



Photo by Sam Vestal

Line workers at Del Mar Foods sort through peaches, using paring knives to cut out bruises.

High costs eroding strength of frozen-food industry here

But there are good reasons for optimism

By LANE WALLACE
STAFF REPORTER

THE FROZEN-FOOD industry in the Pajaro Valley, long a key element of the area's economy, is facing challenges to its supremacy — possibly the most serious the industry has seen in the 40 or so years it's been here.

The advantages of a trained labor force, long growing season, and proximity to the

First of a three-part series

growing areas have enabled Watsonville to establish itself as the single strongest processing area for frozen foods in the country (eight plants, about 5,000 workers at peak times). But, say officials of frozen food firms, those advantages are being eroded by disproportionately high costs here as compared to other areas.

"The cost of land and labor

is so high here that areas with marginal growing conditions, but lower land and labor costs, can be competitive with California," said Dick Shaw, owner of Richard A. Shaw Co., which freezes and packs vegetables.

Between 1978 and 1982, the Western states' share of the frozen vegetables packed in the U.S. slipped from 78 to 73 percent, according to figures compiled by the American Frozen Food Institute (AFFI). The figures cover eight Western states, including California. Where breakdowns for California's share of the national market are available, there's been a drop in this state's share of the market for most commodities. (See chart on page 6).

"The gap has been widening" between costs here and in other states, said Rod Heien, manager of Green Giant on Beach Road. "There have to be some legitimate concerns, not about the sta-

bility of the industry (frozen vegetables), but where the product will be manufactured," Heien said. "The business (frozen vegetables) is only growing with the population."

All is not gloom and doom, though. Concerns about other areas cutting into the long-held strong positions of Watsonville and other parts of California are tempered with optimism and some old-fashioned determination. There's a belief that even though their percentage of the market may slip a bit, Watsonville firms will remain strong because the industry itself will grow.

It's not just boosterism — there's money behind the optimism, most notably in the form of new frozen-food warehouses. Two new ones are being built, and Castroville Cold Storage has expanded.

"There are some challenges," said Jack Burke, manager of the Smucker's

plant on Salinas Road, citing the high costs of electricity and land as among the key ones. But, he added, "It's hard to believe that with all of the advantages we have here that we can't meet the challenges as long as people are willing to work together."

First, a look at some of the negative factors facing the industry:

Statistics compiled by AFFI show that between 1979 and 1982, California's share of the U.S. market slipped for nearly every vegetable for which statistics were kept. (See chart.)

"An awful lot of broccoli is grown in the Northwest, Texas, and now they're doing broccoli in Tennessee," Heien of Green Giant said, adding that there's also some being grown in such places such as Mexico, Guatemala and Venezuela.

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(The vast majority of the food packed here is grown within a 100-mile radius of Watsonville. It's then shipped throughout the U.S. and rest of the world.)

Shaw said the influx of frozen foods from other countries "has been getting progressively worse" over the last five years.

He pointed to figures compiled by AFFI which show that for the first four months of this year, 35.3 million pounds of frozen broccoli were shipped into the U.S., 30 percent of the annual consumption in this country. For cauliflower, 10 million pounds, or 12 percent of annual U.S. consumption, were imported.

"If the government allows the amount of imports to continue, this could be total chaos," the Institute report said.

Red Bryan, co-owner of New West Foods, cited the price of land, and waste-water treatment (sewer fees) as key factors in making costs here high.

The food processors and city officials have so far been successful in lobbying for government grants to help fund expensive improvements required at the city's sewage treatment plant. But even with those grants, sewer rates have been raised to cover the city's share of the project.

The city has traditionally favored industry when establishing sewer rates, according to David Koch, assistant public works director, but nonetheless industrial rates have been raised along with residential and commercial rates over recent years.

Bryan said that if the decision were strictly an economic one, he and his partner, Frank Saveria Jr. would look toward moving their business elsewhere, possibly the Northwest. But, said Bryan, "We choose to live here," noting that they can still make a living here.

(Industry officials here say that while there are lower costs in some other parts of California, the most serious challenge is from other states and countries.)

