Market Outlook and Emergence of Value-Added Opportunities

Hot Topics on Peanuts Seminar
2005 Georgia Peanut Tour

Dr. Nathan B. Smith, University of Georgia
Dr. Stanley M. Fletcher, University of Georgia
Current Peanut Situation

- Initial peanut crop estimate forecasts record US production (2.56 million tons) and yield (3190 lb/ac).
- High “watermark”? FSA reported acreage...
  - Georgia ~ 750,000 acres (780,000 NASS projection)
  - US 1.62 million (1.65 million NASS)
- Continue to see historically strong growth in food use.
- Lower shelled and farmer stock contract prices.
- Spring contracts on limited tonnage.
- Biggest crop concerns are majority of crop planted in 2½ - 3 weeks & potential for tropical storms at harvest.
Peanut are Grown Primarily in 9 Southern States

Alabama, Florida, Georgia, New Mexico, North Carolina, Oklahoma, South Carolina, Texas & Virginia
Peanut Production, Consumption, and Ending Stocks

![Graph showing peanut production, consumption, and ending stocks from 1990 to 2005. The graph indicates fluctuations in production, consumption, and ending stocks over the years.](chart.png)
<table>
<thead>
<tr>
<th></th>
<th>04/05</th>
<th>05/06</th>
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<tbody>
<tr>
<td>Domestic Food Use</td>
<td>7%</td>
<td>8.4%</td>
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<tr>
<td>Crush</td>
<td>-18%</td>
<td>98%</td>
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<tr>
<td>Seed &amp; Residual</td>
<td>30%</td>
<td>-4%</td>
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<tr>
<td>Exports</td>
<td>-5%</td>
<td>17%</td>
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<tr>
<td>TOTAL</td>
<td>4.6%</td>
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Edible Use of Shelled Peanuts is up 6.8% for August 2004 thru June 2005

* Marketing Year, August 1 – July 31.
Peanut Prices

• FSA National Posted Price – $330.35
• NASS Season Average Price (Marketing Year Average) – $352 in Jun
• Shelled Peanut Prices
  – Jumbos, Mediums, No. 1s and Splits are running 2-3 cents lower than this time last year
• Contracts
  – $20 above loan repayment rate on limited amount (1,500 to 2,000 lbs per acre)
  – $365 firm price on 500 lbs/acre
  – Birdsong has a pool paying $355 + profits
  – Contracts have right of first refusal on additional pounds
Monthly Average Peanut Price Received by Farmers

2002 MYA
2003 MYA
2002/03
2003/04
2004/05

Source: National Agricultural Statistics Service
<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Expected Price (including LDP)</th>
<th>Expected Yield</th>
<th>Variable Cost*</th>
<th>Return Above Variable Cost</th>
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<td></td>
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<td>3700</td>
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<td>185.25</td>
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<td>Irrigated Cotton</td>
<td>0.58</td>
<td>1000</td>
<td>410</td>
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<td>Irrigated Corn</td>
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<td>85</td>
<td>177</td>
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<tr>
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<td>30</td>
<td>150</td>
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* UGA CES Enterprise Budgets
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In two-thirds of Georgia's counties, Agriculture represents either the largest or second largest part of the counties economy.

Source: "The Economic Importance of Food and Fiber to Georgia's Rural Economy"
Total Farm Gate Value: 2003
$9.859 billion
2002 = $8.826 billion

Timber 5.6%
Cotton 8.2%
Broilers 33.9%
Eggs 4.9%
Horses 3.8%
Beef 3.7%
Peanuts 3.7%
Greenhouse 2.6%
Dairy 2.4%
Container Nursery 1.7%
Rest of Commodities 29.5%
Policy Changes Lead to a New Risk Environment for Peanuts

- Moving from a supply control and a two-tiered pricing system to a more market-oriented program.
- Support price lowered from $610 to $355 per ton. Non-quota (additionals) support price was $132 to $175 per ton.
- Direct & Counter-cyclical Payments for Peanuts:
  - Minimum of $36/ton on 85% of base
  - Maximum of $140/ton on 85% of base
  - Subject to payment limitations
- Buyout of quota owners designed to aid transition
- Growers interested in alternatives to enhance profitability
Feasibility Studies

• Producer Acceptance of a New Generation Shelling Cooperative in Georgia
  - Ray, Fletcher, Thomas (UGA) surveyed GA peanut farmers in 2000 – 73% of respondents are favor Peanut NGC Inclined.

• Feasibility of Southwest GA Peanut NGSC
  - Hancock, Fletcher, Thomas (UGA, 2001) performed benefit cost analysis and study gave positive economic results.

• Tift Area GA Peanut NGC economic feasibility study
  - Ferland, Smith, Wolfe, Doherty and McKissick (UGA 2002) conducted feasibility study of a Peanut NGC, estimated positive return if able to capture part of peanut market.

• Feasibility of peanut flour and oil production
  - Wolfe, Best, Escalante, McKissick (UGA, 2005) conducted an feasibility study peanut venture involving production of peanut flour and oil for retail market.
Adding Value to the Peanut

- Shelling
- Blanching
- Peanut oil and meal
- Peanut flour
- Peanut butter
- Confectionary
- Snacks
Opportunity for Growers

- New peanut program provided window of opportunity for entry into shelling.
- Major barrier to entry is investment cost and operating capital required.
Grower-owned Shelling & Marketing

- Two groups of farmers have built new shelling plants in Georgia,
  - American Peanut Growers Group in Donalsonville
  - Tifton Quality Peanut in Tifton
- Commodity Marketing Associations designed to allow farmers to market peanuts in a pool:
  - GFA, SWPGA, VCPGA
  - Concordia – Ashburn, GA
- Bell Plantation
  - Peanut flour, peanut “thin”
Tifton Quality Peanut Building an Innovative Farmer Stock Storage System

Unlike traditional metal warehouses across the South, which are plagued by bugs and condensation, the air tight domes will be filled with nitrogen. This gas also helps in preserving the freshness of peanuts, apples, onions and other produce.

