



Zanger joins AIC board

Joe Zanger, a fruit grower and the family member in the Casa de Fruta operation in San Benito County, has accepted an invitation to join the AIC board and attended his first board meeting in June. Zanger is also a leader in the California Farm Bureau Federation (CFBF) and an agricultural leader in his industry and region. He chairs the CFBF Trade Committee and represents horticultural crops on the U.S. Department of Agriculture's Agricultural Technical Advisory Committee.

Since 1908 when family ancestors planted the first orchards in the Pacheco Valley, Casa de Fruta has grown into a diversified operation encompassing a wide range of agricultural and retail business ventures.



Joe Zanger

China intrigues California wine industry

The export of California wines to China has been a veritable roller coaster over the last 10 years, going from nearly zero in 1995 to more than 50 million liters in 1998 and then dropping over the next three years. Since China's entry into the World Trade Organization, exports have been on the rise, but California remains a distant fifth in the race to supply the foreign wine sector of the China market, lagging behind France, Italy, Australia and Chile.

To help California expand its presence in China's emerging consumer market, the AIC, in research led by Scott Rozelle and Daniel Sumner, has teamed with the California Association of Winegrape Growers to conduct a series of surveys to identify obstacles to California wine sales in the Chinese market.

A survey of supermarkets in China, the venue where most Chinese consumers make their wine purchases, shows that although California wines have made it onto the shelves of both foreign and domestic chains, their

niche is small and often absent. In stores that sell foreign wines, less than half carry California wines. The shelf space share of all foreign wines in these retail outlets is only about five percent. California wine was the leading foreign wine in only two out of 60 stores surveyed.

The biggest obstacle seems to be a lack of awareness that California produces premium wines. In most hypermarkets and large supermarkets (such as the new Wal-Mart store being built in Beijing), there is a salesperson assigned to the "wine row." During the survey, the "wine row" salesperson was always asked, "Can I buy a California wine in this store?" The question got a variety of responses from "No, you cannot!" (the surveyor, AIC Associate Director for China Programs Scott Rozelle, was holding a bottle of Woodbridge wine in his hands that he had just picked up off the bottom shelf) to "We only carry 'old world' wine from countries such as France, Spain, Argentina and Chile." (It is odd to think that Argentina and Chile were lumped into

Europe in this response.) Or “I did not know you could make wine in the United States.”

All of these illustrate the job of promotion that the California wine industry is facing if it wants to sell more wine in China. French wineries encourage sales with tastings, flyers and promotional offers (buy a bottle of French wine, get a bottle of Coca-cola for free!). In very few cases were California wines ever put in special displays, actively promoted or advertised.

The researchers have also surveyed California wineries that are selling wine in China, those that have tried and failed, and those that wish they could, but have not been able to break into “the China market.”

Exotic pest control benefits outweigh costs

Government programs to control exotic pests seem to be a good buy for consumers, taxpayers and agricultural industries. An AIC study shows the costs associated with the probability and severity of exotic pest invasions without control programs are likely to be much greater than the costs of the programs.

The researchers—Daniel Sumner, Henrich Brunke and Marcia Kreith—reviewed the major pests facing California agriculture and the major commodities that are at risk. They identified government activities and costs associated with managing the pests, including costs incurred by the California Department of Food and Agriculture and the federal government, including the USDA Animal and Plant Health Inspection Service, the USDA Commodity Credit Corporation, and activities assumed by the Department of Homeland Security.

They found that approximately \$450 million were spent by the state and federal governments to control exotic pests and diseases of plants and animals in California during the 2003 state and federal fiscal years. Approximately 44 percent of the total expenditures in that year were used to control exotic Newcastle disease, Pierce’s disease and the glassy-

winged sharpshooter.

Total government outlays on pest control in California amounted to approximately 1.6 percent of the value of cash receipts for all of California agriculture during the 2003 fiscal year. State expenditures equaled 0.45 percent of the value of agricultural cash receipts.

AIC researchers conclude that domestic benefits from government control programs for exotic pests outweigh costs many times over.