Power bills are another major factor in the overall high cost here.

In 1977, PG&E's base rate for industrial customers such as the frozen food plants was 3.47 cents per kilowatt hour. By May of this year, it was 6.38 cents, an 84 percent increase.

But, there are a number of add-ons, adjustments and surcharges that boost the figure that matters most — the one at the bottom of the bill.

Charles Buchwald, president of Del Mar Foods, said a recent electric bill for his fruit-processing plant listed the base-rate charge at \$23,056, but with the various surcharges, the total tab was \$38,851. He said the basic kilowatt-hour rate averages about 60 percent of the total monthly bills.

In Turlock (near Modesto), where there are four frozen food plants, the rate ranges from 2.59 cents per kilowatt hour in winter to 3.24 cents in summer, still only a little more than half the rate in Watsonville. The low rates are available through the Turlock Irrigation District,

which provides cheap hydroelectric power.

In Uvalde, Texas, where the Frio Foods frozen food plant opened last fall, the total power cost is about five cents per kilowatt hour, company president Joe Gerber said.

In Oregon, cold-storage rates (determined in large part by power costs), are about half what they are here, Buchwald said.

The frozen-food people are not taking the increase lying down.

They enlisted the support of state Sen. Henry Mello, D-Watsonville, who sponsored a bill (SB 807) that would give food processors a choice of utility rates lower than what they're now paying.

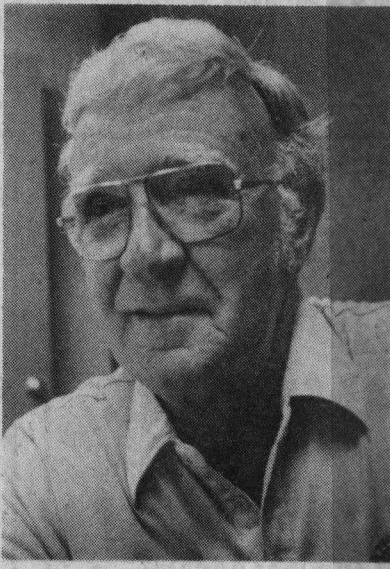
operation last November, now has 350 to 400 employees. It packs vegetables grown within a 35-mile radius (the area is strong in fresh vegetables, Gerber said) under its own label and will pack for others. Gerber said all the equipment for the Frio plant was manufactured in Watsonville.

Asked if he had any major problems in getting the permits to build his plant, Gerber replied, "Not in Texas."

Gerber also noted that he's closer to the heavily populated East Coast than the California firms and can save on freight costs.

Jack Randle, co-owner of Watsonville-based Valley Packing Co., a frozen-food sales

Dick Shaw has no gripe with high wages here, but wishes the Teamsters would organize food workers in the rest of the country, too.



Rod Heien says 'the gap has been widening' between costs here and in other states.

The bill, after some preliminary hearings, was referred for "interim study" and is expected to be revived in the next session of the Senate.

Ed Yates of the California League of Food Processors, who drafted the bill, said the League "is stepping up its efforts" to fight utility rate increases.

Dick Shaw estimates that freezing vegetables now costs a cent a pound. In the mid-70s, Shaw said, "it was three-hundredths of a cent a pound."

For Frio Foods in south central Texas, power isn't the only cost that's significantly lower than in Watsonville.

Company president Gerber said most line workers at his plant are paid minimum wage — \$3.35 an hour — about half the going rate in Watsonville. The company, which began

agency, estimated that freight rates have gone up 30 percent in the last five to six years. (The increases have been roughly equivalent to the rising costs of gas.)

Randle and co-owner Fred Haas said they expect the rates will soon rise another 5 percent.

But Randle said that since deregulation of railroads at the end of last year, "you can negotiate rates." Determining what the rates are going to be "is a crystal ball," he said.

Of the industry's future, Buchwald, of Del Mar, said, "Unless we get one hell of a lot of support we don't have a chance. We'll be lucky to hold our own."

