A long-term balance of perennial crop supply and demand may be facilitated by grower-owned cooperatives. Processing cooperatives have used a number of approaches to influence this long-term coordination goal in varying degrees for certain U.S. crops. In the future, bargaining cooperatives could also play a greater role in this kind of long-term coordination. The impact of different cooperative approaches on a supply-demand balance can be expected to vary from very little effect to a substantial impact.

**No Cooperative Control Over Grower Acreage**

Some cooperatives allow their members to plant or remove orchards based strictly on the individual grower's assessments and make no attempt to influence growers in this regard. In this case, the cooperative plays little or no role in balancing long-term productive capacity with demand. A cooperative using this approach often has a policy that the co-op will try the best it can to market the output that the grower members produce. The co-op may try to find secondary markets for a portion of its growers' output when supplies are large.

Cooperatives using this approach may attempt to balance the co-op's plant capacity with grower production. The co-op may, for example, build additional facilities if grower-members plant more orchard capacity than corresponds to the cooperative's processing capacity.

The "let-the-growers-decide" approach is common when the cooperative is a minor part of the total industry. This approach without providing market information, is also common when the cooperative does not have a strong consumer brand. Cooperatives in this situation often believe that their ability to significantly influence the balance between long-run supply and demand is very limited. They believe that, under these conditions, if the cooperative did attempt to significantly limit the production of its members, competing growers and processors would likely expand their production of the commodity to offset the reduction achieved by their own cooperative.

This type of approach by a cooperative, with no limitation on grower membership, is common among bargaining cooperatives. This is because bargaining cooperatives do not usually have their own plant facilities or market brands and they often desire the greatest possible membership to increase their bargaining position.
Advantages

- A grower-member is free to make his own decisions and take the consequences.
- Avoids grower resentment of "the co-op telling me how to run my business."
- Avoids co-op's responsibility for "mistakes" in plantings.
- May encourage grower diversification into several crops.

Disadvantages

- If the co-op does not provide market projections information to its members, it foregoes its opportunities as the grower's marketing agency to provide this service.
- If growers overinvest in orchards, this may lead to overinvestment in processing facilities.
- With overplantings grower-members may expect their co-op to "bail them out" -- which may be beyond the capabilities of the cooperative.
- Low grower returns from overplantings may be blamed on the cooperative.

Cooperative Provides Long-Run Market Information and Planting Recommendations

As a modification of the previous approach, co-ops may provide long-run market information and recommend acreage adjustments to grower-members. The cooperative can be expected to have more complete market information than the individual grower because the co-op specializes in the business of marketing. The co-op's widespread marketing contacts should enable it to provide growers useful information on future market projections relevant for planting and removal decisions. In this regard, the cooperative may provide information on long-term supplies of their commodity, long-term demand, and the cooperative's assessment of long-term market prices and profit for their crops. Co-ops with strong retail brands may be in a particularly advantageous position in this regard. Cooperatives would probably incorporate and make use of information available from university and extension sources as well as from their food-trade customers.

A cooperative may provide information on long-run markets with the grower-members free to heed or ignore the co-op information in making their acreage decisions. This approach maintains the advantages of individual grower acreage decisions and provides the additional advantage of using the co-op's special informational potential. Presumably this would decrease the probability of large overplantings or underplantings (although the impact of such co-op market information would be small if the co-op were only a minor part of the industry). A disadvantage of the co-op providing long-run market information is the possible negative member reaction if the co-op's projections later prove to be inaccurate.

Bargaining cooperatives as well as processing cooperatives might be especially useful suppliers of long-run market information for orchard crops. Even though bargaining co-ops have historically operated somewhat differently from
processing co-ops because of heavy emphasis on raising grower raw-product prices, and no ownership of processing facilities, both kinds of co-ops could provide long-run market information to help balance supply and demand of member growers' crops. An industry-wide bargaining cooperative may be more inclined to provide information on total industry demand and supply outlook than would a smaller processing cooperative. In some cases, a bargaining cooperative may bargain for certain market information which is needed by its commodity members. To the extent that a bargaining cooperative can facilitate through improved information, a long-run balance which avoids serious surpluses and shortages, this can be beneficial to both the bargaining association in its short-run pricing goals and to the grower-members.

