

# 'It's all about price ... and health consciousness'

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Other changes include the consolidation of processing companies, the introduction of private labels and the expansion into new products and more efficient facilities. While the changes appear to be beneficial overall for the industry, processors must also keep adapting to the changing field.

## Recent changes

NORPAC, a grower-owned cooperative based in Salem, Ore., stepped away from the canning business this year. It sold its canning operation to Seneca Foods Corp. on June 30 to focus more "energy on growth and innovation in the frozen category," Amy Wood, NORPAC spokeswoman, told Capital Press.

Canning represented 6 percent of NORPAC's business. Its other products include chili and soups, frozen fruits and vegetables and ready-to-eat meals such as pasta.

"The transition away from our canning business will help us drive efficiencies and reduce operational complexities as we invest in continued growth and innovation in our frozen product lines," Shawn Campbell, president and CEO of NORPAC, said at the time.

This change is not lost on Loughmiller.

"We're a fruit cannery. If people are eating more fresh fruit and less canned fruit it certainly affects us. I see it in my own life and we own a cannery; we eat more fresh fruit because it's available," he said.

Fruits and vegetables are more popular than ever among consumers. Since 2008, the consumption of fresh vegetables has increased 20.6 percent and fresh fruit has increased 16.2 percent, according to a report by Eugenio J. Alemán, a senior economist at Wells Fargo Securities. At the same time, processed fruit and vegetable consumption has only increased 9.9 percent.

Alemán equates this change to the stabilization of fresh fruit and vegetable prices since the recession. The recession has also had the opposite effect on the processed fruit and vegetable market, causing prices to surge and making them "higher than what they were at any time before the Great Recession," he said.

"It's all about price ... and health consciousness," Alemán said.

As the operator of a niche cannery, Loughmiller sells directly to customers on his company website, [muirhead-canning.com](http://muirhead-canning.com). Apricot sales have declined, while peach sales have climbed; today almost half of what the company sells is peaches.

"Local" is also a factor among many consumers. A 2016 study by Duff and Phelps, global corporate financial adviser, found that 53 percent of consumers seek out locally grown or processed food.

Muirhead Canning caters to that niche — offering local fruit packed with only fruit,



Aliya Hall/Capital Press

Muirhead Canning Co. was founded in 1946. The cannery is one of 1,016 food and beverage processing plants in Oregon.



Aliya Hall/Capital Press

Russell Loughmiller, 42, bought Muirhead Canning Co. in 2006. It mostly cans peaches, cherries and pears.

water and sugar.

"Even as (consumers) eat more fresh fruit or get away from canned fruit, there are more opportunities for us as a smaller player to say that this is a local product and local fruit that can be consumed in the winter without being shipped across the country," Loughmiller said. "There are opportunities there for us."

## Jobs grow

With the changes in the processing industry has also come growth. Employment in food processing continues to grow "briskly," said Josh Lehner, an economist at the Oregon Office of Economic Analysis.

"(Jobs) have grown quite quickly for the last decade. We've outpaced some of our neighbors from Washington and Idaho, even though they have larger corporations," Lehner said. "We're having slower growth now than what we've seen in the last five

years because it's so strong; we've had 4 percent growth in the last four years — that's tremendously fast."

Those percentages include the growth in the number of breweries and other beverage producers such as cider makers and distilleries.

Economists say the processing job market growth will shrink to 1 percent in the next year, but only because it is expected to "taper off at some point," said Lehner.

Overall, food processors employ more than 100,000 people in the West. Oregon food manufacturing companies employ 11,550 workers. Processors in Idaho employ 4,710 workers, Washington state processors employ 4,030 workers and California, with its massive food production and processing infrastructure, employs 91,950 workers.

"Jobs are growing and wages are growing, so it's all good news," Lehner said. "The future is looking bright

by the trends we've seen; it's a good forecast. We think it's positive, but that doesn't mean there's no risk."

## Consolidation

During the past two years, the industry has been going through a period of consolidation, in which national companies have been purchasing smaller regional businesses, said



David McGiverin

David McGiverin, president of the Northwest Food Processors Association.

Overall, "I'd call it a neutral effect. It helps in building brands and capacity that people want or need, and that they couldn't do on their own," McGiverin said.

This has been seen locally with the Seneca Foods' purchase of NORPAC's canning business and the Truitt Bros. operation in Salem — it already owned half of the business — and at the national level with Campbell Soup paying \$700 million for Pacific Foods, an Oregon-based producer of organic soups, broths, beverages, dips and sauces.

The USDA Economic Research Service also attributes consolidation to changes in processing technologies and the emergence of new scales of economy.

## Private labels

More grocers have also started carrying their own private labels, which have increased in popularity among cost-conscious consumers. In a 2014 study by the Nielsen company, 81 percent of North American consumers said they purchase private-label products to save money.

"It's huge, especially for groceries and big chains; the products are premium," McGiverin said.

The competition from private labels isn't there for Muirhead Canning Co. Loughmiller, the owner, said he doesn't compete with store brands,

but rather with home canning. Even though his price is higher than store brands, he says the difference in fruit quality is enough that it hasn't impacted his business.

"Private orders keep the company going. When competing in stores the consumers find the price more important," he said.

## Expansions, upgrades

One major concern for processors is aging facilities and complying with the new food safety regulations on the state and national levels, including the federal Food Safety Modernization Act. McGiverin said processors have to make these "key decisions" on whether they need to upgrade to meet the massive new standards that cover everything from on-farm production to how food is processed.

