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## Commodity Profile: Peanuts

*by Hayley Boriss, Junior Specialist  
Marcia Kreith, Program Analyst  
Agricultural Issues Center  
University of California  
agissues@ucdavis.edu*

### **Introduction**

Peanuts are thought to have originated in South America where they would thrive in tropical and subtropical climates. Because the edible seeds of this annual legume plant start above ground but mature underground, peanuts are also known as groundpeas or groundnuts. In the United States, peanuts were considered a regional food of the South until after the Civil War, when technological advancements resulted in an increased demand for peanut oil, peanut butter, roasted and salted peanuts, and confections. In addition, George Washington Carver has been credited with identifying numerous manufactured nonfood uses for the peanut and plant parts and encouraging plantings of peanuts as a rotational crop for cotton production, thereby expanding acreage in the early 1900s (Phillips; Virginia-Carolina Peanut Promotions; American Peanut Council).

### **Government Subsidies and the 2002 Farm Bill**

The Farm Security and Investment Act of 2002 (2002 Farm Bill) transformed the previously long-standing government programs for peanuts which included a marketing quota system. The former quota system limited production by setting a limit on the amount of peanuts to be sold in the domestic market, diverting those peanuts that exceeded the quota into a lower value processing market for oil and meal or to be exported. At the time the quota system ceased there were roughly 70,000 quota owners operating 9,000 peanut farms. Quota owners received buyout payments, either in the form of annual payments over a four-year period or as a lump sum payment. The 2002 act changed the long-standing federal program for peanuts. It gave peanut producers the same familiar subsidies of direct payments, marketing loans, and counter-cyclical payments that are available to producers of grain, oilseed and cotton.

Direct payments are paid to producers based on historical production and are linked to current prices or output only indirectly. Counter-cyclical payments use a basis of previous production dependant upon national prices and marketing loan benefits rely on federal compensation in response to low market prices. Marketing loan benefits are available when the price of peanuts is below the legislated U.S. loan rates. Eligibility for

both the direct payments and the counter-cyclical payments restrict crops eligible for base acres. The new government loan rate for peanuts established by the 2002 act is 17.75 cents per pound. In years where peanut prices are low, counter cyclical payments and marketing loan payments are more substantial (Economic Research Service (ERS) 2005). In 2004, government payments from the Commodity Credit Corporation (CCC) for peanuts were valued at \$259 million, or roughly 2 percent of the \$10.6 billion in total CCC outlays for the year. In addition, the peanut sector also received monetary support for peanut storage and handling fees. Government payments account for roughly 30 percent of cash receipts from peanut production (Dohlman and Livezey).

### **Demand**

Peanuts have been marketed as a cheap source of protein compared to cheese and red meat and as a good source of essential vitamins and minerals. With decreasing prices and increasing production of peanuts, U.S. demand for peanuts has remained strong over the last decade and a half, estimated at 6.3 pounds per capita in 2003 (ERS). This is lower than the 1989 high of 7 pounds per capita, although per capita consumption has remained relatively stable since the mid 1990s. The majority of consumption in the United States is attributed to peanuts used as a food source, as opposed to oil or meal, and peanut butter has been and remains the largest source of consumption on a per pound basis. Per capita consumption of peanut butter has remained stable since the mid 1990s following a peak in consumption at 3.6 pounds per capita in 1989. In 2003, peanut butter consumption was estimated to be 3.1 pounds per capita, or just under half of total peanut consumption. Peanuts consumed as snacks and in candy are also popular forms of consumption, with consumption per capita in 2003 at 1.3 and 1.4 pounds respectively (Figure 1).