Cooperatives Influence Their Supply by Controlled Membership

Another common approach used by cooperatives is that of managing their raw product supplies somewhat through limited membership. In this way, membership may be limited so that acreage (productive capacity) will approximately correspond to the plant capacity or market demand of the cooperative. Balancing membership with the co-op's demand is used by some cooperatives which have a strong consumer brand.

Cooperatives using the controlled membership approach often allow their members to plant the acreages that they choose, but limit the co-op's overall raw product supply by adjusting the number (acreage) of new members permitted to join. Some co-ops using this approach may also control co-op membership transfer when a member sells his farm. In addition, some co-ops selectively discontinue membership of growers of poor quality, or nonperformers in other respects. Thus through membership control there is some tailoring of members' supply capacity to the market capacity of the cooperative. For an industry dominated by cooperatives using this approach, there can be a significant coordinating effect upon industry supply and demand. A cooperative using membership control to influence the amount of production in the cooperative may combine this method with long-run market information to influence members' plantings and removals.

If the cooperative has a strong market position and if demand for their products is increasing, the co-op may permit increasing membership. Or with a strong market position, perhaps through a strong consumer brand, the co-op may be able to expand the demand for this brand over a period of years if the planted orchard acreage of the membership is expanding. Because there is a several-year time lag between plantings and orchard production, the co-op will have several years to develop and begin implementation of a demand-expansion program in anticipation of increasing supplies from their members' orchards.

Cooperatives which limit their membership to manage their supplies may in years of short overall crops (due to adverse weather) attempt to temporarily buy nonmember tonnage. The cooperative would be less likely to desire to purchase nonmembership tonnage in a year of large production of the members.

Advantages

- More control of membership supply to balance with co-op's plant capacity and/or market demand potential (compared to a "let-the-grower-decide" approach).
Existing membership interests are given preferential access to the co-op's resources. (This is probably especially important when the co-op has a strong brand or other special market position.)

- Allows existing membership to make their own planting and removal decisions.
- Facilitates planning for processing plant investments and market development.

Disadvantages

- Adjustments to balance overall industry long-run orchard productive capacity with demand may fall especially heavily on noncooperative growers providing a disadvantage to them.
- Members may still overplant.
- Prospective members who are unable to join the co-op may feel it is "unfair" to them.

Cooperatives Influence Their Supply With Acreage or Tonnage Contracts

A cooperative may attempt to balance its long-run supplies with demand through contracts with its members for specified acreage or tonnage. This approach is most likely to be used when the cooperative has a strong brand position, a special market segment, or a dominant overall position in a commodity market. Acreage or tonnage limitations with co-op members give greater assurance to the cooperative that it will not be oversupplied with raw product than is the case when growers can market through the co-op whatever quantity they produce. Because of the effects of weather, it is unlikely that a cooperative would have a membership contract to deliver a guaranteed tonnage, although this is a possibility.

Cooperatives with member contracts limited to a specific tonnage are in a superior position to coordinate the supply of their cooperative with their market demands. This approach, however, places a special burden for coordinating short-run supplies on individual grower-members. Most growers faced with this situation would need to have other market outlets available in order to be able to sell their production in large-crop years. Thus this approach by a cooperative may perform a superior job of balancing supply and demand for the cooperative, but a result may be that an unusually high proportion of the vertical coordination burden for short-run fluctuations is placed on the noncooperative portions of the marketing system for that crop.

Long-term co-op contracts with membership for specified orchard acreage can effectively influence orchard plantings and removals, especially if members plant new acreage only if they have a contract from their cooperative for the new acreage. Acreage contracts, however, place a substantial burden on the cooperative to balance short-run fluctuations in crop size because of the effects of weather on the contracted orchard acreage. The cooperative may be able to meet this challenge by storing some of the supplies in large-crop years, or by diverting some to unusual or secondary markets in years of large production from the contracted acreage.

A cooperative contracting for acreage with its members may have smaller than desired supplies of raw product in years of adverse weather. The co-op may be
able to purchase supplementary supplies in short-crop years from nonmember growers. Unfortunately, it is often difficult to buy from nonmembers when the entire industry has short production.

