

Government vs Private Nurseries: The Competition Issue¹

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Abstract.--The issue of competition between government and private forest tree seedling nurseries has been politically sensitive in recent years. An analysis of both the different types of nurseries and seedling markets provided an information base. The question of competition in the forest nursery business can be analyzed in terms of seedling price and quality in the open and closed seedling markets. Although some degree of competition between government and private nurseries is inevitable, a number of positive approaches are presented which can overcome or prevent serious problems.

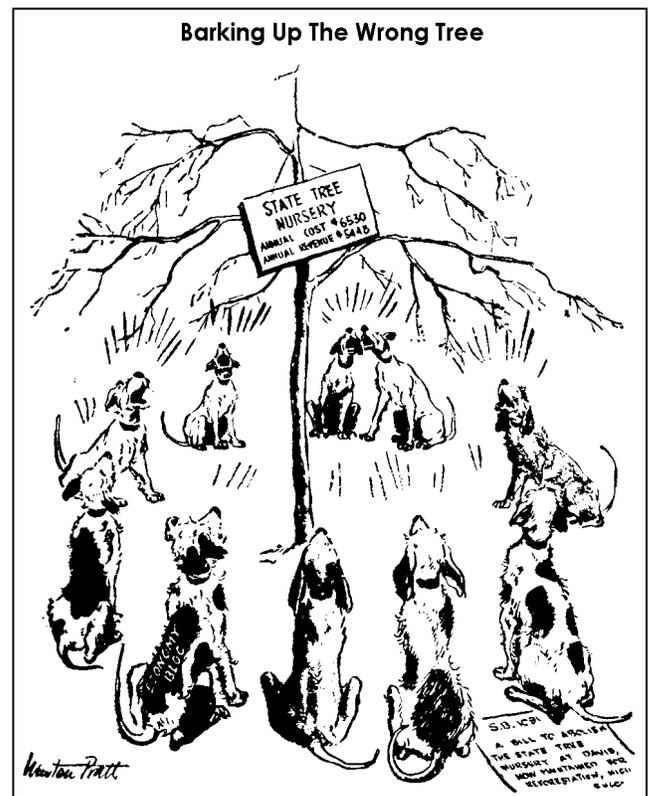
INTRODUCTION

Over the past decade there has been increasing concern over the issue of competition between government and private forest tree seedling nurseries. Advocates of nursery privatization have gone as far as introducing legislation both on the federal and state level to eliminate government-run nurseries. A recent informal survey was circulated to state forest nursery managers in the west to determine the extent of the government/private nursery competition problem. Survey responses indicated that all western nursery managers were concerned about the nursery competition issue, and that there was a serious problem in 29% of the states at the present time.

Actually, the government/private nursery controversy is not a new topic, but has surfaced several times in the past as evidenced by an editorial cartoon that appeared over 45 years ago (Figure 1). This cartoon was generated by the introduction of legislation that proposed the abolishment of the California State Tree Nursery at Davis. Apparently, the newspaper editors considered closing the state nursery a foolhardy proposition.

Responding to this widespread concern, the organizational committee for the 1987 Intermountain Forest Nursery Association

meeting decided to explore the nursery competition topic. Rather than have formal presentations expressing divergent, and sometimes polarized, points of view, an informal format was designed that encouraged communication and discussion. The facilitated small-group discussions generated a



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Figure 1.--The government/private nursery controversy as depicted in the Sacramento Bee, April 4, 1941 (courtesy of G.A. Ahlstrom)

comprehensive list of ways in which all forest seedling nurseries can work together to resolve, and possibly prevent, confrontation. This article was written to serve as an introduction to these small-group discussions.

The purpose of this article is to provide perspective on the government/private nursery controversy, which will hopefully lead to an increased understanding of the issues involved and some mutually acceptable solutions. Before we can analyze the government/private nursery issue, however, both the types of nurseries and the types of markets in the forest tree seedling business must be defined.

TYPES OF FOREST NURSERIES

Nurseries that grow woody plant seedlings can be organized into four classes:

1. Federal nurseries - these government nurseries, such as those operated by the USDA-Forest Service or USDI-Bureau of Indian Affairs, were established to produce seedlings for government forest lands. Most are prohibited from directly selling seedlings to other forest land holders or on the ornamental seedling market.

2. State nurseries - nurseries operated by state governments produce seedlings for a wider range of markets, including state forest lands, but also sell seedlings for conservation purposes on private forest lands. They are generally prohibited from selling seedlings for ornamental purposes.