### **Exports**

The United States is a net exporter of peanuts, and in 2004 exports totaled \$223 million, surpassing imports by roughly \$100 million. However, exports have followed a generally decreasing trend, although with some variability, over the last decade. The percentage of total production exported has also decreased, from just over 25 percent in 1986 to 13 percent in 2004 (Figure 2). For the United States, the largest export market for peanut products is Canada, receiving 35 percent of the U.S. peanut export value in 2004, followed by the Netherlands with 16 percent, Mexico 10 percent, and the United Kingdom with 8 percent (Figure 3). Worldwide, China the largest exporter of peanuts followed by Argentina and the United States (Figure 4). The U.S. reputation for high-quality products has enabled exports to countries in the EU and others, but phytosanitary requirements and aflatoxin contamination have become increasingly contentious issues in world peanut trade.

### **Imports**

In 2004, the United States imported nearly \$114 million worth of peanuts and peanut products. The total value of peanut imports over the last decade has been variable with a notable drop in 2003, following the last year of the marketing quota system, and a dramatic increase in 2004, due almost entirely to an increase in imports of peanut oil (Figure 5). A lower supply of peanut oil coupled with higher prices for soybean oil (considered a peanut oil substitute) created a shortage in supply, which helps explain the

significant rise in peanut oil imports (ERS 2005 Yearbook). In 1995 crude peanut oil had made up just 4 percent of imports and peanut butter 37 percent. But ten years later crude peanut oil made up 67 percent of total imports and the share of peanut butter had fallen to 22 percent. India supplied three-quarters of U.S. crude peanut oil imports in 2004, valued at \$58 million, after not having shipped any peanut oil to the United States a decade previous. This increase made India the leading supplier of peanuts to the United States, followed by Canada, Argentina, and Mexico. Argentina's exports to the United States fell steeply in 2003 following a reduction in exports of raw shelled peanuts, from \$30 million in 2002 to essentially zero by 2004. Canada was the second largest exporting country to the United States in 2004 and U.S. imports from Canada have remained relatively stable at around \$25 million in recent years. Mexico rounds out the top four exporting countries to the United States (Figure 5). As part of the GATT 1994 Uruguay Round Agreement a U.S. tariff-rate quota was established for peanuts, allowing a greater amount of imports to enter the United States and, under the North American Free Trade Agreement (NAFTA), Mexican peanut imports to the U.S. will be tariff free by 2008.

### **Supply**

According to USDA's Foreign Agricultural Service, China is by far the largest producer of peanuts, with more than double the production of India, the world's second largest peanut producer. The United States is ranked third in terms of world production followed by Argentina and Vietnam (FASb).

Since the 2002 Farm Bill and the elimination of the quota system, the most efficient U.S. producers have been able to expand production while less efficient producers have decreased production or opted out of peanut production all together. In addition, producers are now free to move to regions where they are more likely to recover better yields (Dohlman and Livezey).

Total U.S. peanut production has varied around 4 billion pounds, ranging from a high of 4.9 billion in 1992 to lows of around 3.3 billion in 1984, 2001, and again in 2003. In 2004 production reached 4.1 billion pounds (Figure 6). In 2003, yields reached their highest values ever at 3,159 pounds per acre, likely the result of good weather and increased efficiency (Figure 7).

Harvested acreage has decreased from a peak of 2.1 million acres in 1991 to about 1.4 million acres in 2004. Georgia is the leading peanut producer in the United States, followed by Texas (Figure 8). While total U.S. harvested acreage has not varied considerably since 1996, there has been an increasing amount of divergence of harvested acreage between states in the last 2 years as Texas acreage has decreased and Georgia's increased. In 2002, Georgia accounted for 39.1 percent and Texas 21.7 percent of harvested acreage. In 2004, Georgia increased this percentage to 43.8 percent of total harvested acreage in the nation, while harvested acreage in Texas decreased to 16.9 percent.

In nominal terms, the peak value of production occurred in 1991 when it reached \$1.4 billion (Figure 9). The total value of U.S. peanut production declined to about \$834

million in 2004. This ranks peanuts as the third most important oilseed crop in value terms behind soybeans, which were worth \$16.1 billion in 2004 and cottonseed worth \$874 million.

