

WINTER/SPRING 2020

CALIFORNIA  
CANNING PEACH  
ASSOCIATION

# OR CLING PEACH REVIEW

## IN THIS ISSUE:

- 2020 Annual Meeting
- UCD Peach Breeding Program
- Buy American Grant Update



CALIFORNIA CANNING PEACH ASSOCIATION  
**CLING PEACH REVIEW**

WINTER/SPRING 2020

**FEATURES**

- 6 ..... 2020 Annual Meeting  
Keynote Address
- 10 ..... 2018 Annual Meeting  
Spotlight Album
- 8 ..... The University of California Processing  
Peach Breeding Program
- 12 ..... Buy American Grant Update

**DEPARTMENTS**

- 6 ..... President's View:  
State of the Association
- 14 ..... Modesto Kingsburg District Update
- 15 ..... Northern District Update

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**STATE OF THE ASSOCIATION**

Presented at California Canning Peach Association's  
98th Annual Meeting | January 21, 2020

**G**ood afternoon and  
welcome to the Peach  
Association's 98th  
Annual Meeting.

As we gather this afternoon, our industry stands at the beginning of a new decade. We've certainly witnessed many changes during the past 10 years and the next 10 years promises to bring even more change for both growers and processors. Headwinds that we are already facing for 2020 involve the industry's need to achieve a better alignment of our supply/demand position.

Our goal is to ensure that we quickly reach the point of delivering only the volume that our processor customers can sell at profitable price levels. Simply put, for growers to be profitable, our processor customers must also be profitable. The market is evolving and we must evolve with it. However, this is easier said than done, and the collateral damage of achieving a more balanced supply/demand position is real.

The fact of the matter is many growers with 2020 contract expirations will not have their contracts renewed by either Del Monte or PCP following this year's harvest. The Association already has nearly 400 acres of unsold orchards (nearly all of which came out of contract following the 2019 season) with virtually no chance of selling this fruit for canning purposes in 2020. For growers who now find themselves without a contract, and for those about to lose a contract following the 2020 harvest, I feel your pain and understand the frustration that comes from being in this position.

The Association's Board of Directors also feels your pain and in fact, many of our Board members will be faced with exactly the same difficult decisions for some of their own orchards. Unfortunately, none of us have the ability to wave a magic wand in order to make new markets appear.

At this point, all processors are unwilling to purchase additional fruit in 2020 since they realize that simply continuing to pack more tons than the market can absorb just prolongs the time needed to bring our supply/demand equation back into balance. However, we all recognize that the supply/demand pendulum swings both ways. Let's not forget that just a few years ago, canners were paying growers \$500/acre to plant new orchards with 20 year contracts. An advertisement was even running during the spring of 2014 in the Farm Bureau's Ag Alert publication touting long term contract opportunities along with this canner's machine harvest friendly approach.

What a contrast to our 2020 situation where contracts for new plantings don't exist and expiring contracts are not being renewed. Clearly we must address today's supply challenges while avoiding an overreaction which could push the pendulum too far in the other direction.

Obviously, the Peach Association recognizes the importance of assisting our canner customers in reaching the proper balance between raw product supply and the current market demand for our products.

Last spring, we sought assistance from USDA officials by requesting a \$25 million Bonus Buy purchase of canned peaches out of the 2019 peach pack. USDA responded to our request by announcing a \$25 million Bonus Buy purchase just as our harvest was beginning. This purchase removed an additional 13,000 tons of peaches from conventional market channels, split nearly evenly between Del Monte and PCP, which greatly benefited both growers and processors last year.

While Bonus Buys can't be views as the long-term solution, two months ago I was back in D.C., meeting with USDA officials to request one more round of Bonus Buy purchases from the 2020 pack as the last remaining piece of

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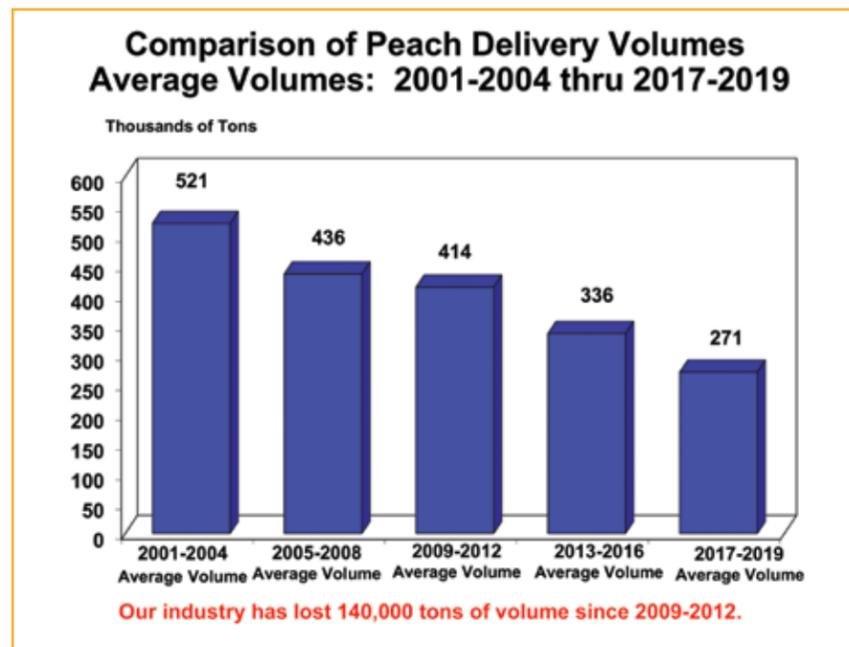


**Rich Hudgins**  
President and CEO  
California Canning Peach  
Association

"At this point, all processors are unwilling to purchase additional fruit in 2020 since they realize that simply continuing to pack more tons than the market can absorb just prolongs the time needed to bring our supply/demand equation back into balance".

