

AGRICULTURAL BARGAINING COOPERATIVES

by

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EXPLANATORY REMARKS

Amphur	=	County (there are 521 in Thailand)
Changwad	=	Province (there are 71 in Thailand)
Paddy	=	Unhulled rice
1 ฿ (Baht)	=	\$0.05 - ฿20 = \$1
AFG	=	Amphur Farmer Group
ARD	=	Office of Accelerated Rural Development, Office of the Prime Minister
USOM	=	United States Operations Mission, the Thailand Office of the U.S. Agency for International Development (USAID)

INTRODUCTION

Since the beginning of the industrial revolution at about the middle of the eighteenth century, the producers of agricultural commodities have been able to bring forth many technological changes which have had a great impact upon both the industrial and agricultural sectors. Technological changes and innovations in agriculture have contributed most heavily to the tremendous increase in agricultural production from a less than proportionate increase in inputs used.

In the past, much of this gain was passed from the farmers to the consumers of agricultural products in the form of lower prices at the retail level. The result was that the farmers received lower prices for their products, which in turn mean lower incomes for many farmers. Technical progress in the non-agriculture sector has helped farmers to some extent. However, farmers think they should have a bigger share in the benefits of their own progress rather than being passed over.

One possible way the farmers could help themselves was to aggregate their ineffective individual bargaining power into one organization; and with this action, they could bargain with the buyers of their products. By this means, the farmers would then receive a higher price for their products and more equitable share of the gains from technological progress. Thus, the bargaining cooperatives could provide them with a means of increasing their bargaining power.

Most of the farmers in the developing countries are normally "poor" both in education as well as wealth. They are trying hard to gain a better standard of living and higher incomes. It is believed that the bargaining cooperatives in the United States which are considered the most successful are an excellent example for them to study

and follow. Importing knowledge and experience from the country with a highly successful cooperative system will cost less than development of a system in each individual country. This is a reason why the bargaining cooperative system in the United States deserves to be studied and the knowledge applied to the developing countries.

Purpose of Study

This report is divided into two parts. The first part deals with bargaining cooperatives in the United States. The second part relates to Thai marketing cooperatives. The general objectives of this report are:

1. To study the roles of bargaining cooperatives in the United States in agricultural bargaining, various kinds of legislation concerned, and the prospect for the U.S. bargaining cooperatives.
2. To study the role of Paddy Marketing Cooperatives and Amphur Farmer Groups in Thailand, looking for the obstacles and causes of failure of the Thai Paddy Marketing Cooperatives and then applying the experiences from studying the U.S. bargaining cooperatives to improve the Thai cooperatives.

There are no real bargaining cooperatives in Thailand, and the reason why the Paddy Marketing Cooperatives and the Amphur Farmer Groups are selected for study is because they function like bargaining cooperatives and are considered as a prospective means of farmer's bargaining power.

This study is primarily descriptive, rather than analytical in nature. Major emphasis in this study is directed, however, to the improvement of the Thai paddy marketing cooperatives and Amphur Farmer Groups in enhancing the Thai farmer's income.

BARGAINING COOPERATIVES IN THE UNITED STATES

Historical Background of Agricultural Bargaining Cooperatives in the United States

While the number of individual marketing, processing, and purchasing associations has been declining nationwide, bargaining cooperatives have been numerically increasing. Most of them have been organized by growers of fruits and vegetables for processing or by market milk producers.

The development of agricultural bargaining cooperatives in the United States began in Orange County, New York in 1883 when milk producers associated together for the purpose of obtaining better milk prices. They were further developed in California and Utah around 1917 when fruit and vegetable growers bargained over contract terms with processors.¹

The California Canning Peach Association (under the name of Canning Peach Growers, Inc.) has achieved such success that its contract and procedures have been widely copied by similar organizations.

Legislative Developments

Following the Civil War, industry thrived due to the shift of manufacturing from war materials to consumer goods. This event brought about a favorable atmosphere for the development of highly concentrated industry. Mergers became more prominent and predatory actions by larger firms and these large industrial giants created a reputation for unfair actions in the market.

¹Ewell P. Roy, Collective Bargaining In Agriculture, The Interstate Printers and Publishers, Inc., Illinois, 1970, p. 9.

To control market concentration and to discourage conspiracies and unfair practices, the Sherman Anti-Trust Act was passed in 1890 to break down these trusts. This new act contained nothing to exempt agriculture from the anti-trust legislation.

The use of agricultural cooperatives to provide farmers with increased bargaining power was ruled by many states to be in violation of the Anti-Trust Act until the year 1914 when the Clayton Act was passed. This law provided that non-profit cooperatives without capital stock should not be held to be conspiracies in restraint of trade. The Clayton Act (Section 6) did not afford as broad an exemption from Anti-Trust as cooperatives desired. The Capper Volstead Act of 1922 was passed to fill the need for a broader exemption.

In brief, the Capper Volstead Act provides that cooperatives may be formed by farmers, planters, ranchers, dairymen, and nut or fruit growers. The statute also provides that such cooperatives must either limit voting rights to one vote per member regardless of investment or must limit return on members' investment to 8 percent. Further, a cooperative must not do less than half of its business from the produce of members. This act also authorizes the Secretary of Agriculture to start proceedings against any cooperative if they exceed the authority granted.²

A cooperative which is qualified by this act can attain a monopoly position in a particular area of production as long as its conduct does not unduly enhance prices and is operated for the mutual benefit of members. So, the bargaining cooperative may use this position to

²Alyce L. Jawett and Edwin C. Voorhies, Agricultural Cooperatives: - Strength in Unity, The Interstate Printers and Publishers, Inc., Danville, Ill., 1963, pp. 113-4.

enhance prices, but the price should be reasonable. A Capper Volstead cooperative may cooperate with other Capper Volstead cooperatives or individual farmers who are members of such other cooperatives in establishing prices.

It must be emphasized that the Capper Volstead Act does not provide for legal recognition of farmer bargaining associations in collective bargaining as the Wagner Act does for labor unions. But Capper Volstead allows independent farmer entrepreneurs to combine into joint marketing, bargaining and selling activities as mentioned above which otherwise would be illegal under anti-trust law.

