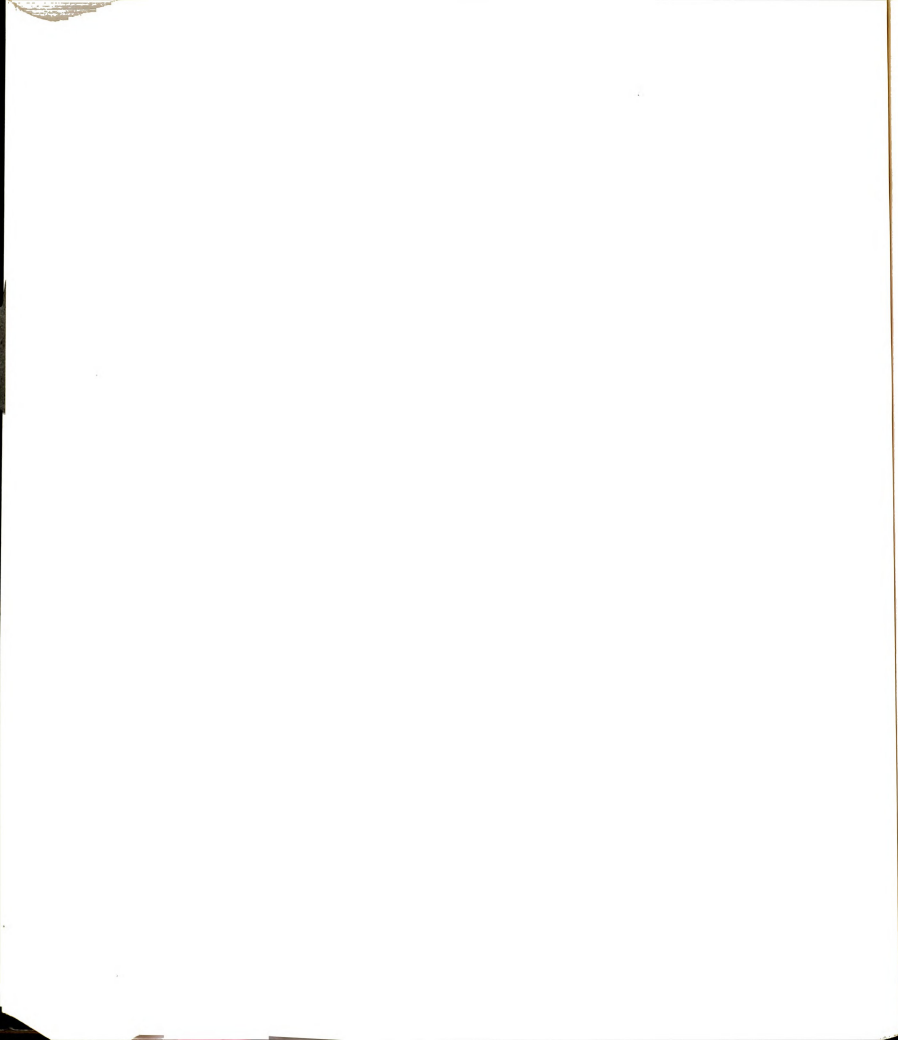
- i) Review the schedule of Cost of Goods Sold and determine that cost elements included are consistent with those included in prior years.
- ii) Determine that indirect costs have been allocated to Tomato Products on a basis consistent with prior years.
- iii) Reconcile amounts included in the schedule of Cost of Goods Sold to the general ledger.
- iv) Verify mathematical accuracy of allocations and computation of costs.

b) Parity Revenue: Verify mathematical accuracy of the Parity Revenue computation.

c) Actual Revenue:

- i) Agree Contract Year Revenue to general ledger.
- ii) Agree inventory at beginning and end of year to perpetual inventory records.
- iii) Agree June 30 market price to Buyer's computer summarization of sales orders as of June 30.
- iv) Verify mathematical accuracy of Net Sales Price computations.
- v) Verify mathematical accuracy of computations yielding Actual Revenue.
- vi) Agree total net #1 tons of tomatoes processed to production records.

d) Final Price: Verify mathematical accuracy of Final Price computation.



No. 9 (Cont'd)

- e) Seller's Percentage: Verify mathematical accuracy of Seller's Percentage.

10. If for any reason the Base Price cannot be determined in accordance with Paragraph 7 above, Buyer shall use as the Base Price the average price per net #1 ton, exclusive of Incentives, at which it purchased similar tomatoes in similar regions and quantities from other sellers who did not select this pricing formula. If for any reason the Incentives cannot be determined in accordance with Paragraph 7 above, Buyer shall use as the Incentives the average schedule of bonuses and premiums per net #1 ton at which it purchased similar tomatoes in similar regions and quantities from other sellers who did not select this pricing formula.

11. In the event that Buyer shall increase the Buyer's Percentage for any subsequent Contract Year by more than 0.5 percentage points, Seller shall have the right to terminate, without cause, the pricing formula under Paragraph 7 and 8 above for subsequent Contract Years by giving written notice of termination to Buyer not later than fifteen (15) days after receipt of notification from Buyer of such increase. If Seller terminates the pricing formula as provided above, Buyer shall have the option to purchase the Tomatoes from Seller for the subsequent Contract Years of this Contract under Buyer's regular pricing terms in effect for sellers not selecting this pricing formula. Such option may be exercised by Buyer giving written notice of such election to Seller within fifteen (15) days after receipt of such notification of termination from Seller. In the event that Buyer does not elect to exercise this option, this Contract shall terminate at the expiration of the then existing Contract Year without further notice to Seller.

12. Buyer shall have the right to terminate, without cause, the pricing formula for subsequent Contract Years by giving written notice of termination to Seller not later than December 31 of any Contract Year. In the event Buyer terminates this pricing formula as provided above, Seller shall have the option to sell the Tomatoes to Buyer under Buyer's regular pricing terms for the subsequent Contract Years of this Contract provided that Seller is not in default under the terms of this Contract. Such option may be exercised by Seller giving written notice to Buyer of the election of such option within fifteen (15) days after receipt of such notification of termination from Buyer. In the event that Seller does not elect to exercise this option, this Contract shall terminate at the expiration of the then existing Contract Year without further notice to Buyer.

13. Buyer shall have the right to terminate the pricing formula by written notice to Seller in the event that actions, regulations, or decisions of federal, state or local governments, or governmental agencies, or other third parties threaten or otherwise interfere with the administration of the pricing formula or render such administration unfeasible or impractical in Buyer's sole judgment. In the event Buyer so terminates the pricing formula, Buyer shall offer to purchase the Tomatoes from Seller for the then existing Contract Year under Buyer's regular pricing and payment terms in effect for sellers not selecting

No. 13 (Cont'd)

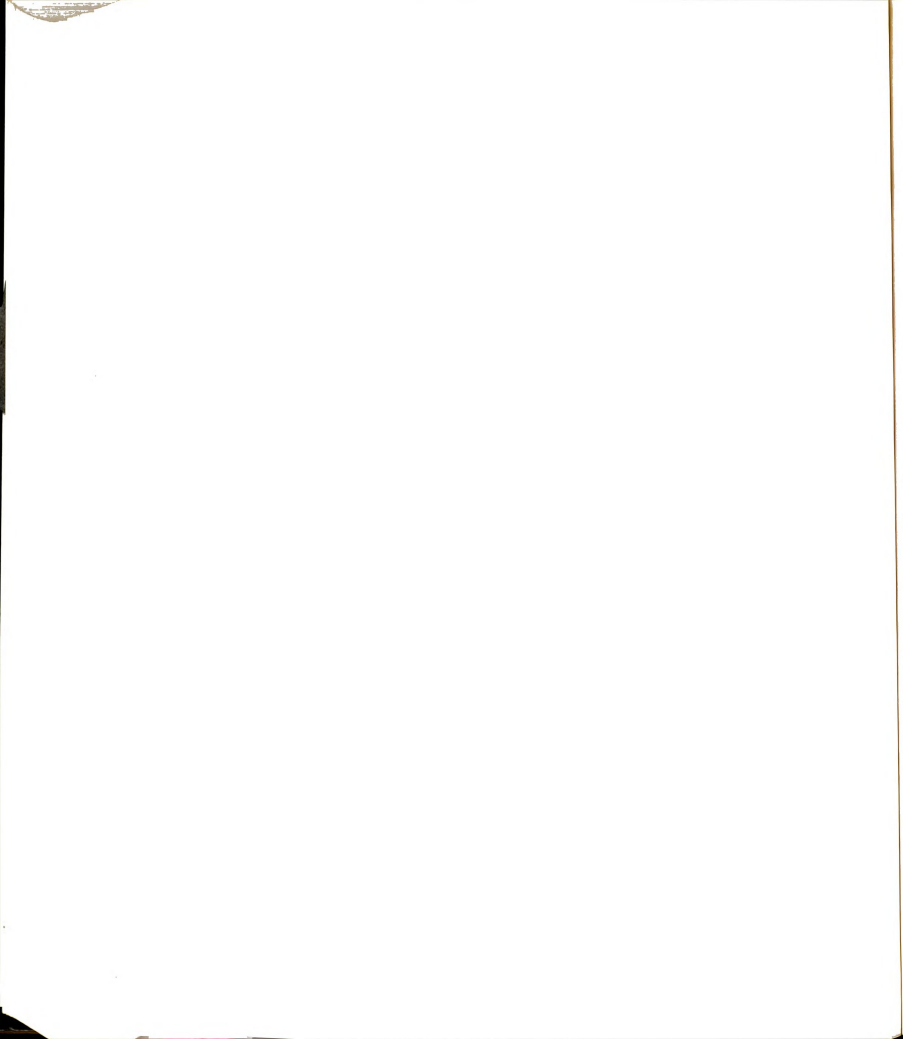
the pricing formula in that Contract Year and Seller shall have the option to sell the Tomatoes to Buyer under Buyer's regular pricing terms for the subsequent Contract Years of this Contract provided that Seller is not in default under the terms of this Contract. Such option may be exercised by Seller giving written notice to Buyer of the election of such option within fifteen (15) days after receipt of such notification of termination from Buyer.

DATE: _____

TILLIE LEWIS FOODS, INC., BUYER _____, SELLER

BY _____ BY _____

APPENDIX D
CHERRY HILL ORCHARDS, INC.





CHERRY HILL ORCHARDS INC.
BAILY, MICHIGAN

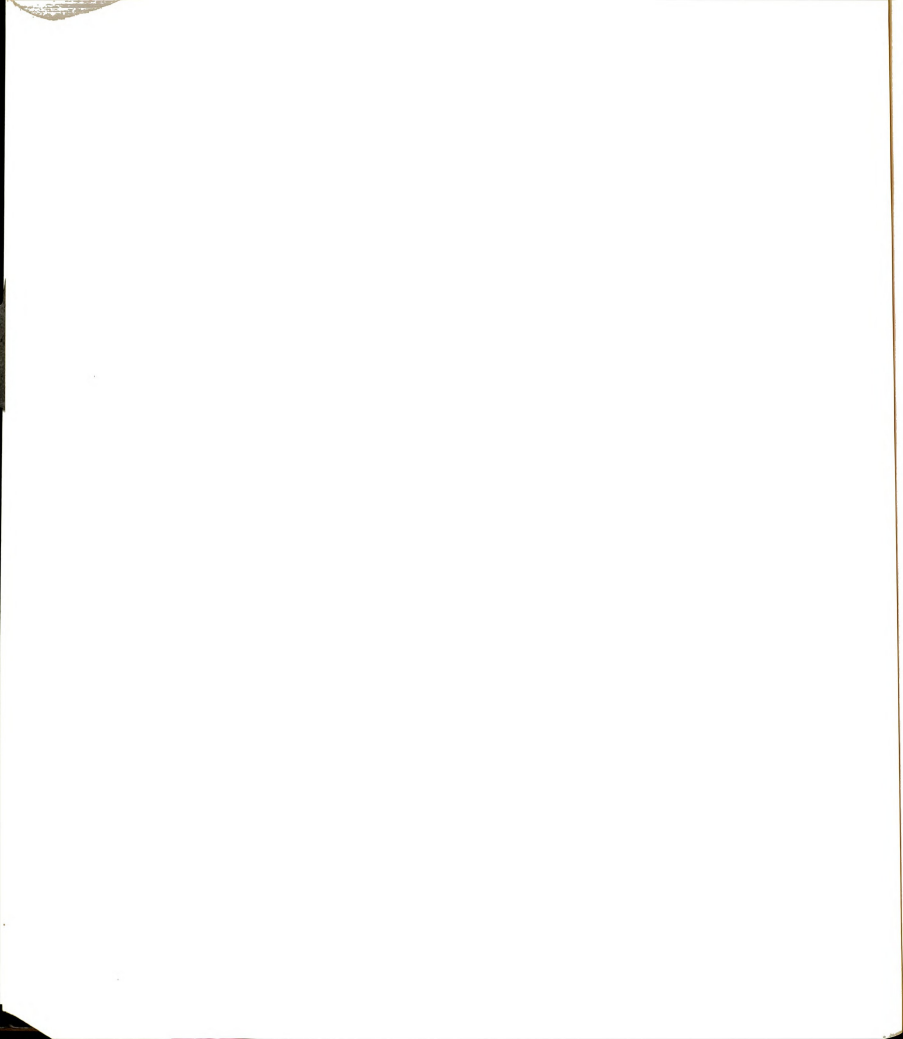
FRUIT PURCHASE CONTRACT
Contingent on a contract between Cherry Hill Orchards, Inc. and Tree Top, Inc., of Selah, Washington

THIS AGREEMENT is made by and between _____ of _____, Supplier, and Cherry Hill Orchards, Inc., a Michigan Corp. (herein referred to as Cherry Hill), upon the following terms:

1. The supplier agrees to deliver to Cherry Hill, and Cherry Hill agrees to accept, at the times and under the conditions set forth herein, all of the juice grades and varieties of apples as herein defined which supplier grows or is agent for grower with power to sell, during the _____ season and year to year thereafter, unless terminated in writing by either party by June 1st of each year. The written notice terminating this contract shall be deemed given when actually delivered or when deposited in the United States mail as certified mail, return receipt requested, addressed to the parties to receive notice at the recipient's last known address or to the address given below, by June 1st of the season in which the Contract is to be terminated.
2. The apples sold hereunder shall be 100% of the Supplier's juice grades and varieties of apples. For the purpose of this contract "juice grades and varieties of apples" is defined to mean all apples of all varieties that are not packed and/or shipped for the fresh apples market, or intended for other types of processing than juice. Apples which are infected or are unusable for juice because of condition or other defects and which do not comply with State and/or Federal laws and/or regulations governing the use thereof by Cherry Hill shall not be included, and losses and additional expense caused by delivery of unusable apples may be charged to the Supplier.
3. It is the stated purpose of Cherry Hill to achieve the highest net returns for its growers on a cooperative basis for all juice grades and varieties of apples. To this end Cherry Hill shall:
 - (a) Establish standards of maturity, condition and handling of juice apples to Cherry Hill.
 - (b) Establish one or more pools consistent with returning the equitable share of net return from the grade, variety and sizes of apples furnished by each Supplier.
 - (c) Maintain accurate records of apples furnished by Supplier and the resulting net returns received therefor in accordance with the foregoing.
4. The apples shall be delivered to Cherry Hill at the time and place designated by Cherry Hill, at which time Cherry Hill shall accept title to said apples.
5. Within thirty (30) days of taking delivery of apples, Cherry Hill shall make an advance for apples received into each pool in an amount determined by the Board of Directors for each pool, but not less than \$ _____ per ton. In addition to the advance payment, Supplier shall be paid his prorata share of net returns for apples supplied by him at such time as determined by direction of the Board of Directors of Cherry Hill. Net returns is defined to mean the balance remaining of all proceeds from juicing and marketing the apples received by Cherry Hill after deducting all costs of doing business, plus a % of profit determined annually by the Board of Directors of Cherry Hill.
6. Timely furnishing of apples is the essence hereof. If Supplier fails to furnish apples to Cherry Hill as herein provided, it is recognized that Cherry Hill would be hindered in its operation, but the exact damage to Cherry Hill would be difficult to ascertain. Therefore, Supplier and Cherry Hill estimate and agree that such damages will be the sum of \$10.00 per ton, which sum shall be liquidated damages immediately due and payable to Cherry Hill upon occurrence of such breach.
7. It is the purpose of Cherry Hill to commence processing of apples to be received under this and similar contracts as early in the season as sufficient apples of established standards are received to operate economically and to continue such processing each season as long as it is economical to do so. Cherry Hill shall notify the Supplier not less than 15 days before terminating the juice operation each year. Cherry Hill shall have no obligation or liability to take apples from the Supplier after the closing of such juice operation.
8. If Supplier does not pack or warehouse his own apples, he shall authorize and direct the person, corporation, or organization packing, warehousing or having possession of such to comply with the terms hereof.

APPENDIX E

STATEMENT OF GEORGE VISGILIO,
PRESIDENT, TILLIE LEWIS FOODS, INC.



STATEMENT OF MR. GEORGE VISGILIO,
 PRESIDENT, TILLIE LEWIS FOODS, INC., BEFORE THE
 CALIFORNIA ASSEMBLY COMMITTEE ON AGRICULTURE
 MAY 3, 1978

The reason for my appearance here today is to urge this Committee not to hastily amend the language of the bargaining law that was carefully considered and constructed just a few short years ago, and which has adequately served the purpose for which it was intended. From the wording of the proposed amendment, I can only conclude that it has been tailored specifically to legislate against the Price Participation Plan which Tillie Lewis Foods initiated on a small scale in 1977, and which has been expanded to cover over 50% of our tomato purchases for the 1978 season.

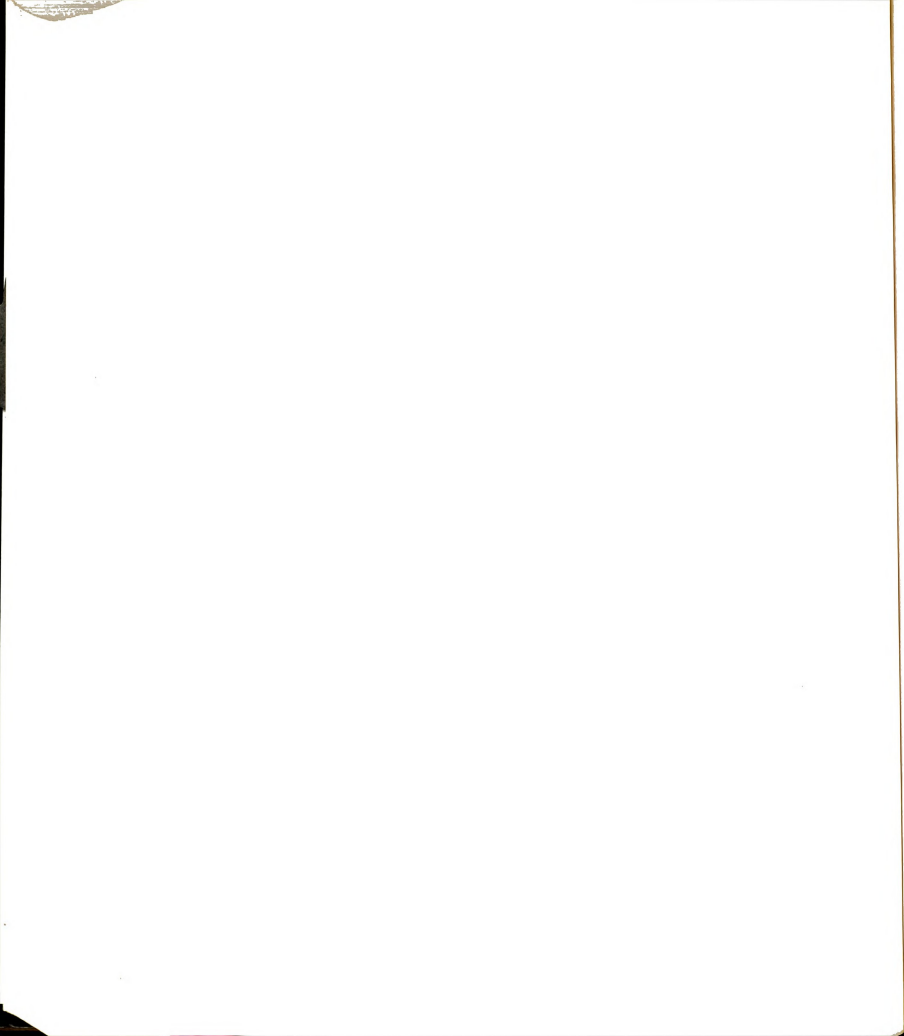
Tillie Lewis Foods today is a combination of three successful processors — Tillie Lewis Foods, Frank M. Wilson Company, and Western California Canners — that were joined between 1967 and 1970 under the Tillie Lewis name and management. Jointly these companies comprised over 10% of California tomato production, and remained in that position through 1973.

Tillie Lewis Foods is primarily a packer for the private label and institutional trades. As such, our largest competitors are the processing cooperatives. The past twenty years has seen many California canners sell their assets to growers and become cooperatives. California Canners and Growers is comprised of previously private firms. Pacific Coast Producers' two plants were purchased by growers from Stokely-Van Camp. In recent weeks, NCC Food Corporation, comprised of five formerly smaller processors, has completed transition to a grower-owned cooperative, and Hickmott Foods, a small private label tomato canner, has gone into receivership while heavily in debt to growers for the 1977 tomato crop.

These recent events are primarily the result of intense competition for the private label and institutional markets and expansion pressure by the major cooperatives to gain a larger portion of the market and resultant larger acreages for their grower owners, even at the expense of returning lower than commercial raw product prices to those grower owners.

Tillie Lewis is today the only remaining major private label canner that has not

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either been forced out of business or become a cooperative. The amendments being considered today have been requested by a cooperative bargaining association and, in a great number of instances, management of the cooperative processors and cooperative bargaining associations are identical. It is thus not surprising that our largest competitors are attempting to prohibit a Tillie Lewis plan which puts our company on more nearly competitive footing with their companies. Further concentration in the canning industry is inevitable if companies are precluded from competing on an equal basis. As this concentration occurs, the total employment by the canning industry will continue to decline, regardless of whether the surviving processors are cooperatives or proprietary companies.

The canning business in California and particularly the tomato processing business has shown extreme cyclicity of production and, as a result, the price for finished products has varied dramatically from year to year. This cyclicity has led to difficulty for both the canner and the grower. Growers have sought to solve these problems, or at least to minimize them, by the formation of the California Tomato Growers Association (CTGA). Tillie Lewis Foods, maintaining its policy with regards to grower associations, has negotiated, bargained, and worked with the CTGA from its inception.

Much as the growers have attempted to mitigate the problems of cyclicity by the formation of the CTGA, Tillie Lewis Foods management has endeavored to define a program which would counter the adverse impact that this cyclicity has on the company and on the growers. The current Participation Plan is the result of almost two years of work and countless meetings with growers and CTGA members and directors. This process began in 1976 and eventually the Participation Plan, which was first presented in the fall of 1976, was evolved.

The Participation Plan is very similar to price plans which have been put into effect in other first stage food processing industries. The Plan, for instance, is very similar in concept to one which is in operation in California in the sugar beet industry. It is an attempt to smooth out the profit cycles for both canner and grower

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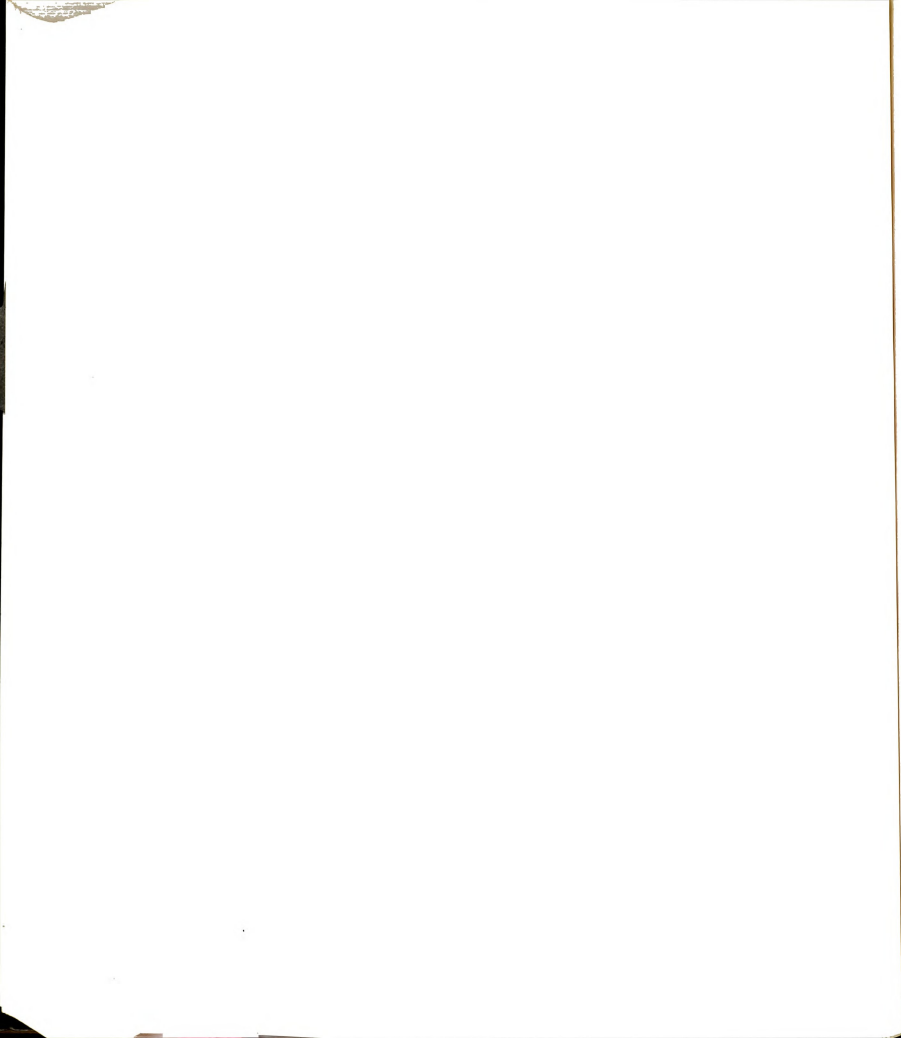
and to make the price more reactive to the long-term market instead of reactive to short-term influences resulting in yearly peaks and valleys.

The Tillie Lewis Plan has been the subject of some controversy generated almost entirely by confusion as to how it actually operates. Over the last two years we have engaged in a continual process of explaining the Plan to growers and the grower association. In this process we have modified the Plan in several areas as requested by growers and the final version of the Plan has been reviewed and approved by a consultant retained specifically by the tomato grower association. Despite this, our Plan has been under constant attack by the leadership of this association. Recently this association filed a complaint with the Department of Agriculture that alleged that our Plan discriminated against their members. This complaint was thoroughly examined by the Department and these charges have not been substantiated.

The Plan was offered for the 1977 production season in three districts. After several meetings to explain and discuss it, the Plan was rejected by the Tomato Growers Association for its members and was in fact actively opposed by the Association; the Association forbidding any of its members to sell within the Plan. In spite of this opposition, approximately 9.5% of Tillie Lewis' purchases in 1977 were on the basis of the Participating Pricing Plan, and represented over 20% of the acreage in the districts north of Sacramento where they were signed. The participation contracts were signed in May and June purely on a voluntary basis with growers who were enthusiastic about the program. They provided no additional acreage to these growers for 1977, but replaced the pricing provisions they had signed with us earlier.