STATE OF THE ASSOCIATION

Rich Hudgins | Continued from page 3



our industry's rebalancing effort thru Bonus Buys. It is our hope that a 2020 Bonus Buy decision can be announced by USDA no later than March 1st with all bids awarded no later than July 15th. Stay tuned for more news regarding this effort in the coming months.

Our efforts to improve market conditions for canned peaches last year weren't limited to the USDA Bonus Buy purchase. As many of you will recall the World Trade Organization ruled in favor of the US last year regarding aircraft subsidies the EU provided to Airbus. This decision entitled the US to retaliate against \$7.5 billion worth of EU goods. Last August, I testified at a USTR hearing in Washington D.C. to urge that Greek canned peaches be included on the U.S. retaliation list.

In mid-October USTR officials announced the official US retaliation list which imposed additional 25% tariffs on a range of EU agricultural goods including Greek canned peaches, fruit mixtures, and frozen peaches.

As result of these tariff increases, we expect to see decreased volumes of Greek canned peaches entering the US market in the coming months. I can tell you from firsthand

experience that Greek peach processors were extremely unhappy with me regarding the imposition of these 25% tariffs which tells me that our efforts averted even more pressure from Greek peach imports this year.

Although it won't result in canners buying more peaches this year, there are already reports of retailers rethinking their 2020 canned peach sourcing plans due to the increased tariffs now in effect.

Our efforts regarding the Bonus Buy and Greek tariffs are just two recent examples which demonstrate that we're continuing to look for opportunities to make sure our processor customers view us as allies instead of adversaries.

During the past year, we've also taken the lead in calling out several retailers who have chosen to source their store brand canned peaches from China instead of California. I believe that the Peach Association is uniquely positioned to deliver this Buy American message to Kroger and other retailers. It's not surprising that our canners would be reluctant to publicly call out some of their key retail customers on this issue.

However, we can and will continue to do so. We know that California peach growers will eventually pay the ultimate price as our domestic markets shrink due to unfairly priced Chinese and Greek canned peach imports.

We will continue to be vigilant regarding retailer decisions on sourcing for their store brand products.

My wife will be the first to tell you that she knows exactly which aisle I'm headed for each time we visit a supermarket just to check on the country of origin for their canned peach products.

Given the challenges currently facing our industry, grower and canner interests should continue to be closely aligned as we seek to do everything possible to restore and maintain industry profitability. There is no doubt in my mind that as an industry we're stronger when we work together.

For at least the past 50 years, no Peach Association annual meeting speech has been complete without some mention of our raw product pricing expectations for the coming year.

Clearly, we face a challenge when it comes to raw product pricing in 2020. The pressure from labor cost increases faced by both growers and processors this year is real. Given the 8% increase in California's minimum wage as of January 1st, it is imperative that 2020 peach prices reflect the higher labor costs that growers are now incurring.

As everyone here this afternoon knows, the 2019 grower price of \$488/ton was unchanged from 2018 pricing despite last year's 9% labor cost increase. Last year, both Del Monte and PCP were successful in achieving canned peach sales price increases from many of their customers. This price increase now needs to extend to our 2020 raw product pricing.

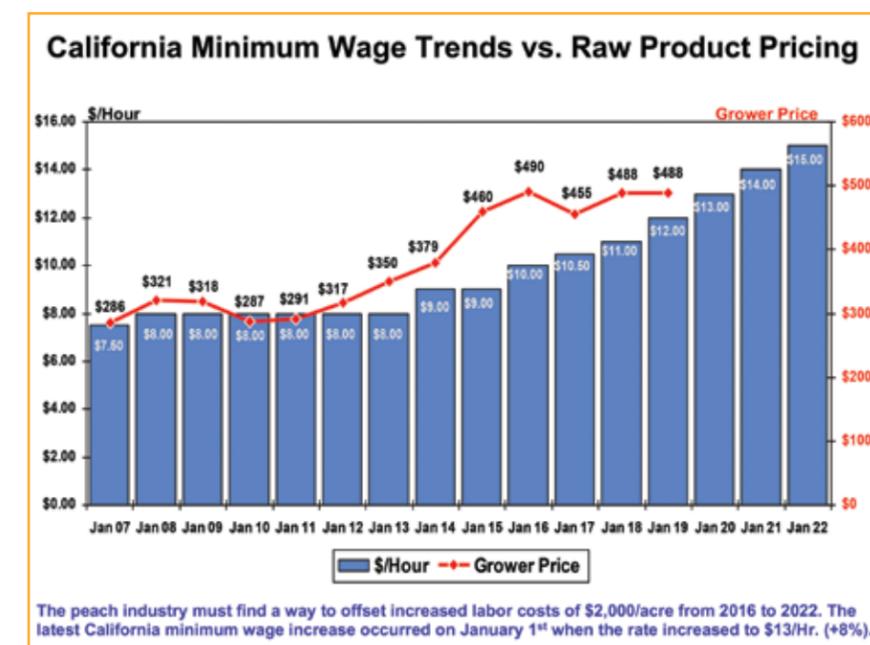
There is no mystery about what lies ahead. In looking back at the last ten years, you can clearly see the relationship between labor costs and peach prices. We have posted a 4% compound annual growth rate for both minimum wage and peach prices. For the cling peach industry in California to survive, we must be able to recover higher labor costs in the coming years or find new ways to offset these higher labor costs with more mechanization. If we fail to do so, our industry will be doomed to follow the Hawaiian canned pineapple industry into oblivion.

