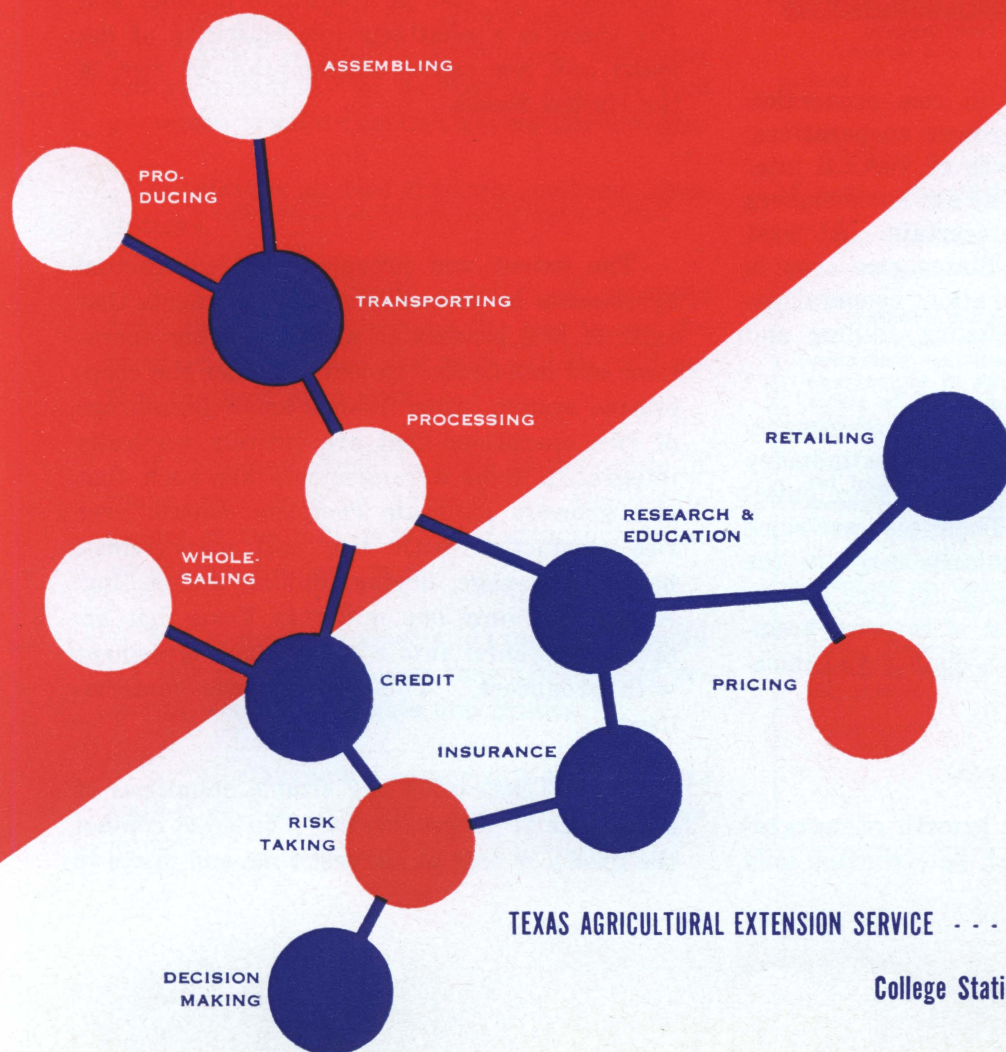


VERTICAL INTEGRATION IN TEXAS AGRICULTURE



Rice

THE TEXAS RICE INDUSTRY has been partially integrated for many years. Integration has come about primarily through rice producers' cooperatives and a few instances of producer control over the production and drying stages. Extensive integration is not expected in the near future. Guaranteed government prices and an ample water supply have enabled most producers to control their management practices through the production stage. The joint use of physical facilities, made possible by the concentration of rice farms in the same area, also has reduced the need for integrated practices in the rice industry.



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Nature and Growth

Rice production is not a simple farming enterprise. It requires much costly equipment and a high level of technical "know-how."

The nature of rice production changes continuously as new practices and techniques are developed, such as new varieties, fertilizers and weed, insect and disease control.

Much unofficial "contract farming" now exists in the Texas rice belt. Many rice producers have been their own integrators through the production, drying and storing stages. A large number of owner-operators are partially integrated in that they control the water supply, varieties planted, seed supply, quantities and kinds of fertilizers used, combining practices, transportation and drying operations. A few of these owner-operators may even own or control farm equipment businesses.

As vertical integration in rice production is confined primarily to grower cooperatives, the extent and future growth of vertical integration among producers who are not members of cooperative systems is uncertain. At least 20 percent of the United States rice crop is handled by vertical integration cooperatives which engage in drying, storing, milling and merchandising milled rice.

