Raisin Marketing

program for exportable surplus may require government sponsored agency

H. R. Wellman

Condensed from an address by Dr. H. R. Wellman, presented at the hearing on the proposed Marketing Agreement and Order for California Raisins in Fresno, California, December 13, 1948.

The need for controlling the exportable surplus of California raisins may not *be the only* reason for a marketing program, but it is an important one.

The California raisin industry has about as large an exportable surplus as before the war. But it has lost, at least temporarily, a large share of the commercial export market which it had at that time.

A marketing agreement is needed to enable the industry to bring under effective control the exportable surplus of raisins. The objectives of such control would be first, to help recapture foreign markets, and second, to prevent the exportable surplus from unduly burdening the domestic market while foreign outlets are being regained.

Export Market

During the five years 1934–1938 this country exported an average of 61,000 tons of raisins annually, mainly to Europe. Export outlets absorbed 32% of the raisin packs entering commercial channels.

During the past four years 1945–1948, California's production of raisin grape varieties averaged around 1,600,000 fresh tons as against 1,200,000 tons in 1934–1938. On the basis of a drying ratio of four to one, this increase in production is equivalent to 100,000 tons of raisins.

Fortunately, expansion of wine consumption in this country has provided an outlet for the bulk of the increase in raisin grape production. But wine consumption has not increased sufficiently to absorb also the prewar exports of raisins.

Nor has the domestic market for raisins expanded enough to absorb the tonnage previously exported. Per capita consumption of raisins in this country during the past two years averaged slightly less than two pounds. The prewar 1934–1938 average, excluding relief purchases, was 2.2 pounds.

From 1934 to 1938 our shipments of raisins to Europe averaged 49,000 tons a year. In the past crop marketing season—1947–1948—our shipments to European countries other than to Austria and Germany totaled 11,000 tons. The large shipments to Austria and Germany were United States Army purchases for relief distribution in those areas.

International trade throughout most of the world has passed from private to government hands. Bilateral deals are in the ascendancy, and political considerations are influencing the terms of trade.

Great Britain, once the great free-trade nation of the world, now rigidly controls both her imports and her exports. Before the war she took nearly 26,000 tons of California raisins annually, despite a lower import duty on Australian raisins. Last season our exports of raisins to Great Britain amounted to only 2,000 tons, and this season from all accounts they will total exactly zero.

The British government has made, and apparently expects to continue to make, special deals with the governments of Australia, Greece, Turkey and other countries for its raisin and currant requirements.

Great Britain is not alone in resorting to direct deals. Sweden—in a commercial and payments agreement with Spain, concluded July 1, 1948—has agreed to import within quota limits by volume and value, various Spanish goods, including raisins.

Again,—and based on a commercial agreement between Norway and the U.S.S.R.—the 1947 list of Soviet exports to Norway included 500 tons of raisins.

Domestic Market

In addition to helping recapture prewar export outlets, control of the exportable surplus of California raisins is needed for still another reason. That reason is to prevent the exportable surplus from wrecking the domestic market.

Attempts to force upon the domestic market a quantity of raisins substantially in excess of normal requirements will likely result in a marked shrinkage in both prices and returns to growers.

The available evidence indicates that the elasticity of demand for raisins with respect to price is less than unity at the farm level. More raisins can be moved into consumption in this country at a lower price than at a higher price, but the gain in sales does not as a rule compensate for the reduction in price to growers. The result is that an increase in supply above normal domestic requirements is generally accompanied by a reduction in aggregate returns to growers.

Marketing

This situation arises in part from the nature of the demand for raisins and in part from the rigidities in the marketing system.

Raisins are used mostly as an ingredient in such things as bread and rolls, desserts, salads and candy. The cost of the raisins in these uses is only a part, and frequently a small part, of the total cost of the article. Hence, even a substantial drop in the price of raisins may mean only a small saving in making the article. While the use of raisins by the bakery trade and by housewives will tend to increase as prices are reduced, it seems reasonable to suppose that the increase would be modest rather than large.

The elasticity of demand with respect to price is lower at the farm level than at the retail level. Marketing margins tend to be more rigid than retail prices. For example, a decrease in the retail price of raisins resulting from increased supplies is seldom accompanied by a corresponding percentage reduction in the margins taken by packers, wholesalers and retailers. Transportation rates on raisins are almost wholly independent of the retail price of raisins.

The result of these relatively rigid marketing margins is that a small percentage reduction in the retail price becomes a large percentage reduction in the farm price.

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