For the 1978 season, Tillie Lewis Foods is offering to purchase on the basis of its Participation Plan and set a goal of 60% of its total purchases to be made on this basis. To achieve this result, Tillie Lewis Foods advised its growers of this goal and has endeavored to purchase tomatoes for the 1978 season on a basis of at least 50% of a grower's 1978 seasonal allocation within the Plan. Growers who did not wish to participate would still receive 50% of their allocation. The company naturally realized that it was in its best interest to secure CTGA approval of the Plan so that

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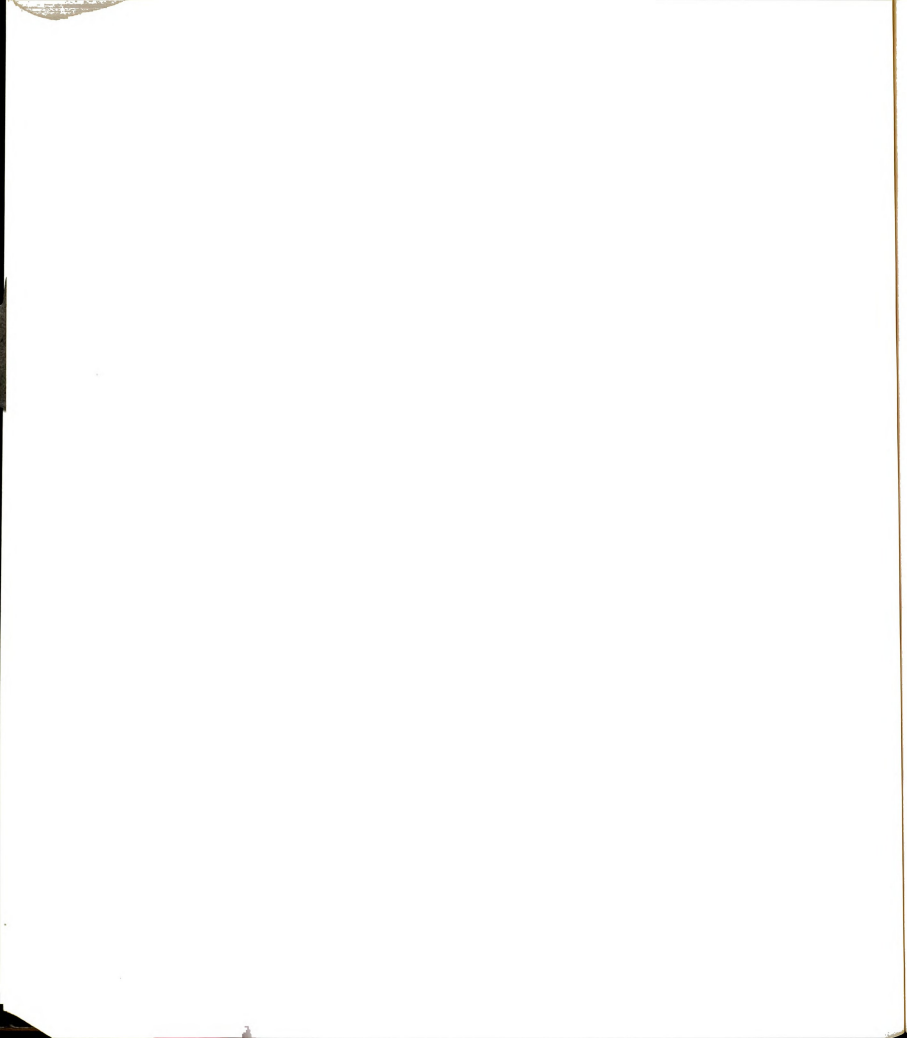


achievement of the company's goal for 1978 would be facilitated. In this regard, the company negotiated for many months with the association in the hopes of securing their approval of the Plan. At several meetings with CTGA officials, Tillie Lewis Foods explained its Plan, its position, and its intentions for 1978 in detail. Several concessions were made by Tillie Lewis Foods in this process and Tillie Lewis Foods feels that it went out of its way to meet any requests from the association that were reasonable and which would not completely neutralize the profit smoothing objective. Despite these various concessions which were made by the company in good faith, and in the belief that CTGA acceptance of the Plan could be secured, the CTGA flatly refused to allow any of its members to join the Plan for 1978.

It should be noted here that the CTGA has seen fit to make this decision on behalf of all of its members and has not allowed individual growers to decide for themselves whether or not they wish to join the Plan.

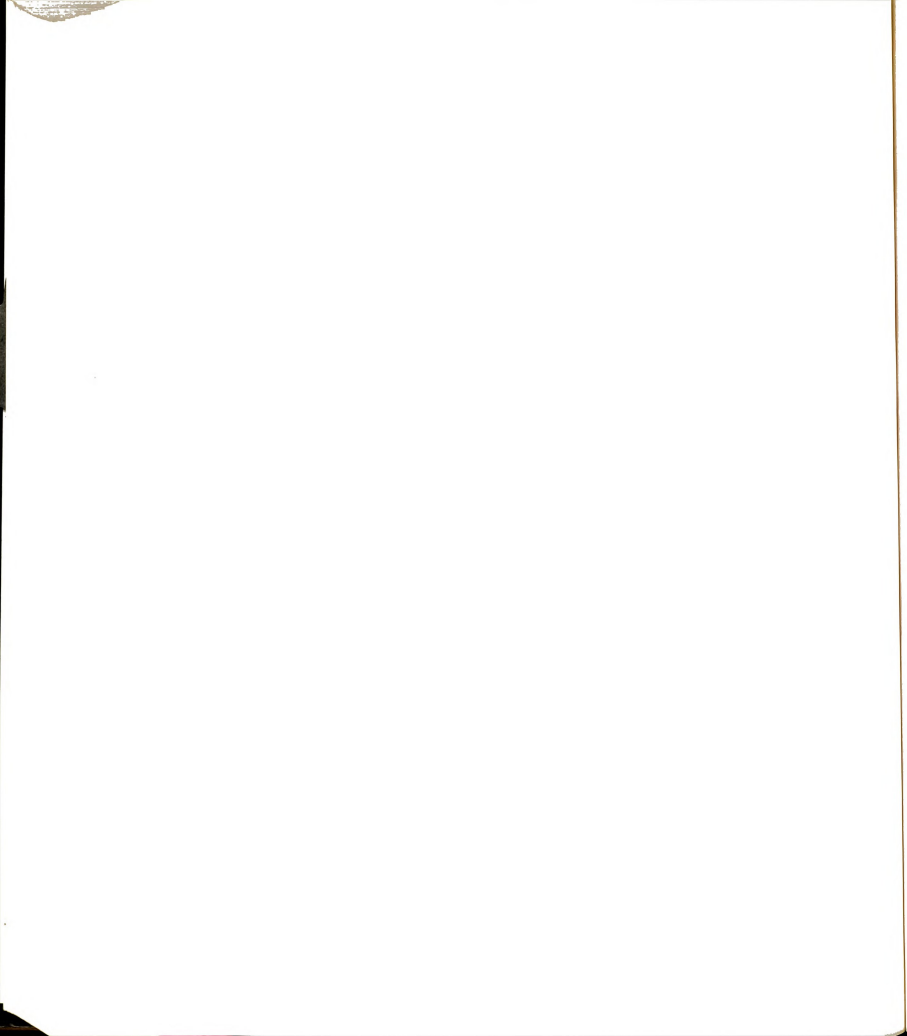
Existing law clearly prohibits a processor from discriminating against grower members of a cooperative bargaining association. The proposed amendments would totally confuse the issue of discrimination and would inevitably lead to a rash of litigation aimed at ascertaining the intent of the law. Confusing the existing, clear language concerning discrimination is in the interest of neither processors nor growers. It would particularly bring into serious question similar revenue sharing plans which have been established for many years in the sugar beet industry, and probably have an impact on cooperative processors dealing with non-member growers. Additionally, the amendments would very likely preclude a processor from entering into revenue sharing programs with other grower groups, even those that desired and specifically requested a similar plan.

Our company has always supported the non-discrimination sections of the existing law and we are thoroughly opposed to these amendments which will be inadvertently anti-competitive in their impact and which will require exhaustive litigation to clarify intent.



APPENDIX F

STATEMENT OF HUGH E. CUMMINGS,
PRESIDENT, CURTICE-BURNS, INC.



A
PRESENTATION
BEFORE THE
NEW YORK SOCIETY OF
SECURITY ANALYSTS

by

Hugh E. Cumming
President

Theodore J. Holmgren
Vice President-Marketing
and Secretary

Robert L. Hutchinson
Executive Vice President

HUGH CUMMING: Thank you Mr. Chairman. We have looked forward to making this presentation on Curtice-Burns ever since our first opportunity about three years ago. I suspect the lunch you have eaten may not have been what all of you normally eat at noon. It was essentially all Curtice-Burns products and it is certainly one way of telling you about our business.

Our presentation to you will be made by three of us. I'd like to start by providing a brief review of our sixteen year history, a little about the goals we have set for ourselves, and a discussion of why we think our company is unique. We know of no other public corporation that has a farmer cooperative as a companion organization. It has been and will continue to be instrumental in our success. Ted Holmgren, our vice president of marketing and corporate secretary, will describe our approach to marketing our products. Then Bob Hutchinson, an executive vice president of the company, will talk about the successes of our individual divisions, and I will sum up by comparing our financial performance with that of the industry in general.

Curtice-Burns began its life almost seventeen years ago in Rochester, New York. Our sales the first year were about \$13 million and were generated by the two million New York commodity canning operations that permit to start the company. In our industry, commodities are the staple items like corn, peas, beans, corn, or soybeans. These items are often sold under the customer's brand name, and this was the situation in our case. Our products were sold mostly under the large chain stores' labels.

Early in the game we established some goals for our business in terms of diversification and we have been following them ever since. If anyone had told me that by pursuing those goals our sales in 1978 would exceed a quarter of a billion dollars, as they most certainly will in the current year, I would have said it's pie in the sky. Having witnessed it, we can see no reason that it won't be equally as successful in the future.

I would like the first to agree that sales dollars alone are not the real name of the game. It's return on investment. I mention sales only because they are in integral part of one of our principal corporate goals; that is, to become a national diversified food processor. We've tried to diversify in three ways: geographically, by brand diversification, and by product diversification. Let me describe each one briefly.

We now have 21 processing plants and three distribution centers spread from coast to coast, and recently into Vancouver, British Columbia. We market products in all 50 states and Western Canada. Some of this expansion has come about through internal growth. Our aim is five per cent internal unit expansion a year. A lot of the geographical expansion has come about through acquisitions. Curtice-Burns now has eight continuously managed divisions across the country and all but the originating divisions have been acquired since that first year. Most of those acquisitions were made possible because of Curtice-Burns' relationship to its companion organization, Pro-Fac Cooperative, but I'll get ahead of my story if I delve into that part of our story just yet.

A second form of diversification is that of brand name. Our aim is to have regional brands with high market share in those selected regions. Ted Holmgren will expand on this concept. In brief, we believe it is the most efficient way to market our products and we have no intention of expanding our products into major national distribution. We have set as a goal that 65 per cent of our sales should be distributed under our own controlled brand name. About 60 per cent of our sales are now made under our own brands, so we are getting there. It's a long way up from the three or four per cent that we started with 17 years ago.

I suppose it is obvious that we are shooting for 35 per cent of our sales under our customers' brands and you might well ask why do we want any. We look at it as another form of diversification, but I should quickly add that this commodity business done under customers' brands does have one problem. Like any other commodity, our sales prices are subject to the national supply of the specific commodity. When national supplies are down, the commodities are extremely profitable, particularly if they are marketed under the chain stores' labels. They can and are unprofitable too, but over the whole cycle of six to eight years, the average earnings are pretty good. To cite an example, right now our frozen commodity foods are the most profitable type of food in which Curtice-Burns is involved.

I won't get into the detailed figures, but if you were to trace the earnings history of our company, you would see that as we have diversified over the years, the effect of the commodity earnings cycle on our earnings has been reduced very materially. Those close to canned commodity statistics know that in general, national supplies were large in 1976, and companies oriented to this type of business had reduced earnings. Curtice-Burns' earnings continued to increase. As a matter of fact, our net income has increased in each of the last eight years. A part of the answer lies in the fact that only 23 per cent of our sales last year remained in canned and frozen commodity vegetables.

I referred to three types of diversification, the third one being diversification of product. We are now engaged in seven broad types of processed food. The commodities I have already dwelled on. The others are canned meats and salads, snack foods, condiments, various types of chili products, canned desserts and fruits, and finally juices and

soft drinks. For the most part, they are value added products, or convenience foods. We visualize our market segment as reasonably priced, reasonably convenient food.

A minute ago I said that our earnings have increased for eight years in a row. Some of you might take some exception to that, since our earnings per share did drop in our 1976 fiscal year as a result of our second public offering, and the immediate dilution in earnings per share. We looked at that public offering as our investment in the future. We now have about 800,000 shares of our Class A stock available for trading. Prior to that last offering, we just didn't have enough stock in the public's hands to make a reasonable market. The 1975 offering produced 140 per cent dilution, but in the two years since it took place, our increase in earnings has about recovered the loss in earnings per share.

Speaking of earnings, I should at least make some reference to our current performance. I'll spend very little time on past figures, since the June 1977 fiscal year is well documented in our annual statement and our first quarter in the quarterly report to shareholders. Suffice it to say that earnings per share for the last fiscal year were up 12.6 per cent and for the first quarter 13.1 per cent. The second quarter of our current year ended December 23, 1977, and we actually don't have the actual figures. Nevertheless, I couldn't look anyone in the eye and say I didn't have a pretty good idea of what they will be. It looks to us as though for the second quarter, sales should be up in excess of 25 per cent and earnings per share up 23 per cent to 25 per cent. For the entire six month period, that would mean an increase in per share earnings of 18 per cent to 20 per cent. Our earnings suffered in the first period and a little in the second from a six week strike at the Tacoma, Washington plant of our largest division, Nalley's, but the division's earnings seem to be back on the track now. This December was the best sales month in the division's history, and probably will be the best earnings month as well.

I've already referred twice to Curtice-Burns, companion organization, Pro-Fac Cooperative. It makes a major contribution to the success of each of our operating divisions. The cooperative and its relationship to Curtice-Burns is core placed. It's important that you understand it if you are to appreciate our overall organization.

Pro-Fac is a pure farmer cooperative. Second only to good management, it provides our greatest strength. We know of no other food processor who has a similar organization. Pro-Fac's 850 members across the country supply each of our divisions with most of the raw fruits and vegetables which they process and market. When a farmer joins our cooperative, he agrees to deliver a specified tonnage of a certain quality of raw product for a three year period. An assured source of raw material is an advantage which very few food processors have.

Secondly, Curtice-Burns owns very few fixed assets. Pro-Fac Cooperative owns the plants and equipment. They are leased to Curtice-Burns at very favorable rental rates. Specifically, the rental is equal to the agreed delivery tonnage plus the interest charges which Pro-Fac incurs to cover the investment. Not only does that produce a rental charge far lower than any commercial firm would lease buildings or equipment to Curtice-Burns, but eventually all of the fixed assets which Curtice-Burns uses are financed in that way. Again, it is a rather unique arrangement, but briefly favorable to Curtice-Burns.

Lastly, Pro-Fac might be called Curtice-Burns' banker. Three quarters of Curtice-Burns' seasonal and term bor-

rowing is made by Pro-Fac Cooperative through the Farm Credit System at rates that average a quarter of a per cent under prime. The other 25 per cent of our borrowing comes from five commercial banks at prime. In any case, it is the term borrowing from the Farm Credit Bank that has made it possible for our combined organization to expand over the seventeen years of our existence.

The cooperative provides a banking function in other ways. Most food processors must pay farmers for their produce 30 days after it is delivered. The payments from Curtice-Burns to Pro-Fac and from Pro-Fac to its grower members are spread out over a twelve month period after the cooperative member delivers his raw product for processing. In effect, the cooperative is providing substantial working capital free to Curtice-Burns.

You ask why are farmers willing to do this? It is partly because they are provided with an assured home for what they grow, and in part because they share in Curtice-Burns' pre-tax earnings. Only 20 per cent to 30 per cent of the farmer's share of the earnings is returned to him in cash, with the remainder retained as equity in Pro-Fac for use in the combined Curtice-Burns/Pro-Fac organization.

Pro-Fac's success in the eyes of the farmer is evidenced by the fact that there are waiting lists of farmers who want to join.

In summary, Pro-Fac provides two principal services for Curtice-Burns. It provides the corporation with an assured source of high quality raw material. Last year that amounted to about 300 million pounds. Secondly, the cooperative supplies financial support in ways which are invaluable to Curtice-Burns.

I'd like now to turn the meeting over to Ted Holmgren. Ted has spent his working career in the food industry. He has been a part of Curtice-Burns for ten years and prior to that time, was a senior product manager at General Foods.

TED HOLMGREN: Good afternoon, ladies and gentlemen. Today, I have the assignment of talking about Curtice-Burns' approach to marketing. Marketing is, of course, very different from, say, production or accounting, or purchasing, because marketing thrives in the world of imagination, innovation, uniqueness, and the providing of consumer benefits.

Marketing at Curtice-Burns is somewhat different from many food companies, particularly the large national food marketers. We are regional marketers. And while we have nine major brands in the marketplace, each operates in a well defined marketing area. Nalley's brand pickles, salad dressing, canned meats and snacks operates in the Pacific Northwest. Thank You brand pudding sales are concentrated in the mid-west. Blue Boy brand vegetables are largely marketed in upstate New York. And so forth.

What is unique is that in those areas where our brands are sold, we are frequently the dominant brand. For example, the best selling vegetables in Buffalo are not Del Monte, nor Green Giant, but our Blue Boy brand. The best selling snacks in Pittsburgh are not Wise's or Frito-Lay but our Synder's brand. The best selling chili beans in Saint Louis, Chicago or Grand Rapids are our Brooks brand. The best selling chili in the Pacific Northwest is not American Home Foods' Dennison brand but Nalley's. There are many other examples that I could give you but the point I want to make is that, because a brand is regional does not mean that it is minor. Regional brands, our specialty, can be more solid and more important in their areas than nationally known brands.

You might well ask why the success of the regional brands? Well, first of all, like neighbors, they operate in their own backyard. They've been around a long time. Their names are well known. Their reliability is trusted and they are local folks and many consumers just plain like to buy from people they know and trust.

The second reason, I think, is that in our advertising and promotion we don't solely rely on the cute and the clever. We frequently try to emphasize our regionality. For example, our Brooks Division sponsored a contest whereby consumers could win college scholarships in the cities and towns where they lived. Blue Boy brand just completed last month what we called our "good neighbor" promotion, where the brand contributed to local churches and charities five cents for every label sent in and the response was tremendous. People really do want to be good neighbors and I think this promotion served to prove that man does not live on beer and Buicks alone.

A third reason for the success of the regional brand is that, as a company, we act with great prudence. We're careful of our products and proud how we make and sell them. However, in a dynamic world, prudence does not mean inaction. Our division sales and marketing departments operate with a sense of urgency and this sense of urgency is a very real strength. We can and do move fast, to meet a competitive situation or to smell out and act on a new sales opportunity. For example, in this past year, viewing consumers' interest in natural foods—foods with no additives or preservatives, our two snack food divisions—Synder's in the East and Nalley's in the West—concluded there could be a market in their regions for 100 per cent natural potato chips. From the time the decision was made to move ahead, the product was formulated, the package was designed and produced, advertising was created, media bought and the product itself was launched into regional distribution, all in a period of but eight weeks. This sense of urgency, and ability to move fast, is somewhat unique. The large food companies with their layers of management approvals have proven no real threat to us. In fact, their very structure gives us a competitive advantage.

A fourth reason for the success of the regional brand is perhaps our position. We don't strive to be the Cadillac at one end or the Volkswagon at the other end of our industry. As Hugh said earlier, we visualize our market segment as reasonably priced reasonably convenient food and convenience is a very, very important attribute in the successful marketing of food products. At least it certainly is in my house. My wife is constantly telling me that kitchens are fire hazards and as little time as possible should be spent in them.

At this point you might well say, "so far, so good" but how are you going to get your marketing growth for the future? I think it will be in three areas—new companies, new markets and new products. Today I would like to share with you some of our thoughts and plans on new products. Until recently Curtice-Burns secured its new products by acquiring new companies and the reason this method was adopted was that it involved less risk. In its early days, Curtice-Burns could not afford a heavy loss which is an inherent hazard in any major new product development program. Today things are different. The company is more mature and stable and it can afford to branch out into new areas and seek new products. Crystal ball gazers in charge of things to come predict an all time high in the number of new products to be introduced this year.

Should this prediction come true, we can expect an all time high in new product flops. The flop ratio in new grocery product introductions is reported to be eight or nine to one new product success, and so the risks are still there but now we can afford to take them. In writing about new products, the economist and Ambassador, John Kenneth Galbraith observed, "The man who devises a nostrum for a non-existent need and then successfully promotes him, becomes one of nature's noblemen." Sometimes Galbraith writes far too well for what he has to say.

In the new products area—products which will fill a real consumer need—have the best chance for success. And this afternoon I would like to tell you about some of the new product work that is going on at Curtice-Burns. Out on the West Coast, Nalley's is now introducing Magic Blend spoonable, salt dressings. It is positioned directly against Kraft's Miracle Whip. Kraft sells some \$170 million worth of Miracle Whip every year and if Nalley's could secure only a small portion of this business, it could be very profitable. Magic Blend's primary claims are, that it tastes as good as Miracle Whip but it costs less and has fewer calories.

In the Mid-West Michigan Fruit Canners is moving into broad distribution of its French Onion and Taco Dip for chips. These shelf-stable products require no refrigeration. This is a unique feature, as they can be displayed right in the snack section where they become an impulse purchase. The product is being very well received and it looks like a winner.

Another new product in the snack category is Crunchios. An extruded potato-base ring. It is another munch with crunch from the crunch at Nalley's. The jury is still out on this product but another month will tell us if we have a good, solid and local consumer following.

Five years ago, Michigan Fruit Canners brought out a line of asceptically earned puddings. Last year we put some heavy advertising and promotional emphasis behind them and they responded very, very well. Later this year a new line extension will be launched—egg custard. The market research studies have proven to be most encouraging and Michigan Fruit looks forward to another successful entry in its large and growing dessert category.

And now, for a failure. Lots of companies have new product failures but they are swept under the rug in hushed silence. That's not a very good way to learn and we believe we can learn from our mistakes. Marcus-Nalley Pickles, the new, old-fashioned pickles. This was supposed to be a premium quality pickle that would sell for a premium price; however, to the headline in this advertising, "Are you satisfied with your current pickle?", literally thousands of Americans said, "Yes!" Pickles are pretty much pickles. These pickles had great uniformity of size and this was expensive for us but we found out that consumers don't care about uniformity in pickles. They want pickles that taste good and as most other brands of pickles do taste good, who needs another pickle. We had devised a nostrum for a non-existent need with resultant consumer rejection.

Our next product, while not new, could be Bernstein's 100% natural salt dressings. There's a tremendous surplus of consumer interest in the pure and the natural and apprehension and distrust towards preservatives and chemical additives in food. Bernstein's 100% natural could be a product whose time has come and serious consideration is being given to moving the distribution and sale of these dress-

ings beyond their current limited area in California and adjacent states.

There are other products in the earlier stages of development but we don't want to tip our hand by prematurely talking about them. This, however, should give you some feeling for the direction we're taking in the new products area. We will have our failures but I think we'll have our successes too.

In conclusion, I'd like to emphasize the point that our corporate marketing objectives are not mandates from management. Our divisions are autonomous. I think every corporate officer in Curtice-Burns really believes that management is fearless if it rules without helping or commanding without leading. And so our task is to help and to lead. To help and to lead our own branded products and marketing people into those exciting years just ahead.

It is now my pleasure to introduce to you Executive Vice President, Bob Hutchinson.

BOB HUTCHINSON: Thank you Ted. It is surely a pleasure for me to be here today. There are just a few observations I'd like to make about our business. Then I will tell you a little bit about the recent performance by some of our divisions and why we think they are doing so well and finally I want to briefly tell you about our planning process.

First, every division has excellent management, fully experienced and capable of operating efficiently under our decentralized system.

Second, our plants are in good condition. Unless the Government changes the rules, the large expenditures for pollution control equipment are behind us. We must spend more money for aesthetics in food plants. For example, we're having to use stainless steel where painted metal used to be satisfactory and that sort of thing. But we don't see any crash programs that are needed and compliance with the requirements will not take a significant amount of money in relation to the total we will spend for capital improvements in the future.

Third, all divisions have, in varying degrees, year-round operations that mitigate the problem of low inventory turnover and unused capacity that plagues seasonal processing businesses.

Fourth, every division is operating profitably.

Fifth, we have excellent research and development capabilities in our larger divisions and their services are available to the smaller divisions when needed.

We have previously stated that, on the record, companies have improved their profits in the years immediately after they join us and I am happy to tell you that our newest company, Comstock Foods, purchased recently from the Borden Company, is following the pattern. Their earnings the first six months and their projection for the balance of the year indicates they will exceed our original expectations.

Our Nalley's Division, purchased from W.R. Grace increased operating earnings 69% in 1976—the first year they were with us and then another 48% in 1977. That curve will flatten this year because of the costs associated with new product introductions which Ted has told you about.

Our Michigan Fruit Canner's Division, purchased from Consolidated Foods Corporation, is now in its fourth year with us. In the first year their earnings dropped 1. The second year, however, they increased 229% and the third year, 10%. 1977 was an all time record earning year for this division. The record will likely be broken again in this fiscal year.

Snyder's of Berlin was flat in 1973 and 1974, the first two years after they joined us. Then the pattern unfolded. They managed a 171% increase in 1975. A 63% increase in 1976. A 44% increase in 1977 and another record will be made in Fiscal 1978.

Why does this happen? We think it is because of several things.

In some instances it is the fruition of developments that were started before the divisions joined us. One of our criteria for an acquisition is that management must be capable, must be willing to stay with the company and must feel comfortable operating under our decentralized system. When they join us they are allowed to bring to full development the good projects and plans that they've already made.

Hugh has told you about the contribution Pro-Fac makes to the overall corporation. It makes a very real contribution at the division level. Working with grower-members of the co-operative is a new experience for most of the managers. They like the improved return on capital employed. They enjoy because of the extended payment arrangements they have with the co-operatives. They like the better communication they have with growers through the Pro-Fac organization of commodity committees and regional directors. Improvements in raw product quality and the resulting manufacturing cost savings that come from this are subtle but real. To some, talk about free form or decentralized management is discredited. It doesn't work for everyone or for every company at every stage of its development. For us now it works. It works because we are made up of regional businesses whose management must have flexibility to deal with the problems and opportunities in their regions. A pride of accomplishment and motivation to do more results. It works because of direct and short communication lines with the corporate office. It works because of a somewhat unique management incentive program that reaches deep into the ranks of the division. Though the awards are spread on the basis of individual merit and job responsibility, the division as an entity is not penalized if it happens to be in the down cycle. We think this promotes co-operation between the divisions and the desire to do the thing that will enhance total corporate results. With all this, the division managements are held to a standard and that is where planning comes in.

I want to take about three minutes to talk about a subject that many three day seminars have been built around. We plan. Each division annually draws up a detailed, one year plan and it is scrutinized carefully by corporate management. When the goals are jointly agreed to they are presented to the Curtice-Burns and Pro-Fac Boards of Directors. This then becomes the standard to which the divisions are held. Because most divisions are dependent upon crops that cannot be accurately forecast, we perform a mid-year review which then becomes a road map for the balance of the year. As analysts and security sales people, you are vitally interested in what plans we have for continued growth. I can't detail those plans, but I can tell you how we look at the present and the future stance of the corporation. First, as Hugh has told you, we expect to continue an astute and effective acquisition program. We have been selective in the past, buying companies at bargain prices and helping them grow and bloom under our management organization. A testimonial to our success is, I think, that only one division, P.J. Ritter, has been closed. That was because asparagus production declined rapidly in New

Jersey and not because of management failure. The Ritter Brand on asparagus and other items is still available in the East supplied by our Michigan Fruit Cannery and our C.B. Foods divisions.

While we plan to continue the acquisition program, we recognize that we must grow internally as well. Each division is deeply involved in business planning for growth. The plans extend out for five years. They are reviewed and updated annually and are reported in detail to the senior management of the corporation.

Our seven production divisions are strategically located in farming areas adjacent to large population centers throughout the nation. Hugh has explained our regional brand concept. That does not preclude any division with a unique product or a unique product source from rolling out and we encourage them to do so where it is practical. For example, a unique product might be our aseptically canned puddings from Michigan Fruit Cannery or the big chunk meat stews from Nally's. An example of a unique raw product source is red tart cherries, grown primarily in the States of Michigan and New York. There aren't very many places in the United States where this crop can be grown profitably and those two States will be the production centers for the foreseeable future.

We have fruit processing divisions located in the cherry producing areas in New York and Michigan and we have growers eager to become a part of Pro-Fac.

We see a source of future internal growth to be our ability to exploit our strategic plant locations thus broadening marketing operations for unique products. Another area from which future growth can come will be the development of new products and line extensions for retail and food service markets. As I mentioned earlier, our large divisions have considerable research and development capabilities.

To sum up, we plan to continue our growth in sales and earnings through a continuation of our acquisition program, through utilizing the strength of our management structure, our strategic locations, our unique products, our R & D capabilities and our flexibility to follow the market to where the profits are.

Thank you and now I'll turn this back to you, Hugh.

HUGH CUMMING: Thank you Ted and Bob. Let me conclude with a few comments on how Curtice-Burns' financial performance compares with other food processors.

We have become a major factor in the processed food industry. We are now involved in seven broad classes of food and it is our intention to continue to expand both internally and through acquisition into other types of processed food. Our expertise is in food processing and marketing. We are considering such areas as frozen fish products, processed meats, processed dairy products, wine, and other snack foods, but we will stick to foods.

With this pattern in mind, we aren't clear with whom in the industry we should compare our performance. The most recent Standard & Poor's Food Processing Industry Survey classifies Curtice-Burns as one of the eight largest publicly owned canners in the country. The others are Campbell Soup, Castle & Cook, Del Monte, Green Giant, Heinz, Smucker, and Stokely. The most recent earnings per share reported for the seven others—they are mostly quarterly results, but one is for six months and one is a year-end figure—have increased on the average 5.4 per cent over the

comparable previous period. Curtice-Burns' most recent per share earnings has more than doubled that increase at 13.1 per cent. The same seven companies' price earnings ratio average 8.1 per cent, while Curtice-Burns' is shown as 5.0 per cent. Their yield averaged 5.2 per cent. Curtice-Burns' yield is 6.0 per cent.

Some analysts with whom we talk say we have become more diversified than this group of so-called "canners" and we should be compared to the other more diversified food processors. If so, and there is some truth to this position, I'd like to compare our performance with a group of 14 large diversified food processors in a November 1977 food industry study made by one of the large New York City firms. Without naming all of the companies in the study, typical are Beatrice, Kellogg, or Standard Brands. One comparison made is return on equity. The return on average equity of the 14 companies for the most recent three years, is 15.6 per cent. Curtice-Burns' return on average equity for the same period has averaged 19.4 per cent. These 14 firms have an average P/E of 10.5 per cent as compared to Curtice-Burns' 5.0 per cent. Their yield is 4.1 per cent, while Curtice-Burns' is 6.0 per cent. The ratios have all changed a little since mid November when the two reports were published. Curtice-Burns was shown at 15-1/8 and it is now 16, but I do think the figures speak for themselves and the message is clear.

