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The Raisin Industry Federal Marketing Program

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Following World War II, the California raisin industry found itself with the capacity to produce more raisins than the world market could consume. Wartime allies to whom raisins had been supplied were in severe economic recovery conditions and unable to purchase other than basic foodstuffs.

Raisin producers were made aware of a federal law, the Marketing Agreement Act of 1937, which allowed them to join together for clearly identified purposes and not be subject to anti-trust action. The provisions of this law that appealed to the raisin industry were minimum grade and condition standards and volume controls. The provisions referred to as "volume controls" are somewhat misnamed since the law specifically prohibits limiting production by growers.

After a series of grower meetings, the development and submission of a proposal to the U.S. Department of Agriculture (USDA), and the discussion of the proposal at a public hearing and a producer referendum, the Federal Marketing Order Regulating the Handling of Raisins Produced from Grapes Grown in California was made effective in August of 1949. To establish or amend a federal marketing order, the proposed provisions must be approved by a two-thirds majority (by number and/or volume) of those producers who vote in such referenda. Since the Raisin Marketing Order was established, fourteen amendatory hearings and referenda have been conducted.

The Raisin Marketing Order is administered by the Raisin Administrative Committee (RAC), which in 1998 was made up of 47 members and 47 alternate members. These 47 positions comprise 35 grower representatives, 10 handler representatives, 1 public representative, and 1 representative of the Raisin Bargaining Association. The RAC employs a management staff. All actions of the RAC are submitted to the USDA for review and approval.

The immediate challenge to this new industry program was the disposition of "surplus" production. In the first such "disposal," approximately 20,000 tons of raisins went to cattle feed. It was quickly realized this was not an economically sound use of the raisins, compliance and physical accountability were challenging, and such use really did not offer any desirable long-term opportunities. Industry leaders turned to USDA representatives for advice and direction.

With the help of the USDA representatives, the vision and tenacity of industry leaders, and financial support from government programs, thousands of tons of "surplus" raisins were sold to the German and British markets in the early 1950s. As the economies of these markets recovered in the late 1950s and the industry experienced weather-related drops in production, the raisin industry was able to abandon government financial support and implement industry programs to dispose of their total raisin production.

FOREIGN COMPETITION AND QUALITY CONTROLS

The operation the of the marketing order is far too detailed to be included in this overview. However, some knowledge about the competition of dried grapes from foreign producers is important to understanding how the program was developed and implemented. Here is a brief review of this competition.

The world marketing of dried vine fruit from Australia and South Africa has traditionally operated under a government-sanctioned monopoly. Export sales from these countries were handled by a single agency through designated single agents in specific countries or areas. These government-sanctioned organizations established prices, allocated volumes, and set terms and conditions of sale. They were in the process of being abolished at the time of this publication. They are being replaced by producer-administered marketing organizations.

Dried vine fruit production in Greece is supported by the European Union (EU). Under a program called *intervention,* the EU purchases 'Sultanas' that were not marketed through normal channels during a marketing season. Producers are guaranteed and paid an established price based on the area of their 'Sultana' production (hectares). No minimum quality or condition standards are imposed on the grower's 'Sultana' production.

In Turkey, the government sets an annual target price. If packers are unwilling to pay growers this target price, the growers can deliver their 'Sultanas' to the Taris Cooperative, which is supported by government funds. Improvements in farm cultural practices and packing facilities have advanced rapidly in recent years.

Chilean raisin production is mostly a salvage operation from the fresh grape industry. Afghanistan and Iran produce 'Sultanas,' but no statistics suitable to our purposes are readily available. Marketing of Afghan and Iranian 'Sultanas' in hard currency markets of the world has been very limited in recent years.

Australia and South Africa market a significant part of their annual production to their own domestic markets, generally at a premium price. Essentially all of the annual production of the remaining producing countries (excluding the United States) is disposed of in export markets. The cost of labor for both farm and packinghouse workers is very cheap in all countries except Australia and the United States. In many of these countries, the daily wage is less than the hourly wage is in the United States.

Based on this information, the RAC has utilized two basic provisions of the Marketing Agreement Act in developing the marketing order program. The first provision is implementation of grade and condition standards. Simply stated, all natural-condition raisins acquired by handlers from producers and all processed raisins shipped to normal markets are required to meet minimum grade and condition standards. These minimum standards have been developed by the RAC and approved by the USDA. The RAC employs the USDA Inspection Service to inspect all regulated raisins to determine whether or not they meet the established minimum standards.

