

Market Outlook and Emergence of Value-Added Opportunities

**Hot Topics on Peanuts Seminar
2005 Georgia Peanut Tour**

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Current Peanut Situation

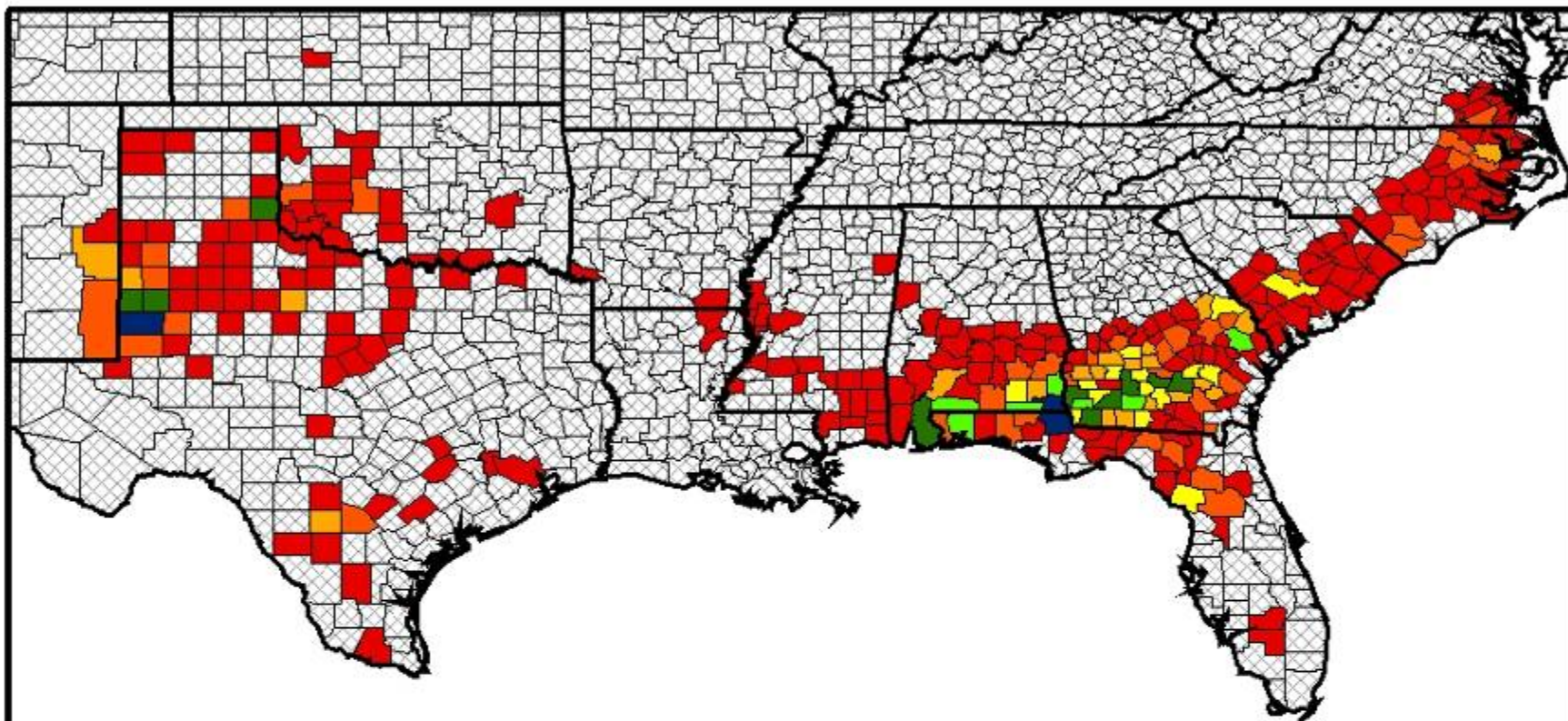
- Initial peanut crop estimate forecasts record US production (2.56 million tons) and yield (3190lb/ac).
- High “watermark”? FSA reported acreage...
 - Georgia ~ 750,000 acres (780,000 NASS projection)
 - US 1.62 million (1.65 million NASS)
- Continue to see historically strong growth in food use.
- 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