Assuming we can avoid a similar fate, it's hard to believe that in just two short years we will be gathering to mark the Peach Association's 100 - year anniversary. The industry has certainly changed dramatically since 1922. Del Monte is the sole remaining processor left from the Association's list of canner customers in 1922.

More recently, we've gone from eleven canners in 1980 to our two remaining canners in 2020. However, throughout our history there has been one factor which hasn't changed – The willingness of grower leaders to serve on the Association's Board of Directors and to assume the responsibility for leading this organization. Generations of peach growers have chosen to take time away from their own farming operations in order to do the right things for our industry. They've been able to take on responsibilities and roles that require an ability to look beyond their farm gate and to put any personal agendas aside for the benefit of the Peach Association and our grower-members.

This year will mark my 39th year of working for the Association and I continue to be very proud of our Board – it embodies the benefits of combining new faces and new ideas with the experiences of long serving Board members all sharing common values and a commitment to being good stewards of the peach industry in California.

Being a good steward of the industry involves thinking beyond just the Association's pricing role to focus on the outlook for our industry 10 years from now and even more broadly to the outlook for California's agricultural industry ten years from now.



As part of our look towards the future, I'm pleased to report that the Peach Association's Board of Directors recently authorized funding for a newly created Ron Schuler Memorial Scholarship to honor our former President & CEO.

We intend to award two \$1,500 scholarships annually to students planning to major in an agricultural or environmental science related field of study. In order to be eligible, the student must be part of a family who are Peach Association members and be planning to attend, or currently attending, a four-year college.

Continued on page 16



**Mark Burrell,**  
WestMark Group

Mark Burrell, managing Partner of the WestMark Group, was the Keynote speaker at the Association's 98th Annual Meeting on January 21st. Following are excerpts from his remarks entitled "Managing in a Complex Business Environment".

## 2020 KEYNOTE ADDRESS

Presented at California Canning Peach Association's 98th Annual Meeting | January 21, 2020

**W**hat I'd like to do this afternoon is share our perspective on succeeding in the 21st century in terms of agriculture.

What I'd like to do this afternoon is share our perspective on succeeding in the 21st century in terms of agriculture. I will spend just a moment or two about where we've come from in this century. I'd like to chat for a moment about some very significant drivers of change. I'll share some thoughts about the way we see, the current business environment. There are some folks in the world who wake up in the morning and seem as though they have a DNA strand that requires that they worry and it's a pretty rich environment for these types of people. I'll share a few thoughts that would cause a reasonable person to worry but at the same time, there are some bright spots and I'll share a word or two about that. I want to share our own perspective about the reasons that we believe that proven practices might not be good enough to succeed going forward. They might have to be better than that and I'll share a few thoughts of ours on what it takes to be successful in the 21st century and in this environment.

The first 15 years of this century were really extraordinary for U.S. agriculture and they were extraordinary for California. If you look at this chart...the green bars are total U.S. farm-sector equity or net worth, and the red bars are total U.S. farm debt. In that period of time, which went from 2000 to basically 2014, total farm equity went up \$500 billion to \$2.5 trillion. Total U.S. farm debt went from about \$279 billion to about \$300 billion. So if you think about sectors of our economy, there is no major sector of the economy--whether it's pharmaceuticals or biotech or technology--there's no sector that has a stronger balance sheet than U.S. Agriculture.

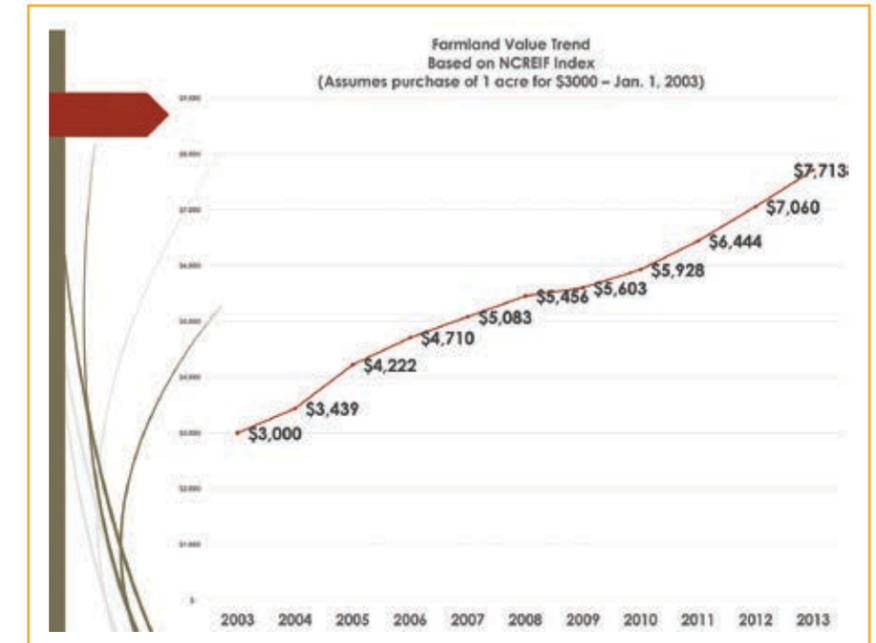
Whether in the West where pension funds typically are going to invest in permanent crops, or in the upper Midwest in corn and soybeans, or the Mississippi Delta or in Florida, generally speaking, the pension-fund money invested in U.S. farmland is managed by those types of firms who are pretty good sized. We think for California, their performance is more representative of what the overall market look is than you'd find from USDA data, which tends to involve much smaller transactions. Here are annual total returns, between 2003 and 2013, and again, total returns are cash rent plus appreciation. If someone had bought a piece of farm ground for \$3,000 on January 1st, 2003, that same piece of property, if it had appreciated and generated rent at the same rate as those farmland holdings did nationally, it would have been worth \$7,700 on January 1, 2014. And if you look at those numbers, it's the only time in the last hundred years in which the total return for U.S. farmland at that period of time was just under 10 percent--9.9 percent compound annual rate of return. During the same period of time, if someone put money in the Dow Jones index between 2002 and 2012, it earned just over a 2.0 percent return. Between 2004 and 2014 it would have earned a 4.7 (percent return) but it still earned half of what U.S. farmland did.

