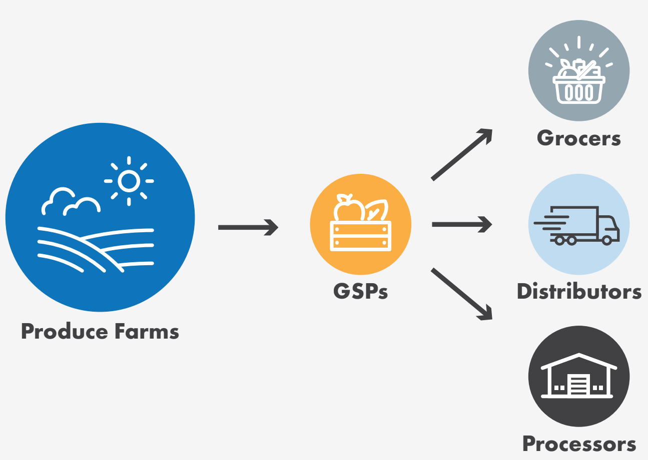
FACT SHEET

THE FRUIT AND VEGETABLE SECTOR

INDUSTRY OVERVIEW

The path from farm to consumer in the fruit and vegetable sector includes a variety of market intermediaries, processors, and retailers. Produce farmers can grow their fruit and vegetable crops under contract with a "grower-shipper-packer" (a GSP), or they can operate independently. Historically, if a farmer opted to operate independently, they could sell their crop through a variety of marketing channels, including direct-to-consumer sales, terminal markets, and produce brokers, or they could bypass intermediaries and sell directly to wholesale outlets, such as processors, restaurants, and grocers. Today, many of these market channels for independent farmers are no longer as available to produce farmers as they once were.

As consolidation pressures have increased across the industry, an increasing percentage of produce farms now grow under contract with GSPs. The contract between the GSP and the grower often requires the farmer to follow the GSP's mandates regarding what crop and seed variety to plant, what pesticides to use, and what crop management techniques to implement. In exchange, the GSP typically provides 50-60% of the growing costs of the crop and agrees to provide a portion of the services needed to harvest, pack, refrigerate, ship, sell, and collect payment for a crop. Ultimately, the GSP charges the farmer for these services, collects payment for those charges from the proceeds of the sale of the farmer's crop, and divides what is left between itself and the farmer in proportion to their respective shares of growing costs.



HISTORICAL CONTEXT

Over the past three decades, terminal buyers — including grocers, processors, and distributors — have consolidated dramatically. The market share of the top four dominant grocery companies has risen sharply from 23% in 1993 to 69% in 2019. Similar and greater concentration is evident in fruit and vegetable processing and foodservice distributors.

As they have consolidated, terminal buyers have increasingly sidestepped intermediary markets — instead contracting directly with GSPs and certain large farms and cooperatives. Since the early 2000s, the majority of produce destined for processing has been grown under contractual arrangements between grower-shippers and processors. In fresh produce markets, grocery retailers began sourcing their fruit and vegetable supplies through long-term contracts in the 1990s. By 2001, retailers were buying as little as 25% of their produce from intermediary markets, with smaller retailers relying on intermediaries more than large stores. Today, 80-90% of fresh produce is marketed through GSPs.

As a result of these shifting trends, the supply chain has been dramatically thinned by eliminating many of the physical markets, brokers, and other intermediaries through which farmers once sold their produce and through which buyers once procured their fruit and vegetable supplies.

During this rise of the GSP, the structure and nature of the grower-GSP-buyer relationship has shifted. As the various marketing channels have consolidated, so too have GSPs. By 2011, there were only 3,214 GSPs left in the United States and today around 20 large, investor-owned GSPs have emerged as clear sector leaders, some of which are publicly traded on the stock market.

Originally, GSPs were started by individual successful growers who were going direct to wholesale. They invested in packing and cooling infrastructure, built sales teams, and offered their services to other growers. Eventually, however, many of these GSPs stopped farming altogether. Larger GSPs who could consistently deliver large volumes of supplies across seasons became more attractive to national grocers and distributors as they streamlined procurement and reduced transaction costs. In order to provide year-round availability, many GSPs became importers and have recently begun sourcing produce from shifting production regions across the globe throughout the year. Since 2015, many GSPs have gone even further by merging with agricultural operations abroad.

As a result of this shift in the fruit and vegetable supply chain, the U.S. has seen a sharp rise in its fruit and vegetable imports, which is the **predominant driver of the U.S.'s growing agricultural deficit.**

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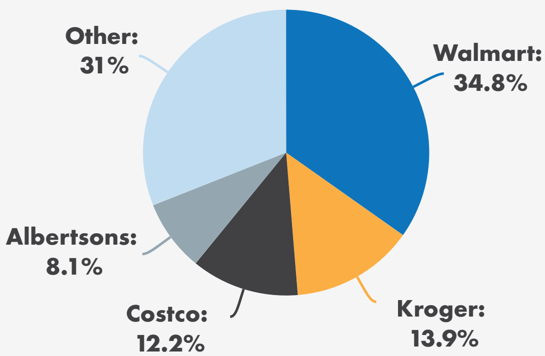
Percentage of Market Controlled by Top Four Corporations

