

I. THE NEED FOR FARM BARGAINING

Farm bargaining is a form of cooperative marketing, usually concerned with marketing and establishing a price for a farm commodity. Prices and terms of trade are negotiated with handlers and processors. The members of the cooperative use a bargaining organization as a means to represent their collective views and accomplish their collective aims concerning prices and terms of trade. The cooperative may also provide the leadership, carry out the planning, and implement a program of market development for the commodity.

A farm bargaining association has some of the same weaknesses of other organizations that undertake to arrive at and carry out the collective judgment of their members. Not all members have the same needs. Not all members perceive the marketing and pricing problems from the same point of view. Some members are cooperative, while others are less so. Not all members have the same knowledge of the market. Some members may have a sophisticated knowledge of business practices and procedures and others very little, if any, knowledge. There is often a lack of knowledge and experience about the principles of bargaining. Some members see bargaining as a means of cornering a market or achieving control of a commodity, while others see bargaining as a rational means of marketing, price discovery, and protection from exploitation by powerful buyers.

Farm bargaining, despite weaknesses and some failures, has grown in importance. A number of bargaining associations have demonstrated their value, their importance, and their staying power. The successful associations have a number of characteristics in common.

- **Market orientation.** Prices and terms of sale objectives are based on the market for the raw product as well as for the finished product. The aim, both short term and long term, is to maximize the members' returns consistent with market opportunities.
- Good leadership. Leaders of the organization, both elected leaders and the professional staff, understand the total agribusiness complex. They recognize domestic and international nutritional needs, and marketing potentials and problems for their products.
- **An enlightened membership.** Modern farming requires sophisticated technology unheard of a few years ago. Not only have the production techniques changed, but so too have the marketing factors. Marketing is an off-farm activity, and farmers will employ a bargaining association to aid them in this effort if they believe it capable of producing results. They need and demand good market information to guide their farming operations. The capital requirements of modern farming are such that farmers must relate their operations to their commodity marketing systems if they are to be successful.

Overcoming Weaknesses

Many bargaining associations have successfully overcome some major obstacles. These include:

- **Recognition.** Refusal by the buyer to recognize or bargain with a farm bargaining association has been largely overcome. Some of the Nation's largest food companies have negotiated prices and terms of sale with such associations. Among those companies are: Del Monte Corporation; Libby, McNeill and Libby; Hunt Foods and Industries; J.R. Simplot Company; **Birdseye** Frozen Foods; the Carnation Company; Duffy-Mott; the Ogden Corporation; Borden's; H.J. Heinz; and Consolidated Foods.
- **Unfair Practices.** Early efforts at farm bargaining were often met with strenuous objections from the buyers of the commodities. Members were often boycotted by buyers. Discrimination in the form of methods of payment, terms of sale, and time of delivery was not unusual. Buyers used many tactics to discourage membership in a bargaining association, such as offering "sweetheart deals" and giving false information concerning the association and its officers. Unscrupulous buyers would often threaten to terminate a contract or to close a receiving facility in order to discourage membership in a bargaining association. Today, many such unfair

The Need for Farm Bargaining

practices have disappeared. Federal and State laws prohibiting such practices have helped. The buying policies and practices of many companies have also changed. Farm bargaining is an accepted means of price discovery in a growing number of commodities. A few years ago, it was not unusual to find contracts offered to producers that provided for automatic termination should the farmer join a bargaining association. Today, few, if any, such contracts exist.

- ***Overlapping Jurisdictions.*** Occasionally, two farm cooperatives find themselves operating in the same marketing or production area. Producers occasionally find themselves the victims of cut-throat competition from their own organizations. Agencies in common, frequently used in the dairy industry, have successfully dealt with this problem. In the case of potatoes for processing, cooperatives are moving to develop institutional arrangements for industry-wide bargaining.
- ***Good Faith Bargaining.*** Both parties to a transaction must be willing to reach a mutual agreement. When one party merely goes through the motions with no intent to reach an agreement, costly delays and confusion can result. Producers of perishable crops can be highly vulnerable if the buyer does not bargain in good faith. Real progress has been made on this issue by some of the associations. Where recognition exists and where the association has clearly demonstrated its market orientation, good faith bargaining is becoming less of a problem.

The requirement to bargain in good faith was not included in the Agricultural Fair Practices Act of 1967. Notwithstanding the fact that an increasing number of bargaining associations no longer suffer from bad faith bargaining on the part of the buyers, many leaders experience a continuing need for such legislation. Raw materials, a major cost component of the food and fiber industry, provide handlers one of their few opportunities to control costs. Other major cost items, like labor, transportation, and packaging, afford few opportunities for gaining a competitive advantage by paying less than a competitor. In the absence of a law that requires good faith bargaining and establishes fair rules for bargaining, food handlers or processors are strongly tempted to seek and gain a competitive cost advantage at the expense of farmers and their bargaining associations.

