



GROWER-SHIPPER ASSOCIATION

of Central California

Since 1930

OVERVIEW:

Central Coast Industry Cost Pressure Assessment

Conducted by: ERA Economics

November 2021

INTRODUCTION:

We have all felt the seismic shift from the pandemic and its impact on our lives and livelihoods. Throughout the pandemic farmers and farm workers have worked diligently and continually to deliver healthy and safe fruits and vegetables to consumers. But the pandemic further exposed the tight margins of farming and the intense cost pressures being faced in agriculture today.

The Grower Shipper Association of Central California (GSA) commissioned a study by economists to examine the cost impacts of the pandemic as well as other factors, which are putting pressure on agriculture's ability to sustain food production in the region. The mission of GSA is advancing families, food and farming on the Central Coast. This economic analysis provides important and thought-provoking findings, which will be used as we meet these ongoing challenges and identify solutions to advance our mission.

While there are numerous crops produced in the "Salad Bowl of the World," the economists determined their analysis would focus on one crop specifically in order to appropriately identify industry cost pressures. Therefore the analysis examines the per carton costs of growing and shipping iceberg lettuce.

As we address the economists' findings, GSA and the farmers and farming companies we represent understand their responsibility to grow safe food, protect farm workers, nurture and sustain our farms and the environment around them and be good neighbors and stewards of our communities where we live and work. We acknowledge that thoughtful, outcome-oriented regulations can provide necessary baseline uniformity that govern practices in the workplace including

environmental and food and worker safety protections that benefit our community and consumers.

This analysis focuses on current, continuing and impending cost pressures within a landscape of the economic fundamentals of supply and demand and provides a short and long-run outlook on the intersection of economic viability.

COST PRESSURES:

The economists evaluated the cost pressures by identifying the following categories:

- **Current.** These are costs that are currently affecting the industry and include:
 - ✓ **COVID-19** – Changes in labor crews for health and safety
 - ✓ **Packaging** – Material cost increases and limited supplies
 - ✓ **Pallets** – Limited supply and input cost increases
 - ✓ **Transport** – Substantial cost increases due to driver/trucking shortages
 - ✓ **Crop Disease** – Analysis considers INSV and Pythium wilt management
- **Continuing.** These are costs that are increasing over time due to ongoing shifts in market dynamics and implementation of new laws and regulations and include:
 - ✓ **Labor** – Higher costs for growing, harvest and cooling labor
 - ✓ **Land** – Includes recent land rent increases
 - ✓ **Food Safety** – Considers pre-harvest product testing requirements
 - ✓ **Other Inputs** – Partial analysis of fertilizer and equipment cost increases

The economists also identified “Impending costs” that will affect Central Coast farmers over the next few years and into the future. However, these costs were not quantified in this study because impacts are uncertain and difficult to predict. These include:

- ✓ **Climate Variability** – Costs due to increased heat, fire risk and drought
- ✓ **Sustainable Groundwater Mitigation Act (SGMA)** – Increased water costs and potential water availability limits
- ✓ **Ag Order 4.0** – Limits on fertilizer, impacts on land use

THE ECONOMISTS’ FINDINGS:

The total cost to produce a carton of iceberg lettuce is over \$17 per carton. The average baseline production budget for Salinas Valley iceberg lettuce shows typical costs to grow, harvest, and pack is around \$15 per carton. According to the analysis, the estimated increase in direct lettuce production costs identified in the section above is \$2.12 per carton. This includes a \$0.68 increase to growing costs and a \$1.44 increase for harvest, packing, and cooling costs including a \$0.67 increase due to operational changes related to COVID-19. These do not include additional indirect costs (e.g., manager time).

At an average price of \$15 to \$17 per carton, grower-shippers are not able to cover production costs. The economists state that an increase of \$2.12 per carton with 24 heads of lettuce may seem immaterial from the consumer perspective — this would work out to \$0.09 per head. However, they point out that this change is quite significant for farmers and shippers.

(See table on next page.)

It should be noted that increasing costs are expected to cause additional economic effect across the industry that the economists

determined are beyond the scope of this initial analysis.

In general, the economists state that lower returns put downward pressure on production as fewer acres are planted and harvested or existing fields are managed less intensively resulting in lower yields.

Grower-shippers typically maximize production when the market is favorable. But the analysis shows that growing, harvesting, packing, and shipping costs are increasing much more rapidly than even favorable market conditions can justify.