The Agricultural Marketing Agreements Act of 1937, with amendments, is not a bargaining act as such. Yet, it sets up procedures that are at least quasi-bargaining in nature, and action under it can be helpful to bargaining cooperatives. The act is designed to increase return to growers through orderly marketing. It is a "self help" program through which growers can work together to solve marketing problems that they cannot solve individually. Producers develop a program after public hearings if two-thirds of the producers vote for the program. The marketing order and agreement must be issued by the Secretary of Agriculture. The marketing order applies to handlers, not growers, and to all handlers in the industry whether or not they sign the agreement.³

The Agricultural Fair Practice Act of 1967 was designed to protect farmers and their cooperatives from discriminatory practices of buyers. The farmers have the right to organize or join any cooperatives they want.

The statute makes it unlawful for any handler to knowingly engage or permit employees or agents to coerce any producer to join or refrain

³Roy, Collective Bargaining in Agriculture, pp. 75-6.

from such an association of producers, to discriminate against any producer with respect to price, quantity or other terms of purchase, to pay or loan money or offer any other inducement or reward to a producer for refusing or ceasing to belong to an association of producers, etc.

If it is believed that any handler has engaged in this prohibited practice, the Secretary of Agriculture can request the Attorney General to bring a civil action into a Federal District Court to stop such practices.

Any person injured in his business or property can sue in Federal District Court to recover damages or complain to the U.S.D.A. (now administration of S-109 belongs to Consumer and Marketing Service). Suit must be brought within two years after the violation occurred. There are several cases under investigation at the present time.⁴

These three major laws provide farmers more rights to achieve a more equitable, competitive position in sharing national income and thus acquire purchasing power, which would stimulate industry and commerce and thus enhance national welfare. These laws give farmers certain legal rights and privileges to use the non-profit cooperative to secure greater efficiency and group bargaining power in both selling farm products and purchasing farm inputs and equipment.

What is Bargaining, Bargaining Power, Collective Bargaining, and Agricultural Bargaining Cooperative?

Bargaining is an attempt by an individual or a group to enhance its position relative to those with whom it trades. Bargaining power

⁴Ibid., pp. 77-9.

refers to the ability of a person or group to gain advantageous prices or terms of trade.

Dr. Ewell P. Roy described bargaining power as: "The ability to influence the outcome of the price-making process. To have bargaining power means that a firm or group of firms can affect the various economic and institutional factors in the market so that they can bring about prices or other terms of trade more favorable to them than those prevailing or that would prevail otherwise."⁵

Collective bargaining "refers to group activation as contrasted with individual bargaining in the case of one farmer or one firm acting alone."⁶ In other words, it is negotiation between two or more opposing parties to arrive at prices and other terms of trade including the terms of contracts.

Also, an agricultural bargaining cooperative is defined as a cooperative "organized under respective state laws which does not physically handle the farmer's product but, instead, serves as a representative or agent for farmers in collectively negotiating prices and other terms of purchase, service or sale with suppliers, buyers or handlers."⁷

Farmers need to bargain because they are at an economic disadvantage relative to those they buy from or sell to as already mentioned. Farmers are more numerous, operate on small scale, are less informed, and are less able to control and differentiate their products and prices than the firms farmers buy from and sell to.

⁵Ibid., p. 4.

⁶Ibid., p. 4.

⁷Ibid., p. 5.

Farmers are, according to E. P. Roy, getting a declining share of the consumer's food dollar, while agri-business gets an increasing share. The marketing costs are rigid, and the farmers usually absorb the shock-waves of business fluctuations. If prices fall, farmers absorb most of the decline; if prices rise, farmers share much of the rise with others. Actually, farmers are "residual takers". They get what is left of price after everyone else takes his share.⁸

Objectives of Agricultural Bargaining Cooperatives

Bargaining cooperatives seek to increase members' income from farming by negotiating prices and contract terms which affect farmers' income by bargaining collectively with processors, suppliers and dealers in their respective commodities.

Bargaining cooperatives try to return the "highest possible profit" to members consistent with current economic conditions.

At present, some leading bargaining cooperatives' pricing policy is not designed to return the highest possible price attainable but tends to produce the crop at lower prices and plant more of the crop.⁹

To sum up the objectives, bargaining cooperatives try to contribute to market stability which is much needed by the producers; standardization of processors' contracts resulting in more equitable treatment of producers; increased understanding between growers and processors; and lower unit cost of production and marketing.

⁸Ibid., p. 1.

⁹Leon Garoian, "Re-examining the Concept of Bargaining", Report No. 113, Cooperative Bargaining, FCS, USDA, August, 1970, p. 2.

Methods to Achieve the Objectives

One approach to negotiating a collective bargaining agreement is to offer advantages to a buyer which reduce his operating costs, with the monetary value of the reduction added to the seller's price. The buyer is assured of a dependable supply and more uniform quality control when dealing with the bargaining agent. Producers may assume certain of the buyer's marketing risks in exchange for increased returns through specifications in a bargaining agreement. This is called the "opponent gain" approach.

Another approach which may or may not be used in conjunction with the preceding method is to apply economic pressure on the other party or parties to negotiate. A producer agent can do this by withholding supplies of the commodity involved or by diverting these to other uses. In case of prolonged struggles for contracts, the producer agent may need to obtain its own processing facilities to exert pressure to secure gains. This may be called the "opponent pain" approach.¹⁰

Organizational Forms of Bargaining Cooperatives

Bargaining cooperatives are formed under state laws, and most state laws have a law under which a bargaining cooperative may be chartered. Before 1960, the agricultural bargaining organizations generally operated only in the state from which they received a charter.

Three major bargaining developments have modified this pattern over the last decade, as follows:

¹⁰George W. Ladd, Agricultural Bargaining Power, Iowa State University Press, 1964, pp. 14-20.

1. The American Agricultural Marketing Association (AAMA) came into being in 1960. It was organized under Illinois cooperatives law and operates on a national basis. It is an affiliate of the American Farm Bureau Federation.

The AAMA objectives are to (1) provide market information and contract negotiations and sales, (2) get farmers the "full market value" for their products and also to add to that value by supplying products that are worth more to the buyer. Adding value may involve quality improvement, volume distribution, timing of delivery, production of specific grades and sizes, and other considerations that may make the product worth more.

An example of AAMA bargaining is found in tomatoes for processing with the bargaining carried on between the State Farm Bureau Marketing Association and processors. Tomato growers who join a state association agree that they will not accept a contract to produce tomatoes unless the contract is approved by the association.