Well, the past is not the future and that is what we are all interested in. I think Curtice-Burns is what you people describe as an emerging or threshold company. We are growing as a result of an unusual and somewhat imaginative plan. It has permitted geographical diversification across the country and the acquisition of strong regional brand names while still retaining our expertise in providing products for the supermarkets' own chain store labels. We have diversified our product line to a great many value added products, salad dressings, desserts and snacks being examples. Needless to say, there is plenty of room for further diversification. A very large part of all of this has been made possible by the keystone in our arch, Pro-Fac Co-operative.

We think these concepts differentiate us from our competition. If they have worked in the past, they will work in the future, and we intend to follow the same pattern. That involves internal growth, along with acquisitions in diversified processed foods. We have never made specific projections on earnings, but those of you who have followed our general projections in the past will agree our track record is pretty good. Needless to say, we're optimistic about the future. I think I speak for all four of the Curtice-Burns people in the room today in saying we find our business fun to be in and we intend to keep it that way. Thank you.

CHAIRMAN: At this point we have a few minutes left for questions and if you'll direct your question to the individual you'd like the answer from, we'll open it up for questions now.

QUESTION: Regarding your acquisition policies, what are your criteria and how do you decide on price?

HUGH CUMMING: We have a written statement on acquisition policies and I won't try to repeat all of it. Some of those prerequisites are things like the company must have good management that intends to stay with the business. As I said, we have specific types of processed food that we want to diversify into. It doesn't mean our acquisitions necessarily will be the ones that I mentioned, but it indi-

cates our general thinking. A very clear prerequisite is that the company must increase the earnings per share of Curtice-Burns. I think that factor in itself largely determines the price that we're willing to pay. If it isn't going to increase the return to Curtice-Burns, we aren't going to pursue it. We have a very clear policy that we aren't going to buy companies with the idea that we can turn them around. They have to have a history of earnings and, as a matter of fact, we have a procedure that we go through in working with potential acquisitions in which we build up a pro-forma balance sheet and income statement based on the previous three years' earnings. If the previous three years' earnings don't come out at a reasonable purchase price, we don't get very far in the negotiation. The company must have good earnings in the past and we intend to increase their earnings in the future.

Let me talk a little bit about Comstock which we acquired last May. Obviously, youicker on price but we took the past earnings of Comstock, put them into a pro-forma statement with Curtice-Burns and saw that they would increase the earnings of Curtice-Burns sufficiently to justify the price.

QUESTION: Mr. Cumming, provide us with a breakdown of the sales contribution by operating group by broad product category if you will? I wonder if you could give us some indication as to what the earnings contribution is either in relative dimensions or however you feel most comfortable.

HUGH CUMMING: The question involved the relative contribution to earnings of our various divisions and we have carefully avoided being specific about that. I think at the present the divisions that are making the largest contribution (discounting Comstock, since it was acquired only six months ago) are the largest divisions acquired recently. Consequently, their earnings ought to be large. They have also increased their earnings more rapidly than the original divisions in our business. So I think I would say that if you look at earnings in relations to the price we paid or to the equity involved in them, you would say that Michiean Fruit Canners, Nalley's and Synder's, probably are the largest contributors to earnings.

QUESTION: Of those three parts of the business, what percentage would they entail, approximately?

HUGH CUMMING: Somewhere around half.

QUESTION: The question had to do with Synder's and Bernstein's being expanded into contiguous markets and how does this coincide with your other stated policies?

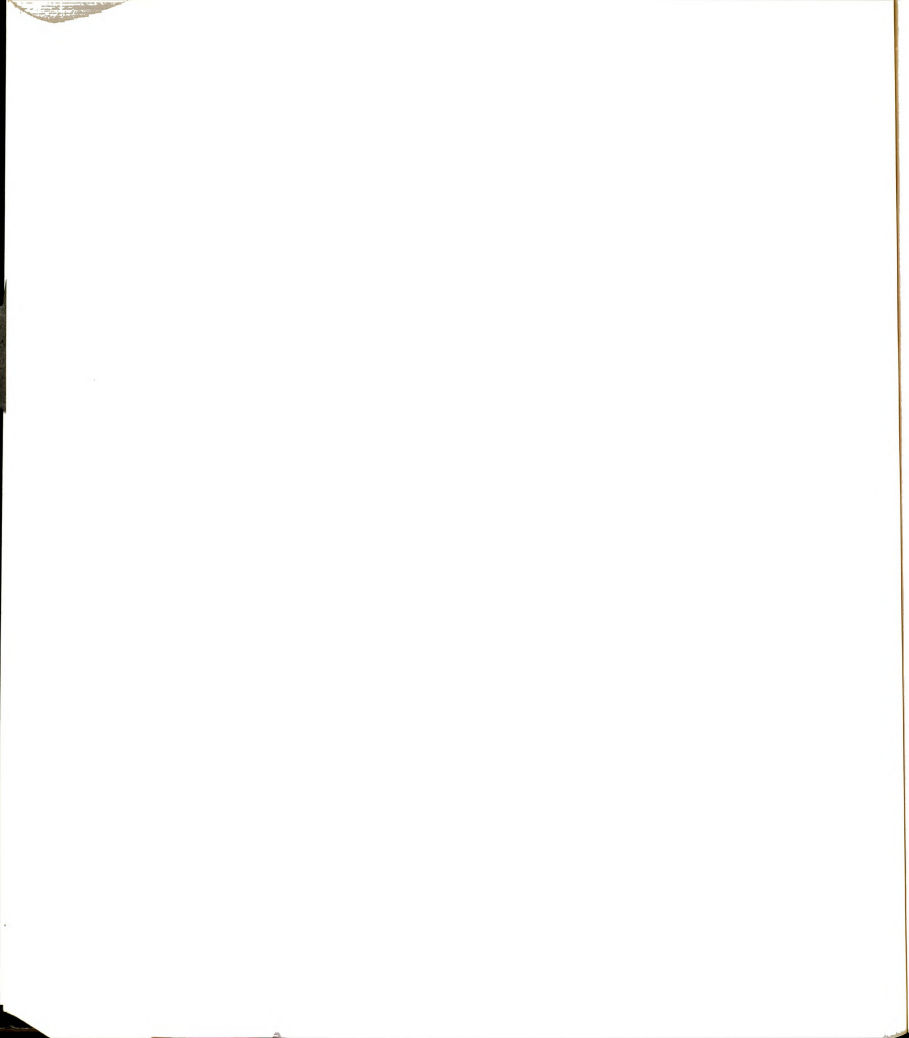
TED HOLMGREN: I think Bob Hutchinson mentioned in his talk that he was not precluding the possibility that if we had a sufficiently unique product, we would expand into broad geographical areas. Synder's and Bernstein's are both extremely unique products so they would be the exceptions to the rule.

QUESTION: Isn't your business intensely competitive and a low margin one because of all the advertising you have to do?

TED HOLMGREN: I feel you are right to a certain extent but, on the other hand, Curtice-Burns has always had a reputation in its advertising and promotions for making a little look like a lot. We do a great deal of advertising of self-liquidators which is very inexpensive. But this kind of advertising serves to get us displays in the supermarkets

APPENDIX G

PRO-FAC COOPERATIVE, INC.





POST OFFICE BOX 88
BENTON HARBOR, MICHIGAN 49022
PHONE: (616) 927-4411

March 9, 1979

Mr. Howard Gilmer, Chairman
Michigan Processing Apple Growers
Marketing Committee
Route 1, Box 145
Augusta, MI 49012

Dear Mr. Gilmer:

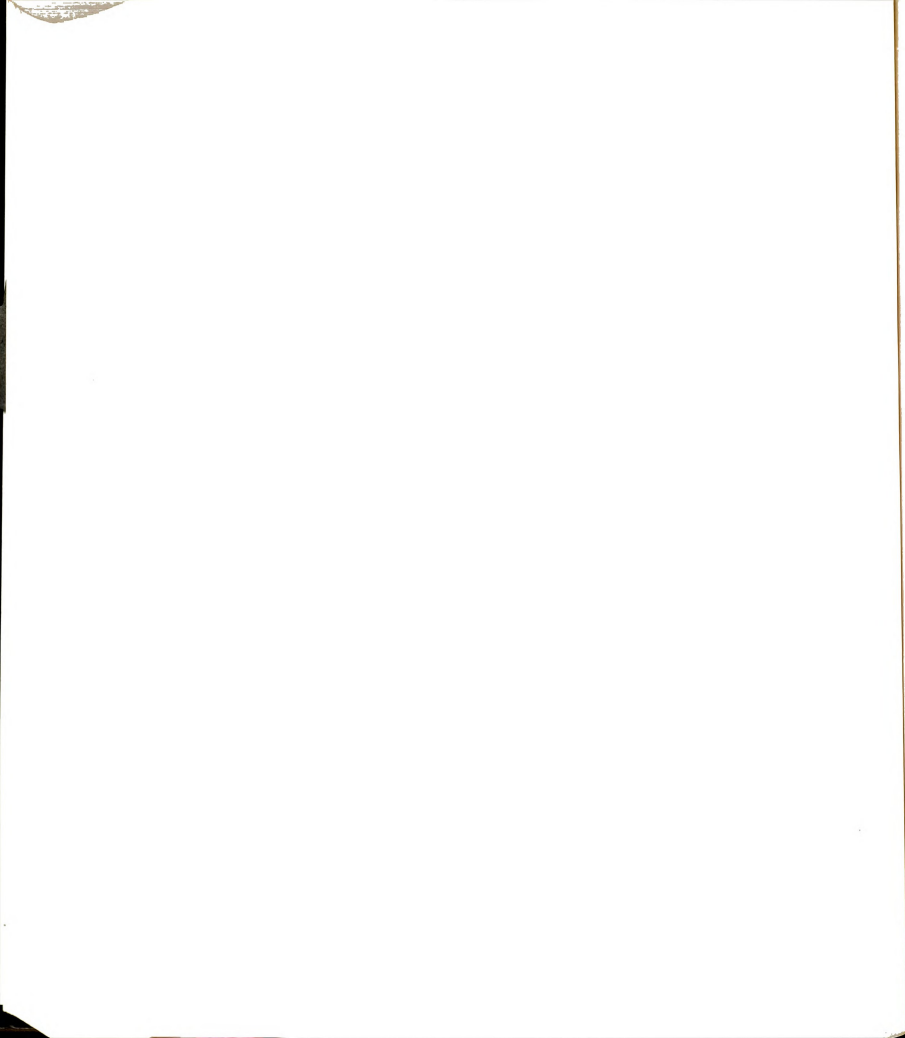
As you may know, Pro-Fac Cooperative has for some time been communicating with its Michigan apple members over the uncertain future for peeling apple markets. Several weeks ago, Pro-Fac apple members in Michigan held a meeting to fully discuss this problem.

One of the facts discussed was that the market for peeling apples is comprised of two segments; canning and freezing, and that these two segments frequently are not in the same supply and demand cycle. Consequently the price floor established through the bargaining process always reflects the price that the strongest segment will bear at the time.

If, because of the single price approach, either the canning or freezing processors continue to be deprived of profit opportunities, we believe that Michigan growers will suffer a loss of peeling apple markets and that production capacity will move to other areas of the country offering a more consistent opportunity for adequate return on capital.

A possible solution to this problem may be to negotiate the price of apples separately for canning and freezing. Many of Pro-Fac Michigan apple members endorsed this approach and feel that their views should be known. A letter describing this position was given to each of our Michigan apple members. They were asked to sign it if they were in agreement, oppose it if they saw fit or to add their own comments. All of the responses are enclosed. In addition to the 68 enclosed letters, 12 members gave verbal responses. We believe it is significant that 78.7% of the responses are in support of this proposal.

While the letters signed by Pro-Fac members are addressed to MACMA, we now feel it is more appropriate to send them to you for consideration by the Processing Apple Growers Marketing Committee. Please note that copies of this letter are directed to the MACMA general manager and to the manager of its processing apple growers division.



Mr. Howard Gilmer
Page 2
March 9, 1979

We believe that the letters speak for themselves and that they warrant serious consideration. We would appreciate being advised of the committee's attitude toward this proposal after it has had an opportunity to review it.

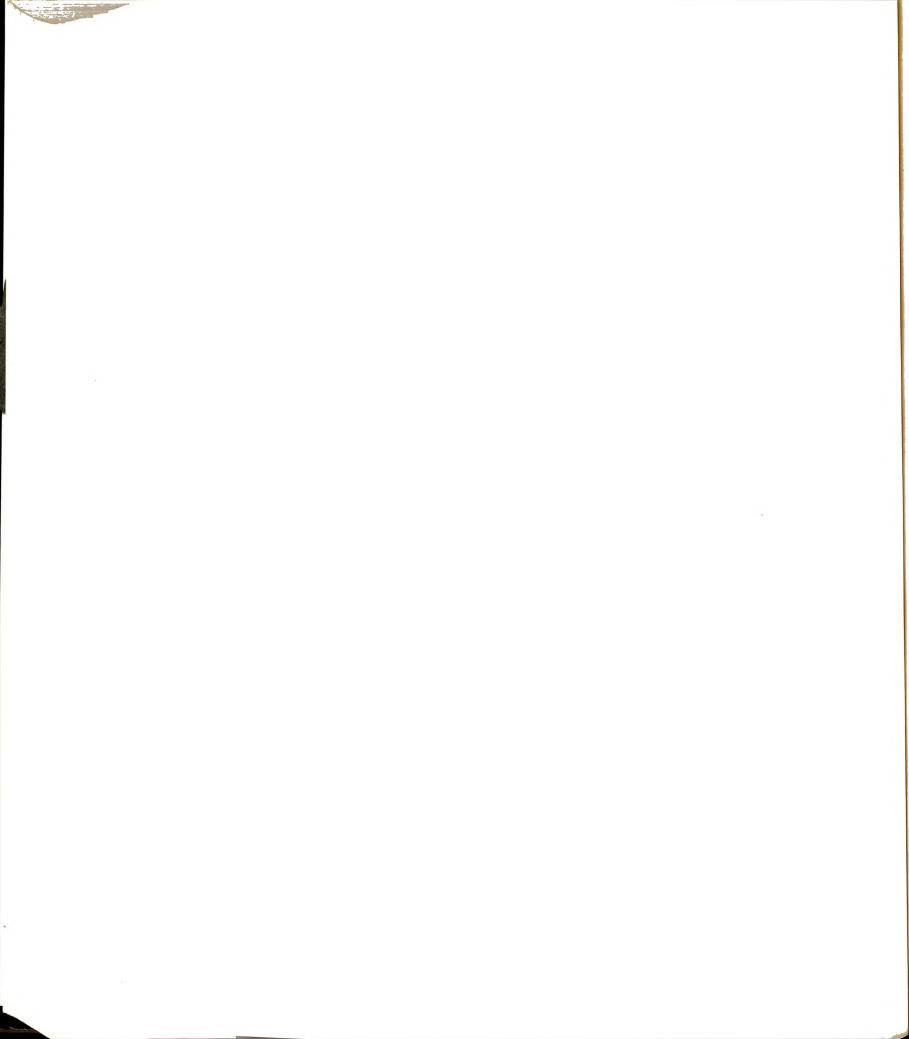
Sincerely,



Thomas R. Kalchik
Area Manager Member Relations

TRK/jw

cc: Mr. Noel Stuckman
Mr. Thomas Butler
Agricultural Marketing & Bargaining
Board



January 26, 1979

Michigan Agricultural Cooperative Marketing Association
Post Office Box 960
Lansing, Michigan 48904

Gentlemen:

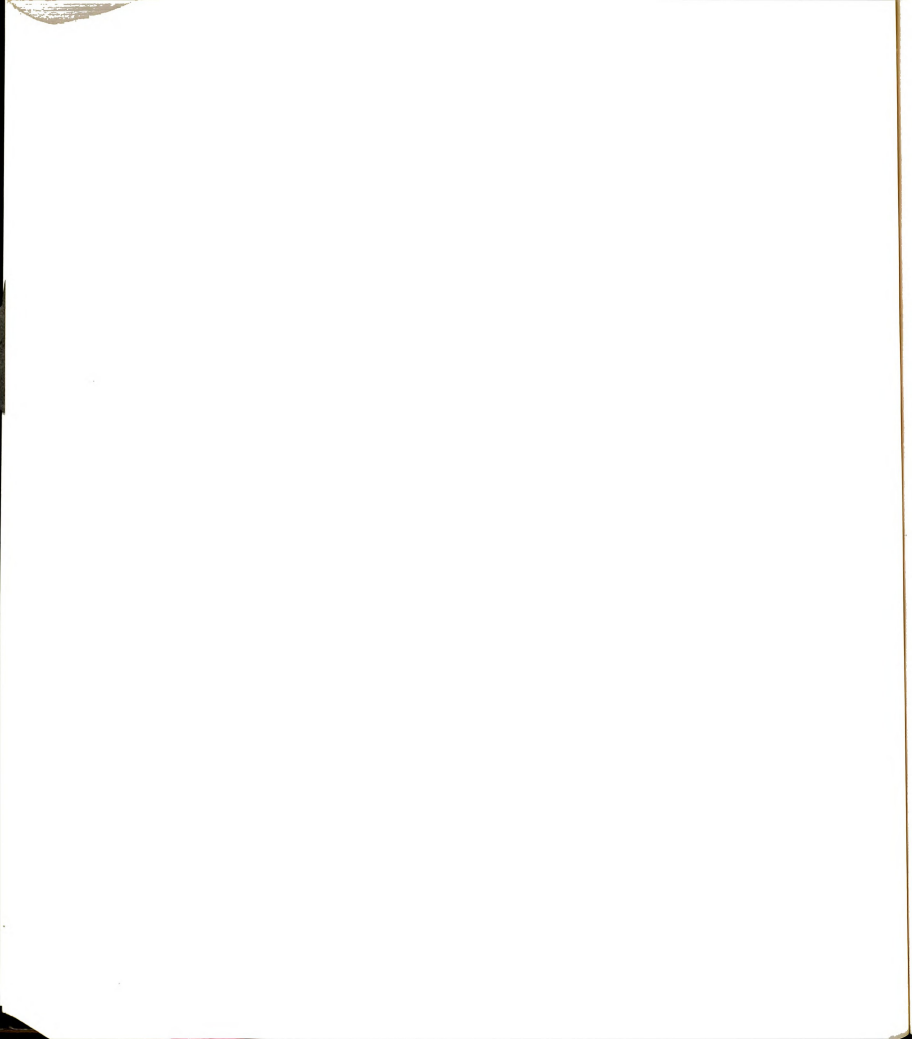
As a Michigan apple grower and member of Pro-Fac Cooperative, Inc., I am writing to express my concern over what I consider to be the poor prospect for maintaining existing markets for processing apples. The basis for this concern, in large part, is the continued establishment of non-competitive prices for processing apples in Michigan, without regard for prices paid in competing areas. It is a difficult thing for commercial growers to advocate lower prices and that is not the purpose of this letter. Instead, I am urging you to consider our need to protect the reliable markets that we have developed for our crops.

Processing apples in Michigan go to canners or freezers. They are different markets and there is no constant value relationship from one to the other. The severity of this problem varies according to utilization and apple sauce is under greater stress than other processed apple products. However, the negotiating process to date has resulted in establishing prices for processing apples, without regard for utilization.

Last year, an apple study was sponsored by Pro-Fac and Curtice-Burns, under the direction of faculty members at Michigan State University. Its purpose was to determine future production trends of apples in Michigan and to identify changes necessary to allow maximum profitability from apple operations, both for the members of the Cooperative and for the shareholders of Curtice-Burns. The study concluded with recommendations in marketing, research and development, acquisition and handling, raw product production and obtaining competitive raw product costs. The present status is that progress has been made in all of these areas except the last.

One immediate result is that the Pro-Fac budget for apple receipts in 1979 has been reduced from previous requirements. Another is that Pro-Fac is faced with the need to appropriate substantial capital investments in plant and equipment if production of the existing volume and apple product groups is to be continued in the future. I am informed that present margins do not justify these capital investments in Michigan.

I believe that the mutual long-range interests of growers and processors might be served if negotiating procedures were changed to establish prices separately for canning and freezing apples. The management of Curtice-Burns

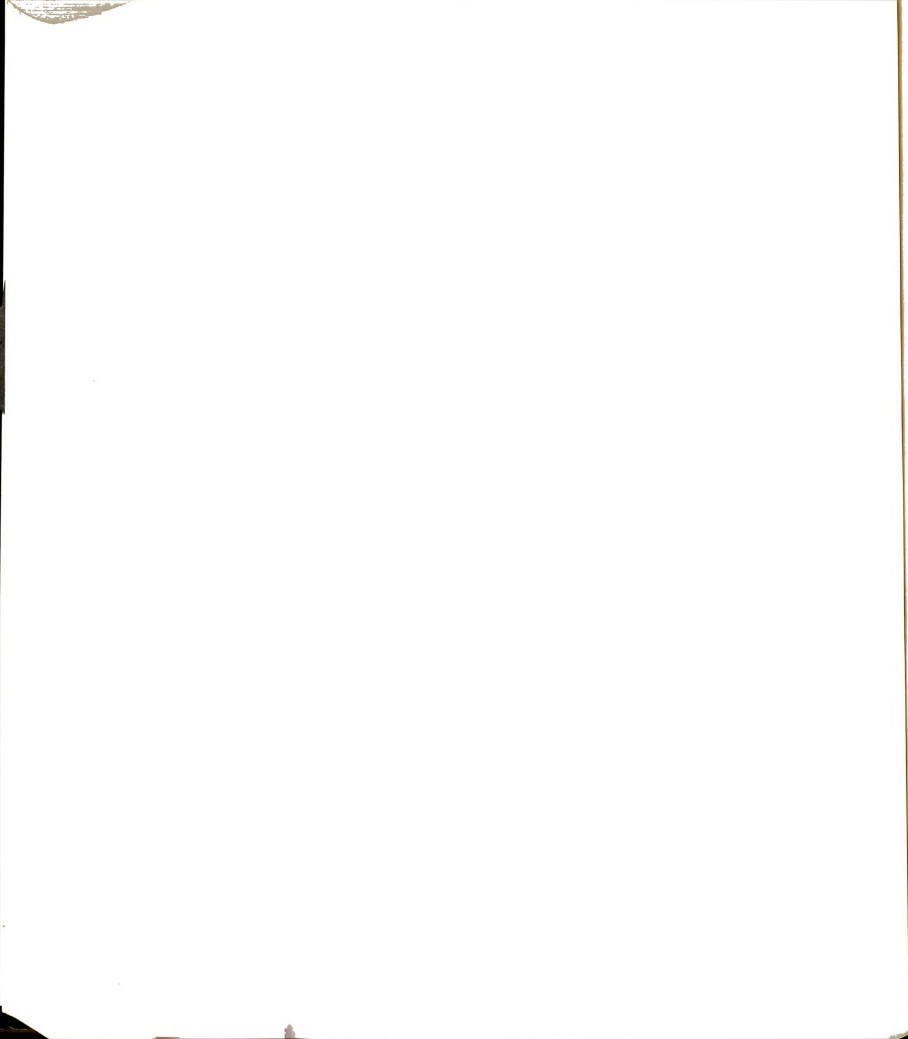


Michigan Agricultural Cooperative Marketing Association
Page 2
January 26, 1979

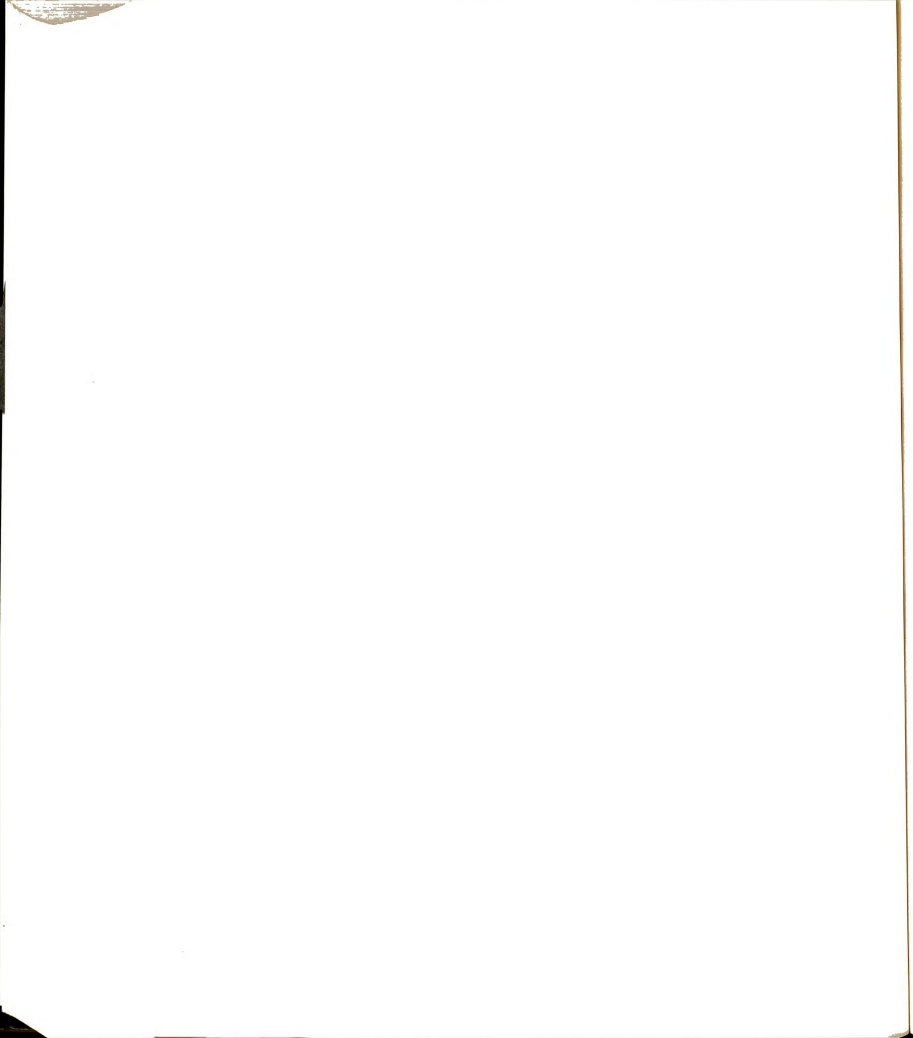
agrees that this change may offer some possibility for continued operations at previous volume levels. As a member of Pro-Fac, I join in urging your favorable consideration of this request.

Sincerely,

cc: Agricultural Marketing and
Bargaining Board



APPENDIX H
HUNT-WESSON FOODS, INC.





HUNT-WESSON FOODS

Hunt-Wesson Foods, Inc.
1645 West Valencia Drive
Fullerton, California 92634
714 871-2100

A
NORTON SIMON INC
COMPANY

DECEMBER 12, 1979

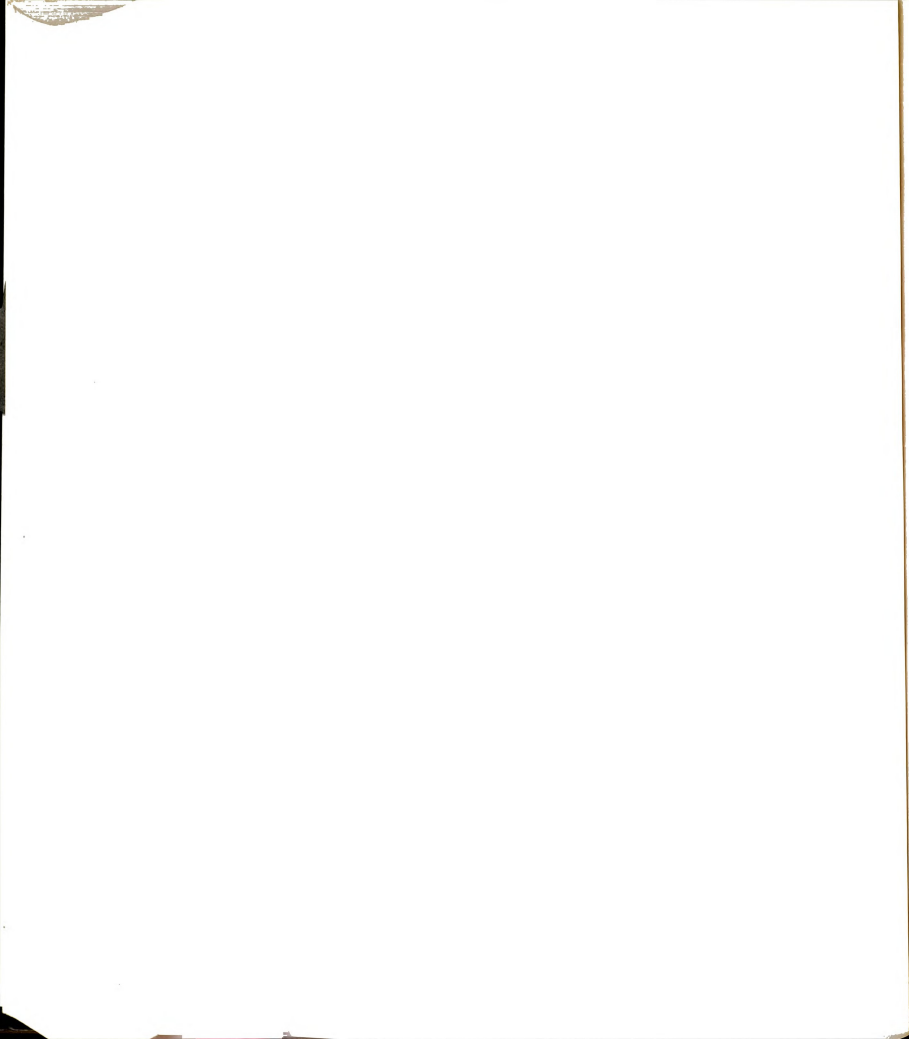
"INDEX PRICING"
CALIFORNIA TOMATOES

THE PROBLEM:

IT IS OBVIOUS TO EVEN THE CASUAL OBSERVER THAT OUR CALIFORNIA TOMATO INDUSTRY HAS SERIOUS PROBLEMS. THE LARGE 1979 CROP HAS PERPETUATED AN OVER-SUPPLY CONDITION; WHILE THIS OVERSUPPLY MAY NOT BE LARGE ON A PERCENTAGE BASIS, IT HAS BROUGHT DISPROPORTIONATE PRESSURE ON MANY CANNERS TO DISPOSE OF INVENTORIES AT LESS THAN ECONOMICALLY-REALISTIC PRICES. SOME "PRIVATE LABEL" CANNERS ARE SEEMINGLY WILLING TO GIVE UP FINISHED PRODUCT PROFITABILITY AND SELL BELOW COST IN ORDER TO MOVE INVENTORIES OR TO INCREASE THEIR SHARE OF MARKET. SUCH PRICING STRATEGIES TEND TO LOWER THE FLOOR FOR THE REST OF THE INDUSTRY. POTENTIAL BANKRUPTCIES, PLANT CLOSINGS, OWNERSHIP CHANGES ARE INDICATIONS OF THE INDUSTRY TURMOIL. PROBLEMS ARE FURTHER AGGRAVATED BY INFLATION AND HIGH INTEREST RATES.