Partial funding for the study was provided by the California Institute for the Study of Specialty Crops at California Polytechnic State University, San Luis Obispo.

Changes drive California agriculture: climate change adds to the mix

California agriculture has substantially changed decade by decade for more than 150 years. Drivers include changes in relative prices of commodities and changes in technology, infrastructure, population growth, subsidies, management and human capital, and marketing systems.

During the next few decades, change will accelerate as a 50 percent increase in global population increases demand for food. The doubling of incomes in Asian countries every decade also creates a huge new demand for fruits, vegetables, meat and dairy products. Other changes will include shifts in production capabilities in the United States and even faster shifts in developing countries, continued movement toward agricultural comparative advantage as markets are opened, and climate change.

Between 2001 and 2030 increased crop yields in California from technological change are expected to increase the value of food production in California by 43 percent. Increased yields from a warmer climate and increased atmospheric CO₂ may add another 15 percent to the state’s crop value, and shifts to higher value crops will add 10 percent.

These increases will be offset by a 10 percent decrease caused by a loss of farmland from urbanization and other nonagricultural uses. Overall, California agriculture will still see a net production value increase of 58 percent between 2001 and 2030.

(Based on the presentation by Daniel Sumner at the Climate Change Symposium sponsored by the UC Davis John Muir Institute, May 12 and 13, 2005.)

Successful product differentiation may increase profits

Producing superior tasting and appealing products, products that are environmentally friendly and have health benefits, and marketing locally are just some of the ways growers can differentiate their products and command a higher price. Growers also can also increase income by producing for markets that have differentiated standards, such as fast food chains.

In addition to creating a better product, producers must invest in an appropriate level of marketing, control production costs, make sure supply is matched with commitments and maintain consistent quality.

However, certain barriers to entry are necessary to sustain the value created by product differentiation. Otherwise imitators will soon flood the market and drive profits to zero. Barriers can be regulatory, technological, geographic, capital costs, or marketing and brand identity.

(Based on the presentation by Bruce Babcock at the 2005 Spring Agricultural Outlook Conference sponsored by the AIC and the California Chapter of the American Society of Farm Managers and Rural Appraisers, April 22, 2005. Proceedings are available at <http://aic.ucdavis.edu/events/outlook05/outlook.htm>.)

Business clusters and obesity highlight AIC contributions at AAEA meeting

AIC presentations at the July national meeting of the American Agricultural Economics Association included:

Effects of agricultural policies on obesity

UCD agricultural economist Steve Vosti presented a preliminary analysis of the effects of agricultural policies on obesity. Vosti, Daniel Sumner and Julian Alston are examining the economics of obesity, investigating the potential role of U.S. agricultural policy—including farm commodity programs, agricultural R&D, and food and nutrition programs.

Preliminary analysis suggest a quite limited causal role of farm subsidy or agricultural R&D on obesity in the United States.

Business clusters in the wine industry

This pre-conference workshop on the economics of industry clusters included a session on the California wine industry featuring Sumner, visiting AIC researcher Rolf Mueller, UC Davis wine expert James Lapsley, and John Martini of Anthony Road Wine Company in New York. Data suggest that there are multiple wine “clusters” in California and that local area cluster effects may enhance economic returns but do not determine location of the industry.

Books

The Economics of Commodity Promotion Programs: Lessons from California, 2005. Peter Lang Publishing Inc., New York. Harry M. Kaiser, Julian M. Alston, John M. Crespi, and Richard Sexton, eds.

This book takes a comprehensive look at the economic consequences and the resulting legal implications of commodity promotion programs in California, and distills the key consequences for similar programs on a national scale. (*cont.*)

The Economics of Commodity Promotion Programs (continued)

It includes background information on commodity programs in the United States and California, and on generic advertising and brings together a variety of California promotion case studies on such commodities as table grapes, eggs, prunes,

avocados, almonds, walnuts, raisons, strawberries, dairy, beef, pork and cotton. Litigation, food safety and the economics of commodity promotion programs are also covered. ■

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