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APPLE INDUSTRY NEEDED

ACTIONS

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Outlook for Apple Production and Markets

Production of U.S. apples is expected to rise dramatically within the next five years. Much of the increase will come from large new acreage in Washington state. Smaller increases can also be expected from certain other apple producing states such as Michigan.

A recent study¹ by a Washington State University agricultural economist quantifies the expanded production which is expected from that state. According to this study Washington's apple production in an average year, by the early 1990's, can be expected to reach 110-115 million bushels. By comparison during recent years Washington has produced 65-70 million bushels. The study also indicates that Washington may produce as much as 125 million bushels in large-crop years of especially favorable weather.

Michigan's production is expected to rise during the next few years to approximately 23 million bushels in comparison to a recent average of 19 million bushels. This is based upon an analysis of the latest orchard survey data.²

With the expected increases in production from Washington, Michigan and other apple producing states, the U.S. apple crop is expected to average 50-55 million bushels more during the early 1990's than during recent years. Demand for fresh U.S. apples and apple juice is expected to continue to increase. The increases in demand are, however, unlikely to be sufficient to take all of

¹ O'Rourke, A.D., The Future Size of the Washington Apple Crop, Department of Agricultural Economics, Washington State University, Pullman, WA., Provisional Impact Center Working Paper No. 1.

² Ricks, D. and L. Bradford, "Michigan Apple Production Prospects for the 1980's, The Great Lakes Fruit Growers News, March 1984.

the large increases in future apple production. Inadequate demand growth for U.S. apples is especially likely if imports of apple juice concentrate continue at their very high recent levels. While the juice market has been the fastest growing apple market, since 1979 essentially all of the growth in this market has been filled by imported apple juice concentrate. Thus there has been no effective increase in demand for U.S. grown juice apples in recent years. If this continues it will add to future economic problems of U.S. apple growers as their production expands dramatically.

The large expansion in future production along with a smaller increase in demand can be expected to result in substantially lower prices and lack of profits to apple growers. A recent price prediction study by Washington State University³ indicates that average prices for packed Washington apples by the early 1990's may be inadequate to cover costs of packing, grading, and storage with a near zero return to the growers for their apples. Future years are likely to provide a low-price, economic crunch period for all growers throughout the United States including Michigan growers.

³ McGary, S.D. and A.D. O'Rourke, Implications for the Washington State Economy of Increased Apple Crops in the Next Decade, Department of Agricultural Economics, Washington State University, Pullman, WA., Provisional Impact Center Working Paper No. 3.

Industry Actions and Adjustments

In view of the problems and challenges facing the Michigan and U.S. apple industry during the next 5-10 years, there are a number of actions which can be taken to improve the situation. There are no easy, cure-all approaches, but the set of actions listed below can help the industry economics relative to the priority challenges. Some of these are actions which can be done by individual growers or marketing firms. Other actions require more broad-based industry efforts. This list is not intended to be all-inclusive.

I. Individual firm actions

A. Growers

1. Take out most old standard apple blocks--especially if they produce inferior quality fruit.
2. Do a better job on less acres.
3. Replant only enough acreage to produce no more total total production--with higher yields this means less apple acreage per farm, but more top quality apples.
4. Plant only market preferred varieties and modern planting systems which will produce top quality fruit.
5. Do close management of all production and harvesting operations for top quality.
 - a. Prune, thin and irrigate for large size with good yields.
 - b. Plant, prune, fertilize and spray for high color.
 - c. Pick, supervise and handle for minimum bruising.
 - d. Harvest at ideal maturity and get apples into storage as soon as possible.

6. Develop a strong marketing program for the farm's apples.
 - a. Develop solid outlets for fresh and processing.
 - b. Solidify strong long-term relationships with fresh packers, shippers and processors.
 - (1) Consider membership in strong co-op(s).
 - (2) Consider stock in proprietary fresh packer or processor.
 - (3) If have adequate volume, consider own storage or or packing house.
 - c. Co-ordinate closely with packing house, storage and processors for harvesting, handling, delivery and storage for top quality.
 - d. Invest in enough boxes to facilitate efficient harvest and marketing in large-crop years.

B. Packers, shippers and storage operators.

1. Solidify strong relationships with effective sales agency.
2. Take necessary steps to assure ideal storage atmosphere and temperature.
3. Fill and empty rooms quickly for top condition.
4. Co-ordinate closely with growers for best harvest timing, handling, delivery and storage for top quality.
5. Improve packing lines for minimum bruising and greater efficiency.
6. Gear-up capacity for packing lines, storages, boxes, etc. for increasingly larger sizes of apple crops.
7. Gear-up for more tray packs and efficient operations for trays.