A cooperative using long-term orchard acreage contracts will face a decision of how to handle transfer of acreage contracts from one grower to another. Some cooperatives allow this transfer to occur only when the farm is sold. Other cooperatives allow a grower to sell his co-op contracted acreage (or tonnage) to another grower who can then apply it to orchard acreage which he already has or which he desires to plant. In either case, the cooperative attempts to balance the total acreage or tonnage contracted with its members with the long-run demand for its product.

Pre-planting contracting may be especially important for development of a new crop in a geographic region because often a certain minimum volume of production is needed in the region to stimulate development of markets and/or special input services for the new crop. Acreage contracting by a co-op can reduce risk from this source for the individual grower who considers planting a new crop.

A bargaining association may have contracts for specific acreage with its grower-members, and then negotiate contracts with processor-buyers for the production from this acreage (or for a given tonnage). With this approach, there would be an especially strong incentive for a bargaining association to attempt to influence grower plantings and removals in order to obtain a more predictable balance of long-run supply and demand. This approach would be most successful for a bargaining association having a high percentage of the total crop produced by its membership.

In most industries, bargaining cooperatives are voluntary and hence represent only a part of the grower production in that industry. Because of this, their importance as a coordinating organization is partially limited in accordance with their members' percentage of the total production of that crop. Voluntary bargaining associations can nevertheless be a significant long-run coordinating organization.

The acreage contracting approach seems to be one of the most effective ways to coordinate a long-run balance of supply and demand. Growers can adjust their plantings and removals accordingly. With a cooperative, this type of contract is generally on a long-term basis which is consistent with the long-term investment necessary in orchard and vineyard crops.

An acreage contract does not have to be limited to cooperatives, but could also be made with noncooperative marketing firms. The experience to date has been, however, that proprietary firms are less likely to be willing to make long-term commodity contracts than are cooperatives. Although there are exceptions, proprietary food firms tend to prefer more flexibility than is afforded by a long-term commodity contract comparable to the life of a grower's orchard.

Advantages

- Can have an especially strong influence on orchard acreage and hence productive capacity of co-op members.
- Reduces the likelihood of large overplantings or underplantings by co-op members due to lack of grower information or "band-wagon" planting psychology.

- Facilitates a cooperative's long-term plans for plant capacity and market expansion.

- The cooperative would be especially committed to use its resources to vigorously market the contracted crop acreage.

- The cooperative may be in a superior position to facilitate development of special marketing or grower input services.

**Disadvantages**

- Requires the cooperative to have accurate long-run market information and projections which may be difficult for it to obtain.

- Cooperative "mistakes" in analysis and contracted acreage can have serious detrimental effects on contracted growers who would tend to rely heavily on their co-op for long-run market analysis.

- The cooperative is more responsible for "mistakes" in plantings compared to "let-the-grower-decide" approach. Hence the co-op will likely receive stronger member criticism for its "mistakes."

**Exclusive Agency Bargaining With Quantity-Specified Contracts**

Recent legislation in Michigan permits exclusive agency bargaining. A bargaining cooperative which qualifies under Michigan's Agricultural Marketing and Bargaining Act may operate as a sole bargaining agent for sales of that commodity in Michigan (or a subregion thereof). This law also permits a qualified bargaining cooperative to negotiate contracts with processors for specified quantities. (Although it is legally permitted, bargaining cooperatives in Michigan have not, to date, bargained for quantity contracts.) If a bargaining association were to bargain for quantities to be sold by growers, since the bargaining cooperative could be the sole bargaining agent, it would be in an especially influential position to coordinate long-run supply and demand by influencing grower orchard acreage and/or production.

Although the particular law referred to above applies at the present time only to Michigan, several other states have also passed legislation which has somewhat similar features. However, none of the other states' laws provide legal backing for bargaining associations as strong as does Michigan's law. Some bargaining advocates have proposed national legislation somewhat similar to Michigan's bargaining law. Opponents of this approach feel strongly that this should not be permitted. If national legislation similar to the Michigan law were to be enacted, this approach would become a possibility for a number of farm commodities throughout the country. In that case the role of bargaining cooperatives which use long-term production contracts with both processor-buyers and their grower-members might become increasingly important as an approach for balancing long-term supply and demand.