Obviously, keeping local associations viable is the base point in AAMA activities. Membership support must be secured, usually through signed agreement in order to control supply. When this agreement has been made, then the bargaining activities can be started.

Today, there are 39 state agricultural marketing associations affiliated with the AAMA.¹¹

2. The National Farmers Organization (NFO) came into being in 1959 as a national bargaining association. It is chartered under Iowa Non-Profit Corporation Act. The NFO negotiates only the advance

¹¹J. K. Samuels, "Legal and Legislative Aspects" in Publication #30, Bargaining in Agriculture: - Potentials and Pitfalls in Collective Action, University of Missouri - Extension Division, C 911, June, 1971, p. 25.

delivery type of contract. Most contracts are fairly short term. NFO is bargaining or organizing to bargain in some commodities produced under contract, such as broilers.¹²

3. The other major organizational development has been the establishment of large multistate federations of dairy cooperatives, such as Associated Dairymen organized under the Kansas Cooperative Act and the Great Lakes-Southern under the Ohio Cooperative Act.¹³

Sources of Bargaining Advantage

Regardless of the approach used in bargaining, if it is to benefit producers, there must be some possible source of gain. In bargaining, there are some sources of gain to producers as follow:

Gain from opponents (primary purchasers of the product). The possible gains from their profits may be limited. There may be some cases where substantial gains could be obtained from this source, but it is estimated that farm prices could be increased by no more than 10 percent if all profit in the food marketing system could be extracted for this purpose.

From consumers by paying more for the same goods and services or buying more at the same price through advertising, improving the quality of the product or package. The other possible alternatives are to charge relatively more for the inelastic product and charge less for the elastic product (product differentiation).

From cost reductions. This may be achieved by greater technical and economic efficiency in trade channels from farmers to consumers

¹²Ibid.

¹³Ibid.

or marketing efficiency, in other words, or by developing more efficient a marketing system through present facilities by eliminating unnecessary activities in the marketing system. Some gains may occur when producer groups take over functions formerly performed by other marketing agencies.

From horizontal and vertical coordination by extending bargaining influence over a wider area and over more steps in the production-marketing process.

From government legislation. The legislation may provide farmers a legal cover for obtaining benefits from certain other groups such as consumers, processors, or suppliers.¹⁴

The word "legislation" in this place means both amending the old legislation and enacting new laws. There are some proposals to increase the farmers' power, such as amending the Anti-Merger provision in the Clayton Act to recognize an integration between farmer cooperatives and private sectors. This may provide the bargaining cooperatives with more power to increase farmers' income.

New legislation could also be beneficial for strengthening bargaining power. There is some new promising legislation in this case proposed to Congress to enhance farmers' status which will be discussed in more detail later.

Essentials for Bargaining Success

Before bargaining success can be realized, certain conditions must be met in whole or in part. Some of these are discussed as follows:

1. Control over Volume. If control over volume is small or ineffectual, the association will possess little or no bargaining

¹⁴Roy, Collective Bargaining in Agriculture, pp. 56-7.

power, and its market power objectives cannot be realized. The important feature of supply control is that it must be continuous to be permanently effective. This control is probably the most significant factor that can increase farmer bargaining power, and lack of such control is the factor most likely to limit bargaining power.

2. Restricted Market Entry. It is necessary for successful bargaining to restrict new producers and control imports in order to control supply effectively.

3. Skilled Negotiations. A skilled negotiator fully supported by the Board of Directors and members is required for successful bargaining.

4. Few Product Substitutes. The more substitutes a farm product has in the market, the less possibility there is for bargaining. The more inelastic the demand for product (such as fluid milk), the greater the opportunity for effective bargaining.

5. Member Loyalty and Understanding. Should be strong and bound by some type of contract.

6. Adequate Funds. Fees charged should be in line with services rendered.

7. Nonmembers. Volume of nonmembers must be reckoned with, otherwise, this will undercut bargaining efforts of members. There are always some growers who think they can do better outside the bargaining process.

8. Area of Production. A rather limited area of production for a product enhances farmer bargaining power.

9. Grower Alternatives. The more alternatives the growers have to utilize their land, labor, capital and management, the greater bargaining power they have.

10. Sound Market Information. It can increase market strength if the bargaining group receives the accurate information.

11. Ages and Status of Farmers. Young farmers are more apt to support bargaining activities than older farmers who may be debt-free and see no worthwhile purpose in expanding effort toward group action.¹⁵

The Operation and Negotiation Process

The bargaining cooperative usually operates through its elected Board of Directors and appointed manager. Beginning a month or so before harvest, a committee of the Board meets separately with each processor or cannery customer and discusses the current economic and prospective economic and marketing situations. This can be done because although federal anti-trust legislation prohibits a farmer cooperative from discussing price matters with two or more processors or cannery customers together, such discussion can be carried on with individual customers separately. From these discussions, the cooperative can analyze the collected information and determine an asking price.¹⁶

A successful bargaining cooperative should have enough economic pressure in the bargaining process to achieve gains for its members.

The cooperative must:

1. Represent sufficient volume of the commodity
2. Have disciplinary power over its members and cohesion among them
3. Obtain recognition by processors of its ability to inflict losses.

¹⁵Ibid., pp. 47-52.

¹⁶Sidney Hoos, "Collective Bargaining in Agriculture-Problems, Progress and Prospects" in A.E. No. 344, Bargaining in Agriculture, Department of Agricultural Economics and Rural Sociology. The Ohio State University, March 25, 1963, p. 39.

4. Have a membership willing and able to bear the cost of withholding if necessary
5. Be able to tailor marketings to demand at desired prices on a continuing basis

These conditions mean control of supply and each member should realize these conditions on a voluntary basis.¹⁷

According to the negotiation procedure between the grower and the canners in California, the association's price offer will become effective for all contracting canneries if a specified number of them accept the price within the time limit; but if the required number of canneries do not assent during the specified period of days, the price offer is void. The association then announces a second price offer after which the cannery acceptance or rejection procedure is repeated. But if the second price offer is rejected, a new phase of the bargaining is entered.