### **Prices**

Prices for peanuts have fallen since 1980, with significant decreases seen in the year preceding and following the 2002 farm bill. U.S. peanut prices (in year-2000 inflation-adjusted dollars) fell from 27 cents per pound in 2000, to 18 cents per pound in 2002. However, since the switch to a loan rate system prices have not fallen below the 17.75 cents per pound loan rate, remaining relatively stable throughout 2003 and 2004. In 2004 peanuts were valued at 18 cents per pound (Figure 10).

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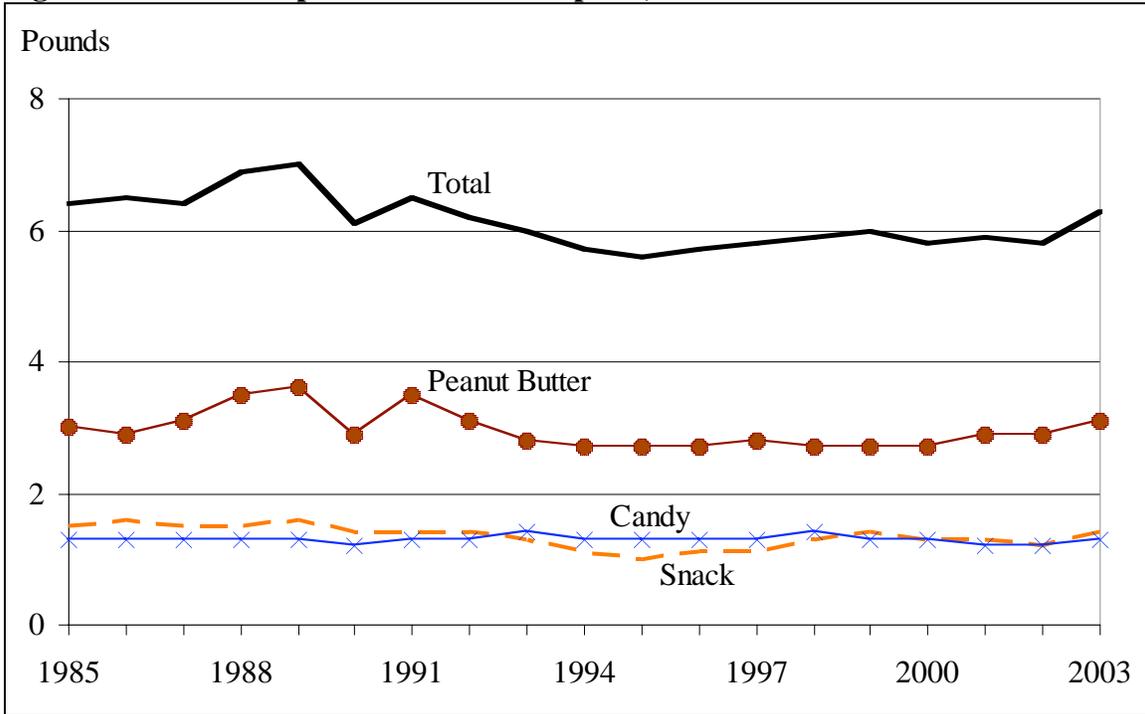
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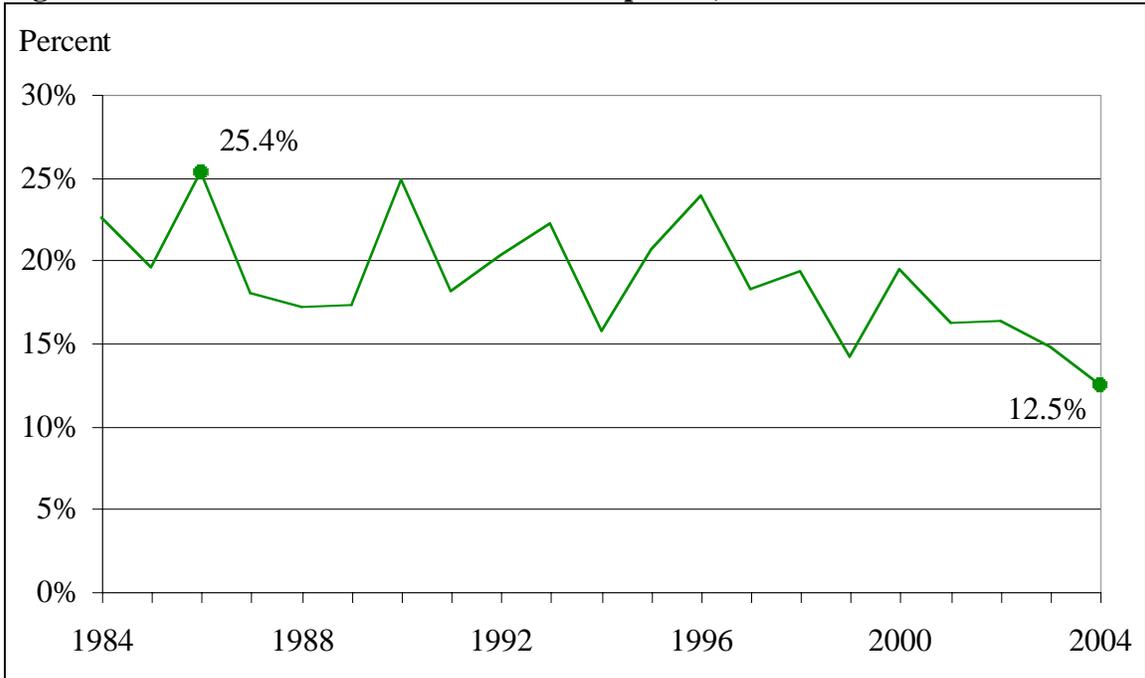
**FIGURES**