A bargaining association, whether it is supported by legislation similar to Michigan's or not, may have some advantages as an effective coordinator of
long-run supply and demand. One of these advantages is that the bargaining association can represent an especially high percentage of an industry production with tonnage controlled usually larger than that of any one processing firm. Hence to the extent that it can affect a balance of plantings with long-run demand, a bargaining association's impact may be greater than that of an individual processing firm.

If a bargaining cooperative operating under a law permitting exclusive agency bargaining were to negotiate quantity-specified contracts with processor-buyers, the bargaining association would probably need to have quantity-specified (or at least acreage-specified) contracts with its grower-members. The bargaining association could attempt to balance its member acreage contracts to its sales contracts in a way to avoid serious oversupplies or shortages which may arise from orchard overplantings or underplantings.

Exclusive agency bargaining for specified quantities would raise challenges regarding how the bargaining association would allocate the tonnage contracted with processor-buyers among member and non-member growers. This would be especially important if the overall contracted tonnage were less than the region's production (such as in a large-crop year of favorable weather).

Annual fluctuations in production due to weather would remain an important challenge to a bargaining association even in a position of considerable strength as enhanced by exclusive agency bargaining legislation. If a bargaining association had that kind of dominant market power position, they could be logically expected to be responsible to coordinate the balancing of short-run supply fluctuations as well as the long-run balance of orchard plantings with demand. To do this a bargaining association might (a) contract to have temporary surplus tonnage processed and stored in a large-crop year; or (b) bargain in its long-term contracts provisions for schedules of quantities and prices so that in large-crop years there would be a commitment to take larger market quantities but at lower prices.

Advantages

- Would involve a substantial ability to influence contracted supplies and orchard acreage over a wide geographic area.

  -- This could provide more dependable and stable supplies over time for both (a) long-run productive capacity through use of acreage or production contracts and (b) for short-run crop fluctuations through use of storage.

  -- This could reduce processor procurement risks.

  -- This could reduce consumer prices somewhat (especially compared to shortage phases of the long-term adjustments).

- Would combine supply and productive capacity management with grower market power for a strong grower price. This feature, of course, has special appeal for growers. (Grower prices would nevertheless be influenced by conditions of market demand and supplies and bargaining conditions in the production regions.)

- The cooperative should have the ability and incentive to closely analyze long-run market information for the crop.
Since exclusive agency bargaining might include an entire industry, or large portions of it, this approach may be especially useful in reducing risk to a processor that competitors may be able to buy raw product cheaper than he does. For this reason exclusive agency bargaining may facilitate widespread long-term contracting at specified prices throughout an industry.

Depending upon the type of buyer firm, bargaining may be able to shift some risk from growers to large food marketing firms which are better able to bear the risks and which have greater ability to obtain relevant long-run market information.

Disadvantages

- Would require new legislation before this approach could be used for many regions of the country and for a number of commodities.
- Might be able to foreclose the market to potential new growers and those desiring to expand substantially. (The enabling legislation could be written to prevent this.)
- Might raise consumer prices. (Safeguards limiting bargaining associations by region and commodity could be included in the enabling legislation to guard against this potential disadvantage.)
- Might be inclined to overemphasize supply limitation and underemphasize demand expansion possibilities.
- Might tend to keep production located in higher-cost regions.
- A system to distribute to each grower an equitable share of the overall bargained quantity may be difficult.

This publication is one of a series on "Coordination of Long-run Supply and Demand for Perennial Crops." Leaflets in this series include:

#1 AN OVERVIEW
#2 GROWER ACREAGES INFLUENCED BY PRICES RECEIVED
#3 GROWER COOPERATIVES
#4 COOPERATIVE-CORPORATION JOINT VENTURES
#5 COMMODITY DEMAND EXPANSION
#6 MARKETING ORDERS
#7 LONG-TERM CONTRACTS AND FORWARD DELIVERABLE CONTRACT MARKET
#8 GOVERNMENT PAYMENTS FOR ACREAGE REMOVALS