"They're spending a lot of time and investment to make sure that they have the right management in place to comply with the Food Safety Modernization Act," he said. "They are privately investing to get the right folks and educating them."

As companies consider upgrades, they are also looking into product expansion and how brands and consumer tastes have changed, McGiverin said.

Boise, Idaho-based J.R. Simplot is among the largest processors in the world, with operations in the U.S., China, Japan, Australia and several other countries. The company has invested in technology over the past decade that has allowed it to highly automate production of its vast array of vegetable, fruit and grain products.

"Technology has always been a big driver of change in food production. Historically, advances in technology have driven positive changes in all aspects of the industry, from production methods and capacity to storage, packaging and transportation," Josh Jordan, a Simplot spokesman, said in an email. "Not necessarily to reduce labor,

but to increase quality and consistency within our products."

## Looking ahead

In the future, U.S. processors are expecting more competition, both domestic and foreign.

Simplot is expecting to see global competition grow, as consumer demand for specialty products and variety in products has increased, driving other countries to match the U.S., Jordan said.

"There's been an increase in production out of Europe, China and other areas of the world that means the U.S. food producers aren't just competing with themselves, but in a global marketplace," he said.

Jordan also said the success of companies will depend on which ones can provide the "highest quality and best variety of products in the most efficient manner."

"Quality and consumer choice are more important now than ever before," Jordan said.

Loughmiller, the niche cannery operator, also believes the industry will be even more segmented and have more artisan players. Especially with the millennial generation of 20- to 30-year-olds, he said, there's more demand for uniqueness and local food.

"How do we make this, and what do we want to do with that?" he said. "Some of these are smaller and don't have a huge impact, but we're trying a bunch of things."

He has begun to expand Muirhead's operations to include such items as fruit spreads, maple syrup and apple sauce.

"We have to find ways to be different and set our products significantly apart," he said. "Everyone has organic, so if it comes from a large company, why buy local? If you can, you meet the person that carries weight for. People who come here are excited; they are practically dancing around to see where it's being made."

## Since NAFTA was enacted, U.S. exports to Canada and Mexico have grown from less than \$9 Billion to more than \$38 billion

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Under the Trump administration, the U.S. Commerce Department also recently imposed tariffs of roughly 4.6 to 7.7 percent on Canadian softwood lumber shipments that the agency determined were sold at less-than-fair-market value.

MacAulay was tight-lipped on the role that agricultural goods will play in the upcoming negotiations, saying it would be inappropriate to guess about potential points of contention before the talks are underway.

"We have to see what is put forward before we discuss it," he said.

However, MacAulay said the supply management sys-

tem for farm products — which has stirred trouble with the U.S. dairy industry — continues to be favored by Canadian farmers and the nation's government.

"Supply management has been in place for many years and it's working well," he said.

Growers in the U.S. and Canada have prospered from free trade and both countries are keen on technological progress, MacAulay said.

"Farmers were always innovators from the day it started," he said.

Since NAFTA was enacted, U.S. exports of agricultural products to Canada and Mexico have grown from less than \$9 billion to more than \$38 billion last

year. Meanwhile, farm exports from those trading partners into the U.S. increased from \$7.4 billion to \$44.5 billion.

Trade between the U.S. and Canada works best when regulations are based on science, which should be emulated by other countries in the world, MacAulay said.

Before entering politics nearly 30 years ago, MacAulay himself raised seed potatoes and dairy cows in Prince Edward Island, a province northeast of Maine.

Though he's sold off the dairy herd and leased his acreage to other growers, MacAulay still lives in the same house in which he was born.

## Season may exceed 25 million boxes

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\$2.99 per pound. Prices this year have been \$1.88 per pound and lower.

"It's been tough the last two to three weeks. Prices are not where we like them to be but where they had to be to move the volume. Retailers for the most part reciprocated to move the crop. Movement has been good," said Tom Riggan, general manager of Chelan Fresh Marketing.

Fruit has been smaller throughout the season and small fruit doesn't sell as well as larger, he said.

"Quite a few packers including ourselves are not packing 11.5-row cherries and smaller. They go to the briner," Riggan said.

As of July 20, 18.5 million, 20-pound boxes of cherries had shipped from Northwest packers. Of that, 10.6 million boxes were shipped in

July, according to B.J. Thurlby, president of Northwest Cherry Growers in Yakima, Wash.

Shipments averaged 536,392 per day for the first 20 days of July, a record for that period, Thurlby wrote in a July 21 industry memo.

There's a chance the season will exceed 25 million boxes, he wrote. The record is 23.4 million in 2014. Northwest cherries have been the No. 1 advertised item in produce, slightly ahead of table grapes, he wrote. Harvest has also begun in Montana.

Riggan said Northwest Cherry Growers, the industry promotional arm, promoted heavily in July.

"They've done a good job communicating well with retailers to be very aggressive in July because there's a lot of opportunity for increased sales," Riggan said.

Sales will be heaviest in

July and may set a record in August and run into September, he said.

There are 6 million to 7 million boxes left to go and prices may increase at the end, he said. That likely will be too late for Orchard View, which will finish its season Aug. 5, Thomas said.

Roger Pepperl, marketing director at Stemilt Growers LLC in Wenatchee, a large cherry shipper, said the company has stayed caught up on shipments, which helps with returns. There have been challenges and benefits with larger fruit getting good prices and smaller fruit selling for less, he said.

"It was a good Rainier season and we're starting up the hill now (Stemilt Hill south of Wenatchee). We're optimistic about the last five weeks," he said.

Higher elevation, later fruit usually sells for higher prices.