**Figure 1: U.S. Per Capita Peanut Consumption, 1985-2003**



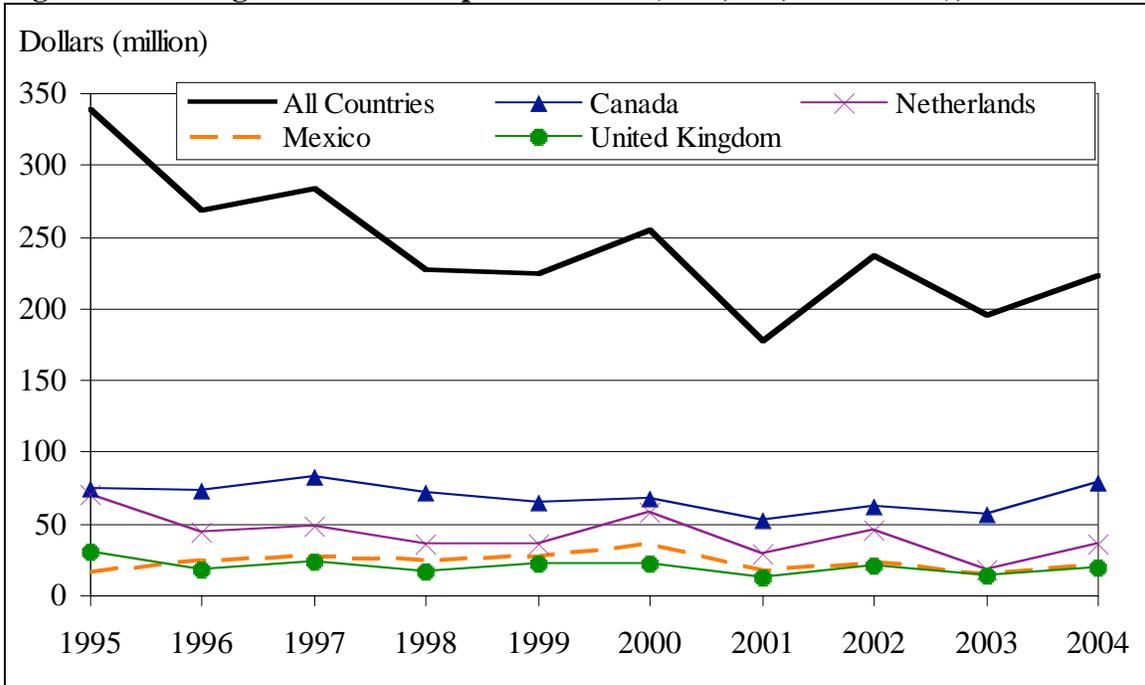
Source: USDA Economic Research Service, Per Capita Data System