Those in agriculture never missed a beat. We just kept right on moving during that period of time. At the same time in California, if you looked at 2002 and 2012 total agricultural receipts, receipts at the farm gate--meaning not processed or value added or that sort of thing, what farmers sold their products for--went from \$28 billion to \$48 billion, and the same time net earnings went to about \$16 billion; really, really significant returns in terms of that period of time. And not everybody--I want to make this point--not everybody shared equally in that. As you know, if you were smart enough to take very significant risks and you planted almonds fence row to fence row in 1996, you did very, very well in that period of time.

If in the same period of time you were equally smart, equally hardworking, had just as intelligent and motivated a family and you were in the dairy business, you didn't fare nearly this well. There were other sectors, tree fruit being one of them; your sector was challenged in those periods of times.

In looking at drivers of change, in terms of California legislation, we believe these are structural changes. An example is the increase in minimum wage. It really is going to \$15 in 2022 and I'll make a point about that. If we took every farmer in this room, or if we tripled the size of this room and tripled the number of farmers, and said we'd like those farmers in the room to stand up who have 20 percent of their labor force that receives minimum wage, probably nobody would stand. The point being, almost everyone in the room, their general employee and labor force are paid above minimum wage. However, as those minimum wages go up, it raises the boat for everybody. The SGMA (Sustainable Groundwater Management Act) is also going to have an effect on everyone. In terms of agriculture, there are 518 defined water basins in California. There are three that have groundwater sustainability plans, so there's a lot of detail that we don't know yet. What we do know is that the portion of the Central Valley (particularly from Merced south, but even as far as Stockton south) have much more significant implications in general than that portion of the Central Valley that's north of the Delta. We believe there are 7 million acres of irrigated farmland from between Redding and Bakersfield. If you believe that these numbers that are pretty good, and there's a 2 million acre foot overdraft, it implies that about 600,000 to 700,000 acres will come out of production or about 15 percent of the total. What no farmer that I've ever heard is likely to do is stand up in a room of farmers and say, 'I think SGMA is a pretty darn good thing.' But it's going to help some of us quite a bit because where our ranches are located, we have comparatively better supplies, groundwater and surface water--we're not in an area that is severely overdrafted and we have highly adaptable soils. Our ground has always enjoyed the premium for those reasons in terms of values, but as SGMA is implemented, the likelihood that that premium goes north is very high. So it will help some but it will certainly have significant impacts on others that won't be positive.

In terms of minimum wages, everybody here knows and lives with the fact that California is a high cost, highly regulated business environment and it is becoming more so. When I talk about lack of progress on immigration, what I mean by that is that it's not simply having



adequate supplies of labor. I recognize there are differences depending upon the area and depending upon the operation. But in terms of the pressures that exist at the border, it creates even more challenges on those in agriculture who have significant demands for labor.

As you know, it's not simply the increase in minimum wage; it's the reduction of the work week from six to five days and the reduction of the work day from 10 hours to eight hours. That impacts us as well. If one assumes that you have labor working 10 hours a day and they're going the way the operation works, you have to continue to have them work 10 hours a day and you factor those increases, increased costs in from 2017 through 2022, it's a 52 percent increase. What that means is that if you're in a sector such as table grapes, tree fruit, berries, and maybe yours, where your total operating costs of labor represents close to 50 percent, it means that your total costs are going up 25 percent, because if half of your costs are going to go up by 50 percent and you divide that by two, that's a 25 percent increase.

"As you know, it's not simply the increase in minimum wage; it's the reduction of the work week from six to five days and the reduction of the work day from 10 hours to eight hours".

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**SPOTLIGHT  
ALBUM  
2020 ANNUAL MEETING**



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Marilyn Dolan

## BUY AMERICAN GRANT UPDATE

In 2017, the California Cling Peach Board (CCPB) was awarded a Specialty Crop Block Grant through the California Department of Food and Agriculture, to create a “Statewide School Educational Effort on the Benefits of Buying California Grown Canned Fruit.”

The application for this grant was submitted after several schools in California were called out in a series of media reports in the Sacramento Bee for serving canned peaches from China in clear violation of the Buy American Provisions of the National School Lunch Act.

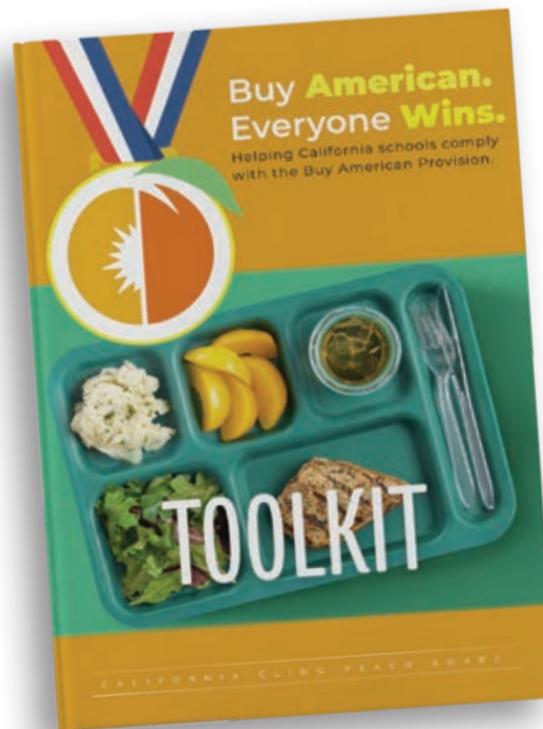
The grant project was designed to create a multi-media educational outreach campaign targeted at California school foodservice directors to raise awareness of the Buy American Provision and how to comply. But at its heart, the campaign is about encouraging increased usage of California-grown canned peaches in schools by showing school superintendents, board members and, more importantly parents of school-age children, the many benefits of consuming canned peaches from California.