While this procedure goes on, it must be remembered that the crop is maturing and harvest time is approaching. Hence, the association contract with the canneries provides that in the event a price has not become effective by harvest time, the crop is to be picked and orchard or field deliveries made to canners; and the canneries shall pay and the association receive a "reasonable" price. According to the California Agricultural Code, the reasonable price would be subject to determination by the court of laws. In practice, if the price is not agreed upon through the contract-specified number of association offers, the

¹⁷E. M. Babb, J. H. Armstrong, and H. E. Ward, "Bargaining Power for Farmers" in series #5, People and Income in Rural America - What are the Choices? The Farm Foundation, the Agricultural Policy Institute at North Carolina State University, and the Center for Agricultural and Economic Adjustment, Iowa State University. (n.d.)

association accepts the best price it can receive through informal negotiations with the canners.

This legal procedure, however, suits neither the grower nor the canner and is considered as a last resort which has not yet been used.

In general, negotiations usually follow a pattern consisting of two stages (formal negotiations)

1. Each side announces its contract objective.
2. Attempts are made to resolve differences and negotiate the contract. This second stage continues until a contract is agreed on or until either side withdraws from negotiation (if they can avoid negotiation). Various strategies are employed by both sides at this stage.

Obviously, the successful negotiation can be achieved more easily if the sellers and buyers have somewhat different objectives. For example, if the farmers are more price conscious but processors are more concerned for quality and timing of delivery than for price per se, give and take may result in agreement.

Arbitration of some kind is often found useful when bargaining negotiations have been unsuccessful. This may be done in a number of ways but usually in the form of an administrative and legislative hearing as contrasted with a court proceeding as mentioned above. One method is for evidence to be presented by both sides to an arbitration panel or committee with the decision of the committee made binding upon both parties.¹⁹

¹⁸Hoos, Collective Bargaining in Agriculture - Problems, Progress, and Prospects, p. 40.

¹⁹Jack Armstrong, Bargaining Through Associations in Publication #30, University of Missouri, Extension Division, op. cit., pp. 32-3.

Some Possible Courses of Action

Bargaining in fruits and vegetables and milk has long been established. Bargaining in grains, poultry and meat animals is somewhat new and is in its infancy.

Major pushes in bargaining cooperatives resulted from the growth of membership and new tactics in negotiation. Marketing orders can be used to support the effectiveness of these two elements. The Marketing order is a basic tool to stabilize prices, though not yet extended to all commodities; prevent erratic flow of product to market; and prevent low quality produce from depressing prices.

According to the Agricultural Marketing Agreement Act of 1937, the marketing order and agreement must be issued by the Secretary of Agriculture and the handlers of a particular commodity; but a marketing order comes from the two-thirds majority vote of the growers. The majority might be counted by members or by volume of production. Market order is simply a way for an industry to make its own market regulations effective to everyone. If 100% of the handlers signed a market agreement, there would be no need for a marketing order.

To operate a marketing order program, an administrative committee must be set up, made up of growers or growers and handlers who are nominated by the industry and appointed by the Secretary of Agriculture. The committee makes a final check of the crop before the harvest time and rechecks its demand figures and proposes a set of regulations that is believed will result in growers obtaining better or fair returns. These regulations or recommendations will be sent to the Secretary of Agriculture who will make a final decision on the regulations. The administrative

action may include: specifying grades, size, quality; allotting the amount that each handler may purchase; establishing the quantity that may be shipped to the market during a specified period; equalizing the burden of surplus among all growers; and others.²⁰

It is believed that lacking marketing order as a base, the marketing program could not achieve sufficient momentum nor have the power to negotiate gains from the processors or the customers.²¹ Mr. Oren Lee Staley, President of National Farm Organization in the year 1968, also said that without holding action, it will be "collective begging instead of collective bargaining."²²

It is also important to mention here that the fruit and vegetable marketing orders do not fix the price of the products (the milk marketing order is the only market order that fixes price of the product). There were 46 marketing orders and agreements in effect on May 13, 1969.²³

Another action which has been suggested involves the use of marketing boards. Major objectives of marketing boards are to maintain farm prices so as to ensure greater stability for farmers, both seasonally and annually, to secure equitable prices for all producers, and to provide an increased volume of sales. These objectives are achieved through the compulsory powers over all producers of a commodity to organize and regulate marketing. Actions include the following:

²⁰Robert Jacobson, Marketing Orders: Bargaining Aid or Vehicle in Publication #30, University of Missouri, Extension Division, op.cit., p. 36.

²¹Arval Erickson, "Bargaining in Agriculture and Industry" in Volume 45, No. 5, Journal of Farm Economics, American Farm Economic Association, December, 1963, p. 1291.

²²Oren L. Staley, "The NFO Approach" in Bargaining Power for Farmers The National Farm Institute, The Iowa State University Press, Ames, IA, 1968, p. 12.

²³Phillipe Ducroquet, "Marketing Agreements and Orders in United States: Fruits and Vegetables" in Vol. No. 4, World Agriculture, International Federation of Agricultural Producers, Oct., 1969, p. 3.

orderly marketing, negotiating with buyers regulating annual supplies, price discrimination, reduction of marketing costs and upgrading market facilities, promotion advertising, education, and research.²⁴ These could to some extent substitute for voluntary organizations and might use many of the techniques involved in operation. Individual bargaining organizations sometimes could not carry out the program effectively like the boards. However, success of the boards involves the willingness of farmers to accept the discipline of the boards.

Another suggestion for effective bargaining organizations is that a specific bargaining cooperative should deal with one commodity along with marketing orders for that commodity.²⁵ This performance is somewhat like the marketing boards, but it only is operated by the cooperatives instead of the boards.

Proposed New Legislation to Strengthen Farmer Bargaining Power

Agricultural groups have sought additional legislation to promote bargaining and strengthen the negotiating position of producers.

Mondale Bill

On February, 1968, Senator Walter F. Mondale (Minnesota) and others introduced a bill titled "National Agricultural Bargaining Act". This bill consisted of two titles: one would establish a National Agricultural Relations Board and the second would amend the Agricultural Marketing Agreement Act of 1937 to authorize collective bargaining under it.

This bill would create a board of five members to be appointed by the President, and the Board would have the right to consider or determine

²⁴H. V. Walker, Bargaining Through Marketing Boards - The Canadian Experience in Publication #30, University of Missouri, Extension Division, op. cit., p. 41.