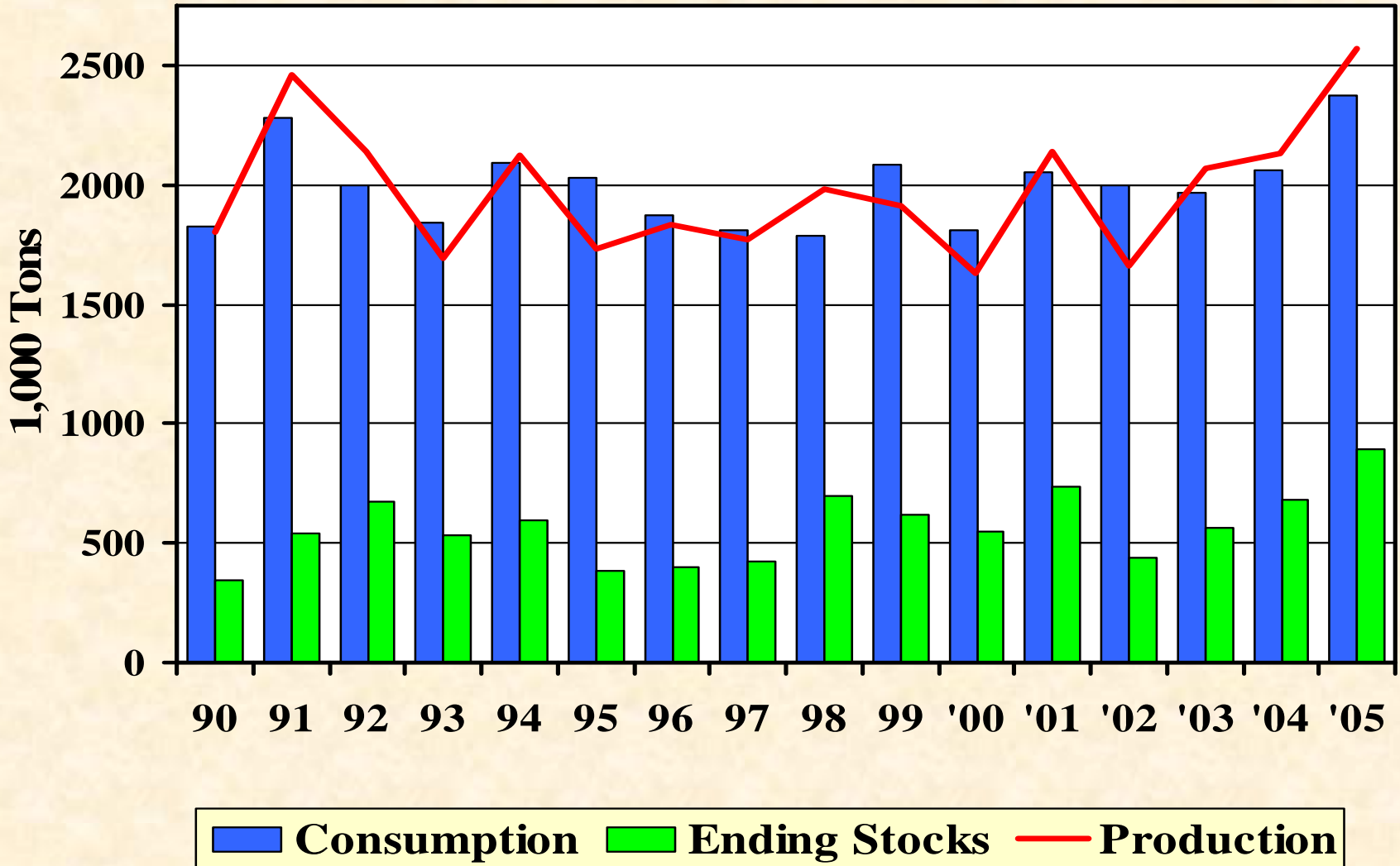
2005 Preliminary FSA Planted Peanut Acreage



Prepared by the
University of Georgia
National Center for Peanut Competitiveness



Peanut Production, Consumption, and Ending Stocks





Peanut Use Forecast*

	<u>04/05</u>	<u>05/06</u>
Domestic Food Use	7%	8.4%
Crush	- 18%	98%
Seed & Residual	30%	- 4%
<u>Exports</u>	<u>- 5%</u>	<u>17%</u>
TOTAL	4.6%	16.7%

**Edible Use of Shelled Peanuts is up 6.8%
for August 2004 thru June 2005**

* Marketing Year, August 1 – July 31.