AN EXPECTED SOLUTION IS TO DRAMATICALLY CUT RAW PRODUCT PRICES AND SEVERELY REDUCE THE 1980 ACREAGE, THEREBY REDUCING INVENTORIES AND ALLOWING A RETURN TO PROFITABILITY. WHILE WE AGREE THAT THESE PROCEDURES MAY WELL BE NECESSARY, WE BELIEVE THAT HUNT-WESSON AND HUNT-WESSON GROWERS STILL FACE A SERIOUS, LONGER TERM PROBLEM.

THE PRESSURE FOR HIGH RAW PRODUCT PRICES BY CTGA, WITH ITS LEADERSHIP STRONGLY INFLUENCED BY CO-OPS, HAS FACILITATED THE GRADUAL INCREASE OF COOPERATIVES AT THE EXPENSE OF PROPRIETARY



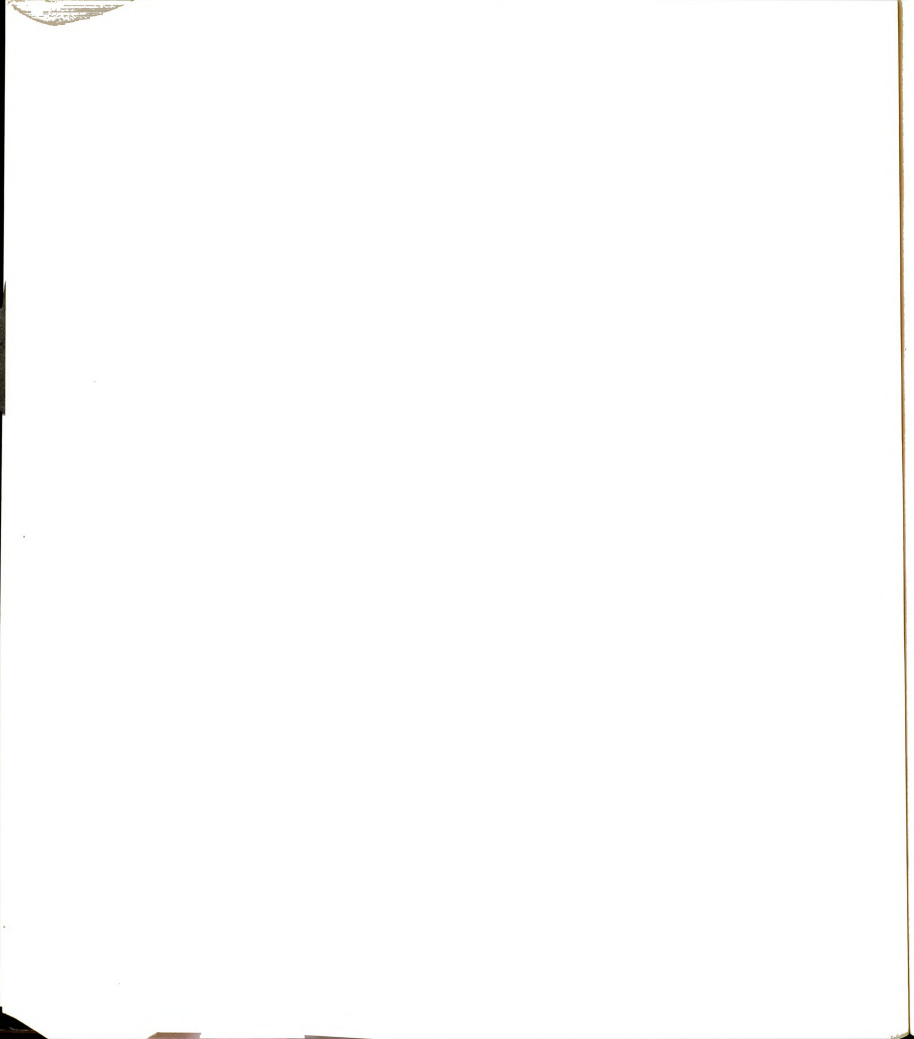
CANNERS. WE ESTIMATE THAT THE CO-OP AND "PARTICIPATING CONTRACT" CANNERS' SHARE OF THE CALIFORNIA MARKET HAS INCREASED FROM APPROXIMATELY 12% IN 1971 TO APPROXIMATELY 38% IN 1979, WITH A CORRESPONDING DECREASE TO PROPRIETARY CANNERS AND THEIR GROWERS.

THE RAW PRODUCT COMPETITIVE ADVANTAGE ENJOYED BY COOPERATIVES REFLECTS THE FACT THAT: THE CO-OP GROWER HAS TWO OPPORTUNITIES FOR A PROFIT; (1) THE RAW PRODUCT PRICE, AND (2) THE PROFITABILITY OF FINISHED GOODS. UNDER THE HIGH RAW PRODUCT PRICES WE'VE HAD THE LAST FEW YEARS, THE CO-OP GROWER HAS BEEN SATISFIED WITH HIS RAW PRODUCT PRICES ALONE AND HAS BEEN WILLING TO SACRIFICE FINISHED PRODUCT PROFITABILITY IN FAVOR OF THE PRESUMED LONG-TERM OPPORTUNITIES FROM INCREASED SHARE OF MARKET. OF PARTICULAR SIGNIFICANCE IS THE FACT THAT HIGH "UP-FRONT" PRICES PAID BY PROPRIETARY CANNERS HAVE ACTUALLY SUBSIDIZED CO-OP AND PARTICIPATING CONTRACT GROWERS WHO HAVE BEEN RECEIVING LOWER RAW PRODUCT RETURNS. IT IS OUR OPINION THAT PEACH CO-OP GROWERS HAVE FOLLOWED A SIMILAR STRATEGY OF CLING PEACH PRICING AND POLICY UNTIL MOST OF THE PROPRIETARY PEACH CANNERS AND THEIR GROWERS WERE FORCED OUT OF BUSINESS.

TO PROTECT HUNT-WESSON AND OUR GROWERS FOR THE LONG TERM, WE MUST PURCHASE TOMATOES ON SOME FORM OF PARTICIPATION IN GROWING PROFITS AS WELL AS PROCESSING PROFITS, WHICH WILL REDUCE THE CO-OP AND "PARTICIPATING CONTRACT" CANNERS' ADVANTAGE OF BEING ABLE TO PAY LESS THAN THE FULL RAW PRODUCT PRICE, TO MAKE DEFERRED PAYMENTS, AND NEGOTIATE FOR HIGH RAW PRODUCT PRICES TO GIVE THEM FLEXIBILITY IN FINISHED PRODUCT SELLING PRICES. THE ALTERNATIVE TO SUCH A CONCEPT MIGHT BE JOINT VENTURES WITH GROWERS, OR SELECTED COMPANY FARMING VENTURES.

HOW TO RESOLVE THE PROBLEM:

HUNT-WESSON HAS DEVELOPED AN INDEX TO DETERMINE RAW PRODUCT PRICE BASED ON THE SELLING PRICES AND CALCULATED PROFITABILITY OF CALIFORNIA "PRIVATE LABEL" TOMATO PRODUCTS.



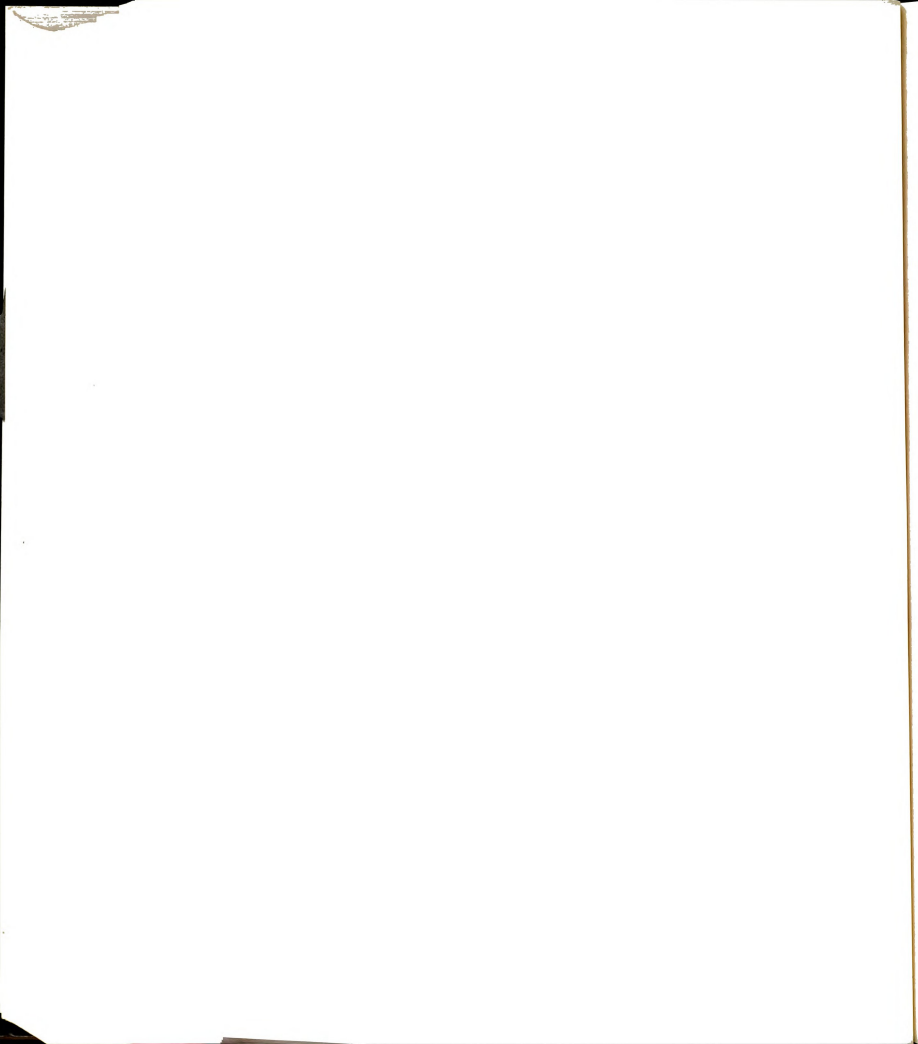
THE INDEX ASSUMES THAT RAW PRODUCT PRICE SHOULD BE A FUNCTION OF FINISHED PRODUCT SELLING PRICES AND MOVEMENT IN THE CURRENT CROP YEAR. THE INDEX RECOGNIZES A WEIGHTED PRODUCT MIX OF SIGNIFICANT AND REPRESENTATIVE "PRIVATE LABEL" PRODUCTS. REPRESENTATIVE PRODUCT COSTS, TOGETHER WITH MONTHLY WEIGHTED AVERAGE SELLING PRICES WILL BE USED TO CALCULATE RESULTANT PROFITABILITY. EACH YEAR WE WILL HAVE HASKINS AND SELLS, OR ANOTHER NATIONALLY RECOGNIZED ACCOUNTING FIRM VERIFY THAT THE DATA UTILIZED TO DETERMINE THE INDEX NUMBER FAIRLY REFLECTS INDUSTRY CONDITIONS AND IS USED IN A CONSISTENT MANNER.

HOW "INDEX PRICING" WORKS:

THE FOLLOWING IS THE INDEX/PRICE SCHEDULE FOR THE 1980 SEASON:

<u>INDEX</u>	<u>RAW PRODUCT PRICE PER PAID-FOR TON</u>
120	\$ 60 (MAXIMUM)
118	59
116	58
114	57
112	56
110	55
108	54
106	53
104	52
102	51
100	50
98	49
96	48
94	47 (MINIMUM)

A MINIMUM "DOWNSIDE" PRICE IS NECESSARY TO PROTECT GROWERS AGAINST "DISASTER" CONDITIONS IN THE MARKETPLACE IN ANY GIVEN YEAR. FOR HUNT-WESSON TO ACCEPT THE RISK OF A GUARANTEED MINIMUM PRICE, THERE IS AN "UPSIDE" MAXIMUM PRICE WHICH WOULD BENEFIT HUNT-WESSON



UNDER VERY FAVORABLE MARKET CONDITIONS. THE OPPORTUNITY FOR HUNT-WESSON TO REALIZE PROFITS IN EXCESS OF THE MAXIMUM PRICE PROVIDES AN OBVIOUS INCENTIVE FOR HUNT-WESSON TO MAXIMIZE HUNT-WESSON'S PROFITABILITY, THE INDEX, AND THEREFORE, THE GROWER'S PRICE.

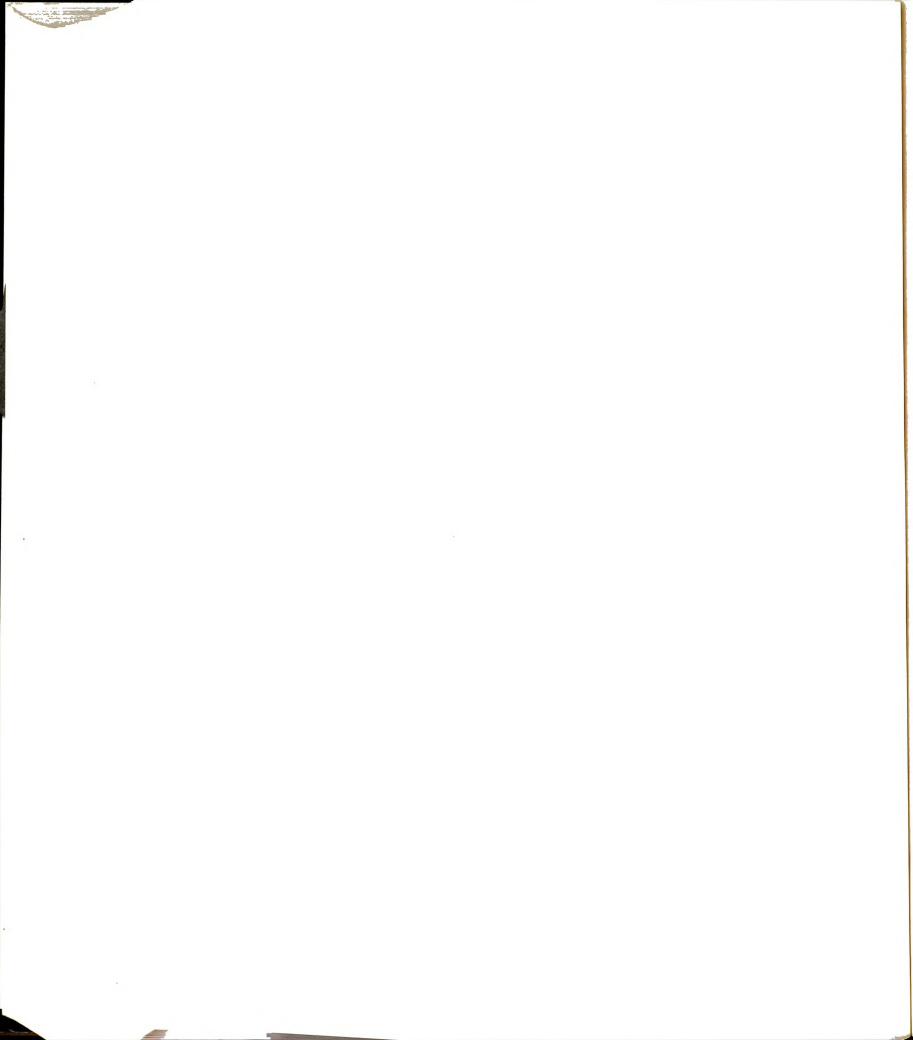
THE FOLLOWING SCHEDULE SHOWS HOW RAW PRODUCT PRICES WOULD HAVE VARIED SINCE 1974 UNDER THE 1980 INDEX CONCEPT WITH THE INDEX OF 100 EQUATING \$50 IN EACH YEAR. THE NATIONAL ACCOUNTING FIRM WILL VERIFY THAT HUNT-WESSON HAS BEEN CONSISTENT IN THE USE OF THE DATA ON WHICH THIS CHART IS BASED.

	<u>ACTUAL RAW PRODUCT PRICE</u>	<u>INDEX</u>	<u>INDEX PRICE</u>	<u>CALIFORNIA MM TONS</u>
1974	55.00	143.7	\$60.00 (MAX.)	5.848
1975	53.50	109.7	54.83	7.271
1976	47.00	99.2	49.59	5.066
1977	55.00	102.0	50.99	5.290
1978	54.00	96.5	48.26	5.290
1979 (EST.)	56.50	66.1	47.00 (MIN.)	6.380

FOR LONG-TERM EQUITY AND STABILITY, HUNT-WESSON WILL PURCHASE A PORTION OF ITS REQUIREMENTS UNDER TERM CONTRACTS.

THE INDEX IS DESIGNED TO BE AUTOMATICALLY RESPONSIVE TO CHANGING CONDITIONS, BUT IF INFLATION, INTEREST RATES, COMPETITIVE CROPS, OR FURTHER EXPERIENCE WITH THE INDEX NECESSITATES A CHANGE IN THE BASIC PROFITABILITY RATIOS OF THE INDEX FOR EITHER HUNT-WESSON OR OUR GROWERS, HUNT-WESSON MAY ISSUE A NEW INDEX/PRICE SCHEDULE BY JANUARY 1 FOR THE NEXT CROP YEAR. IF THE INDEX/PRICE SCHEDULE CHANGES, A NEW TABLE WILL BE PREPARED, COMPARING THE EXPERIENCE OF RECENT YEARS TO WHAT IT WOULD HAVE BEEN WITH THE CHANGE. WITHIN 15 DAYS AFTER SUCH HUNT-WESSON CHANGE, GROWERS MAY ELECT TO NOT ACCEPT THE CHANGE AND CANCEL THEIR CONTRACT FOR THE REMAINING YEARS.

ANNUALLY, THE ESTABLISHED MINIMUM PRICE WILL BE PAID AT HARVEST TIME. THE INDEX WILL BE CALCULATED AND REVIEWED BY THE NATIONAL ACCOUNTING FIRM BY JUNE 30 EACH YEAR AND FINAL



PAYMENT WILL BE MADE BY JULY 15, FOLLOWING THE CROP YEAR.
INTERIM PAYMENT(S) WILL BE MADE, CONSISTENT WITH MARKET CONDITIONS.

IN THAT THE INDEX LEVEL WILL OBVIOUSLY RELATE TO "PRIVATE LABEL" MARKET CONDITIONS, GROWERS CAN QUITE EASILY WATCH SUCH PRICES FOR DIRECTIONAL MOVEMENT OF THE INDEX NUMBER.

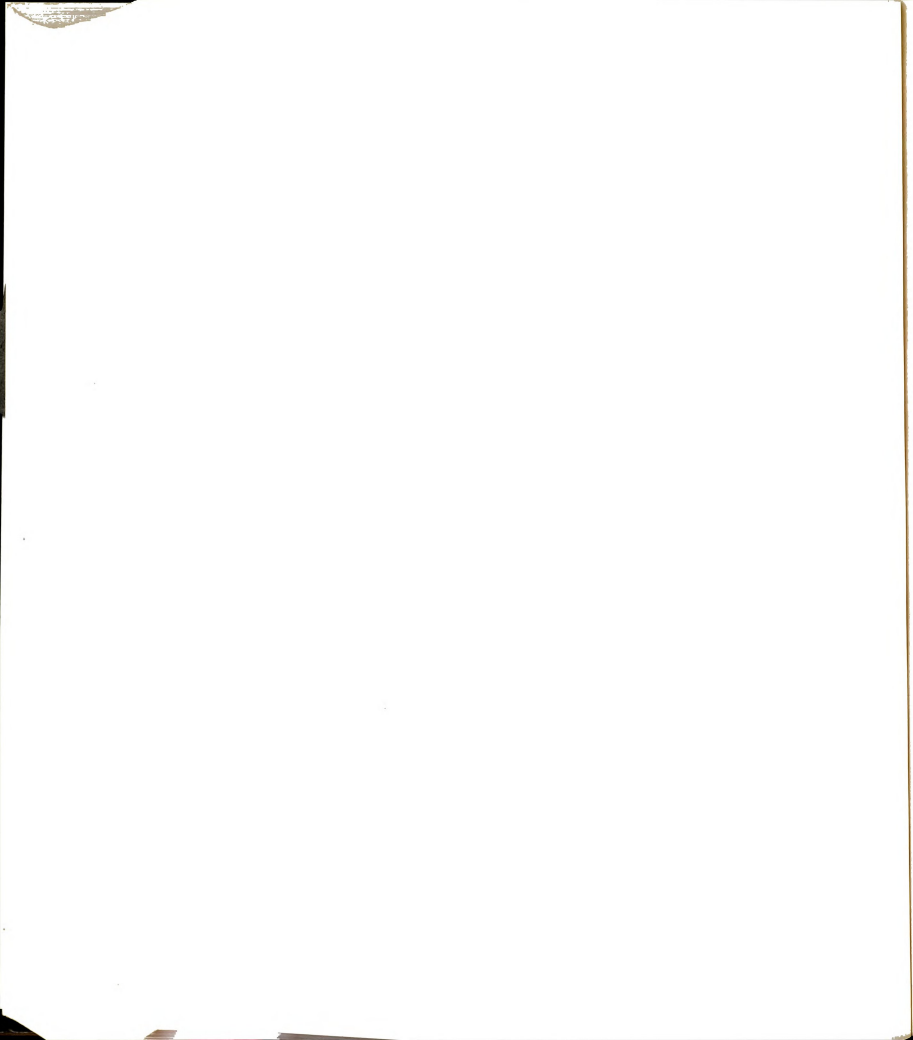
SUMMARY:

THE INDEX PRICE CONCEPT WILL REQUIRE OUR GROWERS TO LOOK AT PRICES ON MORE THAN A ONE-YEAR BASIS. WE ANTICIPATE THAT IT WILL ELIMINATE A COMPETITIVE ADVANTAGE ENJOYED BY "PRIVATE LABEL" CO-OPS AND "PARTICIPATING CONTRACT" CANNERS.

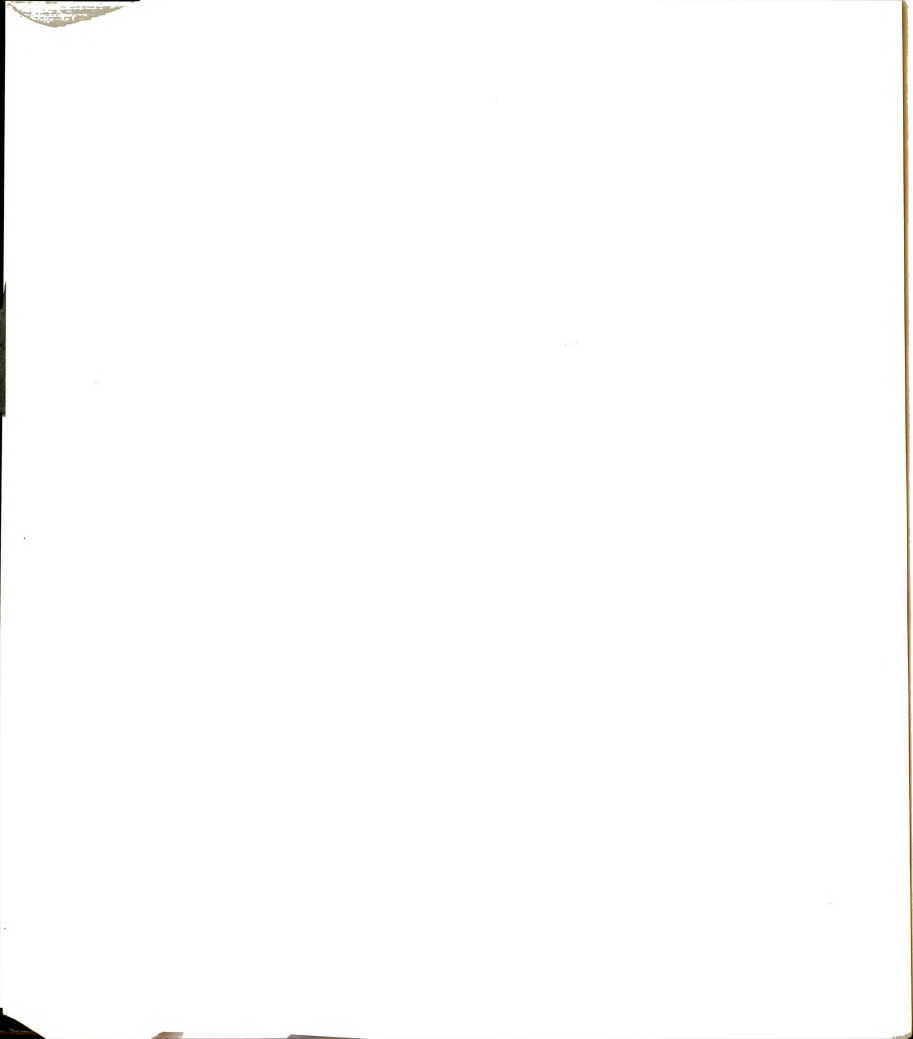
INDEX PRICING TRULY RESPONDS TO ANNUAL (1) FINISHED PRODUCT MARKET CONDITIONS, (2) ECONOMICS OF COMPETING CROP CHOICES, AND (3) GROWERS' DEMAND FOR CONTRACT ACREAGE.

- END -

MB:GMG



APPENDIX I
CONTADINA FOODS, INC.



Contadina Foods, Inc.

A Subsidiary of Carnation Company

GENERAL OFFICE: CARNATION BLDG. • 5046 WILSHIRE BLVD. • LOS ANGELES, CALIF. • Telephone: (213) 931-1911

December 18, 1979

Mr. Robert F. Holt
Executive Vice President
CALIFORNIA TOMATO GROWERS ASSN., INC.
9036 Thornton Road
Stockton, California 95207

Dear Bob:

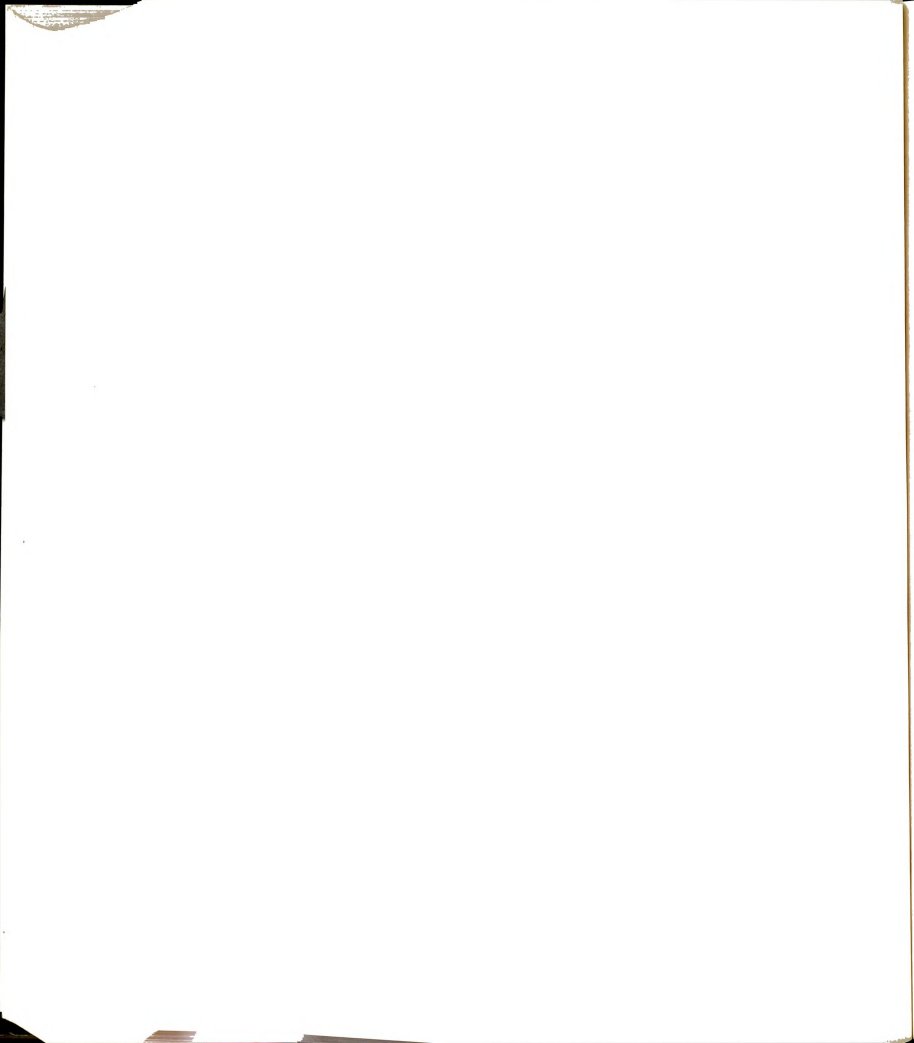
Following is the proposal by Contadina Foods, Inc. for the purchase of tomatoes from the 1980 crop in California:

PRICE:

Due to the depressed nature of the industry with its chronic oversupply since the 1975 season, we feel it is mandatory that the growing and processing of tomatoes be dramatically reduced from the 1979 level of 6,380,000 tons. Whereas earlier we felt the minimum reduction should be about 15% and preferably 20%, we now strongly believe that the goal of the industry has to be a 20% reduction. If this can be achieved with the planting intentions released in March, there is a strong likelihood that pricing of finished goods will improve prior to and during the harvest period in 1980.