“Coming out all fresh in June is something we were afraid of when we put them in October,” said Larry Lemley of Tifton Quality Peanuts, the farmer-owned company that built the warehouses and plant for $16 million.

The company’s 127 stockholders are all south Georgia peanut growers who have agreed to supply the shelling plant for at least 10 years.

Tifton will begin limited operations in June when the other domes and the shelling plant are complete, but it is already getting orders from major food companies, said Lemley, the chief executive officer. It will be in full operation by September, when farmers begin harvesting the 2005 crop.

“Quality is our issue,” he said. “This totally changes the handling and storage of peanuts.”

Peanuts grow in the ground, so they’re dirty when farmers dig them up. At the plants, the peanuts are shelled, cleaned and dried.

Lemley said no traditional plant will be able to match his site in the cleaning process:

“We’ll have metal detectors, magnets and state-of-the-art electric eye systems to get this product clean,” he said. “It’ll be dust free. You can eat off the floor. It’s an environment the peanut industry has never seen before.”

Each dome will hold about 11,000 tons of peanuts that are loaded from the top by an elevator. They’re taken out through a hatch in the floor. From there, they travel to the shelling plant and then to loading docks for shipment by rail or truck.

The plant will be able to shell about 90,000 tons a year, at a rate of about 20 tons per hour, said Alan Collins, the company’s vice president of sales and marketing.

Farmers began considering the plant after passage of the 2002 Farm Bill, which favored shellers over growers, Lemley said. To maintain profit margins, they decided to eliminate the middleman — shellers — by becoming shellers themselves.

Dome technology is well established around the world for bulk storage of products such as cement and salt that require precise environmental controls. They are built from the

Tifton Quality Peanut Building an Innovative Farmer Stock Storage System

Did someone ever lend you a helping hand?
Response to New Risk Environment

• Heavy use of market contracts.
• Price is tied to loan repayment rate.
• Right of first refusal on surplus production.
• Contracted peanuts go into market loan which pays handling and storage fee.
• Has “Act of God” clause for short deliveries.
• Shift in where peanuts are grown.
• New grower-owned ventures in peanut processing and marketing.
Risk Management and Efficiency Gains

- Electronic warehouse receipts
- Semi trailer hauling and drying
- Electronic grading
- Green weight grading
- Cleaning and drying systems
- Storage technology to reduce shrink and damage
- System is currently inefficient for segregation by variety and grade
Control Beyond the Farm Gate

• THE DAY IS COMING OF IDENTITY PRESERVED.
• 14 varieties grown in Georgia in 2004,
• Integration will happen, will farmer be integrated or will they integrate up?
• Aflatoxin, genetic traits such as hi-oleic, size, color, taste…
• Mandatory chemical testing
U.S. Peanuts Pass the Flavor Test In Europe

By Rosalia Marion Bliss
August 10, 2005

European peanut consumers gave two thumbs up to U.S. peanuts after evaluating peanuts from the United States, China and Argentina. The results of the consumer study coordinated by the Agricultural Research Service (ARS) show that although U.S. peanuts come at a premium price, they also come as a premium product.

Timothy H. Sanders, research leader of the ARS Market Quality and Handling Research Unit in Raleigh, N.C., coordinated the project, which is called the European Peanut Consumer Research Study.

About 4.1 billion pounds of peanuts were produced by U.S. peanut growers during the 2003-2004 marketing year. Of that, just over one-tenth—516 million pounds—was exported.

The U.S. peanut industry will use the findings to maintain current purchase levels by overseas buyers. And U.S. peanut exporters will use the findings for outreach in foreign markets.

Europe is the United States' largest export market. The European flavor test was conducted with 100 peanut consumers—screened for being "regular" buyers of peanuts—throughout the European Union.
Thank You

www.ces.uga.edu/Agriculture/agecon/agecon.html

UGA Peanut Team
www.ugapeanuts.com
World Peanut Market

- US share has decreased since 1970s
- World harvest area changed little
- Increasing share of total production of peanuts has been devoted to food purposes
- China, US & Argentina leading exporter of edible peanuts
- EU and Asia major importers
PRINCIPAL WORLD PEANUT PRODUCING COUNTRIES

USA
ARGENTINA
MEXICO
NICARAGUA
BRAZIL
SENEGAL
NIGERIA
CHAD
CONGO
SUDAN
INDIA
VIETNAM
INDONESIA
SOUTH AFRICA
World Peanut Production by Country - 2003

- US: 27%
- Brazil: 6%
- Argentina: 1%
- India: 1%
- China: 41%
- Other: 24%
Main Peanut Exporters

Percent

1996-2000

Argentina
Brazil
US
India
Netherlands/EU-25
Vietnam

2001-04

Argentina
Brazil
US
India
Netherlands/EU-25
Vietnam

China
Main Peanut Importers

- Russia
- Mexico
- Netherlands
- Indonesia
- UK
- Canada
- Germany
- Japan
- EU-25

1996-2000
2001-04

Percent