MARKET STABILIZATION THROUGH VOLUME CONTROLS

The second provision of the Act utilized by the Raisin Marketing Order is in regard to volume controls. As previously stated, *volume controls* is a misnomer, since the Act specifically prohibits the implementation of regulations that limit the volume of raisins a grower can produce. A more descriptive term may be *market allocation* or *market discipline.* The objective of the marketing order, and the declared policy of the Act, is to maximize returns to producers. Thus, the annual implementation of "volume controls" is intended to effectuate the declared policy of the Act.

The annual implementation of "volume controls" and the disposition of raisin tonnage in each reserve pool have taken many forms since establishment of the marketing order. Each of these programs has been proposed and implemented with the objective of effectuating the declared policy of the Act by maximizing returns to raisin producers. A recap of these historical programs is not included in this publication, but the current program is outlined as follows.

Establishing Free Tonnage Trade Demand

At the beginning of each crop year (on or before August 15, before significant raisin tonnage is produced) the RAC reviews raisin disposition statistics for the prior crop year (August 1 through July 31). The free tonnage trade demand for the current crop year is then calculated utilizing a formula developed by the RAC and approved by the USDA. This annual trade demand is computed by converting the prior crop year's free tonnage shipments by the average of the prior five years' shrinkage (processing loss) to determine a base tonnage of natural-condition raisins. This base tonnage is intended to reflect the volume of natural-condition raisins that were needed to supply the packed tonnage marketed during the prior crop year. This base tonnage is reduced by 10 percent, and the adjusted base further modified by the physical inventory minus the desirable inventory. The computation for the 1997–1998 crop year for natural (sun-dried) seedless raisins is given in Table 2.1.

The purpose of this exercise is threefold:

Table 2.1 Raisin Administrative Committee 1997–98 marketing policy for natural seedless raisins

	Natural seedless raisins
Base shipments (packed tons	294,406 tons
÷ Shrink factor (5-year average) (shrink percentage 6.244%)	÷ 0.93756
= Base tonnage (sweatbox tons)	= 314,013 tons
× 90% formula	× 0.9
= Adjusted base	**= 282,612 tons**
Physical inventory 07/31/97	92,769 tons
– Desirable inventory	– 62,555 tons
= Inventory adjustment (+ or –)	**= –30,214 tons**
Adjusted base	**282,612 tons**
– Inventory adjustment	**– 30,214 tons**
= 1997–98 trade demand	**= 252,398 tons**

1. to announce the base tonnage on which volume control percentages will be considered and, if determined to be needed, established

2. to provide growers with a base tonnage upon which they can estimate percentages and make decisions on utilizing their grape crop estimate

3. to provide handlers a basis upon which they can estimate percentages and make decisions with regard to the volume of raisins they need to acquire from producers to obtain a supply that will meet their estimated demand

In early October (generally on or before October 5), the RAC estimates the raisin production and, based on the announced trade demand and built-in elements in the formula that protect against errors in the crop estimate, computes and announces preliminary free and reserve percentages. Once announced, the free percentage may be increased but cannot be decreased, and for this reason the RAC included the important built-in elements for computing and announcing volume control percentages. When percentages are announced, each handler's reserve pool tonnage is computed and each handler is required to advise the RAC management and field representatives which stacks of raisins on their premises are being held to satisfy their reserve pool obligation. These stacks of raisins are identified and maintained under the RAC surveillance until the handlers are relieved of their reserve obligation either through sale and release or delivery of such raisins for transfer to another handler.

Managing the Reserve Pool

Reserve pool raisins are disposed of through offers developed and announced by the RAC. The rules for allocation of such offers are outlined in the provisions of the order and included in each offer. Reserve tonnage raisins may be offered for free tonnage use (10 + 10 offers, 105% offers, or inadequate carryout); government food programs, direct or blended export programs, or disposal in non-normal outlets. Three of these disposition possibilities have been most commonly used and are discussed below.