### The ‘Buy American. Everyone Wins.’ Toolkit

As a first step in this effort, a ‘toolkit’ was developed to share information with target audiences in a clear and understandable manner. This comprehensive ‘toolkit’ and the overarching campaign was dubbed “Buy American. Everyone Wins.” Materials included information on why schools should comply with the Buy American Provision along with an explanation of official language and definitions of the law. The toolkit also provided: a checklist for schools to ensure compliance with the Buy American Provision; samples of policies, solicitations and contracts; and tools for schools to outreach to their own stakeholders including board members and parents. Importantly,

the kit also contained information and images of false statements and claims from distributors of imports; a how-to on identifying California-grown canned fruit; and product specifications and sourcing contacts provided by Del Monte and Pacific Coast Producers.

A large section of the toolkit was devoted to highlighting the many benefits of using canned peaches in school foodservice programs. This information focused on nutrition; growing regions in California; and the families who have been growing peaches in California for generations. Importantly, the toolkit emphasized that buying canned peaches from California really is the only option for serving ‘locally grown, fresh fruit’ year-round in schools.



The “Buy American. Everyone Wins.” toolkit is available digitally and in printed hard copies. Through social media and newsletter mailings, CCPB has targeted school districts across the country and has put this toolkit in the hands of school food service directors, business officials and School Board members.

In the second year of the grant period, a section was added to the toolkit to focus on California canned pears to expand the value of the kit. Another section on canned olives is planned for the third year.

Additionally, the second edition of the ‘Buy American. Everyone Wins’ toolkit included a new one-page sheet titled “A Lesson on Canned Fruit for Parents”. This page was specifically created to give schools information to send home to parents on the benefits of serving California canned peaches in their children’s school food service program. Using mathematical analogies, the page talks about the four main reasons for serving canned fruit; 1) Canned Fruit = Fresh Fruit, 2) Canned Fruit = Healthy Fruit, 3) Canned Fruit = Locally Grown Fruit and 4) Canned Fruit > Fresh Fruit.

### California School Nutrition Conference

In November of 2018, CCPB staff exhibited in a booth at the California School Nutrition Conference in Long Beach, CA. This was an opportunity to talk with foodservice directors, managers, cafeteria workers and school business officials about the Buy American Provision and to provide them with digital copies of the toolkit on a flash drive.

CCPB’s presence at the conference was promoted via newsletter, social media and advertisements. Positive feedback was received from many of the conference attendees with most reporting they were aware of the Buy American Provision and were regularly ordering canned peaches through the USDA program. Many conference attendees reported how much effort and paperwork goes into a school being “in compliance” the provisions. They reported that the multi-step process was difficult and time-consuming, thus ordering through the USDA program made it easier.

In November 2019, CCPB decided to make a bigger splash at the California School Nutrition Conference in Ontario, CA. Partnering with Pacific Northwest Canned Pears, much larger booth space was secured with a premium location just as attendees entered the exhibit hall. The goal for the 2019 conference was to really highlight the Buy American aspect of the program and to thank school foodservice directors for working hard to be in

compliance with the Buy American Provision by purchasing domestically grown canned fruit.

The booth displayed a patriotic theme to support its “Buy American. Everyone Wins.” message incorporating red, white and blue decorations and serving grilled hotdogs with peach and pear relishes. Visitors also had the opportunity to come into the booth to play a game of cornhole while enjoying their snack. Featured in the booth were large flags encouraging the purchase of U.S. grown canned fruit. Each attendee was given a notecard from the California Cling Peach Board and Pacific Northwest Canned Pear Service thanking them for their support of U.S. canned fruit farmers. CCPB was successful in securing several new subscribers to its Buy American Update newsletter and in gathering insights from California schools about their use of canned peaches.

### Buy American on Social Media

Modern communications outreach would not be complete without social media. Utilizing grant funds, the ‘Buy American. Everyone Wins.’ campaign hit the internet through Facebook and Twitter using the @BuyAmericanEveryoneWins handles. These social media pages feature content from the toolkit and work to continually present the benefits of California canned peaches – always linking back to the Cling Peach Board’s website for more information.

To further spread its message, the @BuyAmericanEveryoneWins pages teamed up with Dayle Hayes – creator the ‘School Meals



“The grant project was designed to create a multi-media educational outreach campaign targeted at California school foodservice directors to raise awareness of the Buy American Provision and how to comply.”

Continued on page 15

## MODESTO & KINGSBURG DISTRICTS

### The main issues facing our cling peach growers

this year appears to be the continuing decrease in demand for canned peach products while at the same time experiencing labor costs that are significantly increasing for pruning, thinning and harvesting the 2020 crop. California's minimum wage has increased another \$1/hr this year (now at \$13/hr) and combined with other cost increases such as sprays, fertilizer, insurance and worker's comp, growers continue to struggle to maintain profitable margins on their cling peach orchards.

