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PBA Gains Majority & Autonomy

A successful membership campaign has boosted PBA representation from 40% to 60% of independent tonnage. The Board has accepted thirty new growers into PBA since the beginning of the year and member acreage has grown from 12,000 to 17,000 bearing acres.

“This puts us half way to our objective of achieving 80% of the independent tonnage,” reports PBA Membership Chairman, Al Lengtat. “In addition to the new members, we have commitments from growers representing another 4,300 acres. With those commitments, the PBA is within striking distance of our goal.”

PBA now represents the largest block of prune acreage second only to Sunsweet.

Independent growers who don’t belong to PBA are now in the minority position with an estimated 20% of the industry’s production. Packer-owned acreage accounts for the smallest block of acres at an estimated 11% of bearing acreage.

With the increase in membership, the PBA Board eliminated the handler service fee at its June meeting. “With the additional acreage, we set a budget without increasing member dues,” explains Greg Thompson, General Manager. “The PBA is now fully autonomous, providing a better bargaining position, and eliminating a stumbling block for some packers to sign a price agreement.”

Price Negotiations

Risk Sharing or Fixed Price?

In 2007 a poor market hampered price negotiations. This year, price negotiations follow a successful market and have begun with a new and confident PBA that now represents a majority of independent growers.

“The market has really improved since a year ago,” explains PBA President Keith Larrabee. “World supplies are tight and the weak dollar has boosted our exports. But lasting change has been brought about because the PBA Board sought resources and training in order to tackle problems head-on, and to establish a more effective and businesslike approach to member recruiting, marketing, and negotiation.”

The past five years have seen big changes for the California Prune Industry and world markets. While the PBA has turned the corner on

membership, packers are looking for a new approach to field pricing to address the new realities they face.

Currently at issue is whether growers and packers should continue to negotiate a fixed ‘cash’ field price that is set and doesn’t change with market conditions that develop after harvest, or whether growers should share in the risk that packers face at the trade level during the market year. Discussion and negotiation is presently continuing with packers.

PBA Members may access the latest negotiation news posted in the “Members Only” section on the PBA web site. Members are advised to call the office to obtain the current password to this section.

2008-2009

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Sharing Risk—The Economics of Contracts

Steven Wu, Ohio State University Extension



USDA – Risk Management Agency

This newsletter is produced in cooperation with the RMA in order to help prune growers find effective solutions to the risks they face.

The key lesson for growers is that they should never accept more risk if they are not compensated for bearing it. It is the same principle one should use for assessing any investment—there is always a trade-off between risk and return.



Price, quantity, and quality risks are unavoidable in agriculture. The economics of contracts offers some general principles for understanding efficient risk sharing.

The key rule of thumb is that the party that is best able to bear risk should bear the majority or all of the risk. To explain this, economists tend to think of firms and consumers as having "risk preferences." For example, a large farm that is diversified across several different commodities may be less "risk averse" with respect to the price of any single commodity than a small farm that produces only that commodity. An alternative way of viewing this is to think of the cost of risk bearing as a real cost of doing business. One can think of this cost as the "risk premium."

Risk premiums are common in everyday life. For example, the reason why we are willing to hold risky stocks rather than stick with simple savings accounts for our investments is because the expected payoffs of stocks over the long term is higher than the expected payoffs from a savings account. The difference in expected payoffs represents the "risk premium" that we get paid for holding the riskier investment. Sometimes, rather than receive a risk premium, we may pay a risk premium to reduce our financial risk. This is known as buying insurance.

Viewed in this light, one can think of agricultural contracts as a means of allocating financial risks between two trading partners and the optimal allocation of this risk will

depend on the risk preferences of the two parties. For example, if a processor is a large, well-diversified company and the grower is a small producer of only one or two commodities, then the optimal allocation of risk would be for the processor to bear most of the risk and the grower to bear a lower fraction of the total risk. Allocating risk in this way is good for both parties because the risk premium of the buyer is low relative to the risk premium of the supplier.

Viewed in another light, there is always a trade-off between risk and return. For instance, when a processor wants the grower to bear more of the risk, then the processor may have to pay the grower a higher expected payment to take on this additional risk.