Nevertheless, Buchwald is optimistic. "If I wasn't, I wouldn't be in the business. Healthy competition never

bothered me. I enjoy the game if it's played fairly."

On labor, Shaw is critical of the Teamsters Union, which represents frozen food workers in Watsonville.

"I'm not complaining about what we pay our labor, but if the unions are so great, why don't they organize the frozen-food industry outside California?" He said pay scales should be raised in other areas to keep in line with California, or the increases should be slowed down here. He calls the union "The biggest abuse to management in the state of California."

Despite the problems, Shaw said, "I'm going to survive. We're not afraid of the future."

One of the reasons for Shaw's optimism is next to his plant on Harvest Drive.

It's the 186,000-square-foot frozen-food warehouse and distribution center of Termicold Corp. (a subsidiary of Beatrice Foods), scheduled to open in December or January.

Termicold's warehouse is one of three such local facilities which will open this year. A December opening is planned for the 120,000-square-foot Hilltop warehouse on Highway 1, just across the Pajaro River in Monterey County. (The Hilltop plant is owned by Ron Dreisbach, who operates other warehouses, and John Haas, owner of General Produce in Watsonville.)

Castroville Cold Storage opened its 60,000-square-foot addition last month.

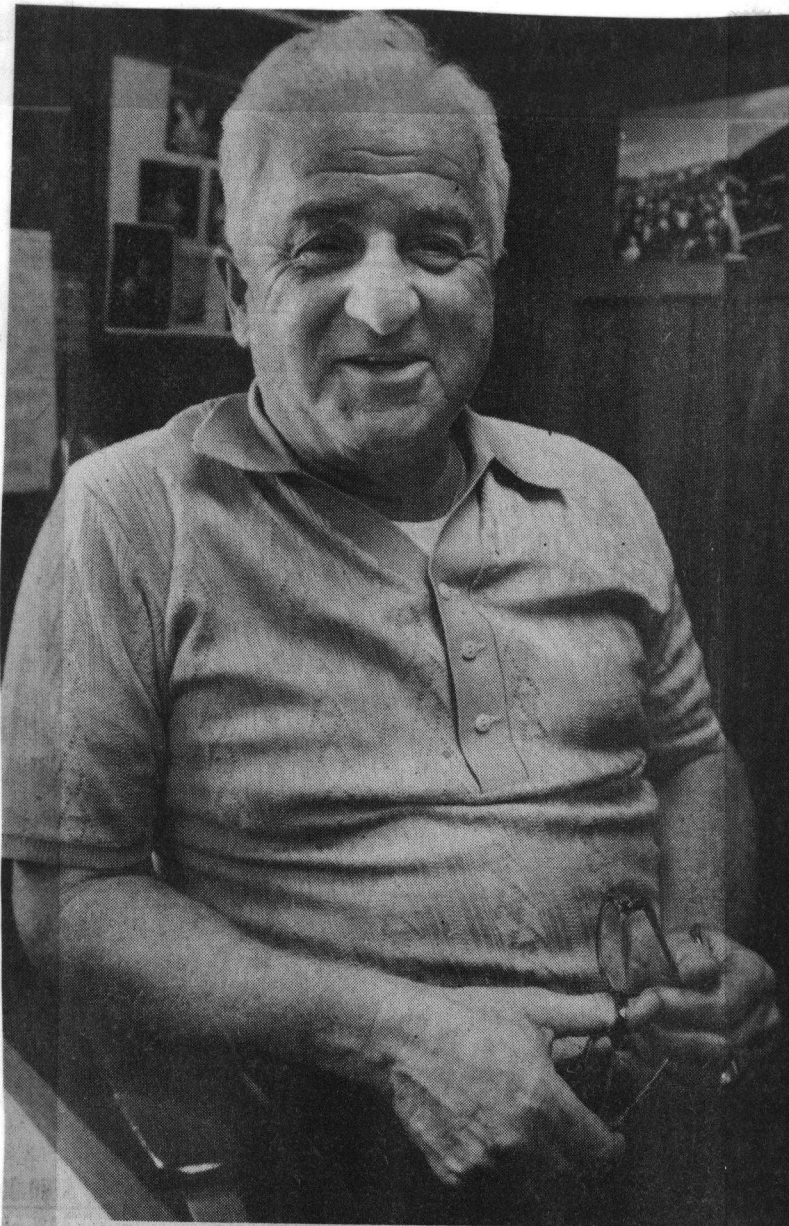
The presence of the new facilities should mean Watsonville frozen-food plants will no longer have to ship their product elsewhere (usually San Jose) for storage. All three warehouses are also distribution centers, which allow distributors to store products from different packers and ship it from one spot.