So far this winter, it appears the rain, as well as the much needed snowpack, are significantly below normal levels for central California. The Modesto area currently has received just 3.92" of rain to-date compared to 9.08" last year and 8.07" for normal-to-date as of February 16. The greater Kingsburg area currently has received 3.12" of rain to-date which is well below the normal-to-date amount of 6.08" and the 5.77" of rain received last year as of February 16. According to the Department of Water Resources, the snowpack in the Central Sierra is reported to be as low as 56% of normal-to-date levels thru February 13, which may result in decreased reservoir releases and increased ground water pumping.

However, chilling hours have actually increased this season. As of February 16, the Kingsburg area has accumulated 1,052 hours compared to 752 hours last year to-date. Modesto is also higher in chill hours with 979 recorded as of February 16 compared to 757 chill hours at the same time last year.

January / February have seen unusually warm temperatures and these conditions may result

in an earlier Full Bloom date in Kingsburg which was March 9 last year. For the Modesto area, Full Bloom last year was on March 18 but could also be earlier this year.

Pullouts following the 2019 season in Modesto / Kingsburg areas are behind the almost 900 acres that were pulled out last year. Continued instability of the canned peach industry, raw product over-supply and the canners' reluctance to extend expiring contracts continue to be major considerations for our growers. Currently, the Kingsburg area has pulled out 130 acres while the Modesto area has pulled 330 acres and there are another 160+ac of Unsold Clings scheduled to be pulled in the coming months. Modesto / Kingsburg area pullouts after the 2020 and 2021 seasons could be as high as 1,000 acres per year depending on the status of the industry's Supply/Demand equation.

Currently, new plantings are virtually non-existent now as the cling industry continues to shrink. Canner sponsored plantings, prevalent just a couple of years ago, have now been replaced with Canner contract buyouts.

The Modesto area has lowered the number of contracted acres that are 20 years old and older (approx. 400ac) with the Kingsburg area still having the lowest percentage of nonbearing vs. bearing acres (approx. 6%). Between both areas, there were less than 100ac planted last year, possibly the lowest # of acres planted in any given year.

Finally, I would like to say thanks to all our Members that make cling peach industry a great place to work. I look forward to working with each and every one of you in the coming months. 🍑

## NORTHERN DISTRICT UPDATE

Ajayab Dhaddey

### Labor is becoming to be a bigger concern for growers every year.

In the past there have been plenty of people available during pruning but this winter it has been tight and there are some growers still pruning. With tight labor and California's minimum wage going up the grower cost has gone up dramatically.

There has been ----- inches of rain so for this year compared to ----- inches last year. So far February has been a very dry month. The long range forecast is not showing much rain in March either.

Verona chilling hours as of February 17 are at 1003 hours compared to 869 hours last year. And Davis is at 728 hours compared to 681 last year. The chilling hour requirement for cling peaches is 800 hours total under 45 degrees between November 1 – February 28.

A total of 936 acres have been pulled since last harvest with 536 acres in the Yuba/Sutter area. Bearing acres for 2020 harvest is expected to be around 16,000 acres compared to 15,355 acres last year. The increase is due to the 2017 plantings coming into bearing that processors paid growers to plant. The Association currently has around 400 acres of unsold orchards with no canner looking for any extra fruit. PCP offered their growers a buyout this winter and had 347 acre sign ups in their Contract Retirement Program.

With February being dry the growers have been busy keeping up with the cultural practices. Dormant sprays were done on time and working the ground to plant trees has been going well.

So far there are plenty of buds on the trees for a normal crop. The buds are pushing and some of the late and extra late varieties are starting to open and growers are getting ready for fungicide sprays.

In conclusion we hope all goes well for a good season in 2020. 🍑

## BUY AMERICAN GRANT UPDATE

Continued from page 13

that Rock' program that is very popular with school foodservice directors, Dayle worked to help reach her national audience with Buy American messages. In October 2019, Dayle promoted canned peaches for both National School Lunch Month and National Farm to School Month. Each week during these months she featured school lunch recipes and information from the toolkit helping to raise awareness and driving people to the Buy American. Everyone Wins properties.

@BuyAmericanEveryoneWins works with other popular social media sites include those managed by canners, Del Monte and Pacific Coast Producers; the Produce for Better Health Foundation; CA Grown; the California Farm to School Movement; the National Farm to School Movement; and the School Nutrition Association (SNA) program.

The goal of all these activities is to grow the online audience and spread positive messages about California-grown canned fruit and the Buy American provision. This is done in many different ways. For example, each year the National School Nutrition Program celebrates three big events while promoting school lunch programs. March celebrates National School Breakfast Week; May 1 is School Lunch Hero Day and in October National School Lunch Week is celebrated. During each of these events, the @BuyAmericanEveryoneWins pages interact with SNA's posts to expand the reach of our messages about California canned peaches and increasing awareness and followers.

Although this Specialty Crop Block Grant project will end in April of 2020, the goal is to build on the accomplishments to date and to continue promoting the use of California canned peaches in schools into the future. 🍑

## STATE OF THE ASSOCIATION

*Continued from page 5*

I spent 21 years working for Ron. He believed very strongly in the importance of educating the next generation which will someday lead California agricultural industry. He served for many years on the Dean's Advisory Council at U.C Davis and on the State Fair Board. Following his retirement from the Peach Association in 2002, he also served on the California FFA Foundation Board. I'm sure he would be very pleased to see that we're awarding this scholarship in his name.

And now, it's my privilege to announce the first recipient of our Ron Schuler Memorial Scholarship Award. Please join me in recognizing Arvin Sihota, from Selma.