Farm Bargaining and Changes in the Market Structure

During the past 20 years, the firms in the food and fiber business in the United States have become fewer in number and larger, chiefly because of new technologies in production and management which enable them to reduce costs by increasing the scale of the operation. The total number of food-processing plants, for example, has been reduced by almost one-half. Improvements in transportation, made possible by better highways and better and larger trucks, have extended the areas served by many firms, enabling them to acquire a greater volume and thus use larger facilities effectively. This is particularly true for poultry and milk.

Many of these changes were brought about by the consolidations in the food-retailing and wholesale food businesses. The emphasis is on mass distribution and consumer orientation. This mass distribution system has to satisfy concentrated urban markets. The supply lines are longer and the integration of the system is complicated. Sophisticated technology like larger railcars, unit trains, bulk shipments, computerized formulations, and computerized inventory control and purchasing procedures, is involved at all stages. To make the system work, mass communications is needed. Advertising, promotion, and displays are used to communicate with the consumer and to move the goods. New packaging, built-in conveniences, and improvements to make shopping for the consumer easier are all parts of the marketing complex that influence the prices and terms of trade that farmers are going to receive. The retailer, the distributor, and the manufacturer are becoming more computerized to serve the consumer more effectively. The growth in the institutional market has brought new requirements into play. New packages, better delivery systems, and a stable cost system are important considerations in the institutional market, which comprises an increasing share of the food market today.

The changes in the market system have been met in part by changes on the farm. The production unit has become larger. Farmers use new equipment; farming has become more capital intensive. As capital needs have increased, so has the vulnerability of producers. They are no longer able to "go broke cheap." Prices for their production and the terms of sale have become the focal point of concern for more farmers. More operating cooperatives have been formed. Those who market through an operating co-op are concerned over the transfer price that is linked to their production.

The Need for Farm Bargaining

The concerns of farmers are also the concerns of consumers. An adequate supply of good quality food at reasonable prices is an important factor in keeping a stable government. Many believe that the most efficient farming is done by the individual entrepreneur. Corporation farming on a large scale, collective farming, or farming with government as a customer, are often regarded as the least efficient means of meeting the needs of the consumer. The profit system as it has been used in farming in the United States since its beginnings is efficient. Under this system the prices from a large volume of transactions are used as signals to coordinate production, distribution, and consumption. Prices so arrived at also provide the basis for farmer incentives and distribution of income. A part of this system has undergone radical change. The signals are coming from fewer and fewer operators, and they are often driven by competition to give out signals designed to protect their own investments. Government has also tended to alter the role of the market system, with its price regulatory and production control programs. None of these changes has really altered the basic need for a profit-oriented, competitive market system, but there are some new rules to the game.

Food and fiber marketing is concentrated in fewer and larger entities. When a large organization makes a policy change, it can have an immediate effect on a great many producers. Diversified food companies no longer are dependent upon a few commodities for their profit. If a division or a plant is not earning a profit, it may be closed or sold to another company.

Changes in market behavior used to be cushioned by the many small operators who depended on a particular commodity. They could not make rapid changes in their marketing patterns or the products that they dealt with, and so the signals to the producer came over a longer period of time and in a more gradual manner. Today these signals come more abruptly, and there is a premium placed on good market intelligence, so necessary for producers to make the needed adjustments to the new realities of the marketplace.

Today's market system calls for greater coordination in order to carry out the task of mass distribution. The milk industry provides a good example of bargaining's filling a needed role. Today, the bargaining association provides procurement services, transportation, quality control, coordination of supplies, and payment to the producer. The bottler and distributor now have a system which provides their plants with the exact quantity of milk of the quality required at the time needed to make the

operation fully effective. The bargaining association deals with the problem of surplus milk and diverts the unneeded fluid milk to alternative markets so that the optimum use of the product is achieved. All of this is done at prices which recognize the needs of the consumer, the distributor, and the costs of the farmer.

Market-oriented bargaining associations are in a position to fill a vital need for coordination in the complex world of food marketing today. The needs of the processor and the distributor can be met by a bargaining association that has been organized with a market orientation. There is no place for an organization that is dedicated to changing the system for special advantage. The market system today needs, and will reward, the bargaining association organized to serve its members' market requirements.

Farmers will continue to try to measure the results of their bargaining associations. This is difficult to do in specific terms. Farmers are often left with trying to imagine what the situation would be if the bargaining association did not exist. It requires a degree of sophistication and knowledge of the market in order to fairly judge the performance of the association. The measurement needs to be made on the basis of whether or not the association is serving the needs not only of the farmer but also of the marketplace and society as a whole. If it does not serve these needs, then the association will, in the long run, fail.

The changes that have taken place in the food and fiber marketing system created the need for farmer-owned and operated bargaining associations. Bargaining associations can fill the needs of the market as well as the needs of the individual producer. They can serve a supply coordinating function for the market and furnish market intelligence for the producer. They can operate as a price discovery vehicle, establish market prices, and establish uniform terms of trade that serve both the producer and the marketplace.