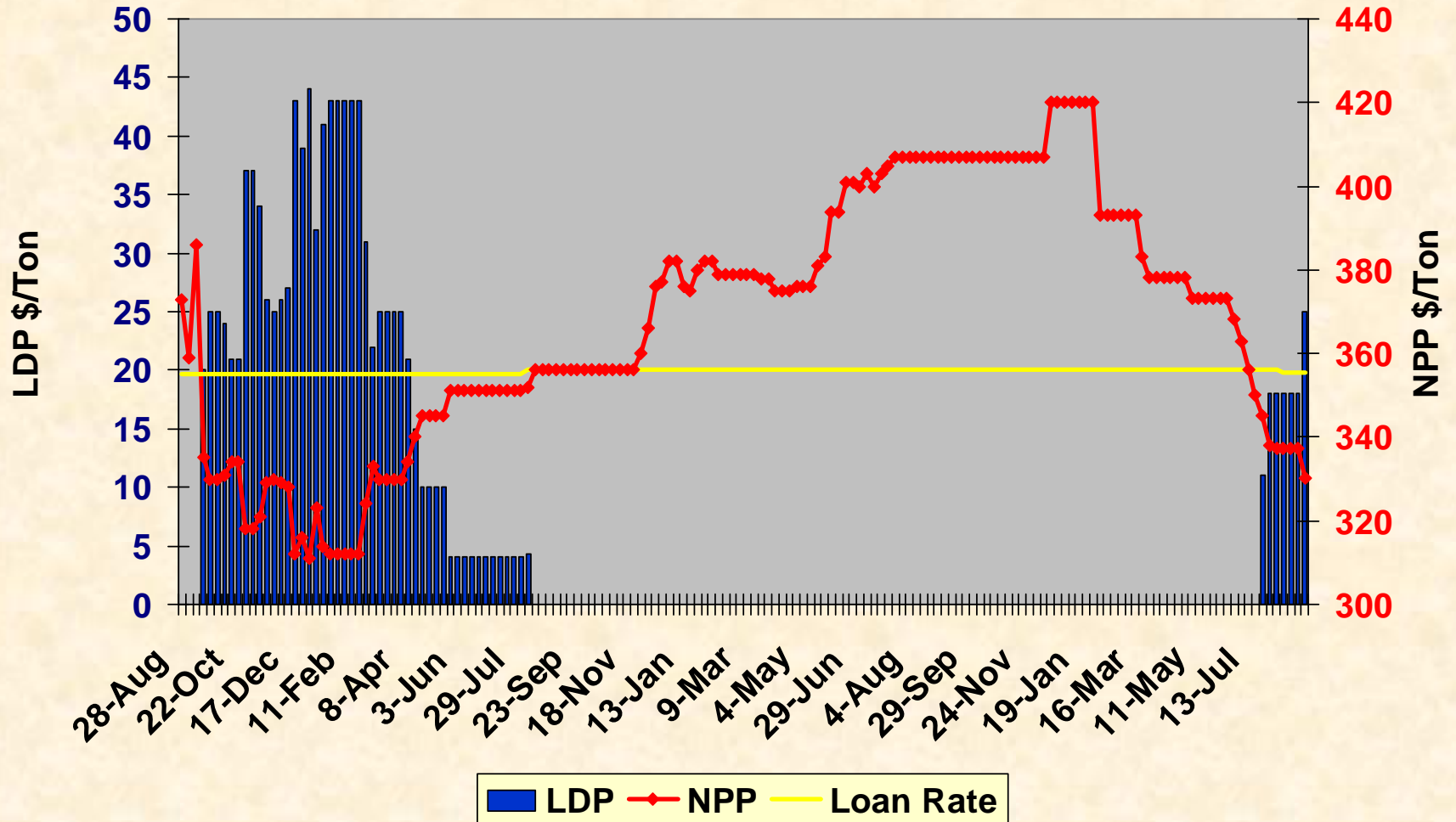
Peanut Prices

- 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



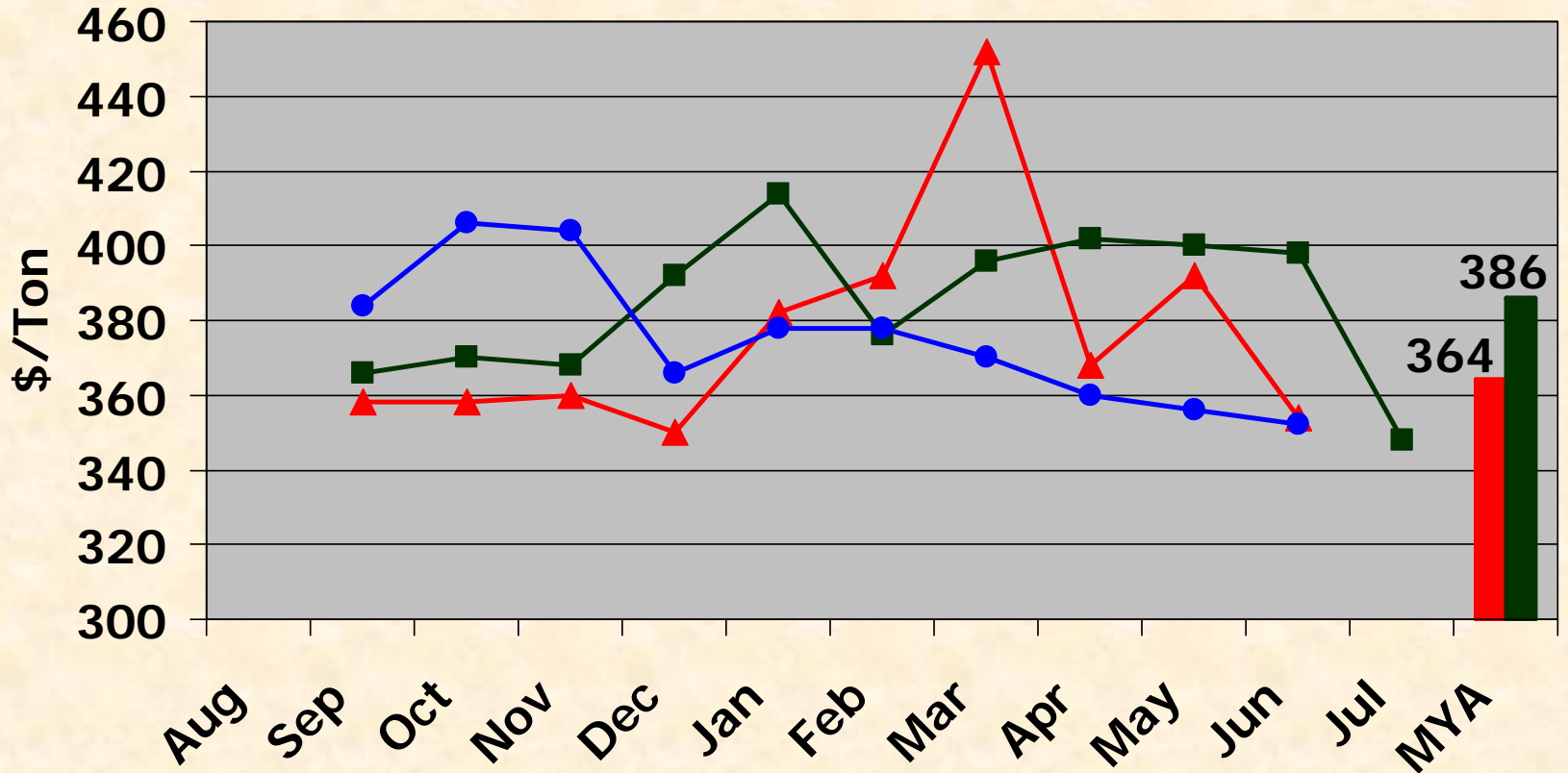
National Posted Price History

Runner Price





Monthly Average Peanut Price Received by Farmers



■ 2002 MYA ■ 2003 MYA ▲ 2002/03 ■ 2003/04 ● 2004/05

Source: National Agricultural Statistics Service



2005 Spring Row Crop Comparisons

Estimated Returns Above Variable Cost (\$ Per Acre)

March 22nd

Enterprise	Expected Price (including LDP)	Expected Yield	Variable Cost*	Return Above Variable Cost
Irrigated Peanuts	365	3500	490	148.75
		3700	490	185.25
Irrigated Cotton	0.58	1000	410	170
Irrigated Corn	2.50	185	392	70.50
Irrigated Soybeans	5.80	50	175	115
Non-Irr. Peanuts	365	2500	380	76.25
Non-Irr. Cotton	0.58	650	330	47
Non-Irr. Corn	2.50	85	177	23
Non-Irr. Soybeans	5.80	30	150	24