3. Industrial nurseries - some of the larger forest industries have nurseries which produce seedlings for their own lands but also sell seedlings on the open market, including ornamental sales.

4. Private nurseries - these nurseries are operated by private individuals or corporations and sell seedlings for all purposes in any market.

TYPES OF MARKETS FOR FOREST TREE SEEDLINGS

There are two types of markets in the forest nursery business:

1. Open markets - seedlings can be purchased without restriction from any supplier. The open market consists of both large and small landowners who purchase seedlings from state, industrial, or private nurseries for a variety of conservation planting purposes.

2. Closed markets - customers are obliged

to purchase their seedlings from one supplier. Examples of closed markets can be found in both the government and private sectors. Tree seedlings for most federal forest lands are traditionally purchased from an associated government forest nursery. Some timber companies have also developed nurseries to produce seedlings for their own lands.

Another related, yet slightly different, market for woody plant seedlings is the ornamental seedling market which consists of seedlings sold for landscaping rather than conservation purposes.

DEFINING AND EXAMINING THE COMPETITION ISSUE

According to Webster's Dictionary, competition is defined as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms". The question of competition, therefore, hinges on the phrase "most favorable terms" which, in the tree seedling nursery business, breaks down into 2 components: price and quality. These two factors can be analyzed in both the open and closed seedling markets:

The Pricing Issue in the Open Market

Most private and forest industry nurseries set their seedling prices based on demand in the open seedling market. There are basically two pricing structures in the open market: "spot market" and "contract". Spot market prices are established near the end of the crop rotation and are dependent on the traditional economic forces of supply and demand. Contract seedling prices are set at the time of contract award, before the seed is even sown, and are controlled by the terms of the specific contract. Most smaller landowners purchase their seedlings at the spot market price, whereas larger landowners and government nursery organizations normally purchase open market seedlings by contract.

Many state government nurseries have traditionally kept their seedling prices low to stimulate tree planting for conservation purposes. However admirable this pricing policy may be, it actually fuels competition because it keeps seedling prices below the open market value. Private nursery managers have a valid case when they contend that these artificially-low priced seedlings may lure potential customers away from their nurseries. One solution to the price issue is to set state nursery prices higher than private sources such as is being done by the California Division of Forestry. Using the dictionary definition, competition between state government and private nurseries would be eliminated under this pricing policy.

The Quality Issue in the Open Market

Although there has been much discussion and interest about seedling quality, this attribute remains an elusive property. Much research has been done on this subject, but there is still no standard definition or procedure for determining seedling quality.

Seedling quality is also variable from region to region. Because of vast differences in outplanting site conditions and in the genetic constitution of a seedling, an acceptable seedling from one geographical area may not survive in another. This is often due to the fact that seedlings adapted to lower elevations and milder climates are less cold-hardy than local species and can be damaged, or even killed, when planted in areas with harsher winters.

The use of source-identified, locally-adapted seedlings is absolutely essential in conservation plantings to insure that the seedlings will survive and grow after outplanting. The use of source-identified seed is well supported in the scientific literature although it is conveniently overlooked in some unprofessional nursery transactions. The question of whether locally-grown seedlings are better adapted to local planting sites is not as clear, but this practice has been traditionally emphasized by foresters in climatically-diverse areas like the Intermountain West. This "source-identified, locally-adapted" concept is critical in the forest nursery industry because the general public might be tempted to buy tree seedlings based on general appearance and price rather than quality.

The need for source-identified, locally-adapted stock is not as critical to many ornamental tree seedling growers because they deal with "cultivars" that are selected for foliage color or some other ornamental trait. Because they are planted in landscape situations where environmental stresses are minimal, cultivars can be produced by many different nurseries and are normally shipped over wide geographical areas.

Seedling quality is also a function of what happens to a seedling after it is harvested from the nursery. Many nurseries can grow reasonably healthy seedlings, but are not equipped to properly handle seedlings through the storage and distribution phase. Most larger forest nurseries in the west, both government and private, have well-designed seedling storage facilities and handling procedures. In some states with smaller seedling programs, however, government nurseries are often the only ones who have properly designed seedling storage and delivery systems - facilities like refrigerated storage and distribution vehicles that take seedlings out to the customer (e.g. "Trees on Wheels"

programs run by several western state forestry organizations).