According to the economists: The inability for grower-shippers to cover total (variable plus overhead) costs are a long-term incentive to reduce production, switch to custom farming (i.e., charge a fee per acre regardless of lettuce prices), and/or shift to other crops. These longer run dynamics are reflected in some of the seasonal and annual volatility in prices.

GSA CONCLUSIONS:

These types of analyses are an important way to assess vulnerabilities associated with increasing costs as well as identify potential areas where better solutions may be necessary in order to successfully address current and evolving cost pressures. It also allows GSA to assess their role in supporting members and ag employees by relieving or alleviating economic burden through solution-driven work.

As examples, regarding impacts associated with lower lettuce yields due to INSV and Pythium wilt, GSA has a task force to identify effective strategies to combat this pest/disease issue and help alleviate associated cost pressures. GSA’s task force is working with partners in government and academia in its search for solutions as they jointly recognize the threat of INSV to the economic health of

TABLE: Summary of cost pressures relative to baseline costs for head lettuce.

ITEM	NOTES	ESTIMATE PER CARTON
Baseline Iceberg Lettuce		
Growing Costs	Includes production and land costs	\$4.84
Harvest, Pack, Cool	Assuming yield of 1,000 carton, 24 count, 42 lbs.	\$8.94
Overhead Costs	Includes cash and non-cash overhead	\$1.21
Total Baseline Costs		\$14.99
Additional Costs		
<i>Growing Costs</i>		
Food Safety	Pre-harvest testing requirements	\$0.06
Disease Mgmt.	For management of INSV & Pythium wilt	\$0.23
Fertilizer	Based on estimated increases over last two years	\$0.10
Machinery & Equip.	Based on estimated increases over last two years	\$0.02
Land	Based on 7.5% increase in rent each year for two years	\$0.15
Labor (Growing)	Minimum wage and overtime increase over 2 years	\$0.12
<i>Sum of Additional Growing Costs</i>		<i>\$0.68</i>
<i>Harvest, Pack, Cooling Costs</i>		
Packaging	Based on 15% increase, listed prices	\$0.29
Pallets	Based on 75% increase, listed prices	\$0.18
Labor (Harvest)	Based on H-2A labor cost increases over 2 years	\$0.21
Labor (Cooling)	Based on minimum wage increase over 2 years	\$0.09
COVID-19	Based on harvest crew reductions to meet CDC guidelines	\$0.67
<i>Sum of Additional Harvest, Pack, Ship Costs</i>		<i>\$1.44</i>
Sum of Additional Costs		\$2.12
Adjusted Iceberg Lettuce		
Growing Costs	Costs of land preparation through final irrigation	\$5.63
Harvest, Pack, Cool	Assuming yield of 1000 carton, 24 count, 42 lbs.	\$10.39
Overhead Costs	Includes cash and non-cash overhead	\$1.21
Total Costs with Additions		\$17.11

our region. Through its cost quantification, this analysis further underscores the need for this multi-faceted task force approach as well as the allocation of resources as we confront pest and disease complexes.

GSA's work to protect employees from the spread of COVID-19 included the creation of a model quarantined housing program as well as a mass vaccination program responsible for having immunized a majority of the farm workers in the region. The development and operation of this vaccination program, in partnership with Clinica De Salud Del Valle De Salinas, likely lowered the economic burden of COVID-19 on ag employers since it allowed the region to continue consistently harvesting and shipping produce while keeping workers and their families healthy.

This initial analysis shows the need for more work to address and identify farming costs that will continue to put pressure on agriculture. As the economists identified, SGMA and Ag Order 4.0 implementation is underway and assessing the level of impact of these new regulations on Central California farmers will be important moving forward.

Finally, as stated in the introduction, regulations that protect farm workers, our land, our water and our food are necessary to sustain a healthy and dynamic industry. However, when new regulations or legislation that impacts agriculture are being considered, farmers should have a seat at the table and cost impacts should be discussed and evaluated, especially in light of the profit margins identified in this analysis.

While a safe workplace, a healthy environment and safe food are of paramount importance as we work to advance families, food and farming on the Central Coast, a strong economy creates important opportunities and support that benefits our communities and should remain a priority as well. In fact, 77% of Bay Area and Central Coast residents agree that agriculture was most or very important to the quality of life and the economy of California in a recent survey conducted by GSA. This reflects the value of agriculture, including job-creation, support of community initiatives and charities, preservation of green and open spaces and local food production.

Click [here](#) to review the entire economic analysis.

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