²⁵D. I. Padberg, Organizational Needs for Collective Bargaining in Publication #30, University of Missouri, Extension Division, op. cit., p. 21.

whether a price is below a fair and reasonable price to producers; would approve the establishment of a marketing committee for a commodity or request purchasers to form a purchasers' committee. A marketing committee established by a referendum of producers would establish minimum price in accord with agreements reached with representatives of prospective producers.

If the negotiators failed to agree on any type of condition or terms of sales and disputation could not be conciliated, a three-man joint settlement committee should be appointed, composed of one representative from the producers, one from the purchasers and one neutral member selected by both sides. This committee would make a decision on the disagreement.

The bill also envisions a system of marketing controls to supplement the establishment of minimum prices. If the marketing committee determined that supply will substantially exceed the demand for the commodity involved, the committee and the Secretary could develop a program of marketing allotments subject to a producer referendum conducted by the Board. If a majority of the producers voting approved such allotments, the USDA Secretary would be directed to put them into effect and to adopt rules to carry out the program.²⁶

May Bill

Former Representative from Washington, Catherine May, introduced this bill to amend the Agricultural Fair Practice Act of 1967 in April, 1969. The bill would have made it an unfair trade practice to refuse to negotiate prices and other terms of sale with agricultural bargaining associations.

²⁶Roy, Collective Bargaining in Agriculture, pp. 178-9.

Various witnesses testified for and against the bill but indicated some of its parts needed more clarification. This bill defined a bargaining cooperative as "an association of producers which has as its principal function as agent of producers the negotiation with handlers of prices and other terms of contracts with respect to the production, sale, or marketing of agricultural products."²⁷

Sisk Bill

In July, 1970, B. F. Sisk of California and others proposed this bill to Congress. It is the bill that includes all agricultural products under bargaining negotiation and gives power to cooperatives in bargaining. The handlers cannot refuse negotiation if the bargaining is in good faith and cannot go around to buy products from someone else while they are under negotiation process.

This bill would amend the Agricultural Fair Practice Act of 1967 and the Agricultural Marketing Act of 1937. The proposed amendment is to exempt associations of producers from the status of handler and would insert language more favorable to producers and their associations. It would broaden the coverage of the Marketing Agreement Act of 1937 to include other commodities.²⁸

It is obvious that the Mondale bills proposed comprehensive government involvement while the May Bill contemplated a minimum of government activity. The Sisk Bill was somewhere inbetween the two.

In short, the new bills propose several features needed to help bargaining organizations work through the programs successfully as follows:

²⁷Samuels, Legal and Legislative Aspects, p. 27.

²⁸Ibid., p. 27-8.

1. Mutual bargaining in good faith by both sides
2. Additional anti-trust exemptions for acting together
3. Majority rule with penalties to individuals or groups for non-compliance
4. Methods to control supplies by existing producers or entry by new producers.²⁹

Conclusions

There are about 750 agricultural bargaining cooperatives in the United States. These include 18 fruit bargaining cooperatives, 15 vegetable bargaining cooperatives and 687 bargaining cooperatives for various kinds of agricultural products. The members in these bargaining cooperatives are about 450,000 altogether.³⁰

Bargaining organizations are not viewed as competitors in the normal sense by commercial or independent processors because they do not typically own any processing plants. They only control a substantial percentage of a commodity in an area and are fully authorized to represent their grower members in negotiation with processors. They actually make it easier for processors to negotiate contractual agreements with farmers.

A successful bargaining cooperative must maintain a stable membership and sign a contract which authorizes the cooperative to act as its sole bargaining agent. After such recognition has been achieved and satisfactory negotiations have been consummated for several years, then any other problems seem to be less difficult.

²⁹Wallace Barr, "Bargaining in Perspective - A Summary" in Publication #30, University of Missouri, Extension Division, op. cit., p. 50.

³⁰Ewell P. Roy, Cooperatives: Today and Tomorrow, Interstate Printers and Publishers, Inc., Danville, Ill., 1969, p. 126.

It is sometimes argued that there is no place for a cooperative bargaining association in an industry in which minimum returns are established by state or federal legislation. But bargaining associations are concerned with more than minimum prices to producers. They seek to negotiate price in excess of the minimum price. They also bargain with respect to quotas, timing delivery, and hauling charges.

Bargaining cooperatives have their own set of problems; however, they must constantly strive to maintain their membership and tonnage in order to gain respect in negotiation. It is not easily accomplished because the price negotiated by the bargaining cooperatives becomes the cost of the industry. Nonmembers who contribute nothing to the cooperative and do not share in its membership responsibilities are benefited by its negotiations. Negotiations can be accomplished when the buyers or processors find it profitable to process the crop in question.

The other problems in bargaining operation are that the cooperatives have to maintain some type of facilities such as storage, as an example, in order to control a substantial portion of the commodity within an area. They may be unable to achieve any contractual advantage for their members if they do not have sufficient bargaining strength in term of membership control and skill in negotiation. They may serve to upset established growers-processors relationships with consequent retaliatory action on the part of processors. In the long run, there is a possibility that they may intensify their own price problems by attracting new production and new investors or producers, through favorable and stable prices for the bargained commodity.

Reviewing the usefulness of bargaining cooperatives, they significantly contribute to market stability which is much needed by the

growers; standardization of processors' contracts resulting in more equitable treatment of producers; increased understanding between growers and processors; a relatively small investment by growers in their cooperatives; and finally the growers can get higher returns at least in the short-run period through the performance of these particular organizations.

The prospect of bargaining cooperatives is somewhat jeopardized. There are many obstacles lying ahead. More and more synthetics will substitute for natural products which may lower the requirement for farm products. Also, the trend toward direct buying from producers may eliminate the demand for bargaining cooperatives; and, therefore, reduce the effectiveness of them.³¹ It is doubtful if the bargaining cooperatives will crush these problems.

³¹Barr, "Bargaining in Perspective - A Summary", p. 49.

IMPROVING BARGAINING POWER FOR THAI FARMERS

Paddy Marketing Cooperatives in Thailand

First of all, let us look at some historical background of Thai Paddy Marketing Cooperatives. These cooperatives were named as Paddy Sales Societies during the formative period. Five Paddy Sales Societies were established in 1939, and 49 more organized in 1948. This type of society has been organized primarily to help its members with their marketing problems. It is hoped that such societies can help farmers to secure better prices, reduce the dependence on middlemen and acquaint the rural inhabitants with trading principles.