The marketing order contains provisions for offering raisins for free tonnage use. One of these provisions has come to be known in the industry as *10 + 10 offers*. As noted earlier, when computing and announcing the annual trade demand, the RAC arbitrarily reduces the prior year's shipments by 10 percent. The tonnage represented by this 10 percent reduction (in Table 2.1, 31,401 tons) becomes the first “10” in the 10 + 10 offers, and the RAC offers this stock to handlers based on their prior year's acquisitions as a percentage of total industry acquisitions. The objective is to make enough tonnage available to the industry to allow it to meet the same shipment volume as in the prior year. 10 + 10 is only an offer, and no handler is required to accept any of the tonnage offered. The offer price is kept higher than the announced field price in order to encourage handlers to get their tonnage directly from growers and create an active market, rather than wait and purchase tonnage from the reserve pool.

The RAC offers the second 10 percent (in the example above, another 31,401 tons) based on each handler's prior year's shipments. This 10 percent is intended to provide handlers with the tonnage they anticipate they will need for market growth. The price per ton is the same for both offers. Any tonnage that remains uncommitted after the initial offers is re-offered by the RAC to those handlers who have accepted 100 percent of their initial offered tonnage, and is allocated based on the tonnage accepted in the initial offers. Any unsold tonnage from these offers remains in the reserve pool.

RAISIN DIVERSION PROGRAM

In the early 1980s the U.S. government implemented a *Payment in Kind* (PIK) program for cotton producers. Under this program, the government gave cotton that was already in government storage to producers who agreed to fallow land on which they had historically produced cotton. Such cotton was not physically given to each grower, but certificates were issued that the growers could sell to cotton buyers, who could in turn use them to get the cotton released from the government storage.

This program was reviewed by the committee, and that review led to the development of the industry-funded Raisin Diversion Program (RDP). This program's intent is to avoid overproduction that would add to raisin stocks in storage when they were already adequate to meet the next year's market needs and opportunities. The program diverts some raisin acreage into non-production of grapes for that season. The industry can draw on raisins that are already in the reserve pool and stored on packers' premises plus the current year's raisin production to meet the projected market demand. The program works like this:

On or before the end of November, the RAC reviews supply and demand statistics and determines whether (1) an RDP is warranted and (2) reserve tonnage is available for diversion. Growers who wish to participate in the program submit applications to the RAC reporting the size and location of the production unit they want to divert, the tonnage of raisins produced on this unit during the last crop year, the packer to whom those raisins were delivered, and whether they will remove the vines or divert (abort) the grape crop on this unit. The RAC staff reviews each application, and if it complies with the announced provisions of the program (in some years this includes a lottery drawing to determine participation), the producer is sent an approved copy of the application.

Beginning in June and before a grape crop can have been harvested, an RAC compliance examiner visits each production unit to determine whether the vines have been removed or the grape crop aborted. Abortion of the grape crop is generally accomplished by spur pruning the vines and, if necessary, removing the few bunches that may develop when the bunches of grapes are very immature. Each producer is notified of the results of the examiner's visit to determine whether the vines have been removed or the grape crop aborted.

The RAC staff then uses delivery reports submitted by the packer during the prior crop year to verify the weight of the raisins produced on each production unit. After the subsequent raisin crop is produced (generally in early October), the RAC mails the producer a diversion certificate equal to the weight of raisins produced on the qualified production unit in the prior crop year.

The producer delivers that certificate to a packer the same as if he or she were delivering raisins. Since such producers have no harvest costs, the packer deducts the estimated harvest cost (determined and announced by the RAC when the diversion program is announced) from the packer's payment to the grower. The packer then submits the certificate together with the amount of the deducted harvest cost to the RAC and an equivalent weight of raisins is released to the handler from reserve tonnage. The packer handles this tonnage just like a new crop delivery from any raisin producer, including application of any volume controls that may be required for the current crop year. This program is funded entirely by the raisin industry. No government funding is used for administrative or reserve pool subsidization.

A 10-year summary of raisin deliveries by varietal type appears in Table 2.2. It shows the relative importance of each category, including adjustments when the Raisin Diversion Program was implemented.