* UGA CES Enterprise Budgets



2005 Spring Row Crop Comparisons

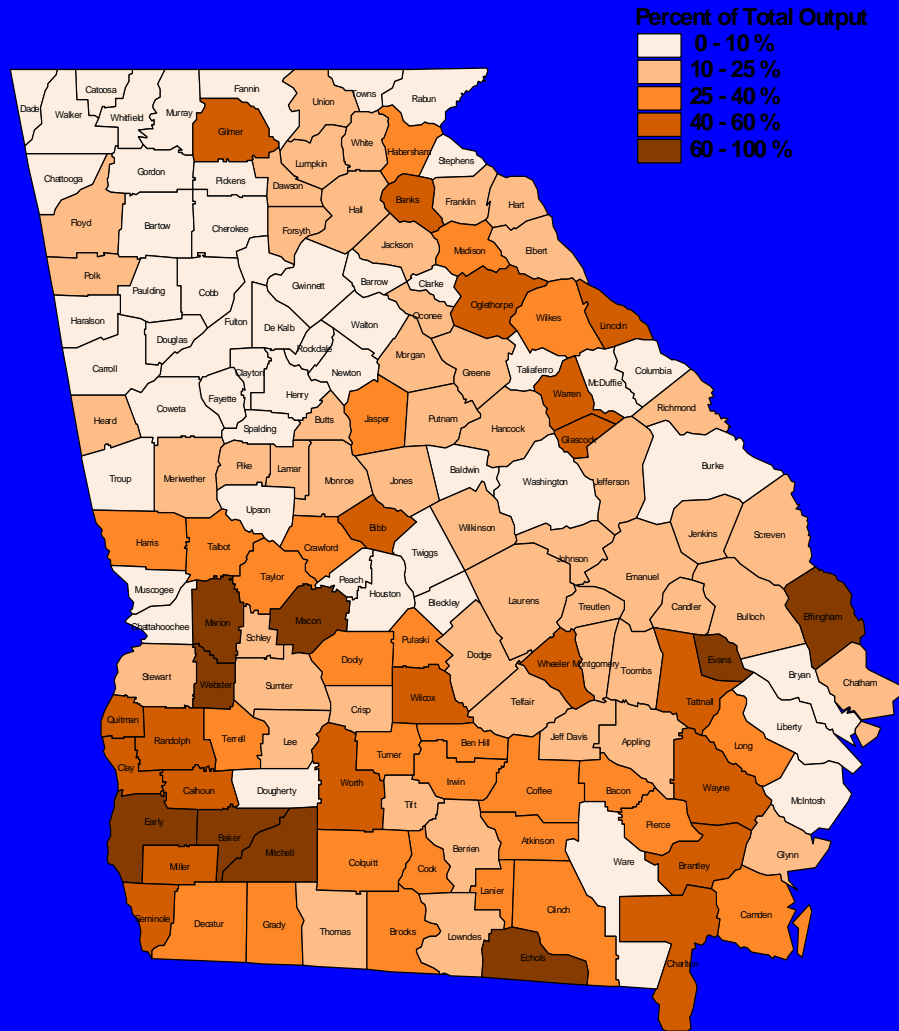
Estimated Returns Above Variable Cost (\$ Per Acre)

August 30

Enterprise	Expected Price (including LDP)	Expected Yield	Variable Cost*	Return Above Variable Cost
Irrigated Peanuts	355	3600	490	149
Irrigated Cotton	0.59	1000	410	180
Irrigated Corn	2.30	185	392	33.50
Irrigated Soybeans	5.90	42	190	69.50
Non-Irr. Peanuts	355	2700	400	79.25
Non-Irr. Cotton	0.59	650	350	33.50
Non-Irr. Corn	2.30	85	177	18.50
Non-Irr. Soybeans	5.90	26	170	-16.60