But in 1949, it is reported that all fifty-four marketing societies were not very active as "they cannot in a sellers' market compete with the experience and keen business sense of professional dealers of paddy."³²

A number of these marketing cooperatives have been liquidated, and many more have been organized since 1949. By 1963, there were 183 marketing societies in Thailand. But a large share of these were inactive and only 118 were left on the register of 1964. There were 91 societies operating in 1965, 84 of them had a financial deficit at the end of the year, and 27 of them were under liquidation.

It is clear that these cooperatives have been highly subsidized by government. Management services have been provided at no cost to the cooperatives. Many have received interest-free credit for acquiring their physical facilities and all have received loans for operating capital at an

³²Draft Report on Cooperatives in Thailand, Rural Welfare Division, Food and Agricultural Organization of the United Nations, 1949, pp. 50-1.

³³Howard S. Whitney, et al, Thailand Agricultural Cooperatives: An Evaluation with Recommendations for Improvement, the International Cooperative Training Center, The University of Wisconsin for USOM/Thailand, Bangkok, Thailand, February, 1968, p. 41.

interest rate of 2.0 percent per annum. In spite of these credits, a large share of them have failed to make savings.

A recent survey was made of 50 Paddy Marketing Cooperatives that were still on the registry in the beginning of 1965. Thirty of these cooperatives have been liquidated or are being liquidated. Of the remaining twenty, only six were in net surplus position. The remaining fourteen had accumulated deficits as of that date, and only ten were in operation at the end of 1966.³⁴

The following data present a consolidated balance sheet (Dec. 31, 1966) for all Paddy Marketing Cooperatives (2 federations, 81 cooperatives without rice mills and 5 cooperatives with rice mills).³⁵ (1 baht = \$.05).

Liabilities and Capital Stock (Figures in baht)

Total debt	36,223,635.51
Capital Stock	7,798,523.13
Reserve for depreciation on hire-purchase assets	<u>3,664,187.80</u>
Total	<u><u>47,686,346.44</u></u>

Assets (Figures in baht)

Current assets	29,826,081.65
Investments	1,342,453.64
Fixed assets	<u>8,026,045.82</u>
Total	39,194,581.11
Accumulated deficit	<u>8,491,765.33</u>
Net worth	(-) 693,242.00

This consolidated balance sheet indicates that the sum of the accumulated deficits of these cooperatives is greater than the total amount paid for capital stock.

³⁴Ibid., p. 42.

³⁵Ibid., p. 43.

Reasons for Failures

The reason for the failure of so many marketing cooperatives is not completely clear, but it can be concluded hereunder:³⁶

1. The price margins between farm level prices at the time products were purchased from farmers and wholesale level prices at the time the cooperatives sold these products were generally too narrow to cover the costs incurred by the cooperatives for labor, depreciation, and other items.
2. Misappropriation of cooperative funds on the part of members, officials, and employees.
3. Objectives of cooperative marketing operation did not emphasize profit.
4. Inefficiency in operation.

The fact is that most marketing cooperatives in Thailand are inefficiently organized. For example, physical facilities are under-utilized and services are limited. These cooperatives also have been organized and initiated without the benefit of rigorous economic feasibility studies. The funds provided by the government are available for initiating cooperatives without any requirement for justifying expenditures to an intermediary agency. As a result, the program was lax in its standards. These are the reasons why many of the cooperatives that were established were doomed to failure from the beginning.

The lack of net worth and long history of losses make the cooperative appear as very bad credit risks. For this reason, the cooperatives cannot borrow any funds to accumulate capital. Regarding the causes of failure, cooperative's management, employees, and members alike had cheated on the cooperative. They felt the cooperative belonged to the

³⁶Ibid., pp. 43-44.

government and found nothing wrong in appropriating government assets for their personal benefit and even the government supervisory personnel were equally capable of such acts.

The International Cooperative Training staff at USOM/Thailand recommended that a decision to liquidate those cooperatives that had little chance for success was needed and the remainder should be better financed. The cooperatives should seek out and try new activities that might be more profitable and beneficial to members. More adequate financing would not necessarily result in profitable operations. It might only increase the losses if these problems such as inefficiency in operation, corruption in the cooperative, etc., could not be corrected.

The Thai government has a plan to amalgamate the Paddy Marketing Cooperatives in order to increase efficiency in operation. With respect to this plan, the International Cooperative Training staff recommended that the difficulty mentioned above might offset or more than offset gains in efficiency. For this reason, small and simple operations seem preferable; and the system under which the government cooperative officials devote a large share of their time to the affairs of unprofitable marketing cooperatives should be discontinued.³⁷

Applications of U.S. Bargaining Knowledge to Thai Paddy Marketing Cooperatives

One thing we should keep in mind is that the environment for formation of cooperatives will be more favorable if marketing margins are high due to collusive behavior within the private trade or if there is marked inefficiency in private trading from other than collusive patterns.

³⁷Ibid., pp. 45-51.

And if the marketing margins are low or if the services demanded by consumers require a large resource input with commensurate high costs and the private trade is handling them efficiently, then the environment for formation of cooperatives is relatively unfavorable. If cooperatives are to be subsidized by the government, there will be a drain on the limited, high opportunity cost resources of the government. If they are subsidized by farmers by granting cooperatives monopoly powers and consequently higher margins, farm production will be inhibited and the market will work less effectively.³⁸

From this concept, it is really true that the Thai marketing cooperatives confront a very difficult problem in development because the private trade is highly efficient and the marketing margin for the paddy is very low. The Thai government has made a study of the paddy marketing margin, and the study indicates that farmers can get a large share of consumer's dollar on rice trade. It is estimated that the farmers get about 75 percent of the consumer's expenses on rice.³⁹

Recommendations for Improvement

After having studied the Thai Paddy Marketing Cooperatives, I have an idea that the knowledge of the bargaining cooperatives in the United States can be very well applied to the Thai cooperatives. With the existing situation, I would recommend that:

³⁸John W. Mellor, Structural Characteristics and Theoretical Interpretation of Village-Level Agricultural Product and Input Markets in Representative Situations-East Asian Small Holder Agriculture, A Paper Prepared for the Agricultural Development Council Conference at the University of Kentucky, April 26, 1967.