8. Manage storages and packing houses so that growers are not penalized with low pack-outs for poor operations of storages or packing houses, but are rewarded with high pack-outs and returns if the grower brings in top quality fruit.
9. Expand demand as much as possible through all available means—emphasize non-price-cutting approaches.
10. Support and cooperate with Michigan Apple Committee on promotion and advertising.
11. Strive to limit overall production to a profitable balance with market demands.
 - a. Don't encourage growers to continue to plant beyond the capacity for market demand at profitable grower prices.
 - b. Caution growers about dangers of overproduction.
 - c. Provide best possible analysis and information about future markets and balance between orchard supply capacity and overall demand.
 - d. Rise above inclination to encourage more grower production to assure more tonnage for efficient plant operation, regardless of impacts on markets and prices.
 - e. Develop, continue, and implement incentives for quality fruit consistent with market preferences. Example: Are current packing house charges done to maximize incentives for quality fruit?

C. Processors

1. Expand demand for their firm's brands and products as much as possible through advertising, promotion, merchandising, new market thrusts and customer service—emphasize non-price-cutting approaches as much as possible.

2. Work with food manufacturers to aid and facilitate new product development.
3. Support and cooperate with Michigan Apple Committee on processed apple demand expansion efforts.
4. Explore joint venture marketing arrangements with strong brand manufacturers and/or cooperatives.
5. Integrate through ownership when possible into strong brand marketing.
6. For commodity processors market jointly through federated sales and marketing organizations.
7. Limit tonnage taken from growers consistent with market needs and profitable prices.
 - a. Acreage or tonnage contracts by co-ops.
 - b. Multi-year contracts by proprietary processors.
 - c. Co-ops encourage growers to limit plantings.
 - d. Co-ops limit membership.
8. Emphasize mutual needs with growers--e.g., U.S. grown apples vs. foreign concentrate.

II. Apple industry-wide actions

A. Strong, effective demand-expansion programs.

1. For all major markets--especially growth markets such as fresh and juice, but including applesauce and frozen too.
2. Generic apple promotion and advertising programs
 - Michigan Apple Committee
 - International Apple Institute
3. Co-operate and work closely with processors, food manufacturers and shippers.

- B. Keep industry supply increases in balance with demand.
1. Provide information to limit new plantings.
 - Washington state primary cause of the problem.
 - Michigan production increases more moderate.
 - Washington supply increases will cause price and market problems for everyone.
 2. Government stop subsidizing new irrigated apple acreage.
 3. Encourage selective removal of old, standard blocks.
 4. Some other alternatives which are likely to be economically effective, but unlikely to be politically feasible at this time.
 - a. Federal marketing order programs.
 - (1) allocate supplies to the major market uses.
 - (2) marketing allotments.
 - b. Government payments to remove apple acreage.
 - c. National, exclusive-agency bargaining for supply quantities in both processed and fresh markets.
- C. Limit imports of apple juice concentrate.
1. Imports needed in short-crop years and to fill market needs which U.S. growers can't fill.
 2. Total U.S. juice market increased by about 3 times since 1970.

Recently about 45-50 million bu. from U.S. apples
while about 40-45 million bu. from imported concentrate
 3. With expected increases in future Washington production of 40-55 million bu. and expected increases in future Michigan output of 6-10 million bu., U.S. growers going to need the market being filled by imported concentrate.
 4. Most effective approach would be an import quota or a sizeable tariff.

But difficult politically to achieve

Within the industry

With the administration and Congress

5. Current compromise position of the apple industry.

a. Implement countervailing duty law when imports are subsidized by foreign governments.

(1) Legislation for a very low tariff on imports—a facilitating step.

(2) Perhaps an intermediate step to higher tariffs later.

b. Work for some quality standards for imports as for domestic juice.

c. Expand total juice market through advertising and promotion.

d. Have a promotion assessment on imports comparable to that paid by U.S. growers.

D. A pricing system to strengthen grower pricing.

1. Processing

a. Bargaining association.

(1) Past—supported by P.A. 344 and federal bargaining law.

(2) Future—national exclusive agency bargaining legislation, including coopeatives.

b. Cooperative marketing through strong brands.

c. Large, federated sales agencies.

d. Producers exchange—a pricing cooperative.

2. Fresh market

a. Clearinghouse

b. Traffic association.

c. Pricing cooperative—like the celery co-op.

d. Fewer, large federated sales agencies.

e. Joint ventures with large, multi-product sales agencies.