* UGA CES Enterprise Budgets

Importance of Food and Fiber Production and Processing

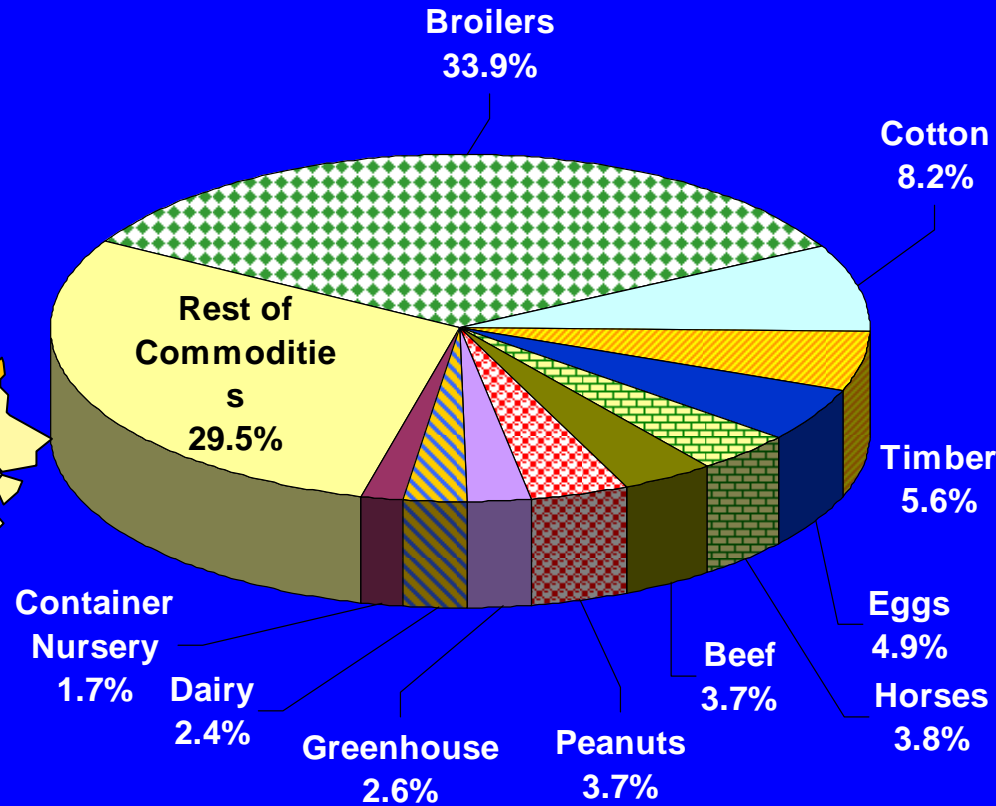
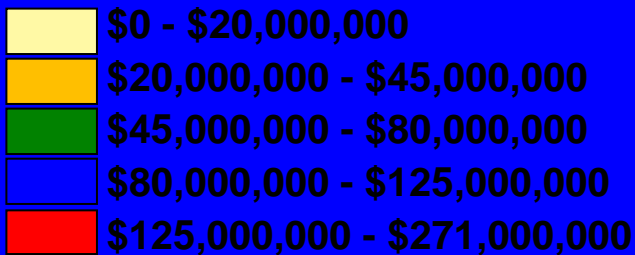
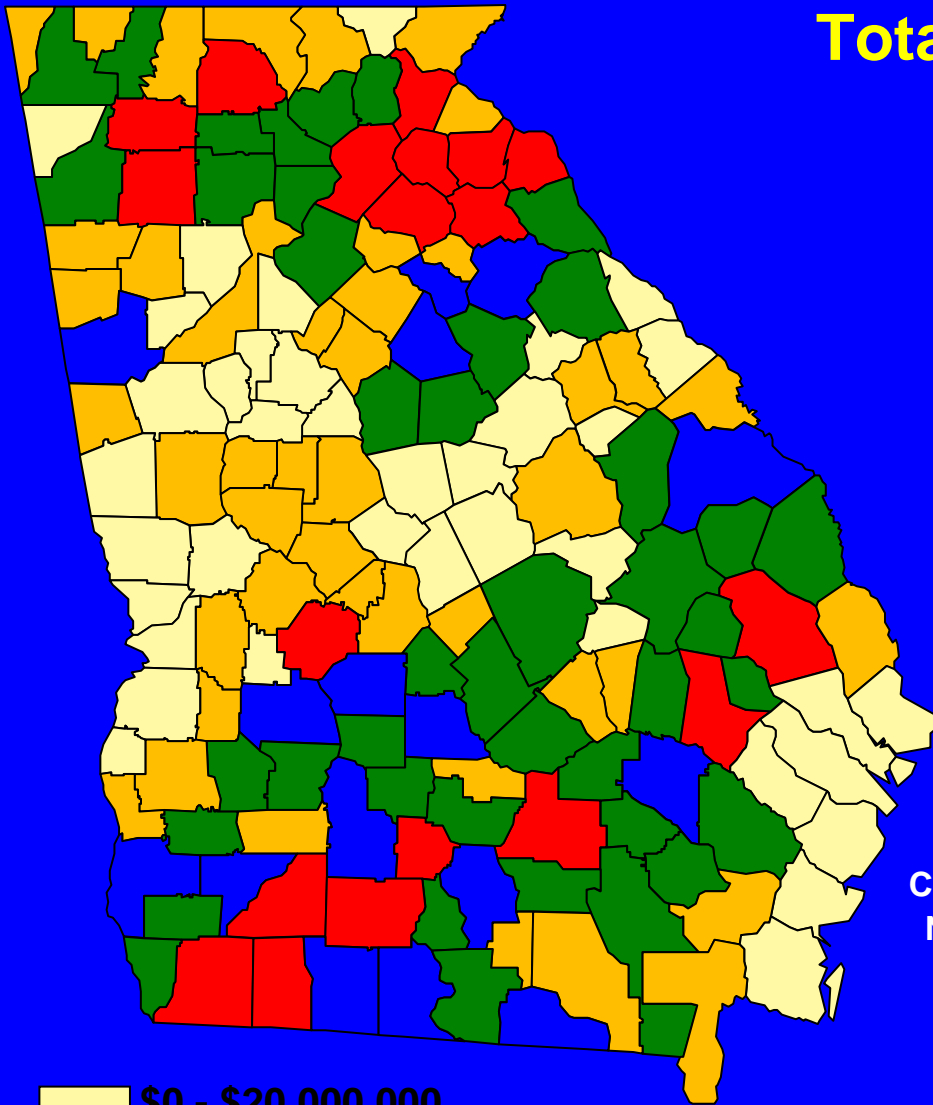


In two-thirds of Georgia's counties, Agriculture represents either the largest or second largest part of the counties economy.