³⁹Utitt Naksawaddi, Report on Market Situations and Status of Farmer's Debt in the Central Part of Thailand in 1957, Division of Agricultural Economics, Office of the Under-Secretary of State, Ministry of Agriculture, Bangkok, Thailand, 1959, (Thai Language).

1. The Thai Paddy Marketing Cooperatives should perform their tasks like those bargaining cooperatives that do not physically handle the paddy in large quantities but negotiate on a bulk sales basis with the buyers. The Board of Directors should negotiate for the cooperative. An arbitration procedure should be set up to handle cases where buyer and seller cannot agree.

2. The Cooperatives set up standards and grades of the paddy in order to get a better price.

3. The paddy bargaining cooperatives should be organized in every amphur (county) where paddy is largely produced and given the exclusive right to sell paddy for farmers.

4. An area restriction for paddy trade is needed. The buyer could not buy paddy outside the amphur (county) or changwad (province) depending on the areas specified by the legislation. This regulation will not restrict on the milled rice; and if the members violated the rules, the penalty should be put into account. It is like the tobacco cooperatives in the United States in that if any members sell their product to the private buyers without permission from the cooperatives and/or they violate the contract with the cooperatives, they will be fined according to the units sold.

5. With the existing capital provided by the government, the cooperatives could buy the small volumes of paddy sold by the small farmer members and combine it for the bulk sales later.

6. The cooperatives should not keep the paddy purchased too long and should do like the private dealers do by selling when they can make profits even though the profit is small and revolve the limited capital to buy more paddy from the members. The reason for this proposal is that the cooperatives should not take any chance on price speculations. The past experiences

are a good example to learn from, and the Paddy Marketing Cooperatives in the past sold their paddy only once a year which is entire stock sale. It is hard to make enough profit to cover the costs with the narrow margins.

7. The government should not intervene in the cooperative's activities. Let them do their business like a private enterprise does. The only thing the government should do is to provide training and legislation to give the cooperatives more power as mentioned before.

Training is important because most of the members, and even the Board of Directors, lack efficiency in marketing. Much of the inefficiency results from the lack of imagination (business sense).

All of my proposals aim to give the power to the marketing cooperative to be monopsonist for the farmers and monopolist for the buyers. The members will gain more benefits via cooperatives. In the past, local level paddy price, at least, appeared to adjust quite rapidly to declining rice prices. But when the rice prices increased, the local farmers appeared to be unable, even for the period of a month, to get higher paddy prices in response to rising prices in both domestic markets and world markets.

At present, private paddy dealers and farmers alike attempt to get the better of each other by using false information, short weight, etc.; and dealers are like to be more successful than farmers in practicing deception.

The bargaining cooperative's activities are frequently proposed as a means of controlling these malpractices and with a careful operation, the bargaining cooperative will be a source of gains for farmers and be a partial solution for Thai farmers' marketing problems.

I do not agree to use any marketing orders and/or boards of marketing to support the power of the marketing cooperative in Thailand because of the economic status of the farmers and fragmentation of land holdings. Most of them are very poor and own small pieces of land. The cooperatives do not have adequate funds and facilities to do that job. It will make the situation worse. The thing which is in need now is a law to restrict paddy sales to farmer marketing cooperatives.

I would, again, suggest that improvement efforts should be concentrated upon the few existing operations that appear to have reasonable chance of becoming economically self-supporting. Only after success with these few has been clearly demonstrated, should other marketing cooperatives in the other areas be expanded along with more government resources provided (if available) in order that it will not be wasteful and useless as with past attempts. This type of cooperative should not perform any tasks far beyond the processing level. The simple work in buying and selling paddy and protecting members from cheating by the private paddy dealers are the main objectives at the present time.

The Amphur Farm Groups in Thailand (AFG)

The Amphur Farm Group (AFG) Project aims to accelerate the establishment and acceptance of new methods of agricultural technology, credit facilities, production inputs and marketing services in economically depressed and security-sensitive areas of Northeast and North Thailand, where about 80 percent of the population is engaged in agriculture.

The project was developed within the framework of the Agri-Business Plan approved by the Royal Thai Government Cabinet in Mid 1965. The responsibility for carrying out this program was assigned to the

Accelerated Rural Development Office (ARD).⁴⁰

Objectives of the Agri-Business Plan were to increase the production and income of the farmers, encourage farmers to form Amphur level business organization and develop the capability of farmers to run the business themselves. The Plan also promoted the agricultural related business, such as crop processing and marketing and involvement of the private sector to the greatest extent possible.

The first fourteen AFG's were organized in six changwads (provinces) in the Northeast in January, 1966; and additional 14 AFG's were organized in 1968, 11 in the Northeast and 3 in the North. The membership ranges from 600 to 2,800 with an average of 1,500. Each AFG is run by a nine-man Board of Directors elected by and from the membership. Each also has a manager, selected by the Directors; a bookkeeper/clerk; a warehouseman and a truck driver. A warehouse and office building were provided the original AFG's with funds from the central government. Salaries of AFG employees and certain other operating expenses are paid by ARD from the counterpart funds during the formative period. This subsidy was discontinued to 11 of the first 14 AFG's in September, 1969.⁴¹

Marketing Program for Farmers by AFG

Let us look at what marketing works have been done for farmers in the past. During 1969 and 1970, several of the AFG's carried out a paddy marketing program whereby they purchased paddy from members soon after harvest, stored it in their warehouses and sold it several months later. This produced a small profit in 1969. Losses were sustained in 1970 because of drastic

⁴⁰Principal Works of Accelerated Rural Development Office, ARD Office, Office of the Prime Minister, Bangkok, Thailand, 1970, p. 2, (Thai language).

⁴¹Alton F. Gamble, End of Tour Report, (August, 1966 through December, 1971) USOM/Thailand, Bangkok, Thailand, 1971, p. 1.

decline in the paddy market price and ARD suspended this program in 1971. The following data show a tremendous fluctuation in price of paddy in changwad Sakolnakorn which is one of the provinces in the Northeast under Agri-Business Plan.