As Arvin makes his way to the podium, I can tell you that he is currently a junior attending Fresno State University. He is majoring in Plant Science with a minor in Agribusiness. His parents are Simon & Summer Sihota who are second generation peach growers.

Congratulations Arvin!

I've never given an Annual Meeting speech without recognizing the staff of the Peach Association. They are truly the backbone of our organization and I continue to be very proud of their accomplishments and their focus on serving the needs of our members. Just like my description of our Board, they represent a combination of new faces and long serving employees. Let's give the entire staff a round of applause

In closing, I would like to leave you with this thought...

For the past 98 years, The Peach Association has been unwavering in our commitment to maintain a strong peach industry. Every member can be proud of our history, proud of our accomplishments over the past year, and confident that we will continue our long tradition of industry leadership as the journey continues. Let me wish all of you a successful year in 2020. Thank You. 🍑

## 2020 KEYNOTE ADDRESS

*Continued from page 7*

There are no sectors in California agriculture where generally there are 25 percent margins. What it's driving is, it's driving some production south. And when I say south, I mean south of the United States border. It's also driving incredible investment in technology and innovation, particularly technology that can reduce labor. We don't have a single client that's not working as hard as they can to identify and adapt technology that's relevant, that is proven and that will both increase productivity and reduce costs. Let's talk about what's right. One of the various significant differences between today and the mid part of the '80s is that we have very, low interest rates. The president's signing of the USMCA (U.S. Mexico Canada Agreement) is another positive step from our perspective. The Phase One (agreement) with China is a positive step. Rich and I were chatting before the meeting started, he was sharing with me that China is of course a major competitor for peach growers in California. And at least based on what the current commentary is, is Phase Two is not expected to be signed until after the election. And to the extent that's true, that would imply that China, those gates are not going to open in 2020. However, the Chinese product will be there when they do.

The almond industry continues to have a positive outlook. It is, from our perspective, one of the most competitive in terms of U.S. agriculture. It's had the ability, to grow absolute demand. There are a lot more Americans who are concerned about weighing less than they are about finding something they can eat more of. Avocados have been successful doing this, berries have been very successful doing this, almonds have been successful at doing it. I'll show you some numbers to support that walnuts have as well.

In terms of almond production between 1995 and now, that's 25 years; that's 6.5 times (larger), just under 2.5 billion pounds. The prices at the same time in that same 25-year period, they held even. So the prices in 1995 received are essentially the same as growers received in 2019, and California produced 6.5 times more almonds than it did 25 years ago.

Walnuts doubled from about 328,000 tons to just under 700,000 while prices were certainly improved significantly by at least 50 percent. We think prices will be for Chandler--and there are big differences as you know--we think prices will be a little north of a dollar per pound at the time things settle out for 2019.

In terms of the current environment, nothing is more important in our judgment than dealing with what is rather than thinking about what used to be. We can think about what we hope things are. However, it is essential to have a firm grasp on what the current business environment is. As I mentioned earlier, it's a very high cost, very highly regulated environment. Labor costs are increasing and are going to continue to increase. If you take those numbers that I spoke of earlier, labor costs are going to go up 10 percent this year, they will go up 10 percent in 2021 and they will go up 10 percent in 2022.

While Phase One and USMCA are very positive, in our world we regard uncertainty as a reflection of risk. The greater the uncertainty, the higher the risk and uncertainty has ratcheted up for at least the last four or five years, and it's continuing to ratchet up. It's premature to say that we've made progress with China and made progress in terms of USMCA and therefore our trade problems are behind us.

Consumer preferences are essential to understand in every single sector, but it's important to mention the very best businesses are succeeding in this environment. They're doing very, very well in your industry but to say that it's a challenging environment I think would be an understatement. You have very high labor costs. You're in a sector where per capita consumption has declined over a long-term basis. You have shrinking margins. And if you plan to stay, then it has to be based on the fact that there is a core level of consumption that you believe will be there and you believe that your business and your structure can be successful as the last man or the last woman standing. It's not as though that's not true and it's not as though that's not possible, but that's a tough challenge.

We think the strategies that are really key are, first knowing your costs and, maintaining low levels of debt. We encourage every single client we have described to be in the 90th

percentile. And if you said, 'What's the 90th percentile?' It very simply is a business that outperforms 90 percent of the same people in the same sector. Some would ask, 'What's the metric that you use?' You can use cost of production, cost per acre, cost per ton, yields. We use a single metric; we use return on invested capital. If you generate high levels of return on invested capital over a long period of time, then there's something other than your management practices that could interfere with the long-term success of your business.

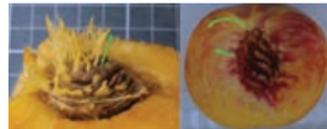
Lastly is that if you're in a business where you can differentiate and create a premium, you have a big advantage. Almonds are a terrific sector. As I mentioned, we think it's as competitive as any sector in California, but there's not much opportunity to differentiate. Certainly there can be quality premiums; there can be premiums in terms of turn-outs and so on. But if you compare that to table grapes as an example, where on a given day, the difference between the highest price per box in the sector as compared to the median can be 50 percent, that's a big difference. That's differentiation.

In terms of what we think it will take to succeed, we don't think the management teams that succeed in the future would look exactly like those that have necessarily been successful in the past. We think that the management teams that succeed in the future must be able to manage effectively in periods of great uncertainty and chaos. We think they will have parallel abilities to think and act strategically and to manage costs at a micro level at the very same time. We think they will embrace and use technologies that are adaptable and relevant to their sectors, and we think they will be agile in terms of their managerial skills and their ability to adapt.

