30 cents extra gross revenue per wholesale pound, less a 20 cent variable cost, means there is 10 cents additional net revenue. If the harvester and the processor split this revenue 50/50 on finished pounds, each would gain 5 cents.

Harvester and Processor: .05 X 625 = $31.25

The new revenue share would be:

Harvester: $4.00 for 1000 lbs (base formula at 50%), plus 31.25 or $4.0313 per lb.

Processor: 625 lbs at $8.30 = $5187.50 less cost of $4031.30 for raw material; plus an additional $125 in variable costs, = 4156.30.

Processor gross margin is now $1031.20, or 3.12% higher than before, while the harvester also gets an additional 3.13 cents per lb.

As the non-binding formula arbitrator, it has been frustrating to me that the price formula could not accommodate such arrangements, because they would mean varying the percentage of wholesale revenue. Due to the contract arbitration decisions early in the program history, processors lost the incentive to make these arrangements, because there was no mechanism to enforce them via the arbitration system. The reason was that these costs were not recognized as admissible, as most early arbitrations focused on setting a fleet wide price both through the formula, and through the actual price paid per lb.

Historically the percentage of wholesale revenue varied considerably, despite there being a fleet wide price.

The practice of treating the non-binding price formula, which describes a percentage of wholesale revenue as the exact equivalent of the fleet wide price distorts crab marketing in a way that was not the case prior to rationalization.

It can be argued that these agreements can be made between the parties under the existing system. But the fact is, these contracts cannot be enforced under the current arbitration system, and for this reason, in my opinion, they are not likely to be made.

Recommendation:

Processors be allowed to negotiate certain variable costs with harvesters within the crab arbitration system if a) such costs are investments in creating a higher value product with a higher total return to industry, and b) harvesters are willing to share the risk that such attempts to increase value in the market place may not succeed.

That Processors be allowed to initiate arbitrations if necessary to enforce these agreements if they lead to pricing different than the existing price formulas.

Note: This issue was flagged in the 18 month review.