Table 2.2 Raisin deliveries by varietal type, 1988–89 through 1997–98, including Raisin Diversion Program (RDP) tonnage from grower certificates

	Deliveries (*sweatbox tons*)									
Varietal type	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Natural seedless	379,053	395,501	357,249	352,659	371,516	387,007	378,427	325,911	272,063	381,137
Dipped seedless	10,433	14,124	10,757	10,395	13,580	16,737	16,193	11,163	12,814	18,372
'Oleate Seedless'	39	41	32	103	40	175	373	279	792	1,097
'Golden Seedless'	18,233	15,518	19,529	16,403	22,753	21,101	17,651	27,044	20,980	21,754
'Zante Currant'	4,128	3,837	4,397	4,194	4,689	5,643	5,377	3,294	4,491	4,826
'Sultanas'	287	268	245	258	273	319	266	130	125	192
'Muscat'	270	94	534	200	41	166	217	150	116	77
'Monukka'*	843	902	1,229	761	608	590	757	628	464	732
Other seedless	2,628	2,265	1,362	2,232	2,580	5,694	2,628	2,159	1,976	3,476
Totals with RDP diversion	**415,914**	**432,550**	**395,334**	**387,205**	**416,080**	**437,432**	**421,889**	**370,758**	**313,821**	**431,663**
RDP tonnage-	49,447	—	—	39,833	24,746	49,482	—	61,098	2,051	—
RDP 'Zante Currant' tonnage (1995–96 only)								478		
Totals without RDP diversion	**366,467**	**432,550**	**395,334**	**347,372**	**391,334**	**387,950**	**421,889**	**309,182**	**311,770**	**431,663**

*Separated into 'Monukka' and "Other seedless" in the 1988–89 crop year.

RDP tonnage represents projected natural seedless tonnage that would have been produced on acreage where crop was aborted. The number represents the total tonnage represented by grower RDP certificates.

GOVERNMENT PURCHASES

The raisin industry has had the good fortune to have raisins included in government food programs for school lunches, hunger prevention, and government institutions. The RAC periodically establishes a price and tonnage of reserve available for government food programs. Invitations to submit bids are announced by the USDA, and handlers submit their bids pursuant to the terms and conditions of such invitations. When successful bidders are notified they can choose to purchase reserve tonnage to fill their bid or ship free tonnage and replace it with reserve tonnage. Documents must be submitted to the RAC to substantiate shipments of raisins to fill successful government bids.

STAYING COMPETITIVE IN EXPORT

In order to be competitive in export markets, the RAC, with the approval of the USDA, offers *blended price* programs to handlers. These programs reimburse the handler for the difference between the regular market price and the lower export price, either by offering that value to the handler as 100 percent reduced-price reserve tonnage, 50 percent reduced-price reserve tonnage + 50 percent cash, or 100 percent cash. To someone unfamiliar with these programs, they may appear quite complicated, but they are in fact fairly simple.

The USDA has interpreted that both the domestic and export markets are to be supplied from free tonnage. Experience has shown, however, that if any volume of raisins is desired to be marketed in export, the prices have to be competitive with those of dried vine fruit from other countries, and that generally means selling the raisins for a price below the RBA (Raisin Bargaining Association)/packer-negotiated field price. The RAC does not set or become involved in the establishment of free tonnage prices.

If Japan is used as an example of the 100 percent cash adjustment program for exports, with an established free tonnage price of $1,160 per ton and a desired export blended price of $920 per ton, the following would occur. A handler would process and export free tonnage raisins and provide the RAC with copies of an endorsed on-board bill of lading substantiating the export of such raisins to Japan. From this documentation, the RAC would identify the type and number of cases of raisins exported and compute the natural condition equivalent weight for each shipment. For each ton of raisins (natural condition equivalent) documented, the RAC would pay the handler $240 ($1,160 – $920 = $240) as a cash adjustment from the reserve pool equity. Whether reserve tonnage at a reduced price, 50 percent reserve tonnage + 50 percent cash, or 100 percent cash adjustment is used for blending export prices, the impact on the producer's reserve pool equity is virtually the same.

THE MARKETING ORDER IS AN INDUSTRY PROGRAM

The Raisin Marketing Order, like all marketing orders, is not a government-imposed program. This program was proposed by industry, supported by industry at a public hearing, and approved in a referendum by more than two-thirds (either by number or volume) of the producers of raisins produced from grapes grown in California who voted in the referendum. Once approved, this order became federal law enforceable by the U.S. Department of Justice. The USDA, pursuant to the Marketing Agreement Act of 1937, is responsible for administrative oversight of this program and thus reviews and approves all recommendations from the RAC. USDA oversight ensures compliance with the provisions of the Marketing Order and the declared policy of the Marketing Agreement Act.