

IRSC – THIRD ANNUAL BUSINESS & MANUFACTURING CONFERENCE

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WITH ADVERSITY COMES OPPORTUNITY!

By Michael D. Minton, Esq.

I. INTRODUCTION

A. How many have read “A Land Remembered” by Patrick Smith?

1. Our region was accurately portrayed as vast grass range land for cattle, which periodically took on the characteristics of a swamp, protected by a chain of forts to keep unfriendlies at bay in the Everglades and Fort Pierce was the center of commerce in the 1800’s.

2. The pineapple was our first commodity of distinction in the late 1800’s with produce loaded on river boats to Titusville which was the southern terminus of the railroad. In 1894, Flagler’s East Coast Railroad reached our area. In 1895, Jensen Beach was the self-proclaimed “Pineapple Capital of the World”, shipping 1 million boxes of pineapples. There was a canning plant, packing plants, and a bottling facility for a “pineapple digestive”! A snake oil elixir that cured indigestion among other ailments.

The freeze of 1895 began the demise of pineapple followed by fires in 1908 and 1910 that destroyed much of Jensen Beach and the industry infrastructure.

3. Pineapples were followed by tomatoes as our commodity of distinction in the early 1900’s.

4. And most recently citrus – not just any citrus, but world famous – Indian River Citrus, was our primary commodity.

B. Citrus – The Indian River Citrus Industry

1. Its origin goes back to 1807

2. Developed trade name Indian River – 1920’s which culminated in 1930 – Federal Trade Commission protection of the term “Indian River”

3. IRCL – was founded in 1931 and the industry grew until its peak in the mid 90’s after the freezes of the 80’s permanently shifted citrus production to south Florida.

4. At its peak citrus was King not only along the Indian River, but also in Florida

- a) 900,000 Acres Statewide – virtually a monoculture
 - 30+ processing, juice and canning facilities
 - at least 40 packing houses
- b) Locally in I.R. region – >250,000 acres
 - 21 packing houses
 - 7 processing, juice and canning facilities
 - \$2.1B of local economic impact
 - employed 15% of the region’s workforce

5. Today some 20 years after the peak it is a totally different story. After the hurricanes of 2004 spread citrus canker like “Johnny Appleseed” and with the introduction of citrus greening, citrus now utilizes about 1/3 of the acreage of what it was at the peak!

- a) Statewide acreage is down to about 400,000 acres and 70,000 acres in the Indian River Region
- b) There are only 5 or 6 processing facilities left in the state and only about 10 packing houses are projected to open up this season.
- c) Locally, the economic impact is about \$500M and it employs about 5% of the work force.

C. California – But we aren’t the only ones dealing with adversity:

- 1. California has been mired in a severe drought since 2010!
- 2. Some predict it may last for decades
- 3. Citrus and nut growers reportedly paying prices in excess of \$4.00/1000 gal. for irrigation water which is the same as the cost of desalinization of sea water!
- 4. Water is not a problem for us – discuss Reconnect and water farming:
 - yes, we have met and in some areas exceeded our ability to access sustainable sources of cheap fresh ground water, **BUT**
 - Florida gets an average 50-60 inches of rain statewide
 - we must learn to manage it better

- on the Treasure Coast, we discharge annually 500,000 acre feet of fresh water from our c-canal system / 23, 24 and 25, to the detriment of the Indian River Lagoon

- we can, we must, do better!

5. Neither is tillable land or labor with >500,000 acres of citrus land now available for other commodities and a trained work force.

6. But California revenues from agriculture have never been better!

7. <u>California</u>	<u>2010</u>	<u>2014</u>
Value of Crop	26.3B	37.4B (up 42%)
Fruits and Nuts	13.9B	21.3B (up 53%)
Value of Agric. Sector	38.5B	56.2B (up 46%)

Price increase more than offset reduction in volume! But reduced volume has adversely affected the processors that rely on the abundant California production!