**Figure 2: Share of U.S. Peanut Production Exported, 1984-2004**



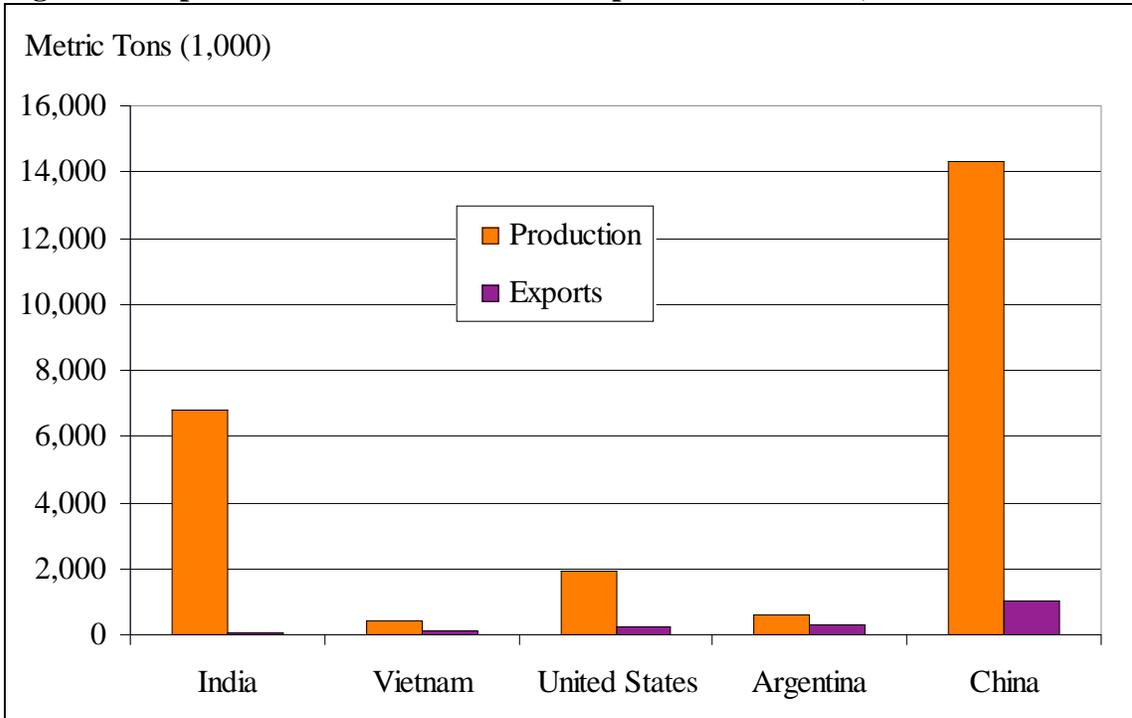
Source: USDA Economic Research Service, Oil Crops Yearbook