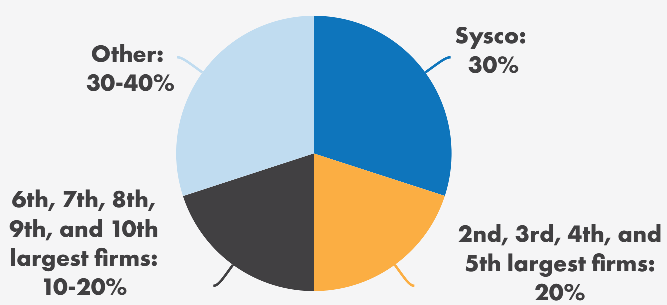
Juice	Canned Green Beans	Canned Tomatoes	Prepared Salad	Prepared Soup	Almond Milk
47%	56%	58%	68%	70%	81%

U.S. Grocery and Distribution Concentration

Retail Grocery CR4: 69%

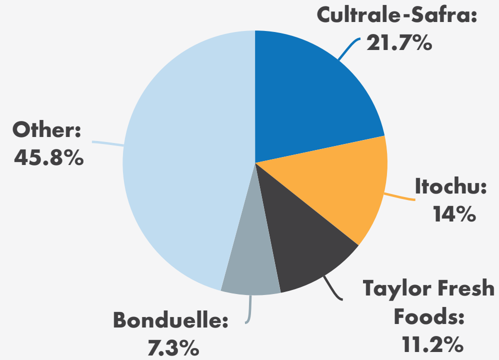


Broadline Distribution CR10: 60-70%

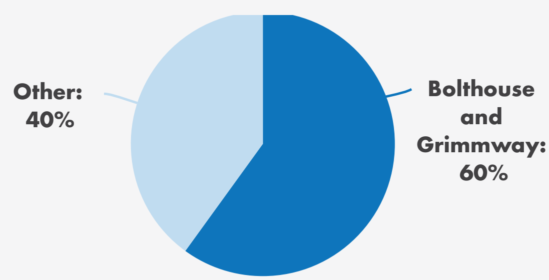


Examples of U.S. GSPs Concentration

Fresh-Cut Salad CR4: 54%



Carrots CR2: 60%



Driscoll's is dominant in the berry market

Driscoll's controls one-third of berry market

Driscoll's controls 60% of organic strawberry sales

Driscoll's controls 90% of raspberry sales

Farm Action | Farm Action Fund

DIGGING DEEPER: UNFAIR AND EXCLUSIONARY CONDUCT

As GSPs have consolidated the market and open spot markets for fresh produce have disappeared, GSPs have been able to shift their focus from competing for daily sales to building barriers of protection around their relationships with dominant grocers. These barriers include account-specific marketing programs that cover packaging, product size, merchandising support, promotional programs, and logistical support. Starting in the 2010s, it also became common for these programs to include category development — a costly service that involves analyzing point-of-sale scanner data — essentially integrating themselves into the marketing operations of major grocers. GSPs also began vertically integrating into the proprietary breeding of fruits and vegetables — developing proprietary varieties with specific identifiable consumer traits in partnership with seed companies.

The expansion of these services offered by dominant GSPs has created additional barriers to entry for potential new competitors, who must enter multiple markets simultaneously to be competitive with dominant GSPs. The extent to which dominant GSPs have been able to lock down market access to major grocers and distributors is exemplified by the inability of "food hubs" over the past decade to access those markets in any substantial way.

Unfair relationships between GSPs and key input providers, such as water, fertilizer, and seed suppliers, also exacerbate this problem of exclusionary contracts between GSPs and terminal buyers. There is substantial evidence that dominant GSPs and their large contract growers receive preferential prices and access to supplies from input providers. Furthermore, as GSPs buy or otherwise appropriate an increasing share of available land and water supplies, they create further **access barriers for smaller and beginning produce farmers and further drive farmland consolidation.**

WHAT THIS MEANS FOR FARMERS AND THEIR COMMUNITIES

Consolidation in terminal markets and the corresponding rise of GSPs means that produce farmers are no longer competing with one another to sell fruits and vegetables but rather for contracts with GSPs. As the number of GSPs has declined, the produce market has been depressed, and growers have been forced to accept whatever price GSPs offer. This lack of competition has enabled GSPs to increase the markup on their harvesting, cooling, and marketing services. As these upcharges have grown, they have enabled GSPs to make money on these services, regardless of the price collected from buyers. Concerningly, this means that GSPs are now incentivized at least as much by the prospect of service charges to farmers — dampening financial pressure they may have otherwise felt on negotiated prices with buyers.

This has had a devastating effect on the produce industry, resulting in dramatic declines in fruit and vegetable acreage. For example, since 2002, the total number of bearing acres in the U.S. has declined by 10% in apples, 60% in apricots, and 41% in citrus fruits. This loss of acreage has been driven by a contraction in the number of smaller operations and concentrated production into a handful of very large farm operators, most likely under the supervision and direction of a GSP.

Coupled with the spike in imports, the U.S. is now reporting an ever-growing agricultural trade deficit, which is forecast for FY24 at $32 billion. This increasing dependence upon other countries for our food supply raises concerns around food and national security.

This loss of domestic production has also translated into fewer fruits and vegetables available for Americans at the grocery store — the annual per capita retail availability of many fruits is lower now than it has been in decades. For example, in the 1990s, there were 28.4 lbs of apples, cherries, peaches, pears, and plums on grocery shelves per U.S. resident. That number has declined to 24.4 lbs between 2010 and 2017. The fruits and vegetables that remain are not the same as they once were, with local produce being replaced by imports.