Seedling Price and Quality in Closed Markets

Many nurseries that produce seedlings for their own use generally set prices based on production costs, rather than open market value. The price of federal government nursery seedlings is annually computed based on the cost of production, and therefore seedling prices reflect both variable costs like fertilizer and fixed costs such as machinery depreciation. In the past, because federal nurseries sold seedlings to the closed government market, the question of price competition with private nurseries was somewhat irrelevant. Now that private nurseries are producing contract seedlings for federal forest lands, however, the price issue becomes more meaningful and competition is possible.

One of the most important issues concerning the future of government seedling contracts with private nurseries revolves around the issue of seedling quality: the proven ability of private nurseries to supply quality seedlings on a sustained basis.

1. Proven ability - Many private nurseries have shown that they have the ability to produce quality forest tree seedlings, although a few nurseries with first-time contracts have not performed satisfactorily. Established nurseries that have demonstrated a good seedling production record, however, can expect to continue to receive government contracts.

2. Quality seedlings - Although some private nurseries have shown that they can produce good quality seedlings, government foresters have had some serious problems with private nursery contracts. Many of these problems have centered around contract seedling specifications: one of the relevant questions here is whether anyone can really write contract specifications that define something as complex and controversial as a "quality seedling".

There is also a tendency among many government contracting officers to think of seedlings as inanimate production units - "widgets". These non-biologists mistakenly think that quality tree seedlings are like any other contract item and can be routinely produced by anyone with the proper equipment. On the contrary, the ability to consistently produce a high-quality forest tree seedling crop requires technical expertise and cultural ability seasoned by experience, in addition to a suitable nursery facility.

The quality issue is not restricted to government contracts with private nurseries. Government nurseries also have problems with seedling quality from time to time, yet government foresters are often discouraged from purchasing seedlings from other sources.

3. Sustained basis - This issue is a "catch-22" and must eventually be resolved over time. Unfortunately, many government agencies only issue single-year seedling growing contracts and award them to the lowest bidder. Individual private nurseries have no way to be certain that they will have part of the government seedling market from year to year. Because of this ephemeral demand, many private nurseries have no way to prove that they can fulfill government seedling needs on a sustained basis.

The federal government has been purchasing more seedlings from private nurseries in recent years. As an example of this changing policy, Region 6 of the USDA-Forest Service (Oregon and Washington) has gradually increased its contracting requests for privately-produced tree seedlings. The number of private nurseries with Region 6 seedling production contracts has risen from 6 in 1984 to 10 in 1987, and the percentage of the total seedling orders filled by private nursery contracts has increased from 8 to 14% over the same time period.

CONCLUSION: SOLUTION THROUGH COOPERATION

The solution to the problem of government/private nursery competition must eventually be resolved through the cooperative efforts of all the parties involved. As is true in animal ecology, competition between two different organisms rarely leads to direct conflict, but rather to some socially-acceptable modification in the behavior of each individual.

True to this ecological adage, a spirit of cooperation was evident in the small-group discussions during the government/private nursery session at this meeting. The opening statements of many participants reflected divergent viewpoints but, as they heard the positions of other group members, traditional barriers began to vanish. Two of the most significant observations to come out of these discussions were:

1. The government/private nursery competition issue is much more complex than most people originally thought. As is often the case, there are no simple solutions and increased communication between all concerned

parties is necessary to increase mutual understanding.

2. The situation varies considerably from one region of the country to another. What is true in the Pacific Northwest does not necessarily apply to the Great Plains or the South. Because of this regional variation, the problem should be treated on a local, rather than a national, basis.

As a product of these enlightening discussions, each group developed a positive list of ways in which all nursery managers can cooperate and resolve potential conflicts in the future (details of this exercise are reported in Session Two of the following article). Some of the more noteworthy ideas were:

1. Establish regional nursery advisory boards composed of representatives from both the public and private sector. The activities of these advisory boards would include planning and coordination, establishment of seedling quality standards, and conflict prevention.

2. Stimulate better communication between all types of nurseries to minimize potential conflicts and take advantage of opportunities to cooperate. This could include regular visits to other nurseries, and participation in local nursery associations.

3. Promote use of private nurseries for government seedling procurement, not only for excess needs, but as part of the annual program.

4. Each government nursery should develop a formal nursery policy that spells out their operating guidelines and how they relate to private sector nurseries with respect to potentially harmful practices like seedling marketing and surplus seedling sales.

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