If this is not achieved and the intended acreage and translated tons exceed 5.3 million or more, the reaction by the trade is going to be that the final harvest figure for the pack will be higher, that inventories will be ample through the 1980/81 season, and -- particularly in view of the situation with weak sellers -- there will be a continuation of lower pricing almost all the way through 1980, if not into 1981. With this in mind and as we have discussed in our previous meetings, we firmly believe that a sliding scale which provides incentive to reduce the tonnage is required.

On the other hand, it has now become apparent to us at Contadina that we have to be competitive with the other proprietary members of the industry as well as with the co-ops. We sell a significant amount of our tonnage in competition with the co-ops and smaller canners who we anticipate will be offering participative types of contracts providing protection to them should the industry continue



Robert F. Holt
December 18, 1979

to have excess supplies. On this issue, basis the Hunt contract, assuming a base price of \$47.00 and the possibility of a single-price field contract by one or more of the other major processors, an 85% payment will translate to approximately \$40.00.

Our schedule provides a base of \$48.00 assuming a range of 5.0 to 5.2 million tons. More importantly, it does provide a \$50.00 price should the industry be able to reduce the pack to under 5 million tons, which we really feel is a threshold level in terms of balancing supplies and which would have a very positive effect on the pricing of finished goods.

Under the Hunt proposal, which is predicated upon an index system applying those factors to the private label segment, except for the 1974 season -- which profited by the rather sustained period of insufficient supplies -- the maximum payable has been 104%. In view of the increased costs of processing tomatoes expected in the 1980 season, including a minimum of 50% in energy, 10% in cans, 10% in labor, a probable continuation of high interest rates and a rather significant increase in overhead due to inflation and a reduction in the pack, a rather dramatic increase would have to take place in the pricing of finished goods by the private label segment to achieve a 104% payment; and certainly a payment above that amount would seem quite remote in the coming season of 1980/81.

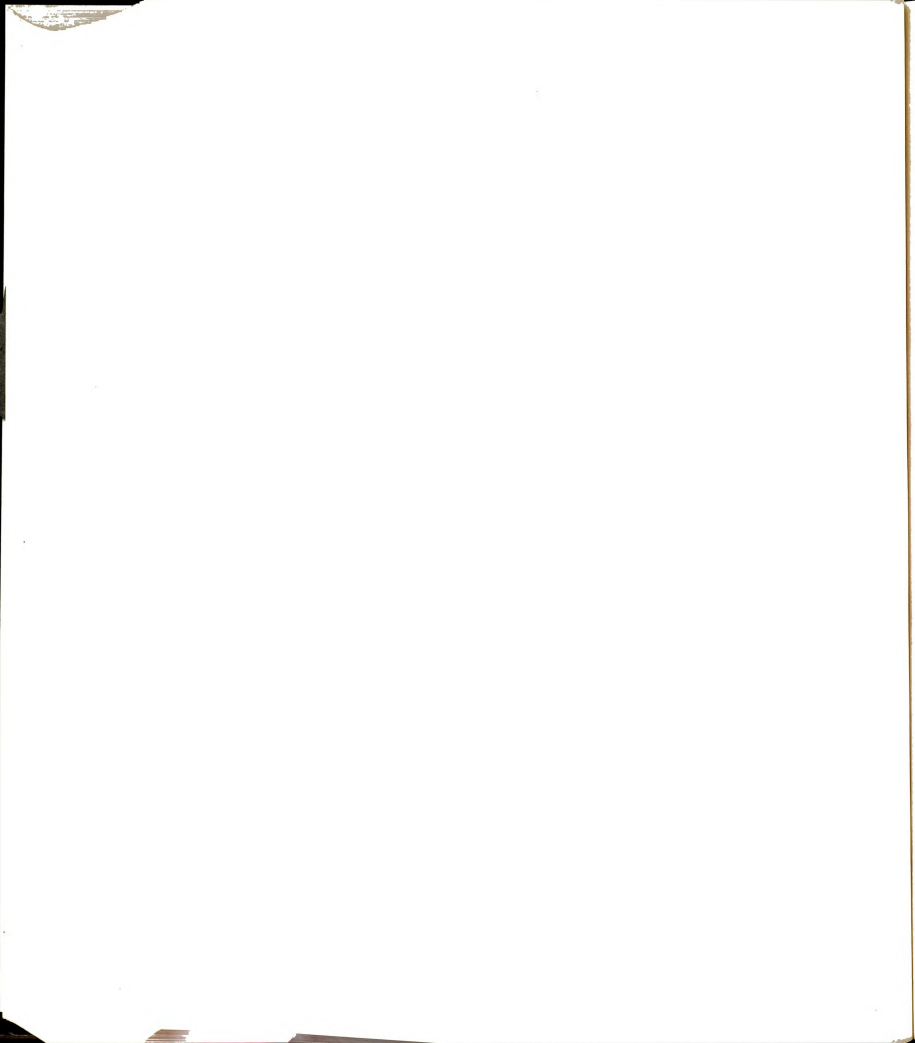
In that it is mandatory that we be competitive with Hunt and the possibility of a low single price from another major competitor, the \$52.00 price for tonnage under 4.8 million has to be our maximum.

PAYMENT

In an effort to control the speculation in growing tomatoes as well as the likelihood that some of the smaller canners and the co-ops will pay only approximately 60% of the price at time of harvest, our pricing is predicated upon a payment of 65% at time of harvest, 20% on January 31, 1981, and the remainder on June 30, 1981. This payment schedule tends to be a one-time adjustment.

TERM CONTRACTS

Basis our offer, we will enter into multi-year contracts commencing in 1980 varying in length from two to five years, such contracts in 1980 to account for a minimum of 50% of our purchase requirements with an objective of increasing this to 70-75% within three to five years.



Robert F. Holt
December 18, 1979

QUALITATIVE BUYING FACTORS

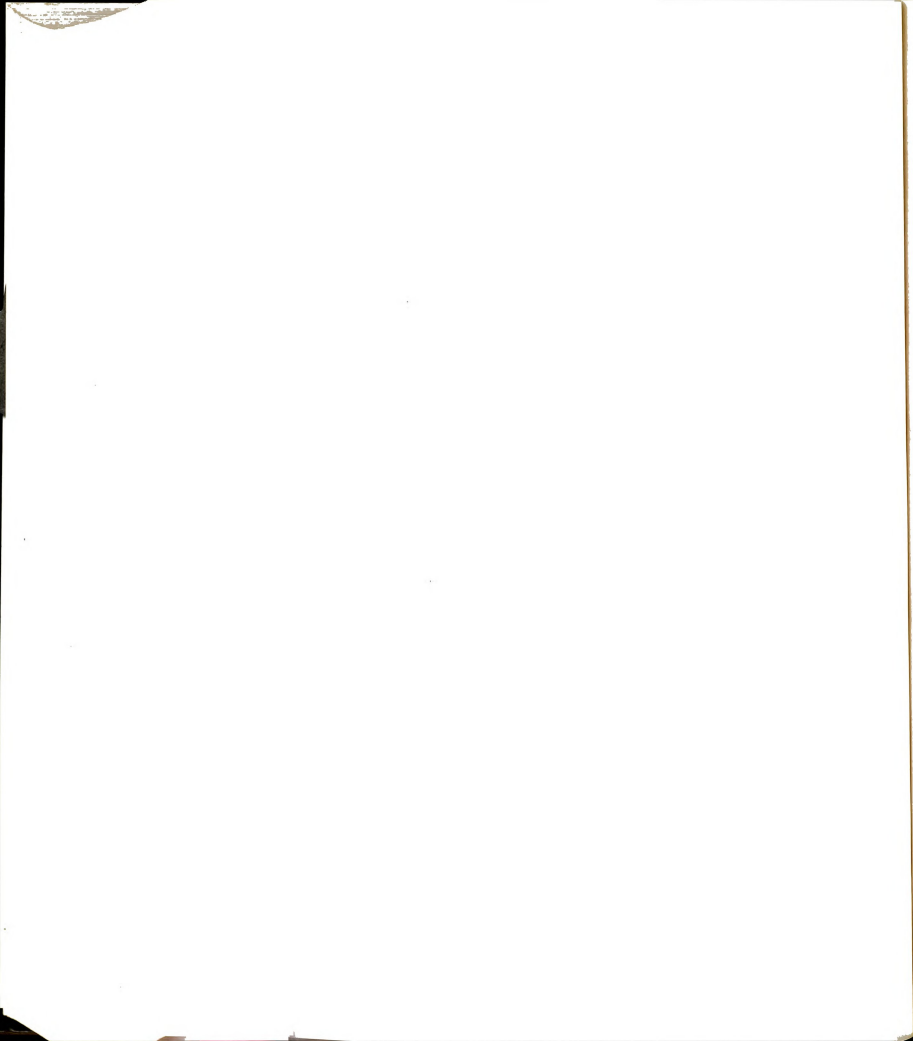
We are definitely interested in developing a payment schedule which compensates the grower and, therefore, provides incentive for the grower to produce tomatoes having above average quality. Our interest has centered on solids and the relationship of limited use. We are not prepared to offer a program on a broad basis in the 1980 season, but it is our plan to test a proposed program with a few selected growers in representative growing districts on varieties which we feel have a meaningful contribution to our plant performance.

In regard to limited use, we feel that the dockage program in the 1979 season demonstrated to the growers the need to improve their performance and reduce the limited use. Based on the extent of dockage in 1979, we anticipate a substantial improvement by the growers in the 1980 season. This performance should more realistically determine the basis of a payment of premiums for lower levels of limited use in subsequent years.

In regard to a term contract with the Tomato Growers Association, the basis of this contract offers little continuity in terms of future contracts. It is not feasible, therefore, to incorporate a pricing mechanism at this time for subsequent years. With no pricing mechanism, there is really not much substance on which to base a multi-year contract.

The above provisions cover the substantive issues of a final proposed contract for the 1980 season. Reaching agreement on the language provisions in finalizing a contract should pose no serious obstacles, in that changes would at most be minor. From a timing standpoint, we feel that if we are to reach our objective of reducing the pack, it is mandatory that the pricing and terms for the 1980 season be established immediately. We are hoping, therefore, to reach agreement now for the 1980 contract, so that effective planning by your members can commence on a knowledgeable basis in regard to the economic considerations that will prevail with the 1980 crop.

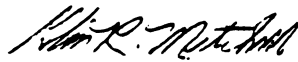
Both processors and growers should recognize the fact that the most adverse situation resulting from our negotiations and the volume of the 1980 harvest is a continuation of admittedly low prices to the grower and losses to the canner. We should collectively be able to correct this situation in the near term and look forward to an efficient and profitable industry in the



Robert F. Holt
December 18, 1979

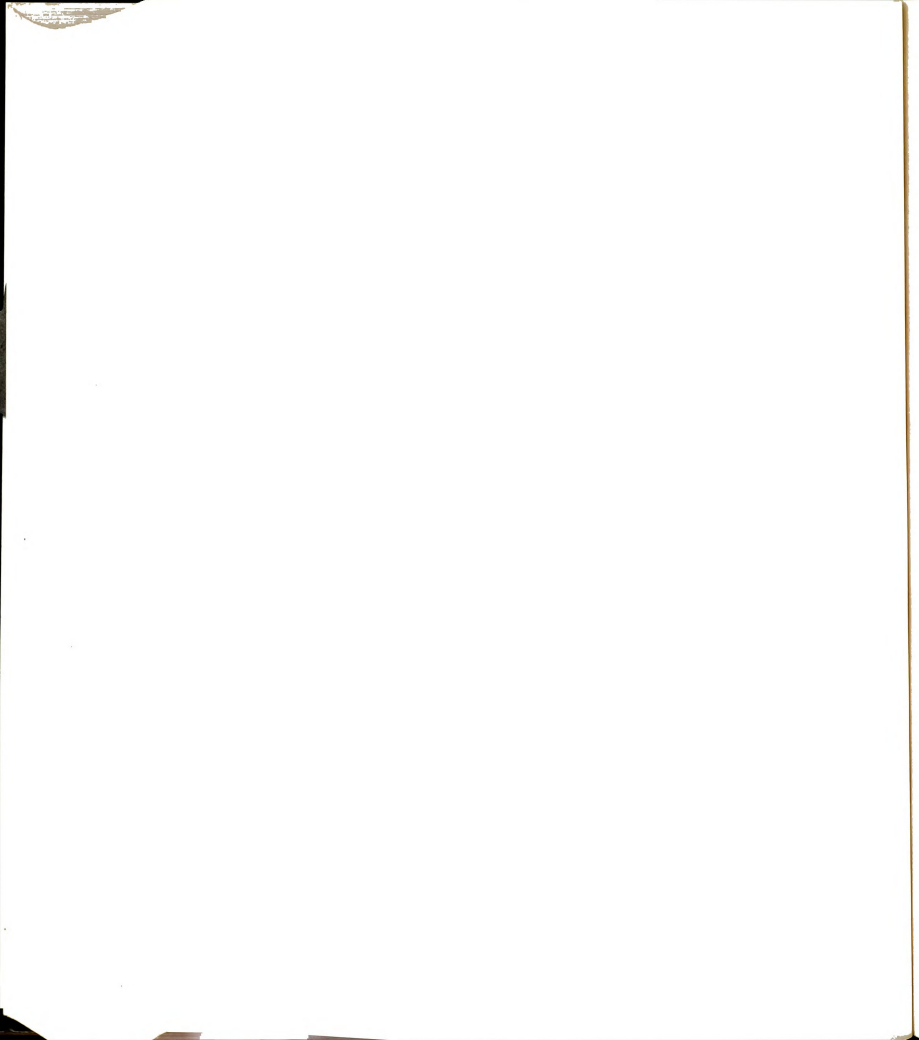
1980's. Obviously, those who will be participating -- growers and canners -- will be the most efficient, because the market demand for the finished product is substantially less than our capacities in the industry to grow and process tomatoes.

Sincerely,



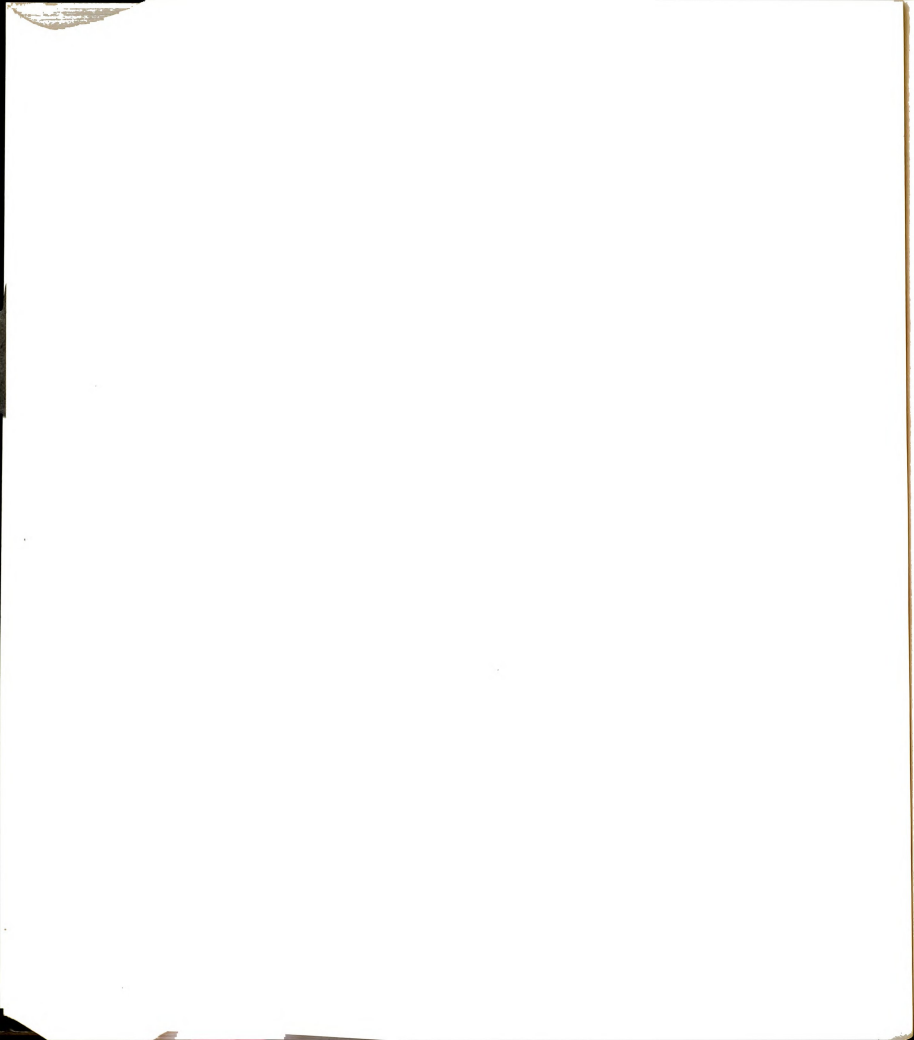
Glen R. Mitchell, President
CONTADINA FOODS, INC.

GRM:bjh

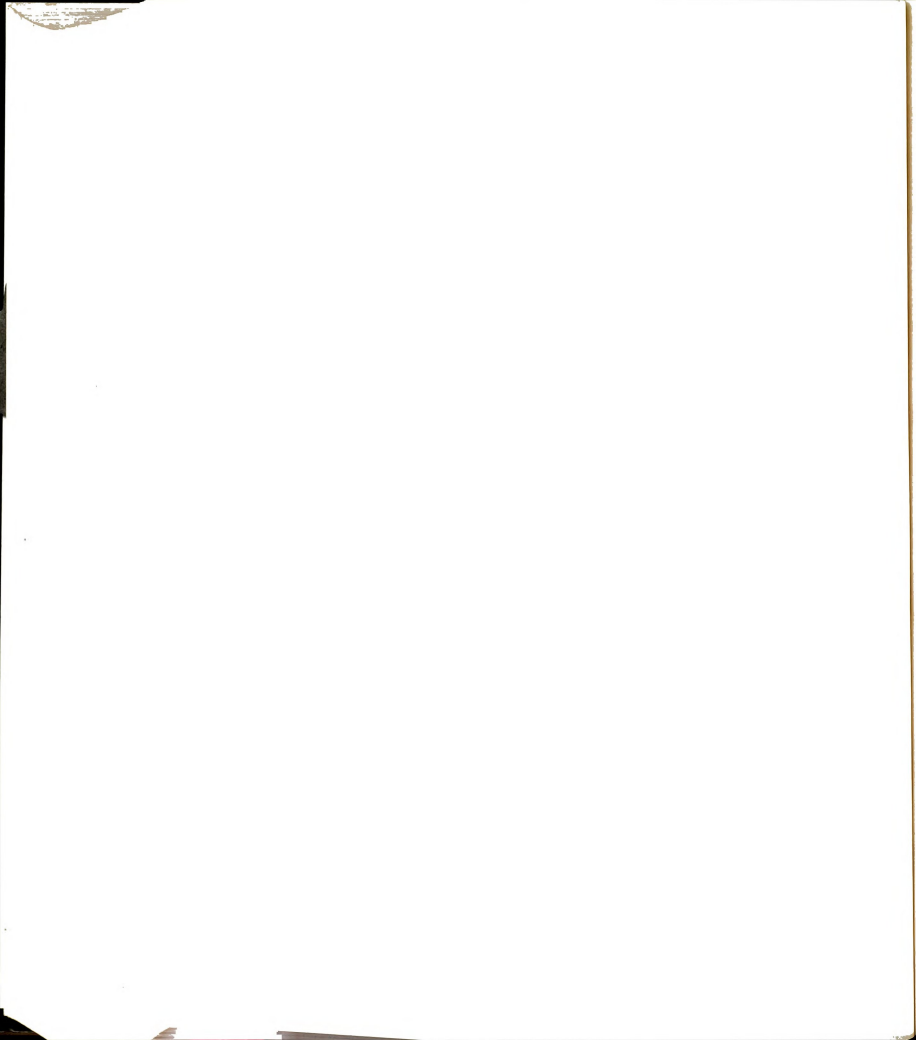


CONTADINA FOODS, INC.
PRICE PROPOSAL FOR RAW TOMATOES
1980 SEASON

<u>TONNAGE RANGE</u>	<u>PRICE/TON</u>
Under 4.8 million	\$ 52.00
4.8 to 4.9	51.00
4.9 to 5.0	50.00
5.0 to 5.1	48.00
5.1 to 5.2	48.00
5.2 to 5.3	47.00
5.3 to 5.4	46.00
5.4 to 5.5	45.00
5.5 and over	43.00

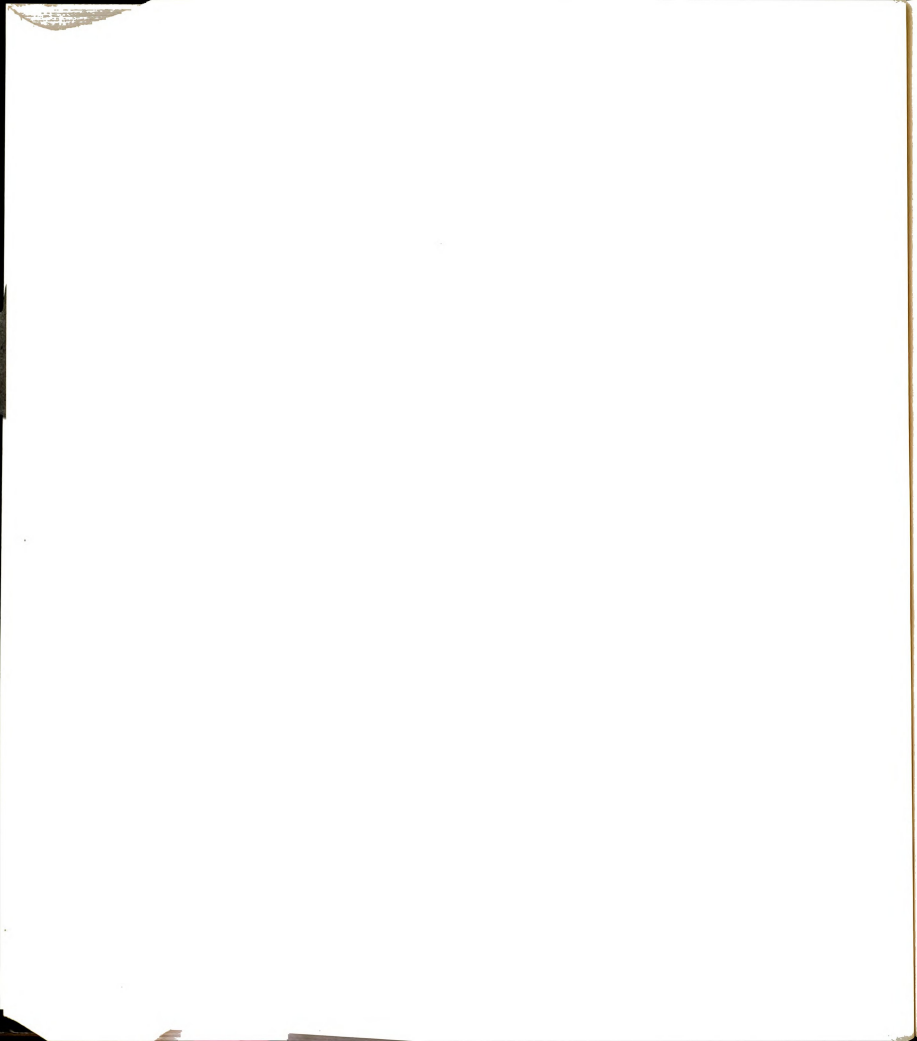


APPENDIX J
INTERVIEWS

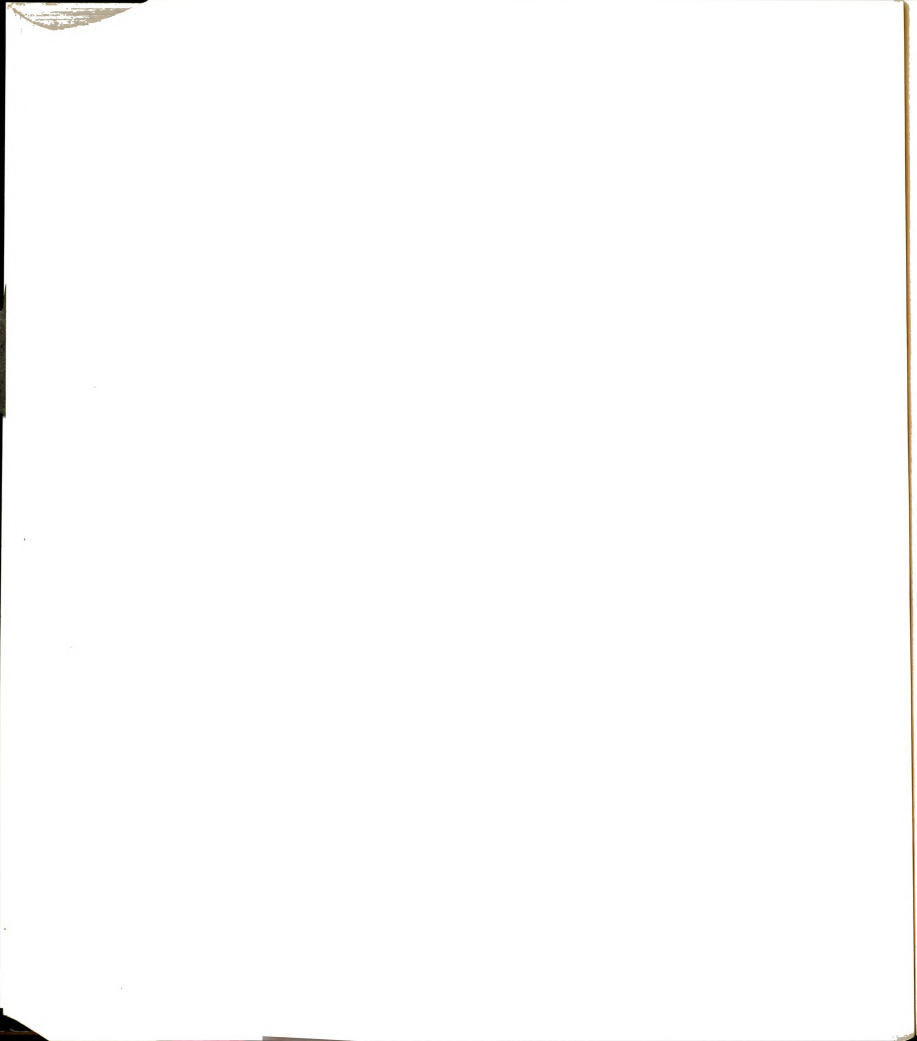


INTERVIEWSBargaining Association Managements Interviewed

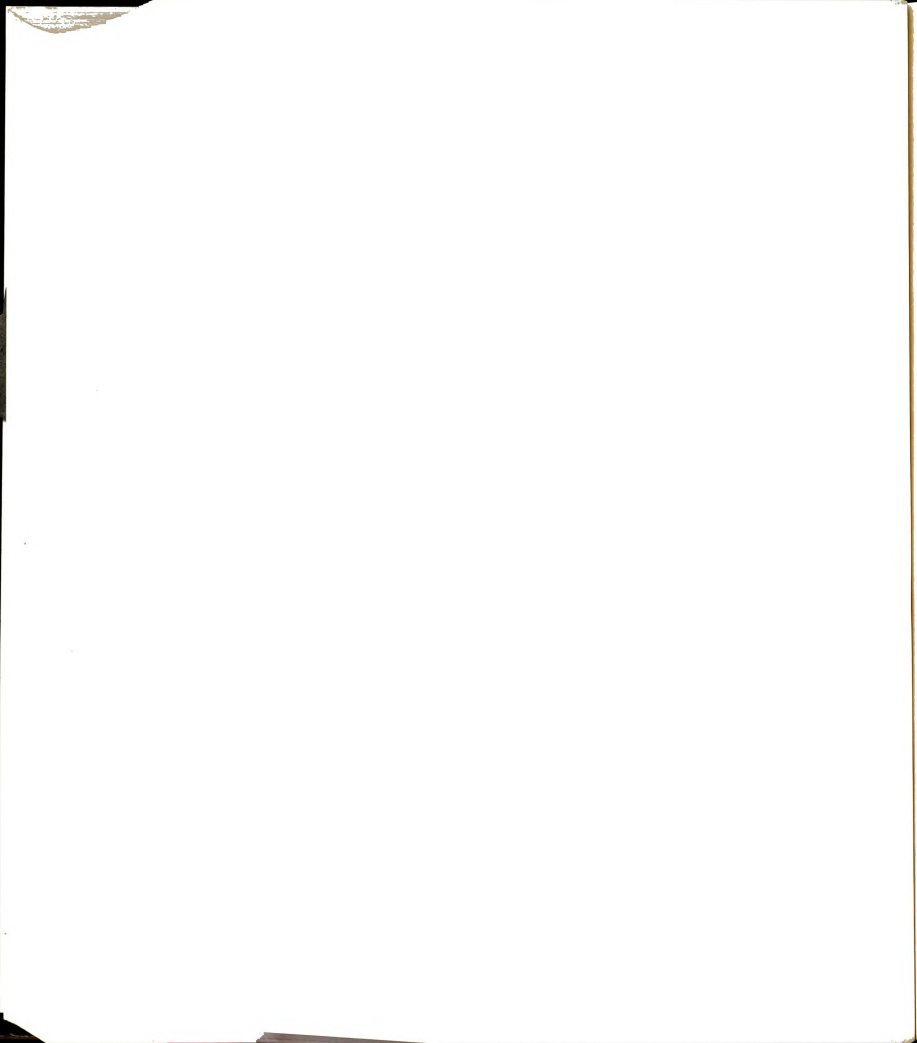
<u>Association</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
<u>California</u>		
California Canning Peach Association 3708 Mt. Diablo Blvd. Suite 220 Lafayette, CA 94549 (415) 284-9171	Ron Schuler Pres. Ralph Bunje Past Mgr.	1/9/74, 4/2/79 1/7/79, 4/18/79
California Canning Pear Association 100 Bush Street San Francisco, CA 94104 (415) 982-3076	Cameron Girtton Gen. Mgr.	3/29/79
Apricot Producers of California 1762 Holmes Street Livermore, CA 94550 (415) 447-7660	Ralph N. Watters Exec. V.P.	1/7/79, 4/2/79
California Tomato Growers Association 9036 Thornton Road Stockton, CA 95209 (209) 478-1761	Robert Holt Exec. V.P. Jack Hayes Dir. (see Other)	4/3/79 4/17/79
Raisin Bargaining Association Helm Building, Suite 212 1111 Fulton Mall Fresno, CA 93721 (209) 233-8304	Kalem Barsarian Mgr.	4/20/79



