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Marketing Challenges Facing California Agriculture



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Introduction

California's agriculture has been long and properly touted as among the most productive in the world. Less frequently cited, but nonetheless true, is the fact that agricultural marketing systems for California products are among the most sophisticated and technologically advanced bar none. Indeed, these marketing systems have nurtured a tremendous increase in output and productivity on the farm by making available new and distant markets both domestic and international. Many of today's common agricultural marketing processes, technology, merchandising methods, and institutions have their origin or their zenith in application in California. The brand names and associated standards of quality and merchandising of many California products including avocados are the denominators to which many competitors aspire elsewhere in the U.S. and abroad.

Past success, however, is no guarantee of the same results in the future. As many of you are acutely aware, new or heightened challenges are ahead in the marketing of California agricultural products, including avocados.

The challenges cut across virtually every aspect of marketing that you encounter in your business activities: rising competition in domestic and foreign markets, changes in consumer tastes and preferences, public policies (our own and others), product and technology development, and transportation, for examples.

In addressing these challenges, I have divided my remarks into two

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parts: (1) an overview of the current state of agricultural markets and marketing, and (2) a brief outline of what I believe to be some of the most salient future marketing challenges.

The Current State of Agricultural Markets and Marketing

California's specialty crops are emerging from a decade of roller coaster-like performance. The latter half of the 1970's was a period of rapid expansion on both the supply and demand sides of the market; the first half of the 1980's can best be characterized as chaotic.

Fortunately, near term market conditions appear to be stabilizing or improving, at least for some. Inflationary pressures in the economy are relatively low; domestic demand for food products at retail is growing marginally. Foreign demand, in substantial part because of the decline in the value of the dollar, is beginning to show some signs of recovery.

Few, however, see any evidence of return to the heady days of the late 1970's marked by a near 10 percent compound growth rate in the export market, inflation-boosted growth in grower prices, and a market psychology characterized by endemic inflation and impending global scarcity of natural resources and food supplies. The prevailing attitude appears to be one of cautious optimism for the near term, but major uncertainty for the longer term. Before turning to the sources of that uncertainty, let's pause to look briefly at some of the principal characteristics of current markets for California specialty crops, including avocados.

First, we should keep in sight that despite the fact that export markets are important for California specialty crops — very important for some — the domestic market remains dominant for most of them. In the case of avocados, the domestic market share is generally 90% or more. California with a population of 26.4 million, and a GDP which ranks it seventh among nations of the world, represents in itself a rich, expanding market with retail sales of fresh and processed fruits and vegetables currently totaling about \$3.5 billion annually.

Although we have lost some of our historic share of the domestic market for some specialty crop products as a result of competition from other regions and from foreign suppliers, it is clear that on balance as goes the U.S. market, so goes the California specialty crop market. Put differently, it is ours to lose.

Second, we should note some characteristics of our current export markets for specialty crops. These markets are relatively concentrated geographically. Combined, Western Europe, Canada, and Japan account for about 70 percent of our exports of fresh and prepared fruit product exports, about the same for avocados.

Note that these export markets are in high-income, industrial market economies. This characteristic reflects the relatively income-sensitive

nature of demand for specialty crop products. Note, too, that these markets are in many cases highly protected and because of their upscale, value-added nature are avidly sought by our competitive suppliers.

A corollary, important point is that California specialty crop producers and marketing organizations should have a long term interest in supporting policies, our own and others, that encourage economic growth throughout the world but particularly in the developing countries. There is a substantial body of evidence to indicate that as per capita incomes rise in the developing countries, demand for upscale, value-added products expands, thus potentially expanding import demand for specialty crop products of the type produced in California.

Major Future Challenges

As I perceive the murky future, the major marketing challenges for California specialty crop growers and marketing organizations fall into three broad, interrelated categories.

1. Attuning Supply to Effective Market Demand: Despite the high degree of vertical coordination which characterizes the specialty crop industries, serious disjunctures sometimes occur between supply and effective demand. Avocados may be in just such a situation as plantings and upgrading of orchards in the late '70s and early '80s come on line in the late '80s. But, today's mass merchandise food markets, domestic and foreign, are geared to a steady, dependable supply of products.

Sometimes these disjunctures occur because of events on the demand side, a change in government economic policy, or a political action at home or abroad. However, growers have a tendency to underestimate the collective effects of their own productivity. Whether through lack of alternative use of resources, inadequate information, the vagaries of nature, the perennial nature of some crops, or the economic structure of the farm production sector itself, production tends to overshoot or undershoot effective demand at prices expected by growers. Finding ways to cope with overshoot/undershoot phenomena will continue to be a major marketing challenge of the 80's and 90's.

2. Enhancing Productivity and Efficiency in Marketing: Enhancing the physical efficiency of delivery systems is vital and important to maintaining productivity and competitiveness. Although the data are not fully conclusive, there is reason to believe that productivity growth in marketing of agricultural commodities has not kept pace with on-farm productivity growth in the past decade.

