

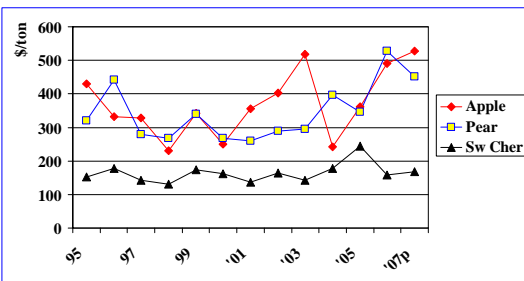
### Can the Fruit Bonanza Continue?

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 Belrose, Inc.  
 World Fruit Market Analysts

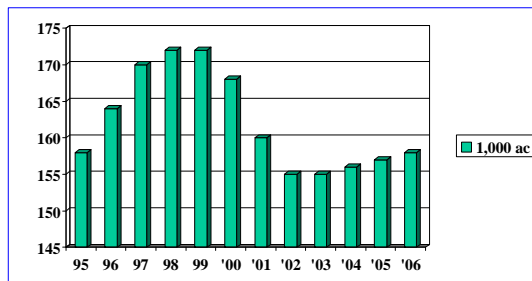
### Dismal Decade, 1995-2005

- Many growers, packers, shippers and processors left the business.
- Apples were hardest hit by the Asian financial crisis beginning 1997.
- Pears suffered gradual attrition.
- Some growers switched to sweet cherries and wine grapes.

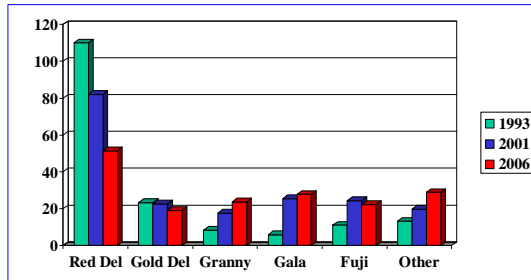
### Recent Reversals of Fortune



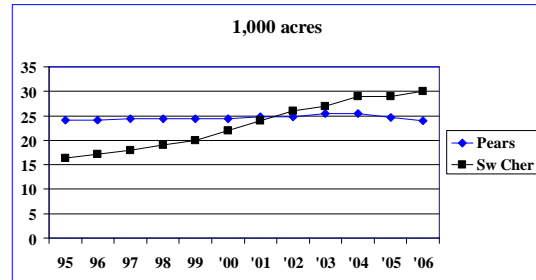
### Apples: Bearing Acres, Washington State



**Washington State: Planted Acreage of Major Apple Varieties**



**Pears and Sweet Cherries, Bearing Acres, Washington State**



**Experience of Three Fruits**

**ACRES**

Apples peaked in 1999, fell sharply to 2003, gradually recovering.  
 Pears flat, but lost ground recently.  
 Sweet cherries on a steady upward climb.

**PRICES**

Apples above 1995 level **once** in next decade.  
 Pears above 1995 level **4 times** in next decade.  
 Sweet cherries above 1995 level **6 times** in next decade.

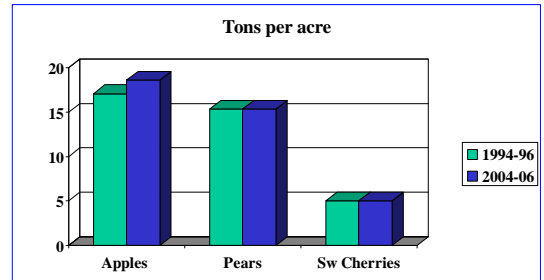
**Tremendous Consolidation in Washington State Fruit Industry**

- Between 1992 and 2002 censuses, # of orchards fell 15.8% , average size rose 21.4%.
- By 2002, 8.7 % of orchards controlled 62.7% of apple acreage.
- Currently, 13 firms control 47,000 acres of apples and pears, 26% of state total.
- Top ten marketers handle 106 million carlots of fruit, about 80% of state total.