<u>Association</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
<u>Northwest</u>		
Washington Asparagus Growers Association 318 South 7th Street, P.O. 757 Sunnyside, WA 98944 (509) 837-6022	Gene R. Coe Mgr. Harold Clayton Director	4/11/79 1/7/79
Central Washington Farm Crops Association 320 South 7th Street Sunnyside, WA 98944 (509) 837-4621	Jerry Williams Mgr.	4/11/79
Oregon-Washington Growers Association 4821 River Road, North, P.O. Box 7133 Salem, OR 97303	Fritz Collett Gen. Mgr.	4/9/79
Washington-Oregon Canning Pear Association 202 Holtzinger Building Yakima, WA (509) 966-7179	Dick McFarland Mgr. Why Claybark Past Mgr.	4/12/79 4/12/79
Potato Growers of Idaho Box 949 Blackfoot, ID 83221 (208) 785-1110	Gerald Murphy Gen. Mgr.	4/13/79
<u>Michigan</u>		
Michigan Agricultural Cooperative Marketing Association (MACMA) Michigan Farm Bureau 7373 W. Saginaw Lansing, MI 48904 (517) 323-7000	Noel Stuckman Mgr.	1/7/79, 7/11/79
Asparagus Marketing Committee	Harry Foster Mgr.	1/26/79

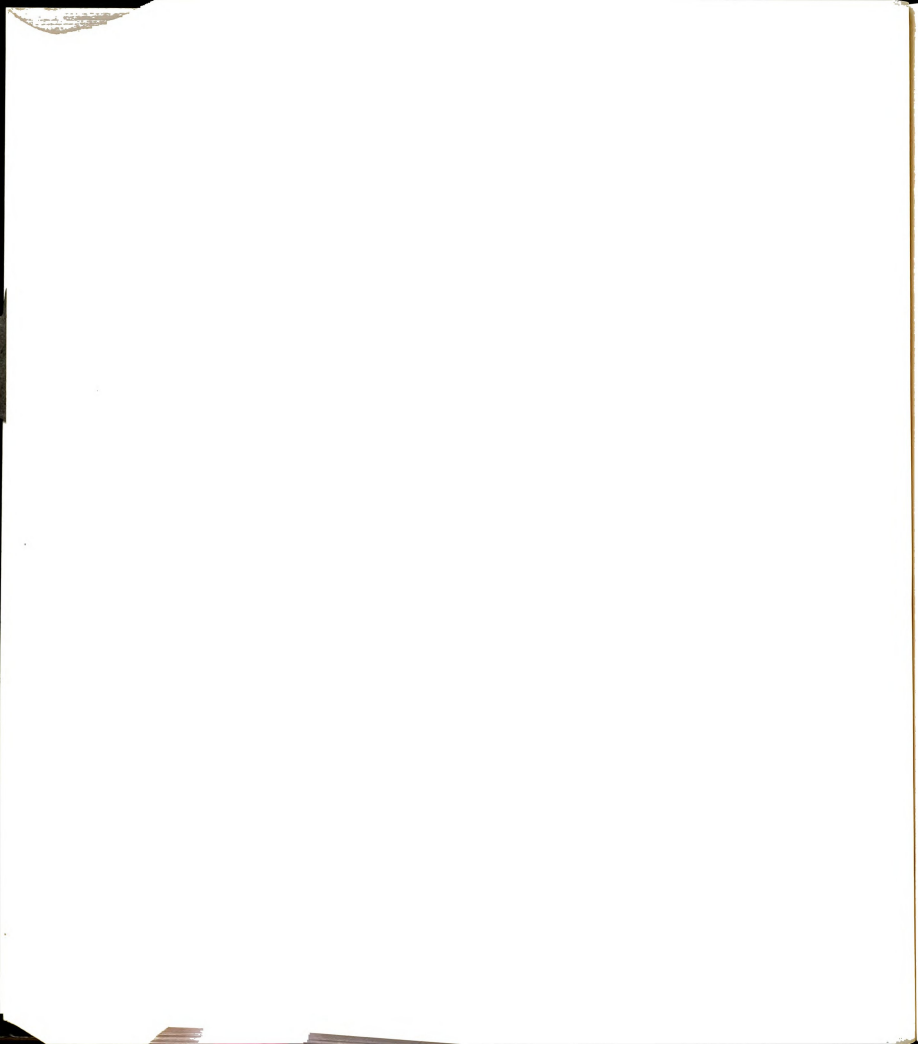


<u>Association</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
Tart Cherry Marketing Committee	Harry Foster Mgr. Roy Lackert Past Pres. (see Other)	2/28/79
Apple Marketing Committee	Tom Butler Mgr. Howard Gilmer Chairman (see Other)	1/26/79, 2/16/79, 2/21/79 5/13/79
<u>Appalachia</u>		
New York Farm Bureau Marketing Cooperative Albion, New York	John Follman Mgr. Bargaining Activities	5/24/79
Pennsylvania Agricultural Cooperative Marketing Association (PACMA) Pennsylvania Farmers' Association P.O. Box 736 510 So. 31st Street Camphill, PA 17011 (717) 761-2740	Dennis Derr Bargaining Activities Richard Newpher Mgr. Public Affairs Dept.	6/1/79 6/1/79
Virginia Bargaining Activities Winchester, VA	Robert Russell Grower	6/4/79

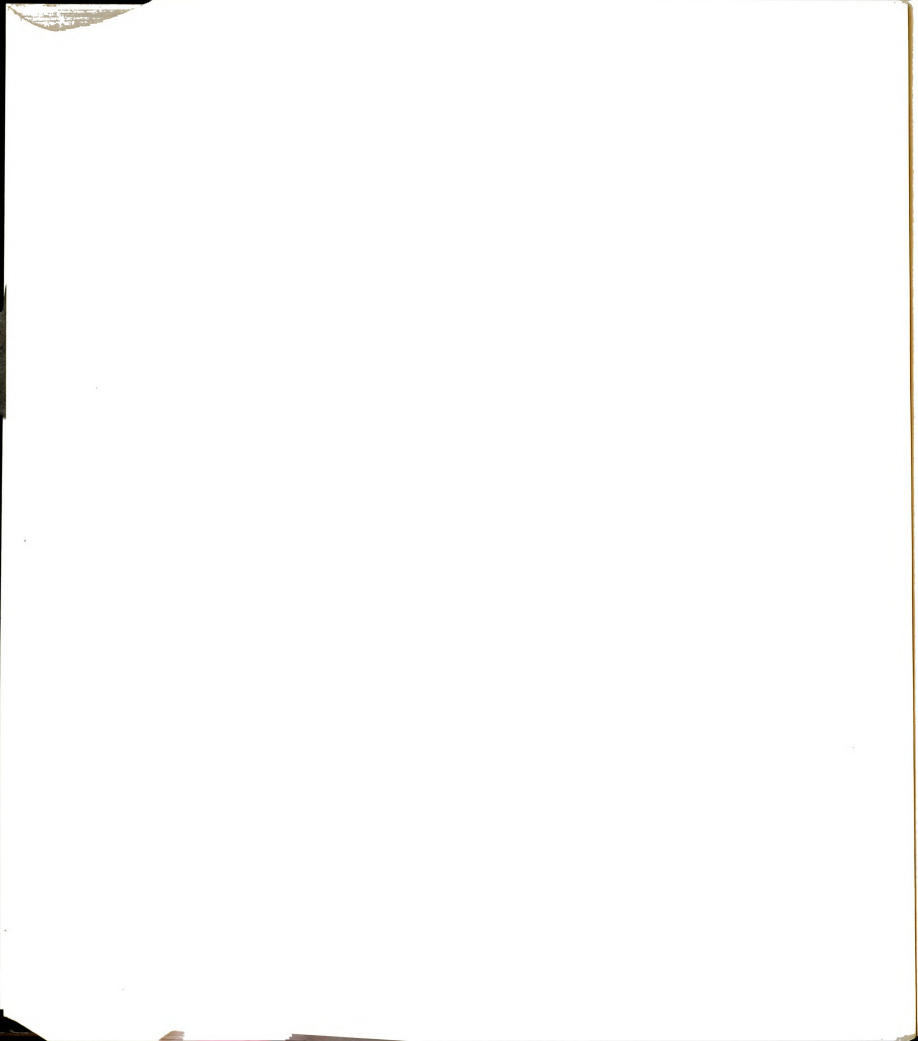


Proprietary Processor Managements Interviewed

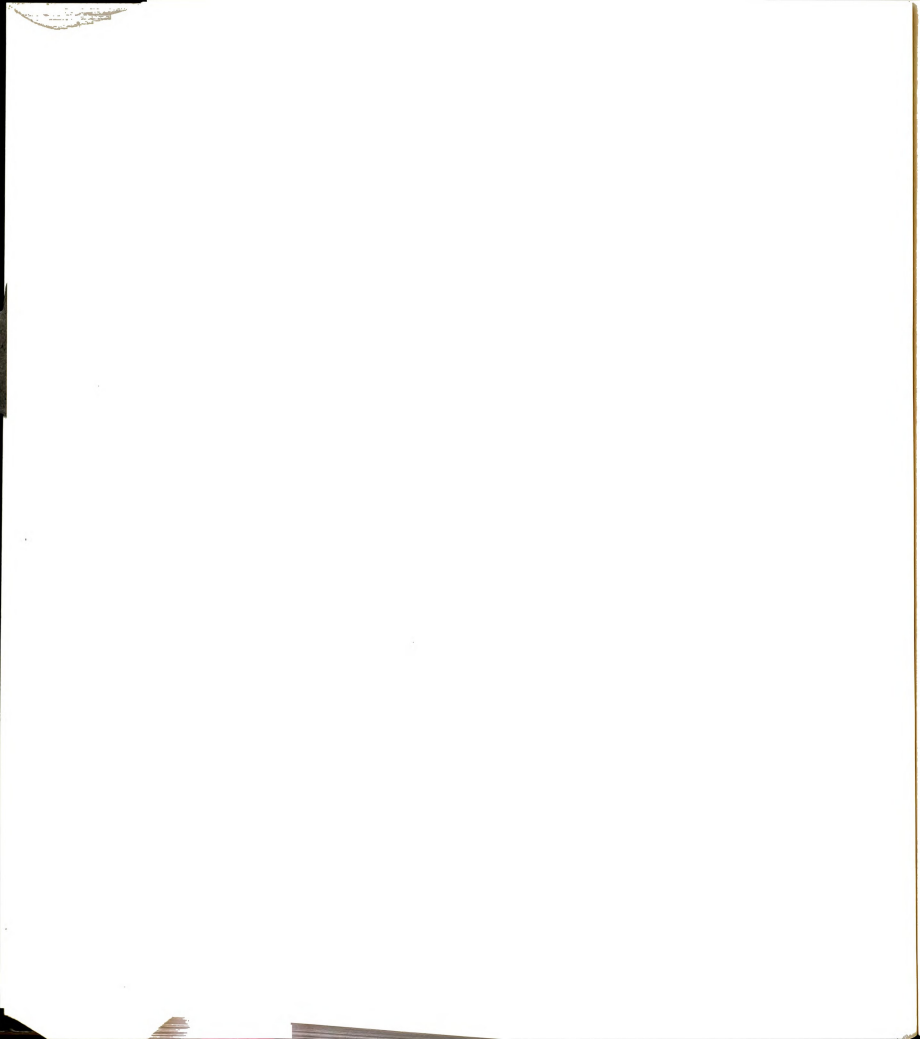
<u>Proprietary Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
<u>California</u>		
H.J. Heinz Co. 757 East 11th Street Tracy, CA 95376 (209) 835-0570	Charles E. Bailey Regional Mgr. - West Coast Agriculture	1/8/79, 4/3/79
Del Monte Corp. One Market Plaza, P.O. Box 3575 San Francisco, CA 94119 (415) 442-4000	James A. Countryman V.P. Pacific Coast Production	3/29/79
Tillie Lewis Foods, Inc. Drawer J Stockton, CA 95201 (209) 946-4011	Donald Enberg Field Mgr.	4/5/79
Libby, McNeill and Libby, Inc. P.O. Box 45 Sunnyvale, CA 94088	Bill Cushing Field Mgr.	4/6/79
Gerber Products Co. 445 State Street Fremont, MI 49412 (616) 928-2000	Jack Leaver Dir. Ag. Oper.	5/10/79
<u>Northwest</u>		
Del Monte Corp. P.O. Box 1528 Yakima, WA 98901	Kenny Graves Field Mgr.	4/12/79



<u>Proprietary Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
<u>Michigan</u>		
Jeno's, Inc. 4125 So. Pipestone Road Sodus, MI 49126 (616) 926-8233	Sam Ebert Sales Mgr.	5/3/79
Indian Summer, Inc. 700 Kiddville Road Belding, MI 48809 (616) 794-1400	Roger Anthony Mgt. Ernest Louis Mgt.	5/8/79 5/8/79
Michigan Quality Foods, Inc. P.O. Box 186 Paw Paw, MI 49079 (616) 657-5524	Horst Hildebrandt Field Mgr. (also with Musselman)	5/9/79
National Fruit Product Co., Inc. Kent City, MI 49330 (616) 678-5931	Jim Mortenson Plant Mgr.	5/9/79
Gerber Products Co. 445 State Street Fremont, MI 49412 (616) 928-2000	Jack Leaver Dir. Agricultural Operations	5/10/79
Jebavy Sorenson Orchard Co. P.O. Box 280 Manistee, MI 49660 (616) 723-3559	Richard Brye, Jr. Gen. Mgr.	5/10/79
Smeltzer Orchard Co. Frankfort, MI 49635 (616) 882-4421	James Brian, Jr. V.P. and Prod. Mgr.	5/11/79

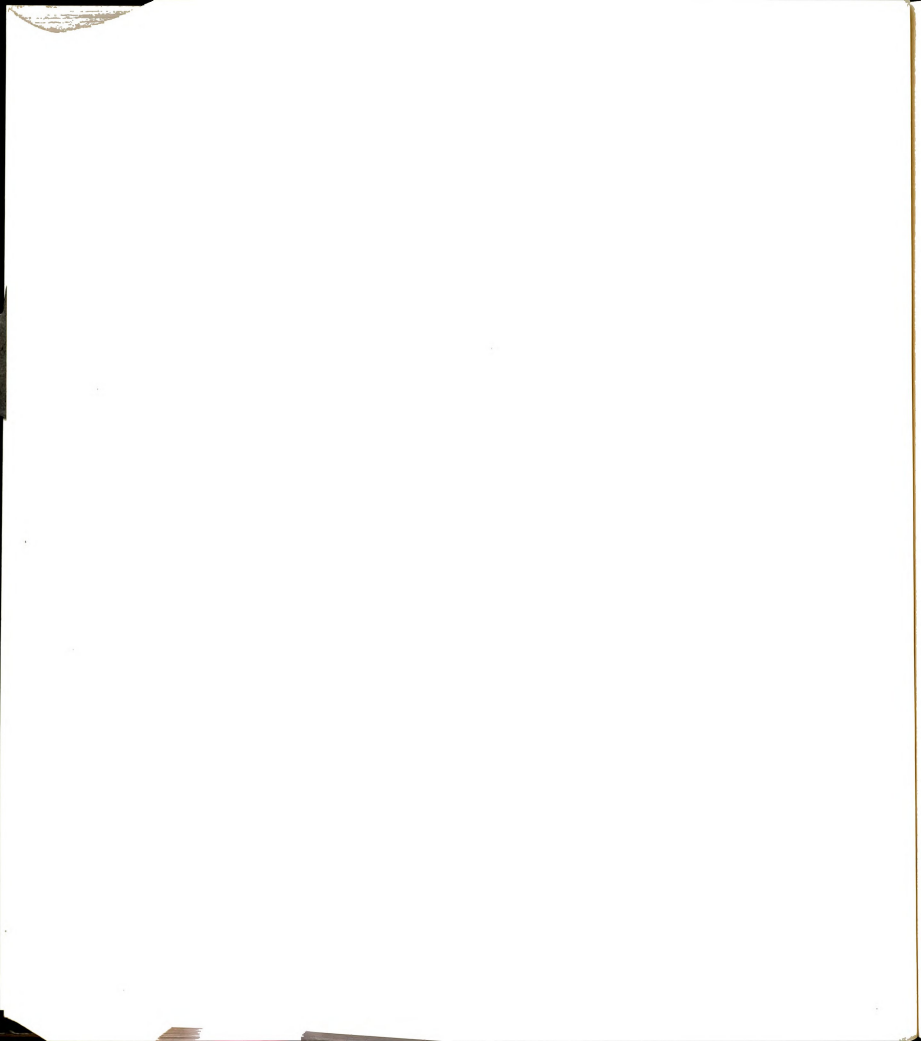


<u>Proprietary Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
Stokely-Van Camp, Inc. 409 Wood Street Hart, MI 49420 (616) 873-2136	V.E. Dorman Mich. District Mgr.	5/14/79
Bay View Orchards (now part of Cherry Growers, Inc.) Onona, MI 49674 (616) 386-5159	Charles Kalchick Gen. Mgr.	5/15/79
Traverse City Canning Co. P.O. Box 427 Traverse City, MI 40684 (616) 946-4860	David R. Kellogg Pres. and Gen. Mgr.	5/15/79
Silver Mill Frozen Food, Inc. 335 Russell Road Hart, MI 49420 (616) 873-5611	George Dent V.P. Sales	5/10/79
Musselman Fruit Products Biglerville, PA 17307 (717) 677-7111	Robert Burkhardt Prod. Mgr. Charles Kingston Per. Mgr.	5/29/79 5/29/79
Duffy Mott Co., Inc. Hamlin, NY 14464 (716) 964-2411	J.B. Lusk V.P. Manuf.	5/31/79
<u>Appalachia</u>		
Lyndonville Canning Co., Inc. 151 West Ave. Lyndonville, NY 14098 (716) 765-2231	James Tormay Exec. V.P. and Sales	5/29/79

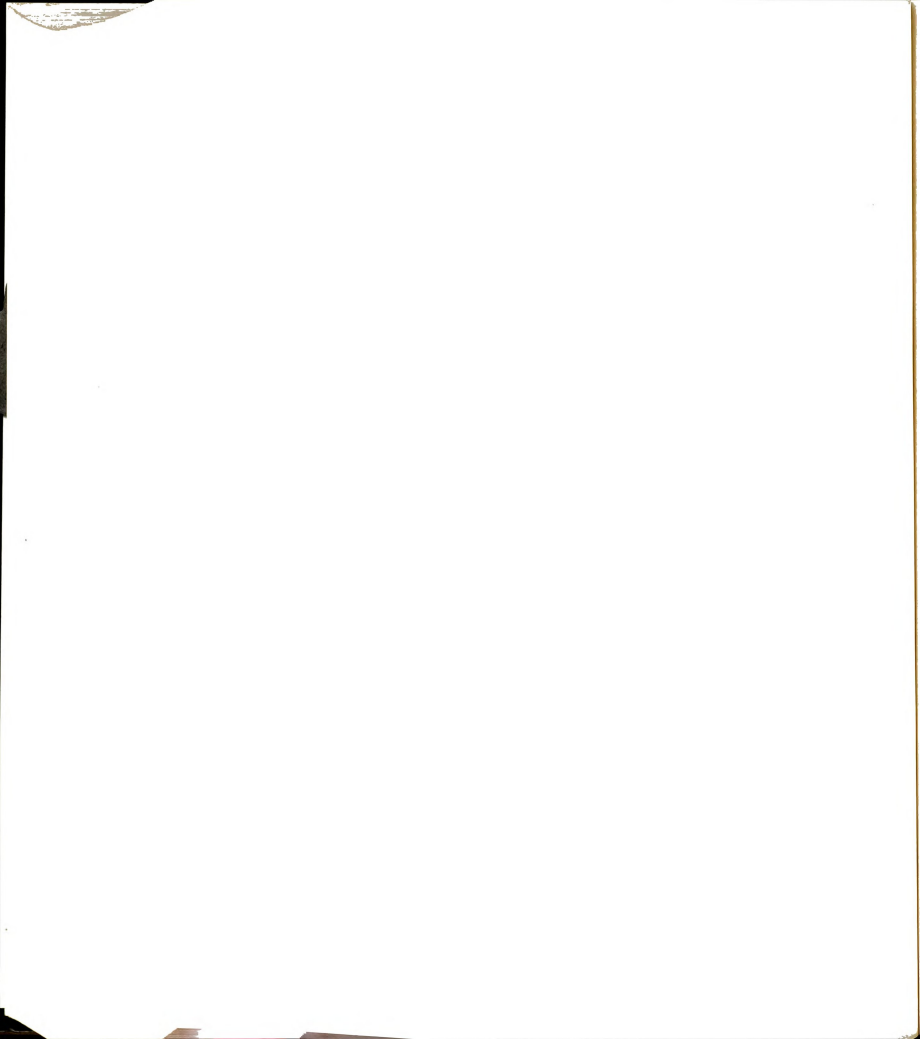


<u>Proprietary Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
Musselman Fruit Products Biglerville, PA 17307 (717) 677-7111	Robert Burkhardt Prod. Mgr. Charles Kingston Per. Mgr.	5/29/79 5/29/79
Duffy Mott Co., Inc. Hamlin, NY 14464 (716) 964-2411	J.B. Lusky V.P. Manuf.	5/21/79
The Zeropack Co. 562 N. Cameron St. Winchester, VA 22601 (703) 662-3885	Layton H. Stockdale Pres.	6/4/79
National Fruit Product Co., Inc. P.O. Box 609, 550 Fairmont Ave. Winchester, VA 22601 (703) 662-3401	Charles S. Toan V.P. Prod.	6/5/79

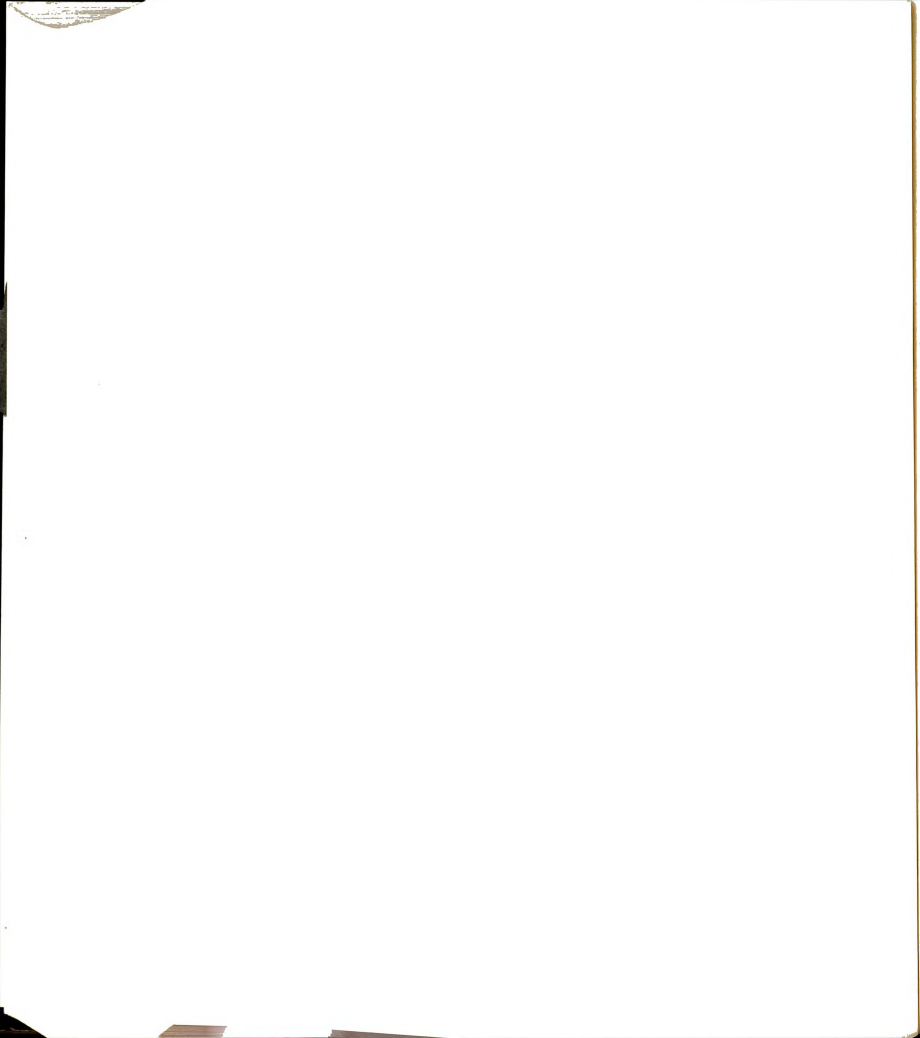
<u>Cooperative Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
California California Cannery and Growers 3100 Ferry Building San Francisco, CA 94106 (415) 981-0101	Robert L. Gibson Pres. Jack Sullivan Past Chairman Bruno Filice V.P. Scott McRitchie Field Mgr.	3/29/79 4/4/79 3/28/79 3/28/79