8. Because of the plight of citrus, Florida has not enjoyed such robust growth.

<u>Florida</u>	<u>2010</u>	<u>2014</u>
Value of Crop	6.3B	5.8B (down 8%)
Fruits and Nuts	2.0B	1.7B (down 15%)
Value of Agric.	8.5B	9.0B (up 5.9%)

II. The Opportunity!

Fruit and vegetable processors have an increasing demand for processed, juiced and pureed fruits and vegetables. Currently, many of the materials utilized to produce these products are sourced in California and other states or countries that have fruit processing capacity. Historically, Florida's agricultural production has focused primarily on the fresh fruit and vegetable markets for limited time periods when high value returns can be obtained for being counter-cyclical (able to produce when other parts of the country are not) and to take advantage of its close proximity to urbanized Northeastern population centers. It is proposed that with the expanding natural juice markets and growth in the local Florida demand, that the time may now be ripe (pun intended) to develop fruit and vegetable processing capacity in Florida, strategically and regionally located to serve the different producing regions of Florida.

In addition, the Florida Dept. of Agriculture and Consumer Services (FDACS) has undertaken to reorganize the school lunch program to provide for healthy alternatives to students statewide and is looking to source processed and partially processed fruits and vegetables to supply this nearly year-round demand; and

With Florida’s current population of about 20 million and tourism industry of approximately 100 million visitors, local restaurateurs and those capitalizing on this growth (cruise ships and theme parks) seek to source local fruits and vegetables. Therefore, it is anticipated that there could be a significant domestic intra-state demand for these products.

The goal of Processors would be to expand and diversify the source of their supplies to involve Florida growers rather than import the needed additional supply of product from outside the United States. Also, there is a need to complement or in some cases, supplant, the production coming from California since California continues to be limited by drought and other competing forces for the resources necessary to maintain a reliable supply from California. They also desire to source products locally near Processors’ manufacturing facilities to minimize logistics costs from sourcing from other states, such as California or other countries.

III. Value Added Industry of Food Processing

A. Definition used by Economist – Broad measure of income, representing the sum of employees’ compensation, proprietors’ income, other property income, indirect business taxes and capital consumption (depr.). It is a commonly used measure of the contribution of an industry to regional economy because it avoids double counting of intermediate sales.

B. More simplicity - in our context, it is measuring the value being added to the raw agric. product to make it marketable. Those jobs and processes necessary to take the raw commodity and make it ready for consumption by the consumer.

C. Impact of Value Added Production on the Economy (for Relative

Comparison Purposes since we have dates from 2009 and 2013)

	2009 <u>California</u>	<u>Emp.</u>	2013 <u>Florida</u>	<u>Emp.</u>
Agr. Production & Processing	150B 149B*	600K	45B 37.2B*	225K
Agr. Processing	100B	200K	34B 25.6B*	75K
Agr. Production	50B 49B*	400K	11.6B 11.2*	150K

* without forestry numbers

In a recent report issued by UF/IFAS entitled “Economic Contributions of Agriculture, Natural Resources, and Food Industries in Florida in 2013” – Dr. Hodge and his co-authors report from Florida’s 2013 production numbers the Value Added per employee by the Agr. Processing Sector on average is \$244,000/employee as compared to \$98,000/employee from Agr. Production Sector. Contrast that to the value added from the fruit industry which is even more drastic, with the value added per employee in the

fruit processing being as much as \$444,000/employee as compared to \$89,000/employee for fruit farming.

At almost \$100B output of value added processing in 2009 derived from 200,000 employees (average value of \$500,000/employee), clearly, California is reaping the benefit of a more mature value added processing capacity than we are here in Florida!

IV. Conclusion – so let's sum up. We have endured the adversity that has caused the severe contraction of the citrus industry in Florida, but we have ample land and water and a trained work force left after the contraction. Florida also has increasing local consumption and demand of agricultural products.

California is enduring a drought that is predicted to last for decades and has enjoyed record high commodity prices, but its processing industry is anxious, to say the least, over sourcing reasonably priced processed commodities domestically.

Sounds like a business opportunity for Florida!