

AGRICULTURAL BARGAINING COOPERATIVES

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— 42-6074

A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree


MASTER OF SCIENCE

Department of Economics

KANSAS STATE UNIVERSITY  
Manhattan, Kansas

1972

Approved by:

  
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Major Professor

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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.<sup>1</sup>

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.

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<sup>1</sup>Ewell 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.<sup>2</sup>

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

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<sup>2</sup>Alyce 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.<sup>3</sup>

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

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<sup>3</sup>Roy, 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.<sup>4</sup>

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

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<sup>4</sup>Ibid., 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."<sup>5</sup>

Collective bargaining "refers to group activation as contrasted with individual bargaining in the case of one farmer or one firm acting alone."<sup>6</sup> 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."<sup>7</sup>

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.

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<sup>5</sup>Ibid., p. 4.

<sup>6</sup>Ibid., p. 4.

<sup>7</sup>Ibid., 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.<sup>8</sup>

#### 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.<sup>9</sup>

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.

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<sup>8</sup>Ibid., p. 1.

<sup>9</sup>Leon 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.<sup>10</sup>

### 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:

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<sup>10</sup>George 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.<sup>11</sup>

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

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<sup>11</sup>J. 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.<sup>12</sup>

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.<sup>13</sup>

#### 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

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<sup>12</sup>Ibid.

<sup>13</sup>Ibid.

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.<sup>14</sup>

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

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<sup>14</sup>Roy, 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.<sup>15</sup>

### 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.<sup>16</sup>

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.

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<sup>15</sup>Ibid., pp. 47-52.

<sup>16</sup>Sidney 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.<sup>17</sup>

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

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<sup>17</sup>E. 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.<sup>19</sup>

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<sup>18</sup>Hoos, Collective Bargaining in Agriculture - Problems, Progress, and Prospects, p. 40.

<sup>19</sup>Jack 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