Total Farm Gate Value: 2003

\$9.859 billion

2002 = \$8.826 billion





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 (additional) 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”

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Goobers in a dome

High-tech structures will keep Georgia peanuts fresh yearround

Associated Press
Published on: 02/07/05

TIFTON, Ga. — The large white dome looks futuristic, even alien, among the truck stops and motels that line busy Interstate 75.

Measuring 85 feet high and 170 feet in diameter, the structure is the first of three warehouses that will store peanuts from a new shelling plant.



Elliott Minor/AP
[\(ENLARGE\)](#)

The airtight domes will be filled with nitrogen.

Unlike traditional metal warehouses across the South, which are plagued by bugs and condensation, the airtight domes will be filled with nitrogen, an inert gas also used to preserve the freshness of grapes, apples, onions and other produce.

"The peanuts come out as fresh in June as they were when you 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 inside. Workers inflate a tough fabric covering, open the interior with foam insulation,

Did someone ever lend you a helping hand?



Tifton Quality Peanut Building an Innovative Farmer Stock Storage System



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



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U.S. Peanuts Pass the Flavor Test In Europe

By [Rosalie Marion Bliss](#)

August 10, 2005



Healthy peanut plants with roots exposed. *Click the image for more information about it.*

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

Thank You

The Department of
Agricultural & Applied Economics
at the University of Georgia

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

UGA Peanut Team

www.ugapeanuts.com



The University of Georgia

College of Agricultural & Environmental Sciences



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

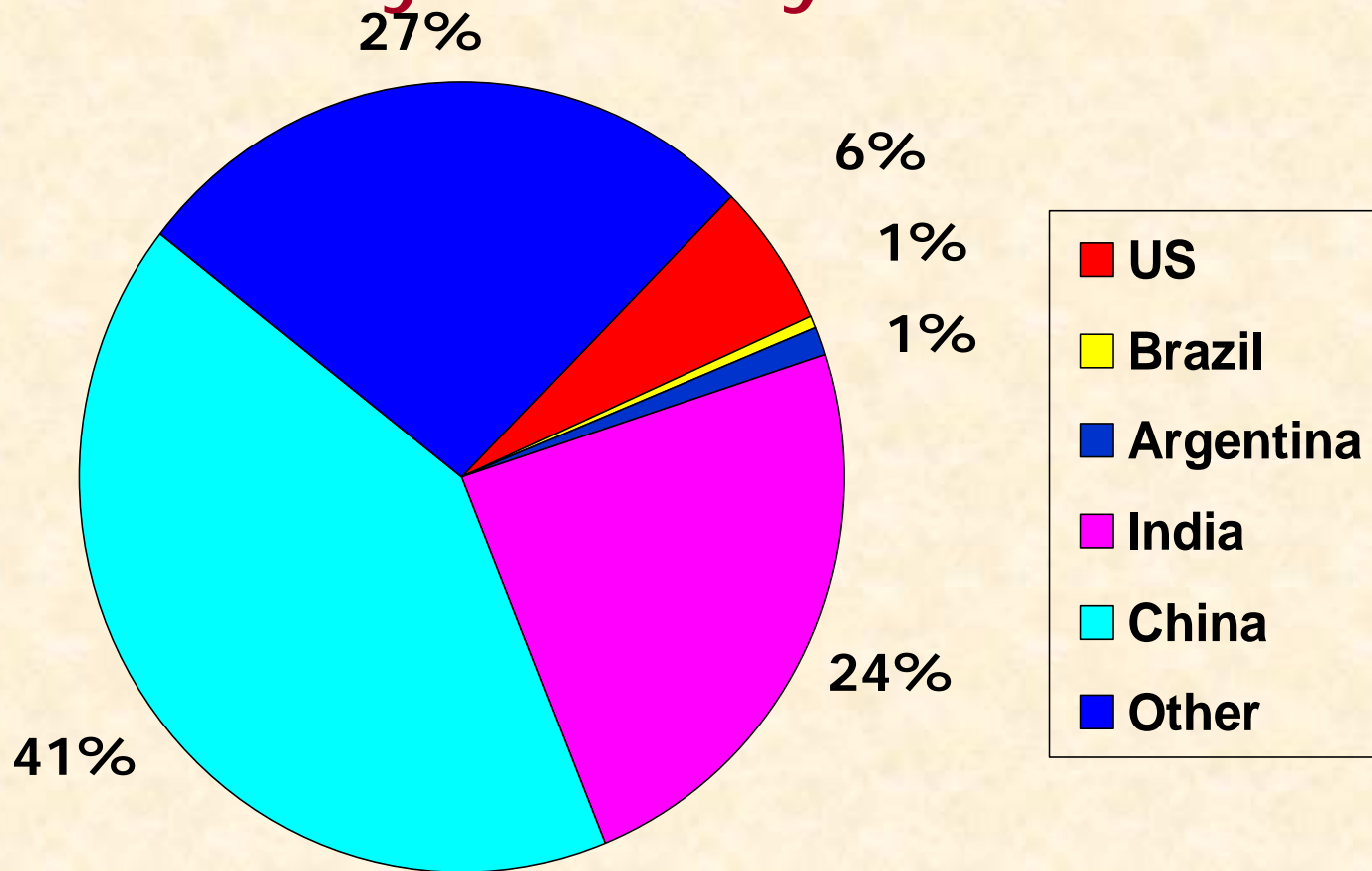


PRINCIPAL WORLD PEANUT PRODUCING COUNTRIES



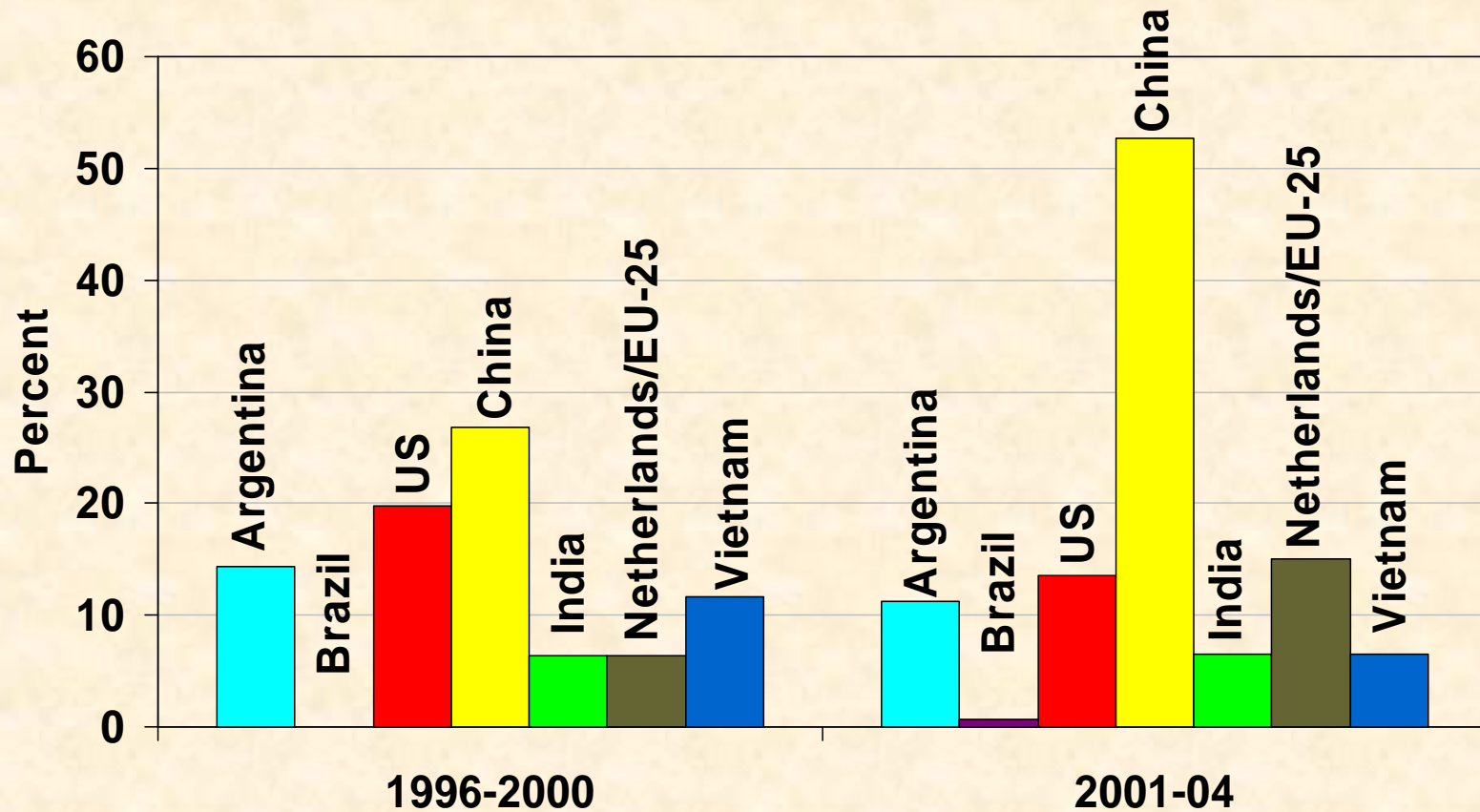


World Peanut Production by Country - 2003





Main Peanut Exporters





Main Peanut Importers