To an economist, however, efficiency means more than simply raising the physical input/output ratio in marketing. The economist will enquire about other dimensions as well — efficiency of the market in discovering price and other terms of trade, efficiency with which information is passed up

and down marketing channels, efficiency with which consumer tastes and preferences are discovered, revealed, and capitalized upon.

We know that demographic trends are inexorably altering characteristics of food demand in the United States. We know that the influx of Hispanics and Asians as well as changes in palates of long-time residents are creating new ethnic-oriented markets. We know that an increasingly nutrition/health conscious society is spawning markets for foods produced with fewer chemicals, and challenging the adequacy of prevailing standards of grade, quality, and wholesomeness of our food supply. We know that our affluence and the increasing employment of women in the work force have greatly stimulated away-from-home consumption of food and the purchase of convenience and other kinds of marketing services with our food-at-home. It would be more correct to say we know something about each of these trends or emerging changes. We may not know enough about some of these markets and their undergirding socio-economic phenomena, their limits and potential, to formulate tenable long term marketing strategies.

3. Coping with Public Policies and Programs: The future direction of national fiscal and monetary policies, trade and development, agricultural, and food regulatory policies, could represent one of the major sets of challenges to confront California's specialty crop industries in the remainder of this century. How such policy issues are dealt with could have either chilling or positive effects on the economic environment for growers and marketing organizations alike.

In considering these types of broad economic policy issues, it is imperative to realize that they are globally linked and highly interdependent among each other. Although United States policy actions are central to what happens in the global economy, they are by no means the sole determinants of world economic performance. For example, consider our budget and monetary policies which condition such variables important to California specialty crop industries as national employment, national income, interest rates, trade balances, and exchange rates. One need only reference the recalcitrance of Japan and West Germany to fall in line with Washington jawboning to bring their macroeconomic policies in line with perceived U.S. macroeconomic interest to recognize our limitations in the world economy.

Just as immediate, and related to the former, are international trade and development policies. Here, too, we are important, but by no means the only important player on the world scene. In perhaps no other policy arena, save possibly agriculture, are our policies more fraught with inconsistencies and in more serious disarray. We espouse "free" or at least "freer" trade, particularly on the part of others; but our actions speak loudly of protectionism. We seemingly fixate upon bilateral and sectoral trade issues and policies when trade can be realistically promoted only in a multilateral, multisectoral context. We insist upon other countries reducing or removing trade barriers but rationalize our own. We promote on the one hand, economic growth in the developing countries in part to enhance long-term U.S. export opportunities; but on the other hand, propose barriers to the transfer of technology to permit that growth.

Trade policy proposals pending in the Congress should be cause for grave concern on the part of U.S. agriculture, specialty crops included. While threats of retaliation to countries maintaining unfair trade barriers against U.S. products and those who run constantly high trade balances with the U.S. are appealing to some, the result would be to seriously constrain the President's negotiating abilities and almost surely invite

retaliatory trade measures by affected countries. These proposals strike me as policies to reduce, not promote or expand world trade.

In my judgment, domestic agricultural policies are in such serious disarray as to be untenable. An encouraging aspect is that public and agricultural recognition of this dilemma is growing. Also encouraging is the recognition that these domestic policies affect our ability to negotiate more favorable trade policies. The apparent willingness of agricultural ministers and negotiators to couple multilaterally domestic agricultural policy reform with agricultural trade adjustments is positive and reflective of a recognition that the two cannot be divorced if resolution is to be achieved. Whatever courses of action are taken, they could have important spillover effects on California specialty crop industries.

Finally, it seems abundantly clear that the specialty crop industries and others face a serious challenge in emerging environmental and food safety regulation. The issues are not ephemeral. They will be contentious and explosive policy issues in the years immediately ahead. Witness Proposition 65 and the recently-issued N.A.S. report on risks in the food supply posed by chemical compounds. More and more stringent regulations are on the way in the course of the next several years related to field production, processing, and marketing of food with or without risk assessments deemed to be adequate by scientists. These regulations could impose substantial costs on the food industry. Depending on the availability and economic feasibility of alternative technologies and production systems and the rapidity with which regulations are effectuated, these regulations could erode the competitiveness of California specialty crops in both domestic and foreign markets. One would hope that in the interest of promoting a "level playing field," the same standards would apply to imported foods as to those domestically produced.

In conclusion, there can be no doubt that the marketing challenges facing California agriculture are numerous and complex. We cannot turn back time to a simpler, less complex era. The challenges come down to three I's — Invent, Innovate, Improve. I am interested in how you propose to Invent, Innovate, and Improve to meet the challenge of the future, and how we at the University of California can be of appropriate assistance in helping you to do so.