Shaw predicts that the presence of Termicold (where he will have a contract for storage) "should increase my sales potential 25 percent in the first year."

Randle of Valley Packing, whose firm is part owner of Castroville Cold Storage, said, "We're making a vast investment that the future is here."

"This in an agricultural state," said his partner Haas. He said there may have to be some concessions by the people involved, but the frozen-food industry "isn't going to dwindle away."

Randle noted that California not only has a long growing season, but also what he called "far superior quality" produce, although that doesn't mean other areas won't come up with improved quality, he added.



*Del Mar's Charles Buchwald:
'Healthy competition never
bothered me. I enjoy the game if
it's played fairly.'*

"They (other states) have to catch up," Haas said.

California growers also don't have the volatile climate that growers in other areas face, where freezes can wipe out an entire crop, Randle said.

Randle and Haas believe the industry can grow, and say they won't be surprised if some of that growth comes to Watsonville. Haas said "several

(firms) have expressed interest" in locating here, although nothing is definite.

Shaw also believes consumption of frozen foods will increase.

"I'm going to survive," said Shaw. "We're not afraid of the future. I still say we (the industry) are a sleeping giant." There's been a lot of publicity, Shaw said, about the health benefits of eating vegetables, "and that tells me we will have an explosion in vegetable consumption."

Shaw admits that he's been incorrectly predicting a vegetable boom for several years, but he's still convinced it will come.

A test-market study done last year lends credence to Shaw's theory.

Last year, the Frozen Vegetable Council, a promotional group financed by member firms, ran ad campaigns promoting frozen vegetables in two test markets, Charlotte, N.C., and Syracuse, N.Y.

During the ad campaign, consumption of frozen vegetables in the two areas jumped 24

percent, while consumption in the U.S. rose 6 percent.

"We were very impressed," said Ole Cerutti, of Modesto, chairman of the Council. "We were hoping to get 6 percent to 7 percent above the national average. "We proved that by advertising we can be competitive with the fresh market." But he admitted he doesn't expect frozen vegetables to overtake the fresh market.

Cerutti said the Council plans to do several more test studies in an effort to prove to the industry that promotion will boost consumption.

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California's share Frozen foods packed in the U.S.

	% in 1979	% in 1982
Green beans	52	49
Baby lima beans	86	80
Broccoli	NA	90
Carrots	42	29
Califlower	75	76
Cut corn	80	77
Spinach	92	82
Total vegetables	78	73

(Eight western states, including California).

Source: American Frozen Food Institute

Total vegetables packed in U.S. (in thousands of pounds)	6,560,733	7,531,198
Total fruits and berries packed (in thousands of pounds)	542,566	773,506
Western States share of fruit market	58%	64%

1982 Frozen Vegetable Production

Vegetable	Watsonville production ¹ (in thousands of pounds)	National production ² (in thousands of pounds)	Watsonville's share of total production
Asparagus	4,354	16,958	25.7%
Bell Peppers	7,000	12,940	54.0%
Broccoli	164,157	335,516	48.9%
Brussels Sprouts	24,200	52,980	45.7%
Carrots	1,500	296,679	0.5%
Califlower	61,623	111,644	55.2%
Leafy Greens	7,772	41,073	18.9%
Lima Beans (and Baby Fordhook)	20,000	123,722	16.1%
Spinach	72,227	150,667	47.9%

¹—Figures from Watsonville Food Processor Energy & Water Conservation Assn.

²—Figures from American Frozen Food Institute.