

SUPPLY & DEMAND

Critical News for Growers & Packers

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Even You Should Sign Up

An industry member was visiting in Glenn County this past week and was surprised at the number of growers who said they did not plan to sign up for the tree pull. Now many people consider Glenn County an above average production area, yet a number of PBA members in that area are signing up for the program. These growers are above average growers. What do they know that these other 'above average' growers seem to be missing? And why should you, an above average grower, sign up a block in the tree pull? Consider the following example and the table below.

Breaking Even; Why Pull?

A hypothetical Glenn County grower farms 200 acres of prunes (five, 40-acre blocks). In 2001 he hit his average production of 2.6 dry tons per acre or a total of 520 tons. His average price was \$750 per ton for a gross return of \$390,000. His cash cultural costs amounted to \$180,000 or \$900 per acre; office expense, property taxes, operating loan interest, and

cash overhead amounted to \$34,000 or \$170 per acre. Harvesting, hauling, dehydration, etc. amounted to \$175,000 or \$875 per acre. Total cash costs were \$389,000. The grower broke even! He thinks to himself, "I broke even, I just need to hang on; things are sure to improve once those below average growers south of here pull out their orchards."

Don't Bet the Farm

So what is wrong with this thinking? Let's take a closer look at the bet this man is placing. First of all, his main objective is to stay in business by at least breaking even and thus avoiding loss of equity (he gave up on the idea of profits a long time ago). So this man is betting that his production, his costs, and the price of prunes will remain the same or improve this year so that he will at least break even again. So he is passing up the free chips from the dealer and holding onto all of his cards.

What is wrong with this bet? After all, his average production is 2.6 tons per acre, well above the state average. Take a look at his

orchards. These are all good producers. One block has averaged 3 tons to the acre for the past 4 years. 3 other blocks have averaged 2.8, 2.6, and 2.4 tons respectively. His oldest block still makes the state average of 2.2 tons per acre. Isn't he better off betting that prices will improve and all of these blocks will be profitable in the future if he just holds out a little while longer?

Not really. Consider these figures. By pulling out the oldest 40-acre block (20% of his total) he will improve his average production from 2.6 to 2.7 dry tons per acre. The government will pay him \$41,000 for pushing the trees over (120 trees per acre times \$8.50). Even if he leaves the 40 acres fallow and receives no income from that 40 acres, his bottom line from the remaining prunes will improve by \$5,000—all things else being equal—and this is not counting the cash from Uncle Sam. So even if the price doesn't improve, the grower has improved his chances of survival. Farm less, earn more!

Big Risk, Small Return

By not participating, this grower is really gambling on the notion that other growers will pull out more than their share. Not likely—those growers to the south are hoping the same thing. The grower is betting the industry will reach its goal and there will be a quick return to profitability. So he intends to gamble that even though he doesn't pull out his 20% someone else will pull out 40%.

To illustrate how this translates to a large risk for a small return, let's assume that everybody else does participate and the industry reaches its goal. How much extra

200 Acre Prune Farm Comparison

	200 Acres in Production		160 Acres in Production	
	Total	Total	Total	Total
Acres Planted	200	160	200	160
Tons per Acre	2.6	2.7	2.6	2.7
Total Tons	520	432	520	432
Avg Value per Ton	\$750	\$750	\$900	\$900
Gross Return	\$390,000	\$324,000	\$468,000	\$389,000
	Per acre	Total \$	Total \$	Total \$
Cultural Costs	\$900	\$180,000	\$144,000	\$180,000
Cash Overhead	\$170	34,000	34,000	34,000
Harvest & Drying	\$875	175,000	140,000	175,000
Total Cash Costs	\$1,945	389,000	318,000	389,000
Return over Cash Costs		\$1,000	\$6,000	\$79,000

money will it mean to his operation to keep his 40 acres? If a 20% reduction in acreage results in a 20% increase in price, the average return per ton would go from \$750 to \$900 per ton. If the grower kept all 200 acres in production, at this price he would have a return of \$79,000 over cash costs. If instead, he was farming only 160 acres out of the 200 he would still have a return of \$71,000 over cash costs.

There is a saying that pigs get fed, but hogs get slaughtered. In other words, for a potential gain of \$8,000, the grower is willing to risk not ever getting the \$71,000, because without the participation of everyone, the potential improvement to the price will never happen. Run the numbers on your own operation and take action—don't delay.

Editorially Speaking

Neill Mitchell, PBA President

TREE PULL STUFF

Rich Peterson has already received hundreds of applications for the USDA-funded tree pull. He says there are still funds available and he encourages growers to sign up. He is hopeful that signups will continue to the point that a waiting list is established to ensure that all available funds are used.

If you have studied the application and feel that you may not qualify for the program, please submit it anyway, as there remains a possibility that we will have an additional Sunsweet/PBA program that could help you. We are seeing a lot of enthusiasm for the program so send in your application to help save the prune business and improve your own financial outlook.

The USDA comment period is now underway (ends Jan 16th) so it would be good if you feel like expressing yourself to fax or email to USDA and express your support (202-720-8938 fax, or email:moab.docketclerk@usda.gov) Too often, because we have overwhelming support for a

program, we don't feel it necessary to express our support but this enables the opposition comments to sometimes outnumber the positives. Contact the PBA office if you need help.

A FREE \$260 PER TON EXTRA?

Ken Lindauer called me last week expressing frustration that several non-PBA growers in his area probably benefited quite significantly from the PBA price agreement without contributing a dime to the organization. It happens that these people were selling to a packer that terminated their contracts and left them with very few options.

One of these growers was ready to accept a low ball offer which would have resulted in a dry price of about \$500.00 per ton. Those soliciting their prunes were telling them that a 2001 prune price would be impossible given the turmoil in the industry and the number of growers without contracts.

We have no way of knowing whether these fellows signed these low priced contracts, or whether the packer will enforce them, but we do know that at the time they were willing to sell their crop at \$500.00 per ton. The PBA price will bring most growers in the north valley over \$760.00 per ton, so I believe I can say that the hard work put in by the board and members of the PBA brought these growers an additional \$260.00 a ton.

Ken points out that many non-member growers know better than to be negative about PBA, but they just can't seem to get it into their heads that they could do better by joining PBA and working with the group that for the last 33 years has been setting their field price!

A VERY GOOD FRIEND IN WASHINGTON

Congressman Wally Herger has been a personal friend of mine since he was in the California Assembly. At that time our kids were in little league together so I had the privilege of getting to know Wally

on a personal basis. He has always gone the extra mile for his farmers and has done it again with his support of the tree pull. As most of you know, Office of Management and Budget held up the tree pull pending review and many of us were increasingly pessimistic about the outcome.

Wally Herger sent a letter to Mitch Daniels at OMB (along with the letter from our own Greg Thompson that the congressman forwarded). I realize that the tree pull became a reality due to the efforts of a great many people but the fact that the program was released by OMB just a few days after Congressman Herger's letter would lead one to believe that this effort carried the day.

I would encourage you to support Wally Herger in his reelection efforts and it certainly wouldn't hurt to write and thank him for his work. Greg Thompson, of course, is always there for the prune business and continues to do more than expected to make things better for growers. Our thanks to Greg too!

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To contact Congressman Herger you may write or send a fax to his Chico office: 55 Declaration Circle, Ste. 104, Chico, CA 95973. Fax: 530-893-8619.