### Pressures for Consolidation

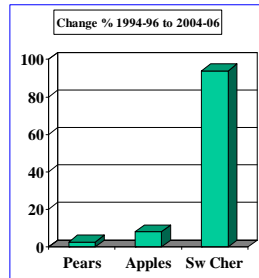
- Discounters like Wal-Mart and warehouse clubs like Costco are now big in food.
- They prefer partnerships with large suppliers to ensure 12-month supplies.
- They want contracts, not spot markets - category managers, not occasional suppliers.
- Supermarket chains like Safeway and Kroger have adopted similar approaches.
- Washington firms now import to supplement their own supplies (international alliances).

### Role of Yields in Production

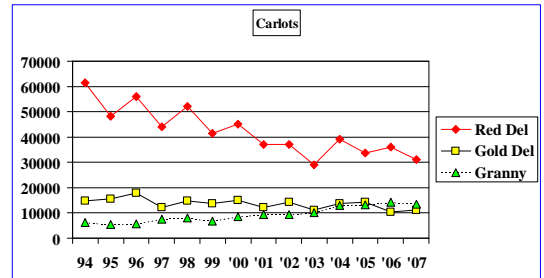


### Future Production Potential

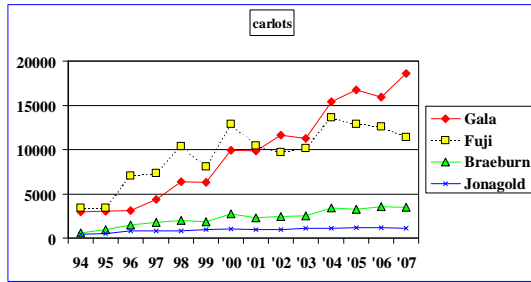
- Apple production could increase 20% from present level.
- Sweet cherry production could increase 30-40%.
- Pear production likely to remain stable.



### Apple Variety Changes: The Big Three

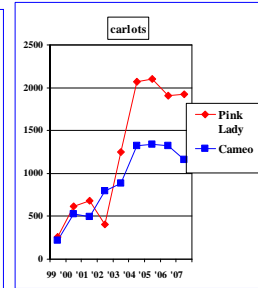


### Apple Variety Changes: The Emerging Four

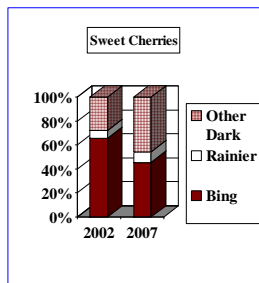


### Apple Variety Changes: Newer Challengers

- Many newer varieties are managed by clubs that attempt to control supply, promotion and eventually price.
- Newer entrants include Honeycrisp, Jazz and Ambrosia.



### Variety Changes in Sweet Cherries, but NOT in Pears



- Notable relative decline of Bing sweet cherries.
- Pear industry is still searching for improved varieties.
- Bartletts still dominate processed pear market.
- D'Anjou still dominate the fresh winter pear market.

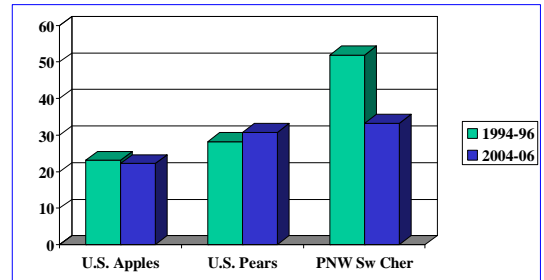
### Future Markets for Washington Fruit

- The domestic market still takes 70 percent of all Washington State fresh apples, pears and sweet cherries. But the market is growing slowly and apples and pears are both price and income inelastic.
- Export markets have more favorable economic and demographic profiles, but trade barriers and competition are problems.