**Figure 3: Leading U.S. Peanut Export Markets (Raw, Oil, and Butter), 1995-2004**



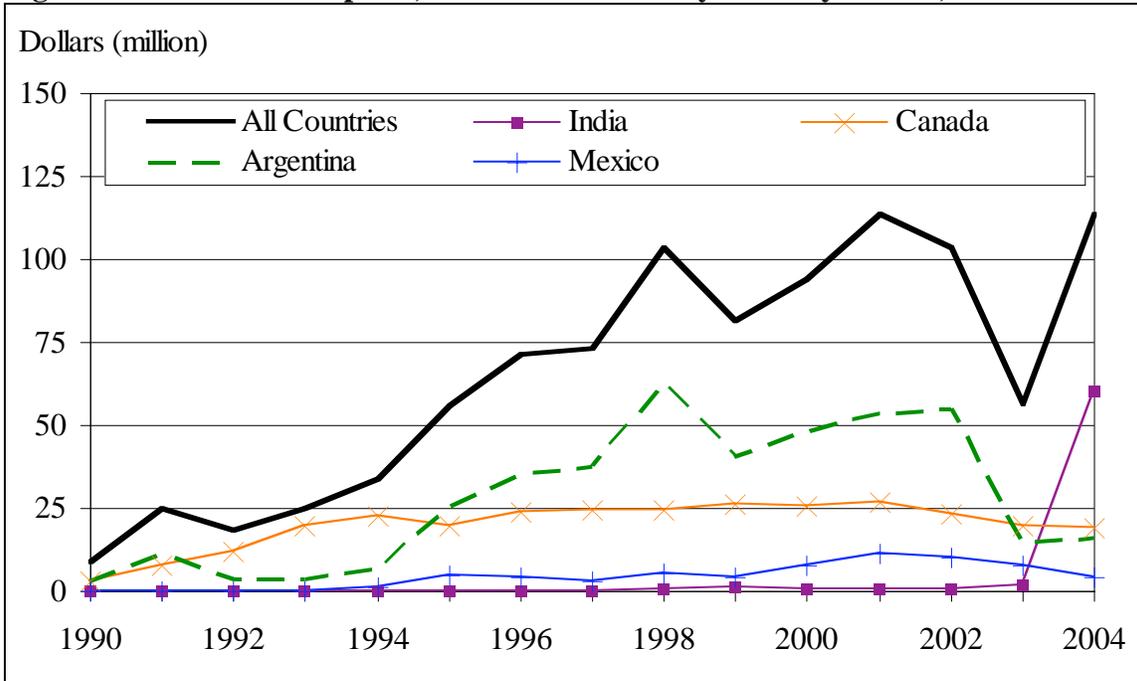
Source: USDA Foreign Agricultural Service

**Figure 4. Top Five World Producers and Exporters of Peanuts, 2004**



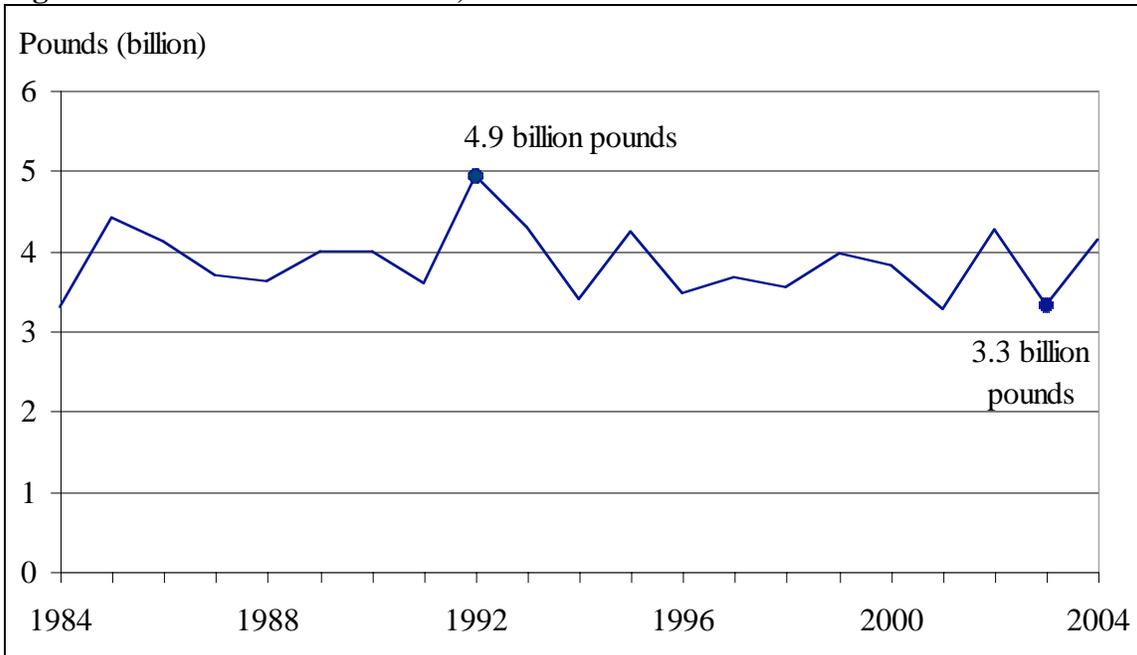
Source: USDA Economic Research Service, Supply, Production, and Demand Data