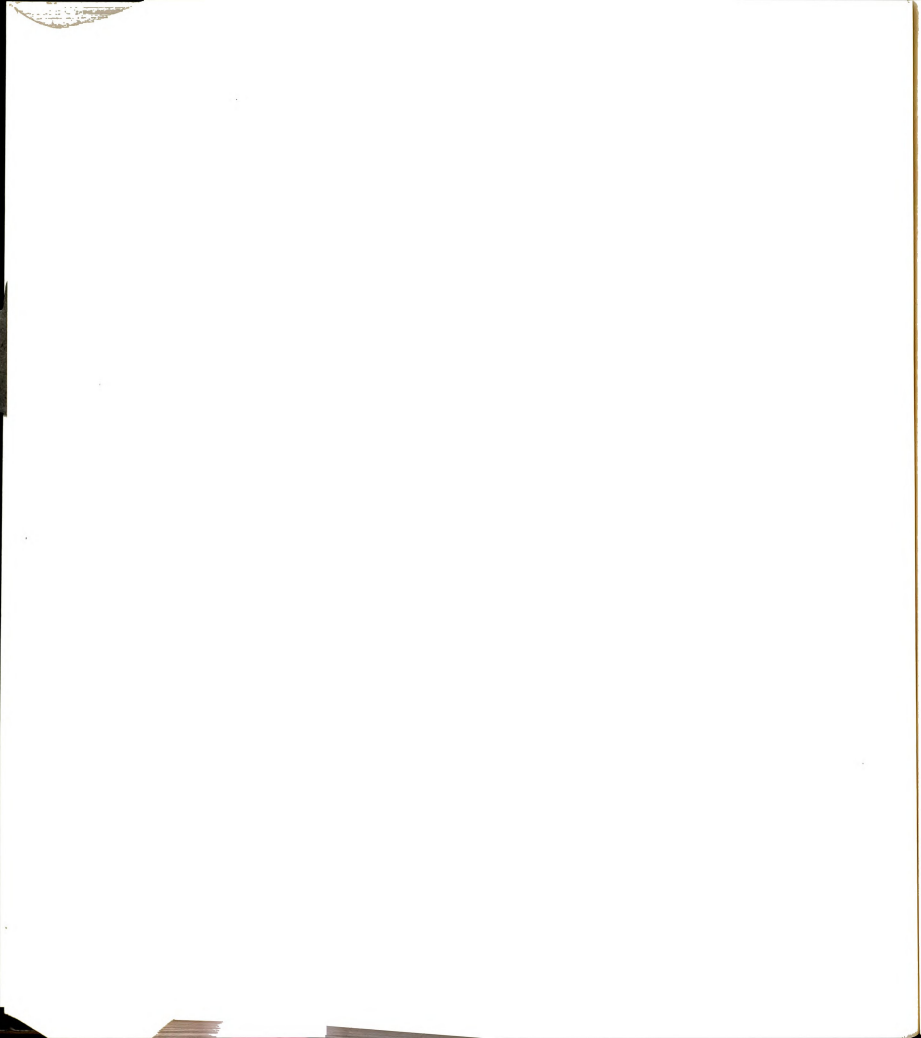
<u>Cooperative Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
Pacific Coast Producers 1601 Civic Center Drive, P.O. Box 218 Santa Clara, CA 95054 (408) 249-1262	Paul Rea Pres. and Gen. Mgr. Bob Collins Chairman	3/28/79 1/7/79
Tri-Valley Growers 100 California Street San Francisco, CA 94106 (415) 445-1600	William Allewelt Pres. and Gen. Mgr. John Kautz Past Chairman (see Other)	3/30/79 4/5/79
Glorietta Foods 570 Race Street, P.O. Box 5040 San Jose, CA 95150 (408) 279-4422	Signey Ross Pres. and Gen. Mgr.	4/6/79
Sunsweet Growers, Inc. P.O. Box 1727 Stockton, CA 95201 (209) 466-4851	Eyvind M. Faye Past Chairman	4/16/79
SunMaid Growers of California 13525 So. Bethel Avenue Kingsburg, CA 93631 (209) 897-5861	Frank R. Light Pres. J. Robert Lankford V.P. and Treas.	4/19/79 4/19/79
Lindsay Olive Growers 650 W. Tulare Rd., P.O. Box 278 Lindsay, CA 93247 (209) 562-5121	Earl Fox Pres. Ray Scott V.P. Field Oper.	4/19/79 4/19/79
California Almond Growers Exchange 1802 C Street Sacramento, CA 95808 (916) 442-0771	Stephen Heinrichs V.P. Sales	4/16/79



<u>Cooperative Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
<u>Northwest</u>		
Snokist Growers, Inc. P.O. Box 1587 Yakima, WA 98907 (509) 453-5631	R.B. Levins Gen. Mgr.	4/11/79
Tree Top, Inc. P.O. Box 248 Selah, WA 98942 (509) 697-7251	Bob Dennis Field Mgr. Leroy Fletcher Management	4/12/79 4/12/79
Agripac, Inc. P.O. Box 5346 Salem, OR 97304 (503) 363-9255	James House V.P. Sales	4/9/79
Stayton Canning Co. P.O. Box 458 Stayton, OR 97383 (503) 769-2101	Arthur Christiansen Prod. Mgr.	4/10/79
Diamond Fruit Growers, Inc. P.O. Box 180 Hood River, OR 97031 (503) 306-3111	Bruce Howe Sales Mgr.	4/10/79
<u>Michigan</u>		
Cherry Growers, Inc. P.O. Box 509 Traverse City, MI 49684 (616) 276-9241	Terry Morrison Gen. Mgr. George McManus Dir. Rodney Bull Past Pres. (see Other)	12/13/78 12/12/78 5/2/79



<u>Cooperative Processor</u>	<u>Person(s) Interviewed</u>	<u>Date</u>
Yuba Cooperative, Inc. Williamsburg, MI 49690 (616) 264-8424	Peter Morrison Gen. Mgr.	12/12/78
Graceland Fruit Cooperative Frankfort, MI 49635 (616) 352-9741	Donald Nugent Gen. Mgr.	12/13/78
Coloma Cooperative Canning, Inc. P.O. Box 128 Coloma, MI 49038 (616) 927-4467	Alton Wendzel Pres. and Gen. Mgr.	5/7/79
Sawyer Fruit and Vegetable CO-OP. P.O. Box 268 Bear Lake, MI 49614 (616) 864-3211	Jarvis Franzblau Gen. Mgr.	5/12/79
<u>Appalachia</u>		
Knouse Foods Cooperative, Inc. Peach Glen, PA 17306 (717) 677-8181	Dean Carey Pres. and Gen. Mgr. Ward Cooper Sales Mgr.	1/7/79 5/29/79
Red Cheek, Inc. P.O. Box 136, 40 So. Buttonwood Street Fleetwood, PA 19522 (215) 944-7661	Dan Unger Pres. Bill Hardman Dir. Frozen Products, Procurement Fred McGruder Gen. Mgr.	6/1/79 6/1/79 6/1/79
Shenandoah Apple Cooperative, Inc. P.O. Box 435 Winchester, VA 22601 (703) 662-0331	J.E. Kalbach Gen. Mgr. Robert Russell Pres.	6/4/79 6/4/79



Cooperative Processor

National Grape Cooperative Association, Inc./
Welch Foods, Inc. (subsidiary)
W. Main and S. Portage Street
Westfield, NY 14787
(716) 326-3131

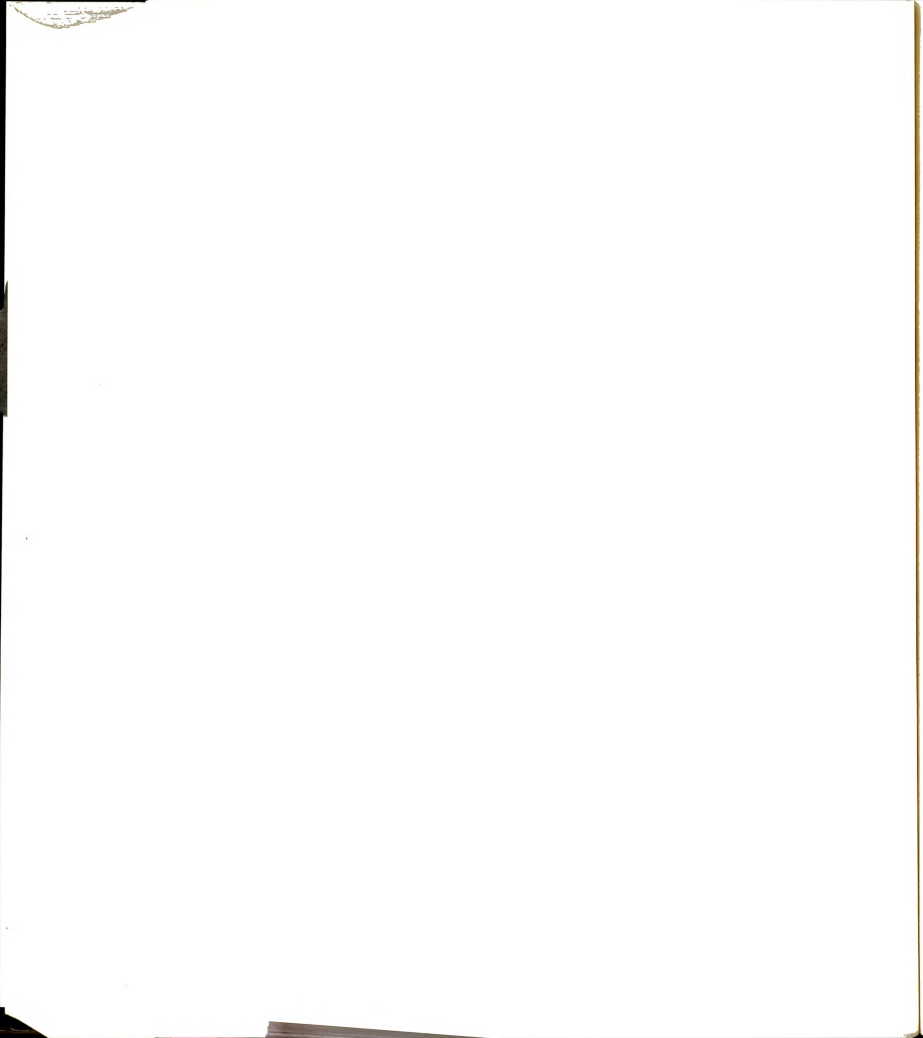
<u>Person(s) Interviewed</u>	<u>Date</u>
Herb Barber	4/29/79
Gen. Mgr. and Treas.	
Ned Brown	5/29/79
CEO, Welch Foods, Inc.	
Merle Steinhilber	5/16/79
Chairman of Cooperative	

Joint Venture Managements InterviewedJoint Ventures

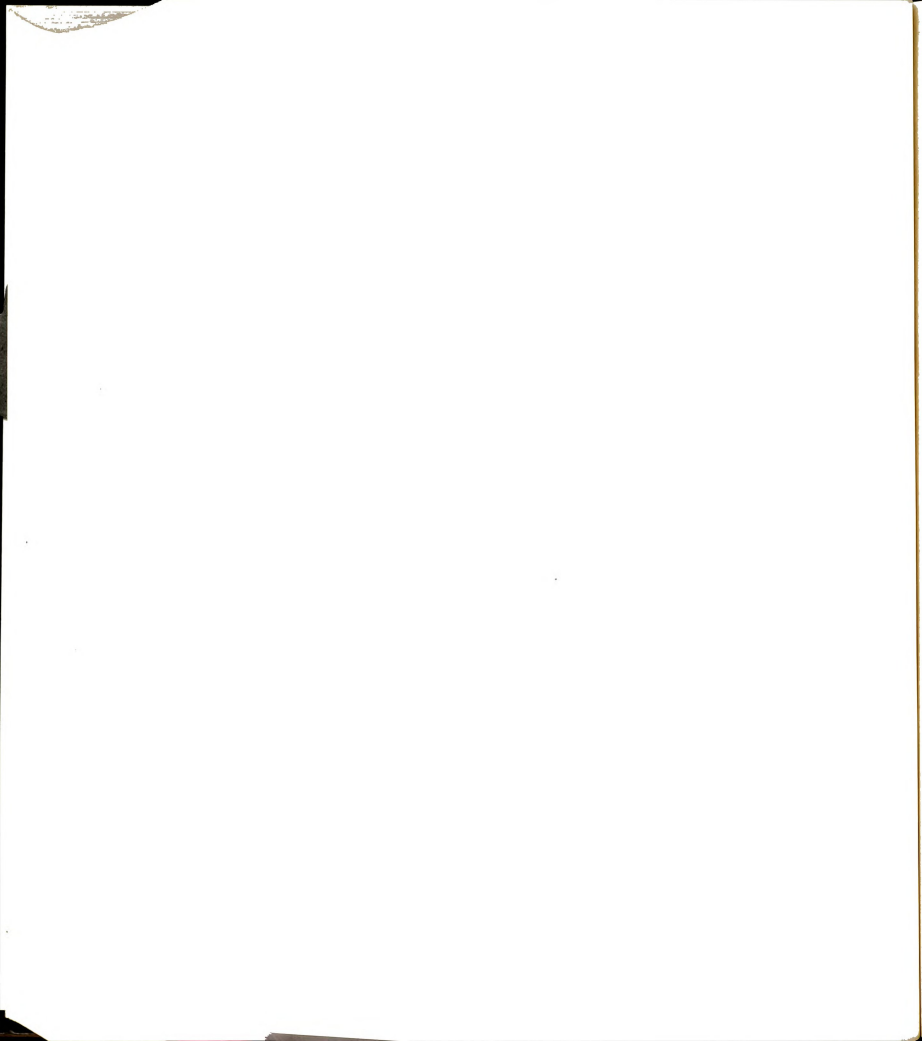
Pro-Fac Cooperative, Inc./
Curtice-Burns Inc.
One Lincoln First Square, P.O. Box 682
Rochester, NY 14603
(716) 325-1020

<u>Person(s) Interviewed</u>	<u>Date</u>
Hugh Hill	4/11/79
Gen. Mgr. Pro-Fac	
V.P. Curtice-Burns	
Richard Croner	6/6/79
Dir. Pro-Fac	
Chairman Curtice-Burns	
Dir. Agway	5/24/79
Robert Call	
Dir. Pro-Fac	
Don Wickham	1/7/79
Pres. Pro-Fac	
Dir. Curtice-Burns	
Thomas Kalchick	5/3/79
Per. Pro-Fac	
Fran Kirby	5/31/79
Pro-Fac Grower, NY	
Alton Wendzel	5/7/79
Pro-Fac Grower, MI	
Donald P. Naeye	5/25/79
Pres. Marion Foods	
Corp. which is sub.	
of Seneca Foods Corp.	
Gen. Mgr. AgCo Cooperative	

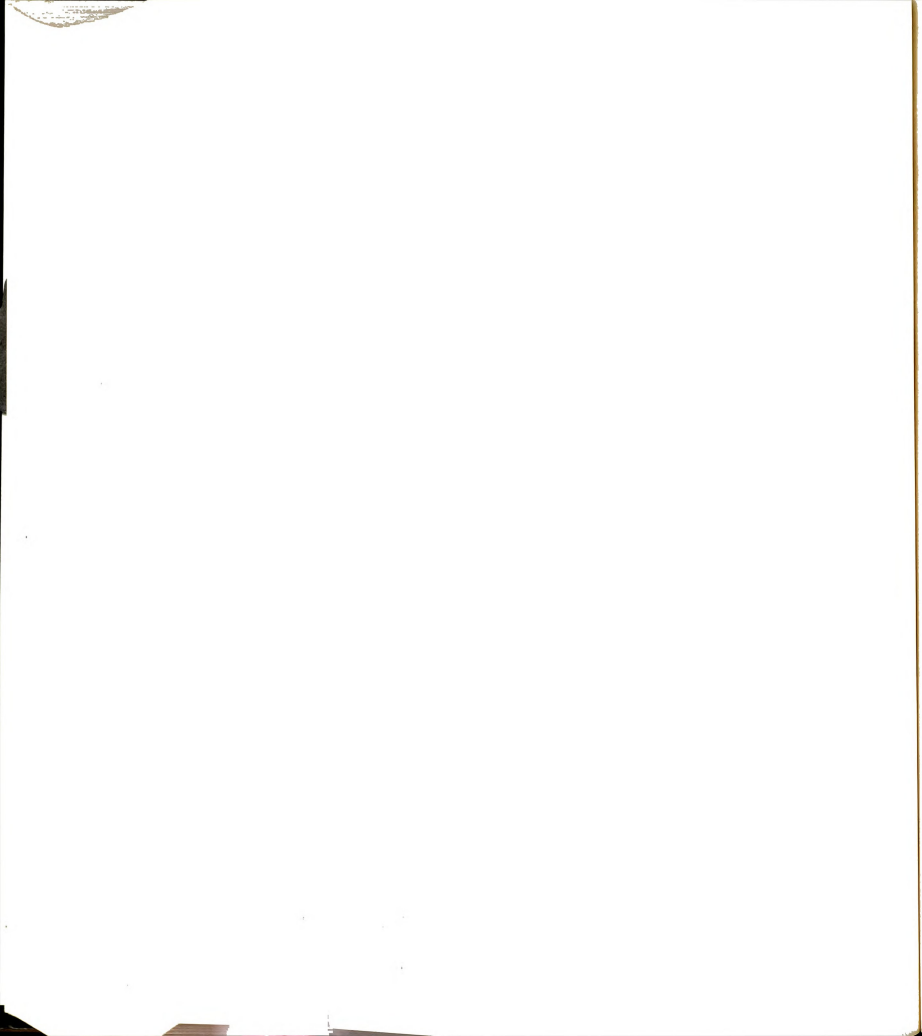
Seneca Foods Corp./AgCo Cooperative, Inc.
Marion, NY 14505
(315) 926-4284



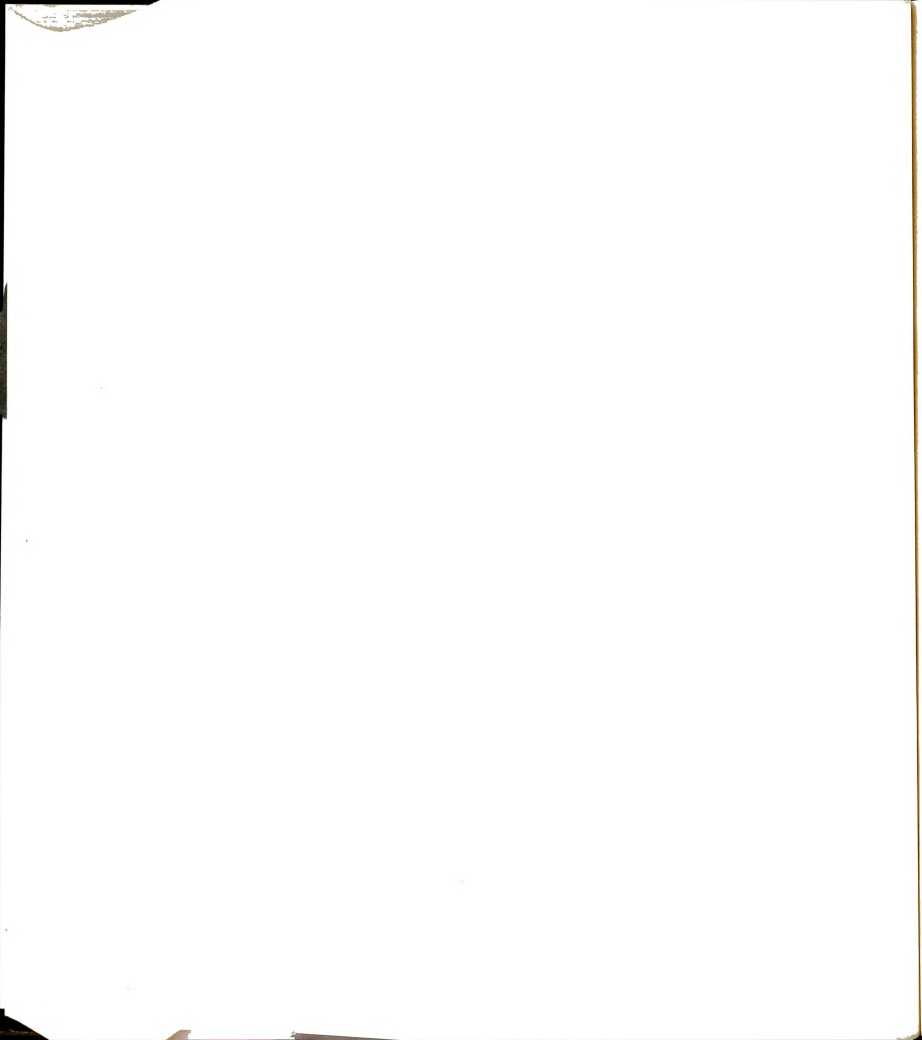
<u>Other</u>	Other Persons Interviewed	<u>Date</u>
California		
Jack Hayes Director, California Tomato Growers Association Director, California Cannery and Growers		4/17/79
John Kautz Past Chairman Tri-Valley Growers Past Director California Tomato Growers Association Member Stanislaus (Grower-Processors)		4/5/79
Morton French Grower member, California Canning Pear Association		1/9/79
Woody Davis Mgr., Prune Advisory Board of California		3/26/79
Gerald Marcus Attorney, Legal Counsel to California bargaining associations. Partner, Hanson, Bridgett, Marcus, Milne, and Viahos in San Francisco, CA		3/27/79
Leon Garoyan Agricultural Economist, University of California-Davis		3/30/79
Ed Jesse Agricultural Economist, ESCS, Davis, California		3/20/79
Eric Thor Agricultural Economist, University of California-Berkeley		3/23/79
Gail Brown Partner, Touche Ross and Co., San Francisco, California		3/27/79
Adin A. Hester Pres., California Citrus Mutual, Visalia, California		1/10/80



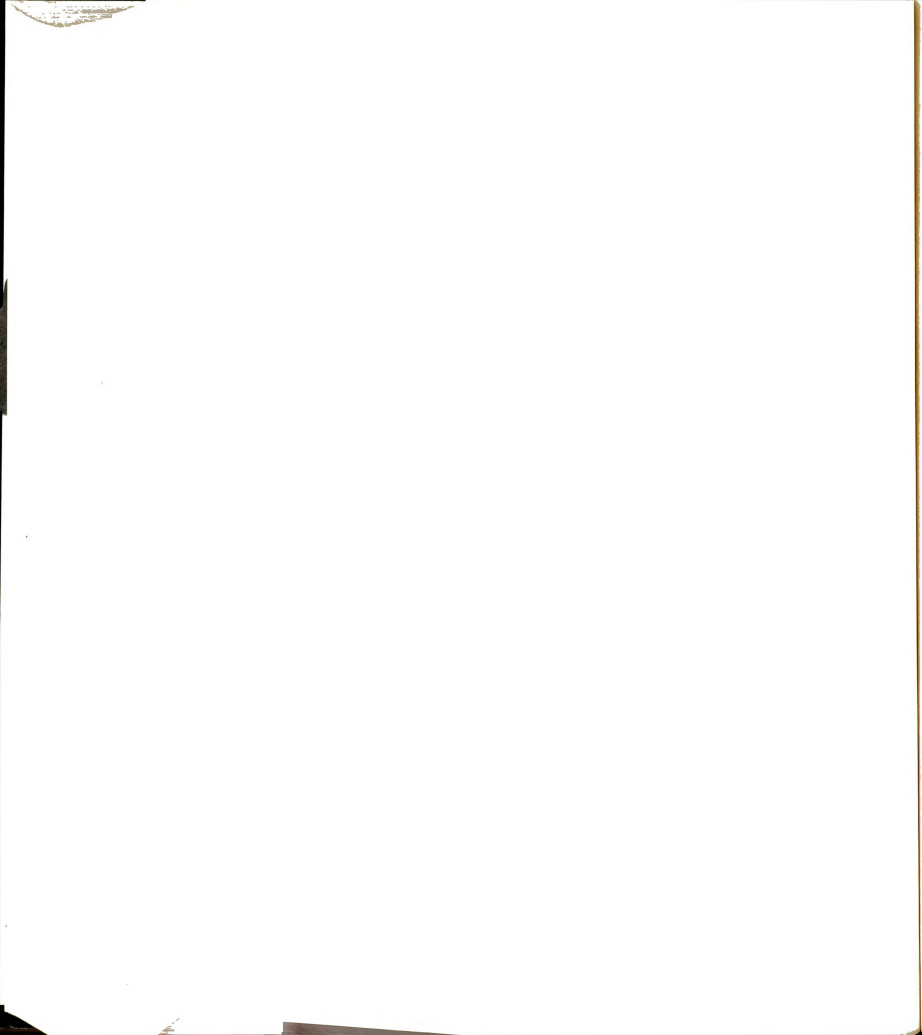
<u>Other</u>	<u>Date</u>
William J. Thomas Exec. V.P., California Food Producers, Inc., Sacramento	4/4/79
<u>Northwest</u>	
Virgil Elkington Partner, Touche Ross and Co., Salem, Oregon	4/9/79
<u>Michigan</u>	
Roy Hackert Mason Co. Storage, Participation Plan, Grower-Processor Past Pres. Tart Cherry Marketing Committee	5/10/79
Howard Gilmer Hillcrest Orchards, grower-processor Chairman, Apple Marketing Committee	5/13/79
Rodney Bull Cherry Hill Orchards, Participation Plan, Grower-Processor Past Pres. Cherry Growers, Inc.	5/2/79
Vernon K. Bull, Sr. and Jr. Grower-Processor	5/8/79
John Minnema Gen. Mgr, Cherry Central CO-OP, Inc.	5/11/79
Ed Van Sickle Exec. Sec., Michigan Canners and Freezers Association	5/2/79
R.L. Norris Pres. Eau Claire Packing, Comments transmitted by D. Ricks to Researcher	1979
Steve Mikowski V.P. Purchasing, Chef Pierre, Inc.	5/10/79



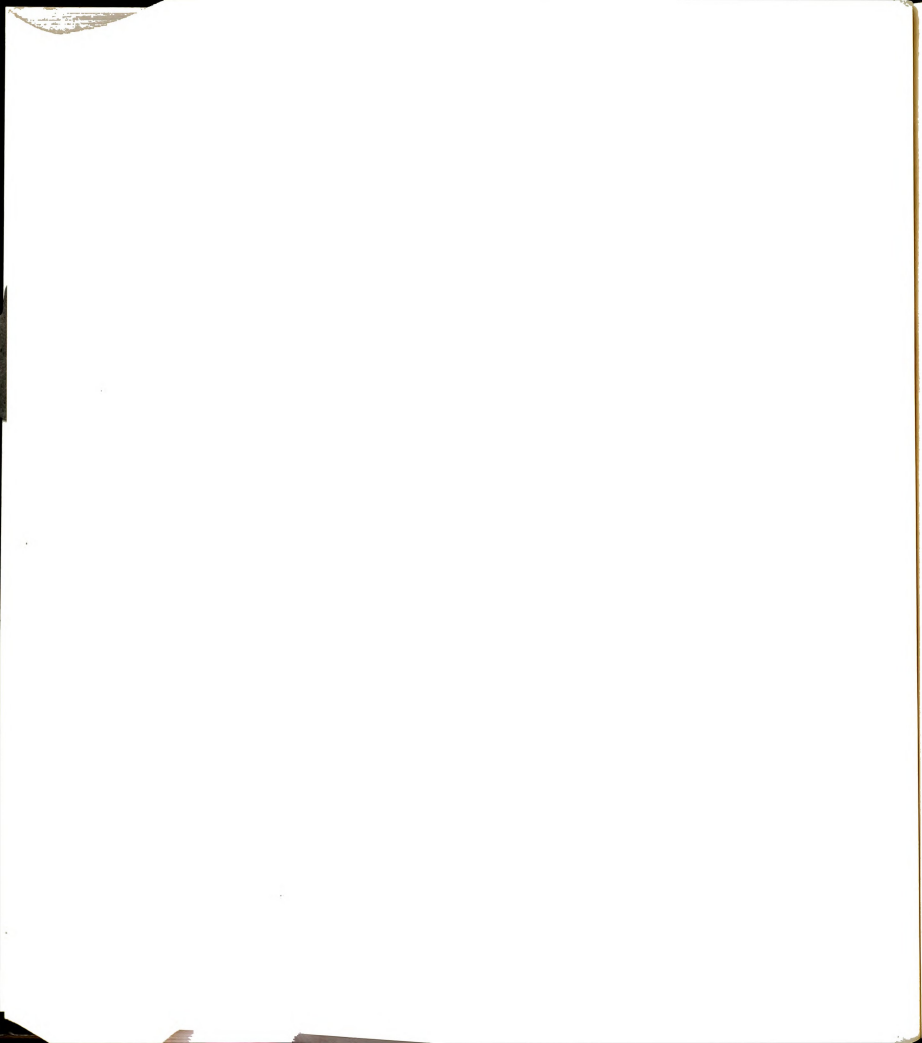
<u>Other</u>	<u>Date</u>
Thomas Moore Administrator, P.A. 344	12/15/78
John Babcock Member, Michigan Agricultural Marketing and Bargaining Board	5/7/79
Clara McManus Member, Michigan Agricultural Marketing and Bargaining Board	5/15/79
Donald Ricks Agricultural Economist, Michigan State University	
<u>Appalachia</u>	
Steve Putnum Sodus Farms, Grower-Processor	5/25/79
John Babcock National Grape Cooperative Association, Inc., Grower (Michigan)	5/7/79
Douglas Sinclair Mgr., Western NY Apple and Cherry Growers Association	5/24/79
John Fridirici Loan officer, Springfield Bank for Cooperatives	5/24/79
Dallas Adams Loan officer, Baltimore Bank for Cooperatives	6/6/79
Max Brunk Agricultural Economist, Cornell University	5/31/79
Norm Bentley Plant Mgr., Speas Co., North Rose, NY	5/29/79



<u>Other</u>	<u>Date</u>
Neil Bjornson National Federation of Milk Producers, Washington, D.C.	12/21/78
Lawrence Van Meir Senior Economist, National Food Producers Association, Washington, D.C.	12/20/78, 8/25/79
Randall Torgerson Dep. Administrator, Cooperative Unit, ESCS, USDA, Washington, D.C.	
Walter Ambruster Economist, Farm Foundation	1/7/79
Marshall Godwin Senior Analyst, Office of the Administrator, ESCS, USDA, Washington, D.C.	12/19/78
Floyd Hedlund Senior Economist, AMS, USDA, Washington, D.C.	12/19/78
Mahlon Lang Agricultural Economist, Purdue University	12/20/78
John Hetherington Professor, University of Virginia Law School	1/8/79