Few examples of complete vertical integration exist in the United States rice industry except for ownership of the retail store outlet for the finished product. There also are some scattered practices, particularly early in the harvest season, of contracting for rice still in the field on an agreed basis, with price premiums and discounts based on quality and moisture content.

Future Considerations

The rate of the future growth of integration in the rice industry can be estimated only

in terms of possible steps toward greater and more extensive control by mills, canal owners and the merging of rice lands into larger units. Many small rice producers now farm on a contract basis whereby they are furnished water, seed and fertilizer. The variety of rice grown is specified by the canal owners or rice mills.

The growth of integration in the rice industry has been affected by the following situations: (1) government programs minimize sale prices; (2) most rice producers are highly efficient operators; (3) few firms move in and out of the industry; (4) most rice producers have been able to keep up with advances in technology; (5) rice supplies generally have been ample; (6) an ample water supply is of major concern; (7) management efficiency is attained through a father-son combination of operation; (8) rice is a storable product and (9) there is a relatively low elasticity of demand and per capita consumption of rice in the United States.

Management Arrangements

The extent and prevalence of contractual agreements or management arrangements that exist in rice production and marketing operations are indefinite. However, under the cooperative system, other than a small percentage of rice operations that are entirely vertically integrated, some arrangements are such that rice growers maintain complete control over rice production with rice mill management handling storage, drying, milling and selling. At present, only one miller in Texas has attempted to enter into a contractual agreement with producers. This effort never materialized.

Some Texas mills buy sizable quantities of green rice from producers. The mills contact the producer only at harvest time and agree to

IN TEXAS AGRICULTURE

ice

purchase certain amounts of green rice with the stipulation that the producer bear the expense of getting the rice to the mill and back to his farm if it is rejected. The producer maintains complete control over preharvest operations in instances where the millers make green rice purchases.

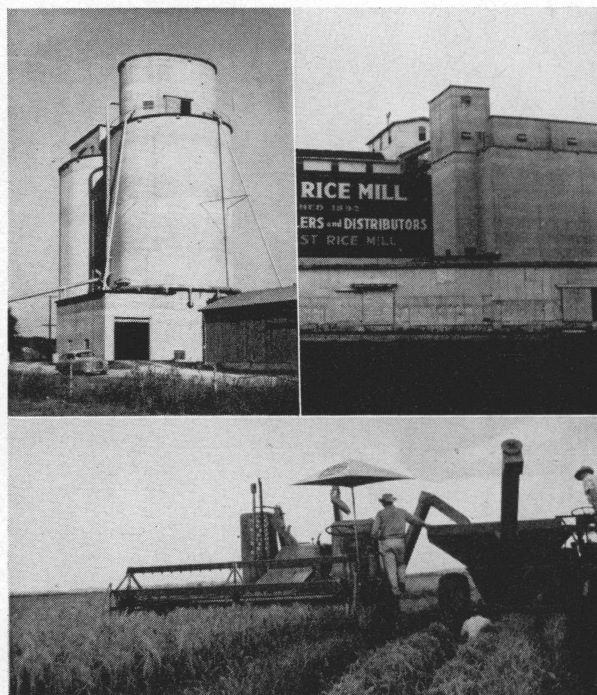
Guide Posts to Producers

Rice production is not conducive to inexperienced operators and cannot be managed easily by inexperienced mill or retail operators.

The final factor on which any guide post must be based is mutual trust in management decisions and equitable sharing of profits among the various people involved.

Guide posts that will afford each producer a fair share of profits, relief from assuming full responsibility in marketing his rice and guarantee a valid contract among parties are:

1. Market all rice through producer associations.
2. Producers should receive all proceeds from rice sales at the time the rice leaves the farm or a guarantee that they will be paid before the next crop year.
3. Grading should be done at the origin of rough rice sales or through an association grader at the mill, point of destination, or at association headquarters.
4. Producers or association members should not sell green rice unless they are sure of receiving accurate weights and grades.
5. All contractual agreements should be examined to see that they are fair to all concerned.



Several phases of vertical integration in the rice industry.

6. The most profitable alternative course of action should be pursued.

Vertical integration is the linking together of two or more stages of production, processing or marketing activities under one management. The key feature of vertical integration is the centralization of decision-making, risk-bearing and supervision.

This is the eleventh leaflet in the series "Vertical Integration in Texas Agriculture." Similar releases on crops and other livestock important to the Texas economy will follow.

By bringing together current knowledge and practices on vertical integration in Texas agriculture, the staff of the Texas Agricultural Extension Service and Texas Agricultural Experiment Station in the Department of Agricultural Economics and Sociology hope to help you make wise decisions in this matter.

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