

World-wide Grape Surplus

analysis of price-depressing effects of California's exportable surpluses on the grape product markets

S. W. Shear

Even the below-average California grape crop in prospect for 1954—forecast at a little less than the 2,475,000 tons harvested in 1953, also a below-average crop—may not enable the industry to dispose of all the state's price-depressing, exportable surplus of grape products—through regular commercial channels—that apparently will be available for the 1954-55 marketing season.

The small 1954 state crop gives the industry an opportunity of substantially reducing the large over-all surplus stocks of grape products in the next year, if prices are near the level of recent months.

Supplies of California grapes and grape products during the next few years are likely to be near the postwar level with crops averaging perhaps 2,750,000 tons a year. Such production would probably exceed national consumption by no less than the equivalent of 350,000 tons of grapes per year.

With consumer purchasing power near the high level of recent years—and with a continuation of the promotional programs for wine and raisins—national annual consumption of California grapes might remain near the recent maximum of 2,400,000 tons or 30.5 pounds per capita. That maximum consumption included 400,000 tons—five pounds per capita—as fresh table grapes; 600,000—7.5 pounds per capita—as raisins; and 1,400,000 tons—18 pounds per capita—as wine, brandy, and juice.

Foreign grape production is expected to continue to be large enough to hold prices down in world markets, restrict California raisin exports, and encourage wine imports into the United States.

Although progress is being made in recovering some of our large prewar sales of raisins to European countries, California exports on a strictly unsubsidized commercial basis will probably be held much below prewar levels—for several years at least—by import restrictions and limited dollar purchasing power in those markets.

Prices of all California grapes would have been drastically reduced had the federal government not subsidized all or part of the price of nearly 80% of the state's exports of raisins to foreign countries since the war.

Raisins are a key factor in the utilization and price structure of the whole

grape industry because nearly all California grapes not taken by wineries and the fresh grape market are used for raisins—about one third of the grape crop. Ultimately, nearly all of the state's exportable grape surplus—except fresh grapes—is diverted from domestic to foreign markets in the form of raisins.

Markets for other grape products influence and are greatly influenced by the domestic consumption of raisins; by the size of the exportable surplus and the measures used in disposing of it; and by the way export and domestic prices of raisins are determined.

California produces about 40% of the world's raisin output, and only about 70% of its pack is consumed in the United States. In contrast, the state produces about 5% of the world's wine, and the United States is on a net import basis. Peak imports of over six million gallons accounted for 4.4% of all commercially produced wine entering United States distribution channels in 1953.

The loss of nearly all the state's prewar commercial exports of raisins to Europe—which took about one fourth of its total raisin pack—is the chief reason the California grape industry has been depressed since the war by burdensome surpluses of grapes. Domestic consumption of fresh table grapes and of wine has increased just about as much as the state's total grape crop, but total raisin consumption has not increased. Per capita raisin consumption has actually decreased from 2.0 pounds, dry weight, before the war to 1.8 in recent years.

One of the most adverse economic forces the California grape industry has to contend with is the inelastic demand for, and consumption of, raisins in the United States.

Domestic demand for raisins is so inelastic that to induce consumers to eat 30% more raisins—the proportion of the pack disposed of as exports in recent years—would take much more than a 30% cut in growers' raisin prices. Retail prices of raisins would probably have to be cut so drastically that packers' prices to the trade would cover no more than costs of harvesting, packing, and marketing—leaving no return to growers for producing the raisin grapes.

Continuous efforts by the California grape industry are needed to maintain

domestic demand and per capita consumption and to help in reducing, controlling, and disposing of the substantial exportable surplus of grape products that California's present grape acreage can produce during the next few years.

Improvement in quality of grapes and grape products by organized industry efforts is needed to increase the demand for better products for which consumers will pay higher prices.

In a long-time industry program, it would seem wise to eliminate surplus production by reducing acreage to where supply and commercial, domestic, and export demand are in line at prices able to return a decent living to efficient growers with adequate vineyard holdings.

In the meantime, the industry needs to obtain a better balance between raisin and wine production by reducing the undesirably great variations between their outputs from year to year.

Several supply and demand characteristics tend toward the maintenance of relatively poorer returns for grape growing—over a period of years—than for tree fruit production.

Grapes require fewer years from planting to producing commercial crops—only three or four—than tree fruits require. Hence, good grape prices in years of exceptional demand—as in wartime or when consecutive short crops occur—encourage increased grape plantings that swell production and depress grape growers' returns more quickly than in the case of tree fruits. On the other hand, low prices reduce grape acreage more slowly than high prices stimulate plantings.

The rapidity with which vineyards can be brought into bearing makes them less costly to develop than orchards but likewise means that less capital value is sacrificed in pulling grape vines than fruit trees.

In planning and operating industry programs, consideration should be given to lessening the adverse effects of political and group action which experience has proved retards urgently needed adjustments in acreage, production, and marketing—adjustments that economic forces by themselves might otherwise bring about without undue interference.

S. W. Shear is Associate Agricultural Economist, University of California, Berkeley.