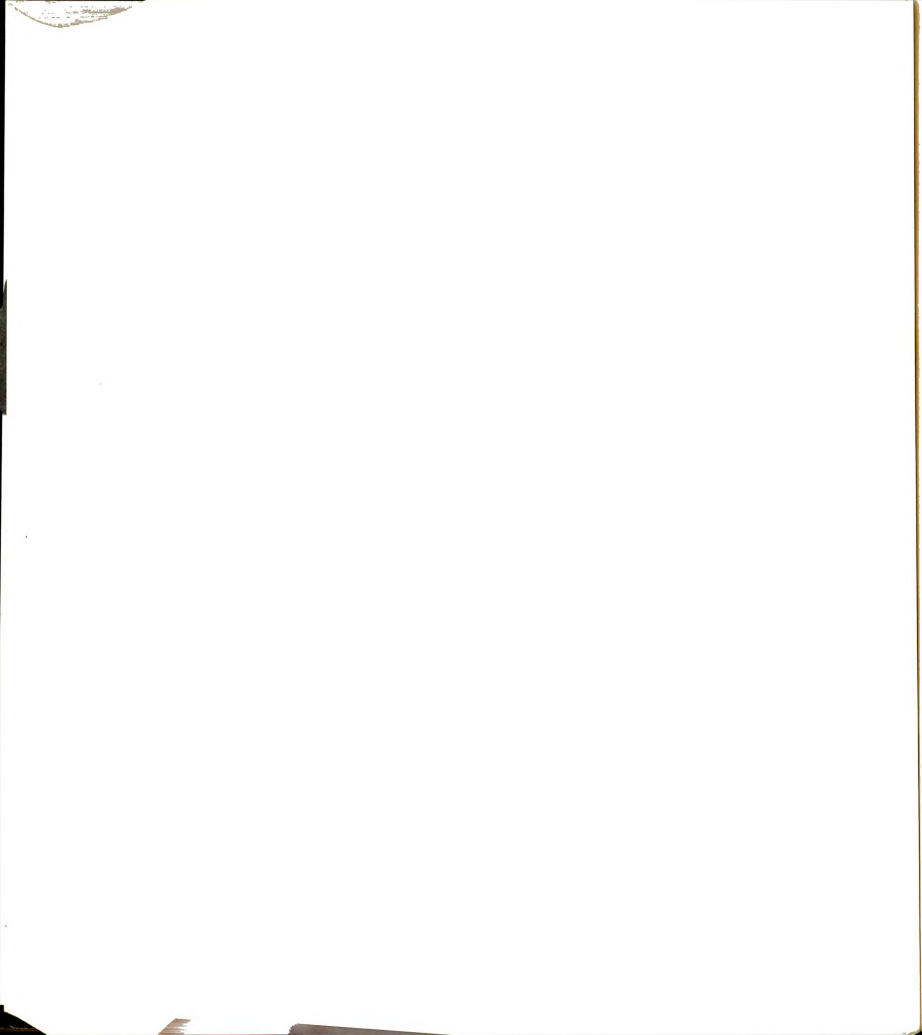


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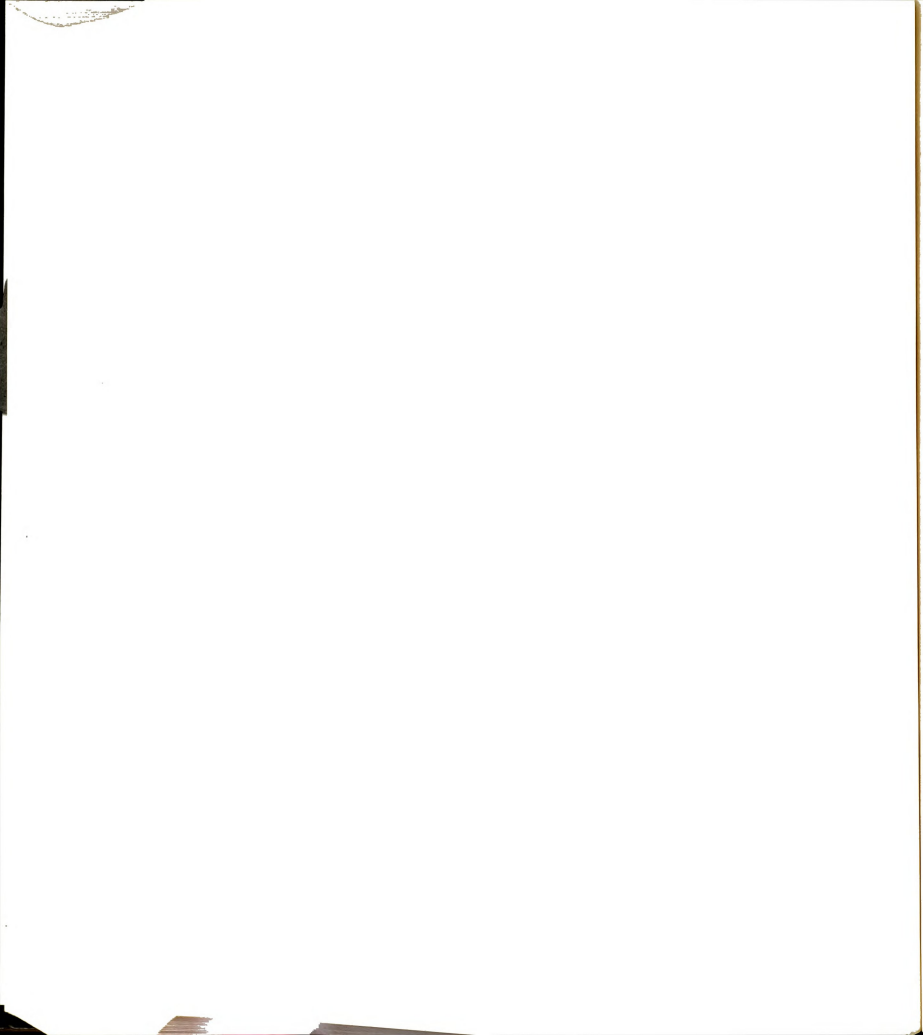


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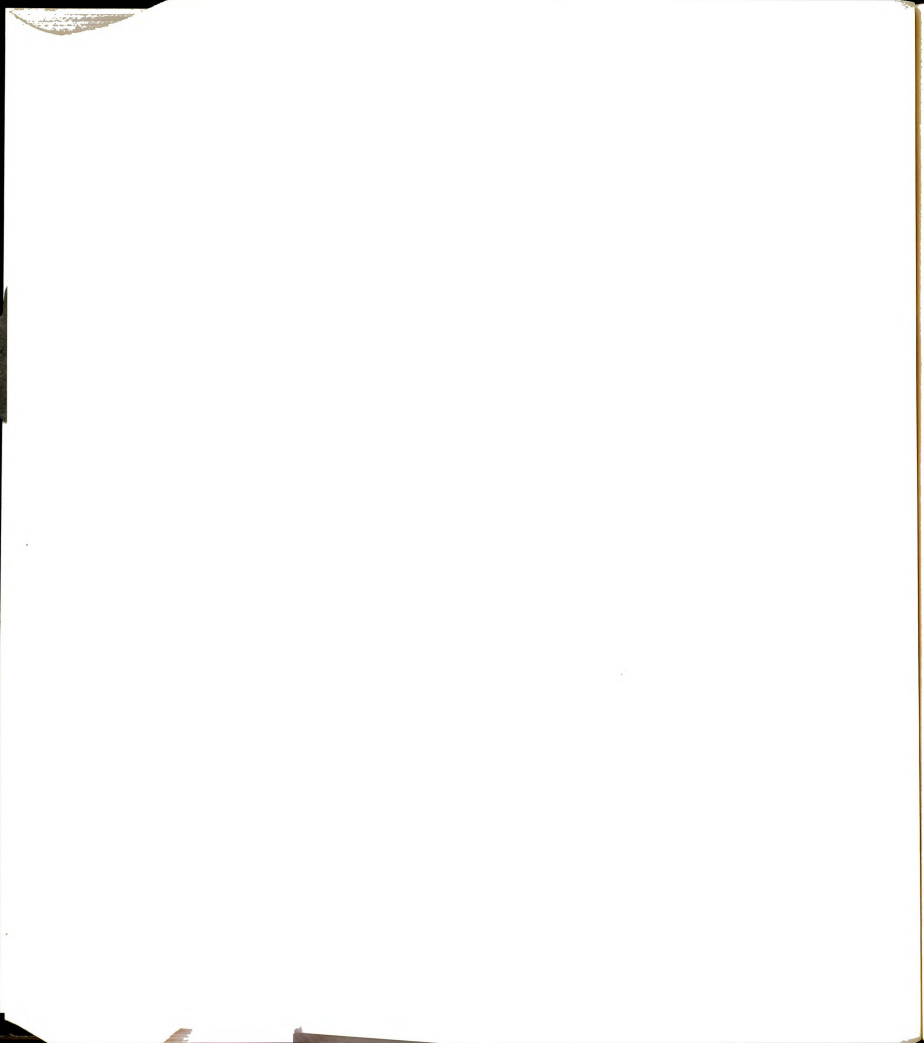
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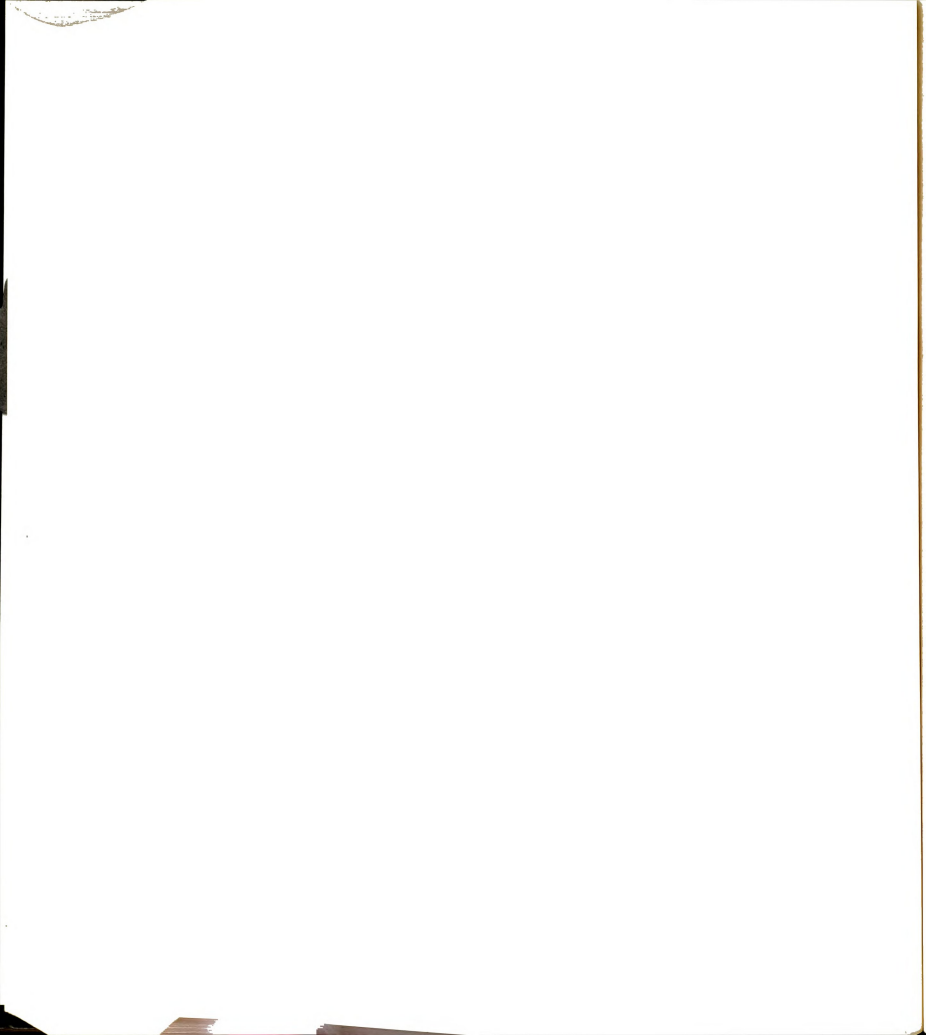
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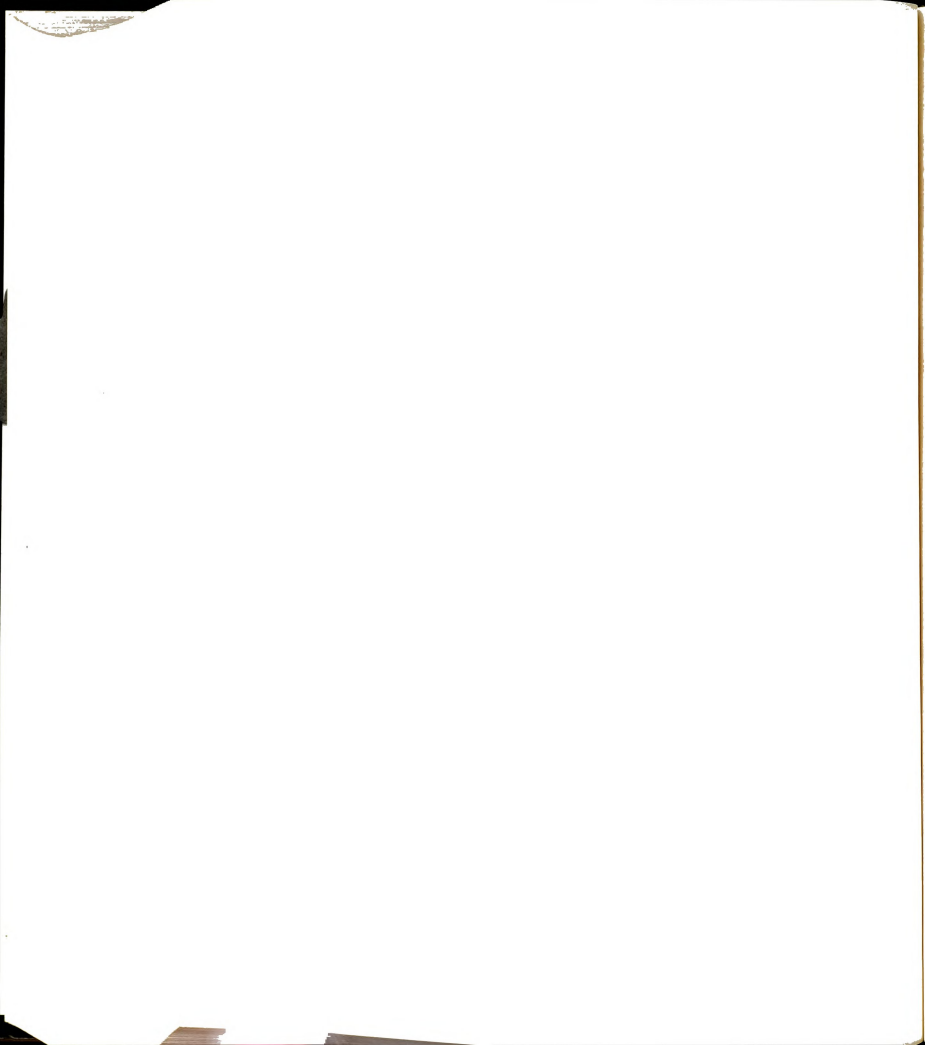
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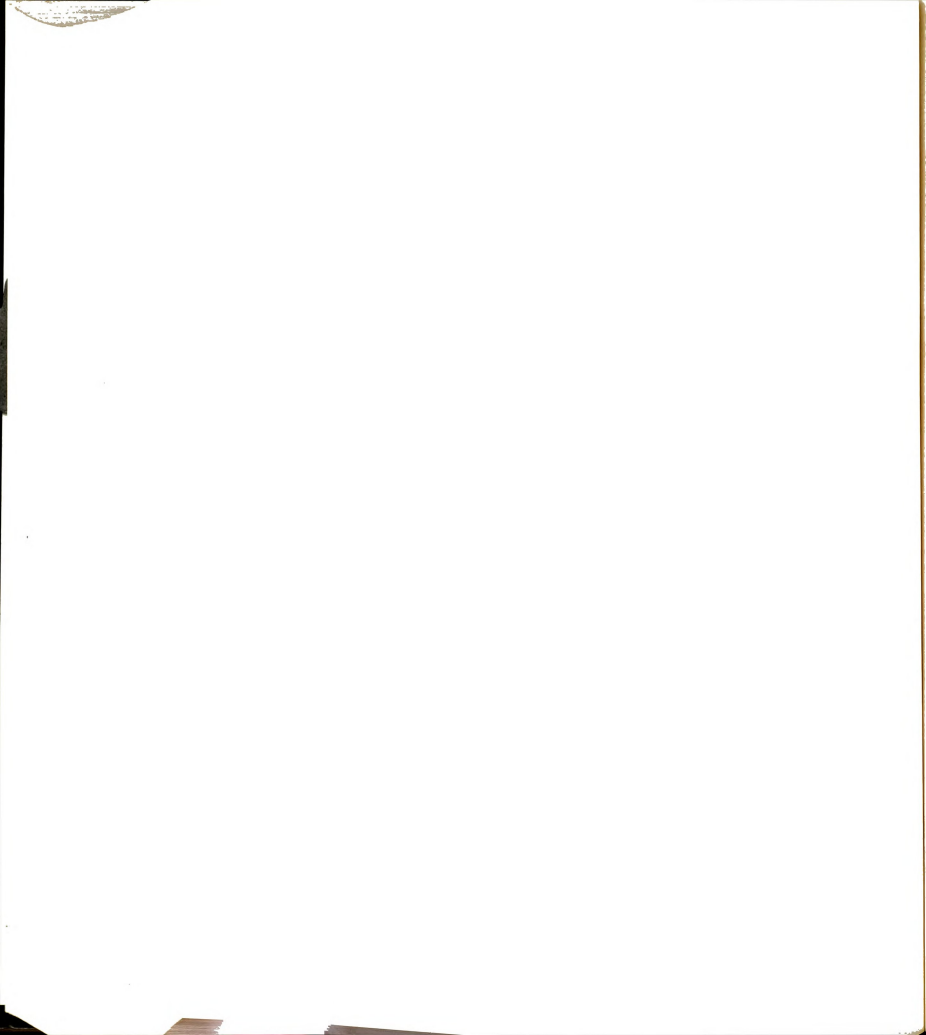
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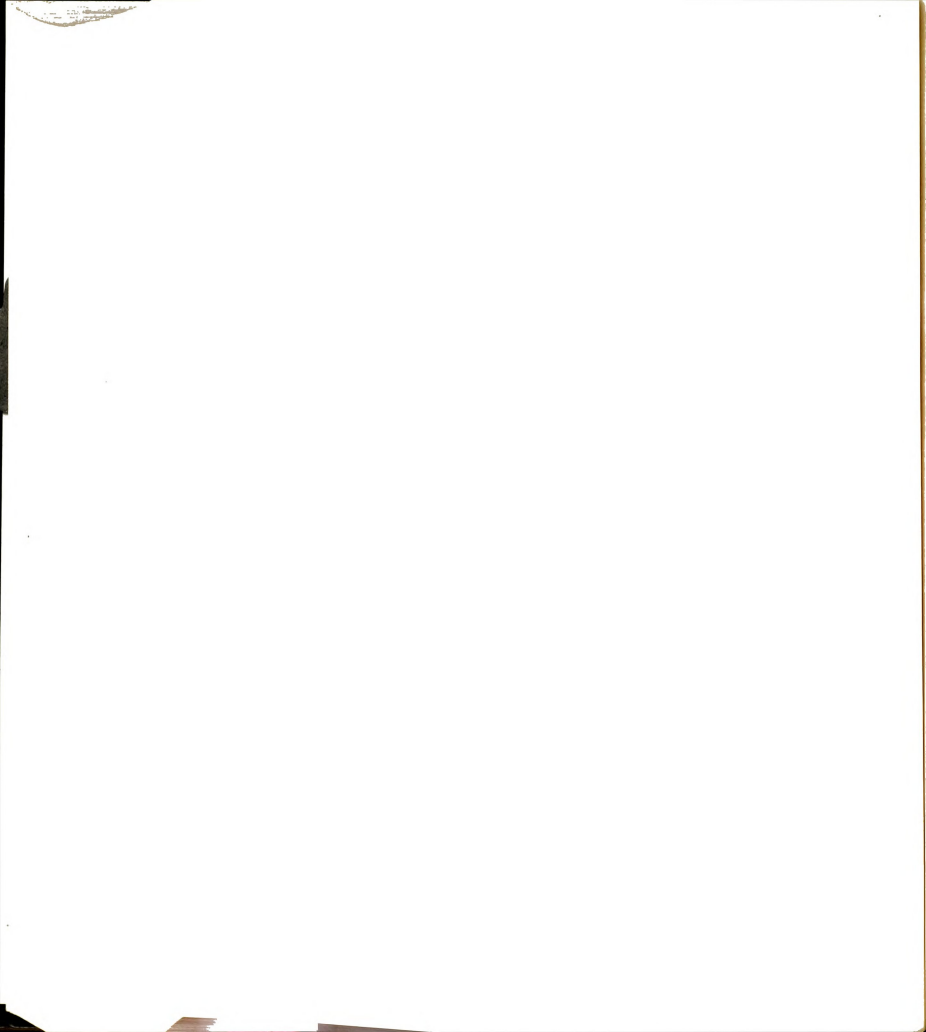
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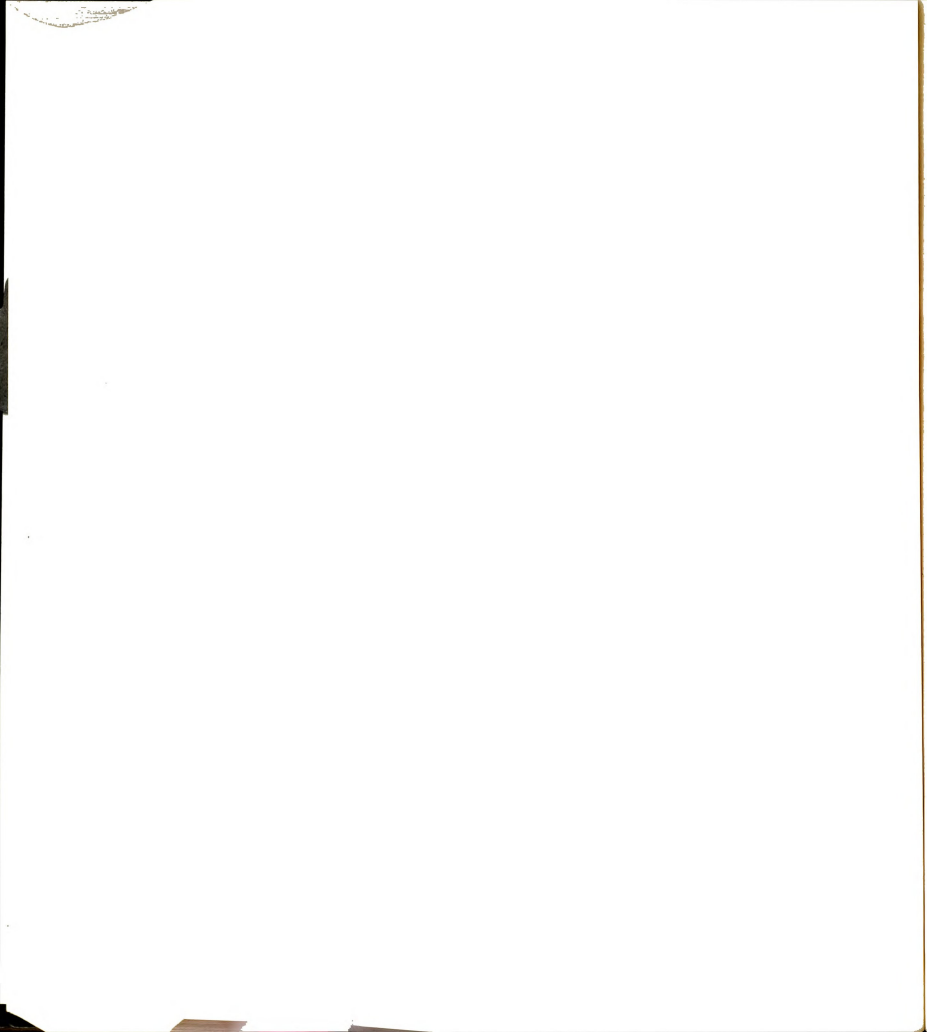
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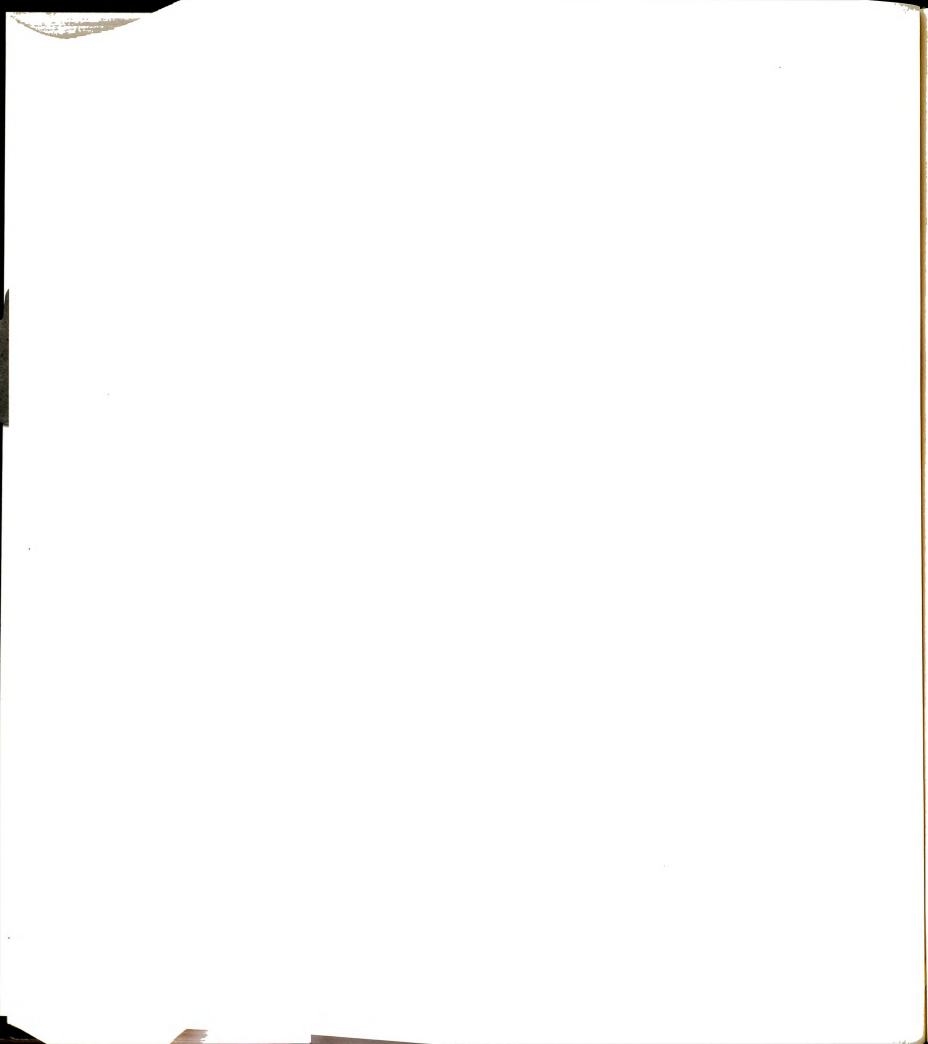
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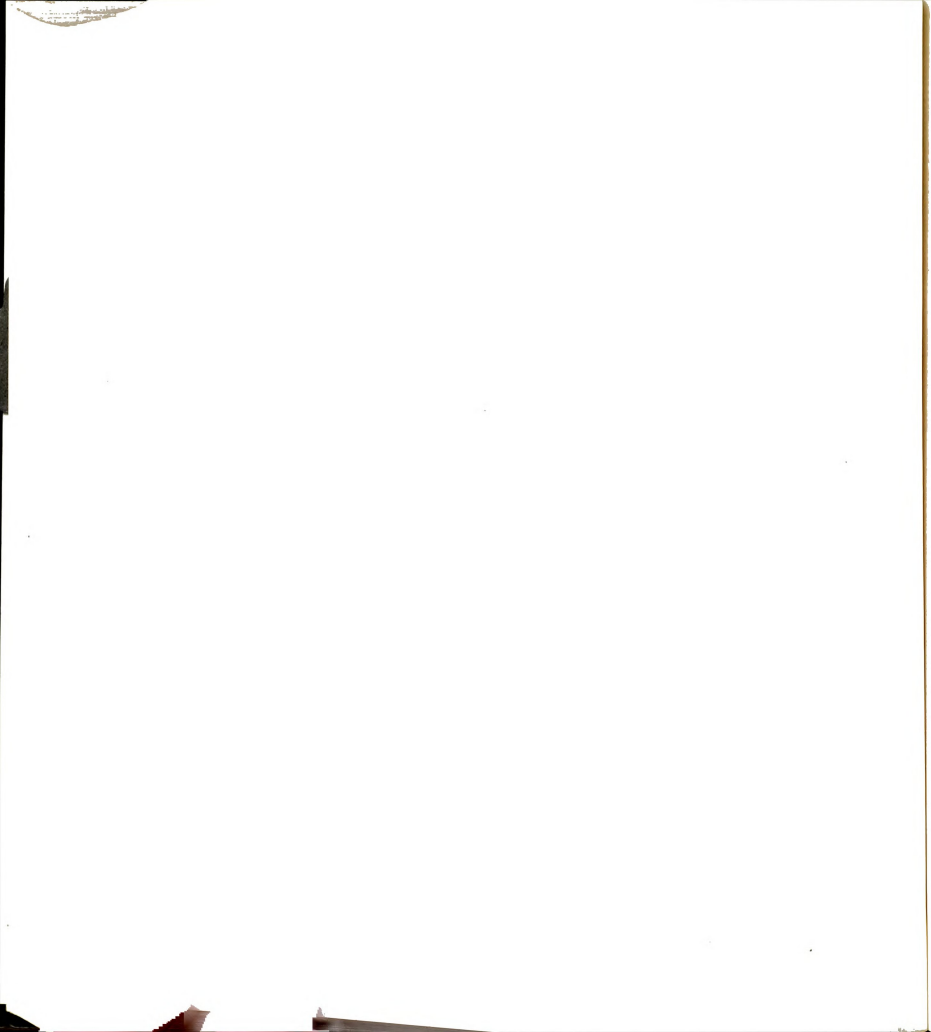
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