TABLE 1

Average Price Per Ton Received by Farmers in Sakolnakorn
for Long Grain and Short Grain Glutinous Paddy⁴²
 (Price in Baht)

Year Month	1968		1969		1970		1971	
	Long	Short	Long	Short	Long	Short	Long	Short
January	1,135	1,070	936	827	620	595	575	437
February	1,071	1,020	844	760	623	599	467	405
March	1,078	1,003	826	826	626	573	480	400
April	1,101	1,068	863	803	609	552	575	437
May	1,185	1,121	894	804	625	545	580	500
June	1,185	1,107	931	893	658	581	576	483
July	1,212	1,153	899	870	634	566	612	560
August	1,191	1,107	889	881	642	554	581	506
September	1,138	1,030	889	847	582	493	525	490
October	1,003	976	780	750	529	473	-	-
November	924	895	740	726	485	443	-	-
December	945	855	722	681	-	-	-	-
Average	1,097	1,034	851	806	603	543	552	469

⁴²Ibid., p. 15.

The reasons why the price of paddy drastically changed were as follows:

1. The world market for Thai rice was tight because of more competition in the world rice trade. Most of the rice producing countries could produce more rice and many rice importing countries became self-sufficient because of new technological knowledge in modern farming. Thus, the rice surplus was accumulated and the price of rice in world market decreased. This affected the domestic price of rice in most exporting countries, particularly Thailand.

2. The entire rice trading was in the hands of the middlemen and exporters. They tried not to lose any profit margins. When these merchants received less from selling, the farmers had to get lesser price from their paddy sales as a consequence.

Potentials of AFG in Agricultural Bargaining

First, let us look at a historical obstacle. The AFG's were registered under the Association Act of 1968. They could not borrow and re-lend funds, conduct their own business operations, sell shares, make and distribute profit, etc. This obstacle results in operational limitations. In September, 1971, four AFG's have been reorganized and were registered as cooperatives.

As a cooperative, AFG could perform many more business activities. My proposals for the possibility of AFG in paddy bargaining are the same as my proposals for improving the Paddy Marketing Cooperatives as follow:

1. AFG's should not assume any risk from buying and selling paddy. AFG's should only act as an intermediary between the members and the buyers. By collecting the paddy from the members and selling it in a bulk sale, the members will get higher prices at least 1.5 to 2.0 percent from the market

price at that time. This program could be done for the members who are not in urgent need of money.

2. Number of members are very poor and live far away from town. They could not wait and come back to receive their money later. The volumes sold are always small. In this case, with AFG's 100,000 to 200,000 baht or current capital provided by the RTG to each AFG, it can be used to purchase the small fractions of paddy from those members and sell it in the following day or the next few days. By making a future contract with the buyers, AFG will not assume any risks or suffer from any losses at all. The profit can be kept for patronage refund or used to buy stocks for the members in order to accumulate the revolving fund in each AFG.

3. The members should be well informed about the quality of the product. They should not try to put some foreign materials in their paddy as they did before. Better quality of the products can get better prices. The farmers are at a disadvantage to the middlemen in every way, particularly in measurement. AFG could help solve this problem effectively.

It cannot be expected to produce a large increase in income for farmers because there is strong competition among rice paddy buyers. A large portion of farmers do not join AFGs. The possibilities to solve these problems have already been discussed in the preceding section.

AFG is not the bargaining cooperative by itself, but AFG can perform some tasks as bargaining cooperative does. Because of the difference in the situation and farmer's status, this knowledge should be applied to those problems. Hopefully, the above suggestions will increase the price levels of the paddy for farmers and finally the incomes of the Thai farmers as a whole.

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AGRICULTURAL BARGAINING COOPERATIVES

by

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ABSTRACT

The purpose of this report is to study the role of agricultural bargaining cooperatives in the United States, various kinds of legislation concerned, the courses of action by these cooperatives and then relate this knowledge to the improvement of Thai cooperatives.

In Thailand, there are no real bargaining cooperatives. The only two types of cooperatives to which this knowledge can be applied are Paddy Marketing Cooperatives and Amphur Farmer Groups (AFG) because, like bargaining cooperatives, they function in the field of marketing services.

The method followed in preparing this report is to study published materials available at the Kansas State University Library, the Department of Economics, and some other sources and to review the lectures the writer has attended in both Bargaining Cooperative Methods and Market Organizations and Institutions.

Agricultural Bargaining Cooperatives came into being in the United States at the beginning of the present century in the form of fruit and vegetable bargaining associations and their expanded to the other types of agricultural products.

The purpose of bargaining associations is to increase members' income via negotiating the prices with buyers or processors. The courses of action to achieve this purpose might be performed by using marketing orders methods or the use of marketing boards or with the government sanctions.

The distinctive characteristics of bargaining cooperatives are that they do not usually assume title or physically handle the commodity, they

do not operate their own processing plants except in emergency and inevitable conditions, and they are concerned with establishing a price level rather than with operating savings or net margins to be returned to members. They do not require a large sum of capital investment.

The Thai paddy marketing cooperatives, and also the Amphur Farmer Groups, have the responsibility to solve farmers' marketing problems. Both of them are not truly voluntarily organized by the members, they are government-orientated organizations. These two organizations are facing very hard problems both from characteristics of the markets in the developing countries and strong competition in the world rice trade which results in drastic decline in the domestic prices of paddy and causes a big loss to these two organizations.

With knowledge from studying the U.S. agricultural bargaining cooperatives, it is believed that if the Thai agricultural marketing cooperatives, in various types, would apply these experiences to their working process, it more or less would help solve their chronic problems and make them look more promising in their future prospects.

The writer proposes that the Thai paddy marketing cooperatives, as well as the Amphur Farmer Groups, should perform their tasks like those bargaining cooperatives that do not physically handle the paddy but negotiate with the buyers on prices of paddy sales along with the improvement of grades and standards of the product. The exclusive right for the cooperatives to sell paddy for farmers and an area restriction for paddy trade are needed. Future contract is also important. It can keep the cooperatives away from any losses by declining in prices. There must be good communication between the cooperative and its members,

and the members should be well informed about the quality of the product and the prospective rice business. The Thai paddy marketing cooperatives should handle the activities like the private sector does. Finally, the government intervention should be avoided. The only thing the government should do is to provide training, research, and legislation to give the cooperatives more power in administration.

Even though the U.S. agricultural bargaining cooperatives are confronting some limitations - for instance, the substitution of synthetics for farm products and changing marketing structure with a trend toward buying from the original agricultural producers which will reduce the effectiveness of the bargaining cooperatives - these problems are still a far cry from the Thai agricultural marketing cooperatives' performance.