Thanks for the opportunity to visit with you this afternoon. I hope 2020 will be a great year for California's peach growers. 🍑

## THE UNIVERSITY OF CALIFORNIA PROCESSING PEACH BREEDING PROGRAM

Continued from page 9



**Figure 4.** Halved peach fruit showing that most flesh is composed of strands radiating from the pit with a lesser number of strands originating from the stem area and developing along the outer edge of the fruit. The large pit-feeder-bundles can be seen within the grooves of the pit at the left and partially within the pit-cavity of the fruit at right.

nity for all fruit to achieve full size (maximum yield) and quality (maximum sugar, minimum rejects). Figure 3 shows an example of this type of maintenance of processing quality for UCD selection Compact-3 harvested at tree-ripe and again 2 weeks after tree ripe. An additional source of the stay-ripe trait is the genetically unique South African germplasm which was the source for the Early-6 advanced selection now undergoing the final stages of regional evaluation. Early-6 also incorporates a ‘highlighter’ gene which suppresses all red fruit-pigmentation, even in overripe fruit. The breeding program is now attempting to incorporate stay-ripe genes from multiple genetic sources in order to improve performance and environmental stability. Parallel efforts are pursuing a better understanding of the mechanism for this trait. Developmental studies suggest that the stay-ripe trait is associated with an extended or prolonged maintenance of flesh vascular strands. As shown in Figure 4, virtually all of the peach fruit flesh is composed of 2 types of such strands: the first radiating out from the pit and the second extending out from the stem area and continuing along the outer edge of the fruit. In clingstone, nonmelting fruit, the connections between strands and between strands and the large feeder-bundles in



**Figure 5.** Pillar tree architecture for clingstone peach.

The continuity of these vascular strands allows the continued nurturing and so extended survival of individual flesh cells. Post-ripening deterio-



**Figure 6.** Compact-2 ripening with Carson but with a tree size approximately half the size of Carson.

ration, thus, appears to be more of a genetically programmed tissue breakdown than a chaotic deterioration. If this mechanism proves correct, we may be able to identify genetic as well as biochemical markers for vascular strand integrity/longevity that could then be used to improve breeding efficiency.



**Figure 7.** Horizontal shoots of trellis-trained Compact selection showing good bearing wood renewal without excessive growth and without excessive vertical waterspouts.

**Pruning.** Mechanical pruning is particularly challenging for peach because both tree size and annual shoot growth can become unmanageably large. Because flowers and so fruit form only at the axillary nodes of the previous season’s shoot growth, peach production requires a vicious cycle of promoting extensive new shoot growth that then must be manually pruned back to encourage the next season’s shoot growth. To overcome these difficulties, we are pursuing new traits for peach such as a more almond-like spur bearing-habit and pillar-tree architectures (Figure 5) that have

been extensively utilized in apple to facilitate orchard mechanization. A particularly promising approach has been the incorporation of the ‘compact’ trait into new varieties. Discovered as a budsport mutation in our breeding program in the 1990’s, this trait is controlled by a single, easily selectable gene and results in the reduction of the shoot leaf-to-leaf internode length by half to a third. The total number of nodes remains similar for both compact and standard types. Consequently, the final shoot and so tree size is from half to a third shorter than standard (Figure 6). Despite the shorter length, compact shoots have a similar number of internodes and so produce a similar number of flowers and so fruit, but without the need for more extensive shoot growth. Remarkably, even heavily pruned compact trees show suppressed waterspout growth (Figures 7 and 8) which should facilitate more mechanized pruning strategies. The resulting small tree stature and suppressed waterspout growth make this trait particularly useful for high-density training systems such as quad-V (Figure 6) or mechanically hedged tree rows (Figure 8).



**Figure 8.** Hedged trees of Compact-3 at fruiting.

**Thinning.** Improved thinning-efficiency, including mechanical thinning, has also been a particularly difficult challenge. Over the past several years, all UCD breeding blocks have been mechanically hedged and mechanically thinned (Figure 9) to identify promising tree structures and bearing habits while at the same time, minimizing our own rapidly increasing labor costs. The flowering/fruiting wall of hedged compact trees such as those in Figure 8 have proven particularly amenable to this type of mechanical thinning. Because hedging occurs during the winter prior to flowering, we plan our hedging-cuts to selectively cut



**Figure 9.** Mechanical thinning using the Darwin flower thinner.

back lateral shoots to reduce the number of flower buds while still maintaining enough flower numbers to compensate for later losses from spring-frosts, storm-damage, etc. Just following bloom, (at the beginning of petal drop) we use the Darwin Mechanical Thinner to further reduce flower numbers, as needed. This approach still leaves many fruits in the interior of canopy. However, because of the compact’s inherently lower flower density and inherently greater capacity to size clustered fruit, most of these fruit are still able to achieve commercial size at harvest, particularly when the stay-ripe trait has been incorporated (as in Compact-1, Compact-2 and Compact-3). This type of a narrow fruiting-wall or even a high density perpendicular-V type system (as in Figure 9) might also be more amenable to future robotic flower thinning strategies currently being tested in apple and pear. Ultimately, success with mechanical thinning will depend on the full integration of optimized orchard design and management, effective equipment development and availability of appropriate genetic traits to complement the overall thinning strategy. Similarly, the economic trade-offs between likely lower orchard-yields with probable dramatically lower labor-costs, need to be analyzed. To facilitate the type of multi-disciplinary efforts required, we are currently establishing model orchards at Davis and Winters, California where growers and researchers can evaluate different architectures and bearing-habits under different mechanization scenarios. The California processing peach industry has a long history of innovative problem-solving when appropriate resources become available. The ultimate goal of the UCD processing peach breeding program is to identify, characterize and incorporate the required genetic traits to enable this innovation. 🍑



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