### U.S. Per Capita Consumption

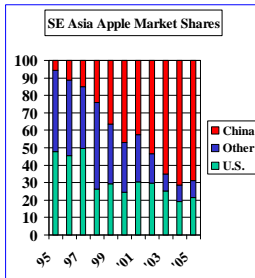
Fruit	1994-96 lbs	2004-06 lbs	Change %
Fresh apples	18.9	17.7	- 6.3
Fresh pears	3.3	3.0	- 9.1
Fresh sweet cherries	0.4	1.0	+ 150.0

### Export Share of U.S. Fresh Supplies

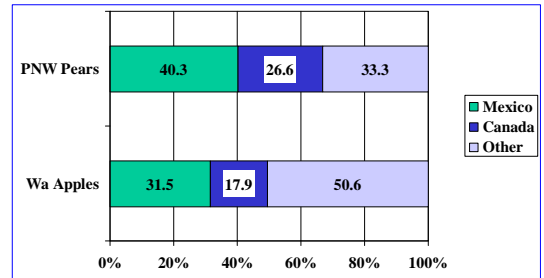


### Washington State Apple Export Performance Better, but...

- Wa State apple exports were 29,218 carlots in 2004-06, almost the same as in 1994-96, but the share of shipments fell from 32.7% to 29.3%.
- China has taken away much of the Southeast Asian market.
- India is the new hope.



### PNW Unduly Reliant on Mexico and Canada for Apple and Pear Exports



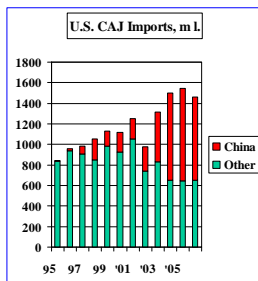
**Sweet Cherry Exports Expanding, but More Needed as Production Soars**

- Canada took 39.4% of Northwest sweet cherry exports in 2007, Mexico 1.6%.
- Taiwan is now the second market with 16%.
- Japan, once the best Asian Market, has stalled at about 9%.
- Export expansion very promising in China, Hong Kong, South Korea, UK and other Europe.

**Intensity of Competition Increasing in Volume, Price and Quality**

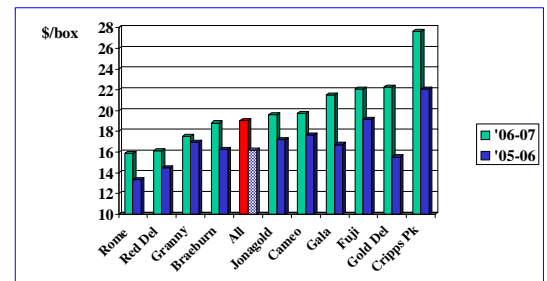
Fruit	Major Competitors
Fresh apples	China, Chile, New Zealand, S Africa, Argentina, Brazil, France.
Fresh pears	China, Argentina, Chile, S Africa, Italy.
Fresh sweet cherries	Turkey, Iran, Spain, Italy.

**China's Impact on Apple Juice**



- China has grabbed market share, driven down prices for juice and peeler apples.
- Many U.S. apple juice concentrate plants have closed.
- Juice prices no longer serve as a floor for fresh prices.

**Prices of Some Varieties Have Fared Better than Others**



### How to Keep Fruit Bonanza Rolling

- Current favorable situation is due to:
  1. Moderate apple crops worldwide.
  2. Reduced supplies of competing fruits.
  3. Favorable retail environment.
- Washington State cannot control these.
- It can try to control the quantity and quality it places on different markets.

### Is Club Marketing the Answer?

- Clubs have been set up for Pink Lady, Cameo, Honeycrisp, Jazz, Ambrosia apples.
- Clubs try to control plantings, marketings, promotion/image to secure price premiums.
- Record so far has been spotty in apples. No inroads in pears or sweet cherries.
- Most Washington fruit consists of public varieties. Production cannot be controlled.

### Integrated Marketers Hold Key

- Integrated grower-packer-shippers could provide discipline on quantity and quality.
- They are closely tuned to retailers' needs.
- They can use coordinating role of the Apple and Pear Marketing Associations in marketing.
- SmartFresh and other materials give them better control of quality from farm to fork.
- **The \$64,000 question.** Can they work together effectively when larger supplies return?

### Conclusion

- The present good times are due to a favorable supply-demand balance.
- Increased supplies are likely to return in apples and sweet cherries and disrupt that balance.
- Have industry leaders learned from past mistakes? We shall see.