The key lesson for growers is that they should never accept more risk if they are not compensated for bearing it. It is the same principle one should use for assessing any investment—there is always a trade-off between risk and return. Accept more risk only when you are compensated for it. However, there is a caveat to this discussion because things change when the processor must provide incentives to the grower for optimal performance. When this is true, then even risk-averse growers must be exposed to some risk to ensure adequate incentives.

(Excerpted and adapted for use here: the full text of this article is available at <http://ohioline.osu.edu/ae-fact/0010.html>)

Tight Supply Threatens Market Gains

The year-end inventory of prunes in California will be down by 65%, or 56,000 tons less than last year according to a report issued by the California Dried Plum Board. The short inventory and less than full crop puts

this year's supply 14,000 tons short of a desirable supply of 164,000 tons.

Adverse weather has decreased supplies in other growing as well. Argentina suffered

Tight Supply Threatens Market Gains (cont'd)

crop losses due to a late winter frost and severe fruit drop, and the French crop was devastated by a heavy freeze on April 7. Overall, the world supply of prunes is projected to be 305,000 tons, down 36,000 tons from last year, and about 33,000 tons short of a normal supply.

Market conditions have been favorable for California packers. Health trends and successful promotion have boosted domestic shipments to a projected increase of 9% for the market year. A weak dollar, tightening supplies elsewhere, and recognition of California's superior quality have helped us regain market share in the U.K. (up 68%) and Germany (up 11%). Overall, exports are reported up 4% through April by the USDA-FAS. Packers also report increased demand from Russia and Eastern

Europe. U.S. shipments to Russia are up 7%, and shipments to Poland are up 51%. The overall market situation is vastly improved from a year ago, and most industry members hope for more tons from our crop than estimated. However, several troubling trends are also apparent. A poor economy and reduced package size is blamed for a 21% decrease in shipments to Japan, a key California market. Chilean imports are blamed for an 11% decrease in California exports to Italy. And imports of prune juice concentrate into the U.S. increased by 19% from the prior year. Imported prune juice concentrate now accounts for nearly 1/3 of the U.S. market.

Further reports on world production and markets are available at www.PruneBargaining.com.

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Message from the PBA President

Keith R. Larrabee

The California Prune Industry is always being questioned regarding its performance. Transparency from the markets is always an issue. Information is available, but to what extent and how accurate is it? How can a grower-organization move ahead without information that is trusted and available equally to all the players?

When the PBA Board discusses issues such as these we come to the conclusion that a cohesive industry, one that includes both growers and packers, is necessary to succeed. With so many critical issues at stake, the PBA Board knows that industry unity is essential. But how do we build that unity without a common understanding and knowledge?

President Ronald Reagan had the philosophy "Trust but verify." As growers, all we want is to be treated equitably. The market will be up and down, but as long as we have the information available to determine if we are being treated

fairly, we feel justified in continuing to do business.

So the real question is – how do you as a grower know if the information available is trustworthy and a true representation of the market? Without a strong PBA advocating on behalf of growers you probably would find it very difficult. Even so, we have work to do as a grower organization to restore confidence in the information we receive.

Be assured that the PBA is always working on behalf of its members. We are also working even harder to be that good partner to our packers, which like any good partnership often requires being willing to disagree in order to get down to the real issues and bring about needed change. Ultimately, if we are not able to work effectively together, we will all lose. Good information that is trusted is a foundation for that cooperation. .



“ How can a grower-organization move ahead without information that is trusted and available equally to all the players? ”

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VISIT OUR WEBSITE AT:
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Other News Available Online at www.PruneBargaining.com

The California Dried Plum Board has set the assessment rate for 2008 at \$40 per ton, unchanged from last year. Read how the PBA united forces with independent packers to elect a new Prune Board chairman and successfully blocked a proposed 10% increase in the assessment rate in an editorial by Neill Mitchell.

Why are California prunes superior? Ken Lindauer provides some food for thought on promoting California prunes in a world increasingly concerned with food safety.

USDA-National Agricultural Statistics Service forecasts the 2008 prune crop at 120,000 tons, up 48% from last year's meager harvest of 81,000 tons. But what was the extent of the frost damage? Find out online.

How much have your production costs increased per acre this year? How much will harvesting and drying costs increase? Find out what others are saying in the *Members' Only* section. (Current PBA members may call the office to obtain the current password to this section.)

What country is now the largest outlet for Chilean prune production? How do Chilean prunes compare in size to California? The answers may surprise you. Check out the *Members' Only* section.