**Figure 5: U.S. Peanut Imports, All Countries and by Country Source, 1990-2004**



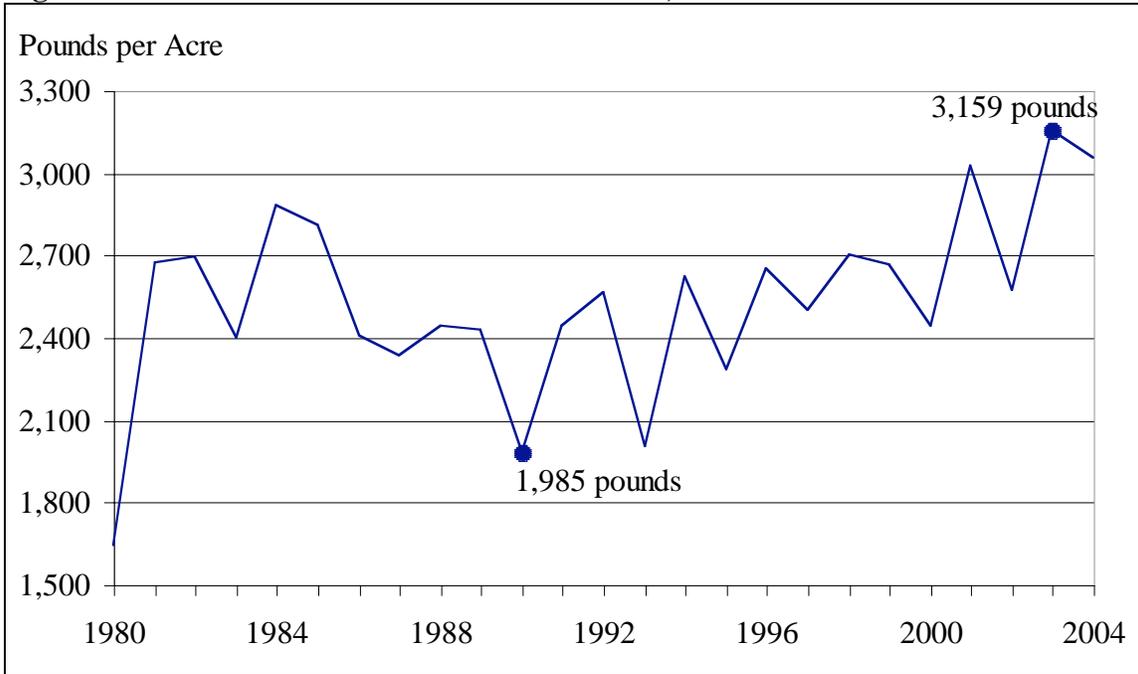
Source: USDA Foreign Agricultural Service

**Figure 6: U.S. Peanut Production, 1984-2004**



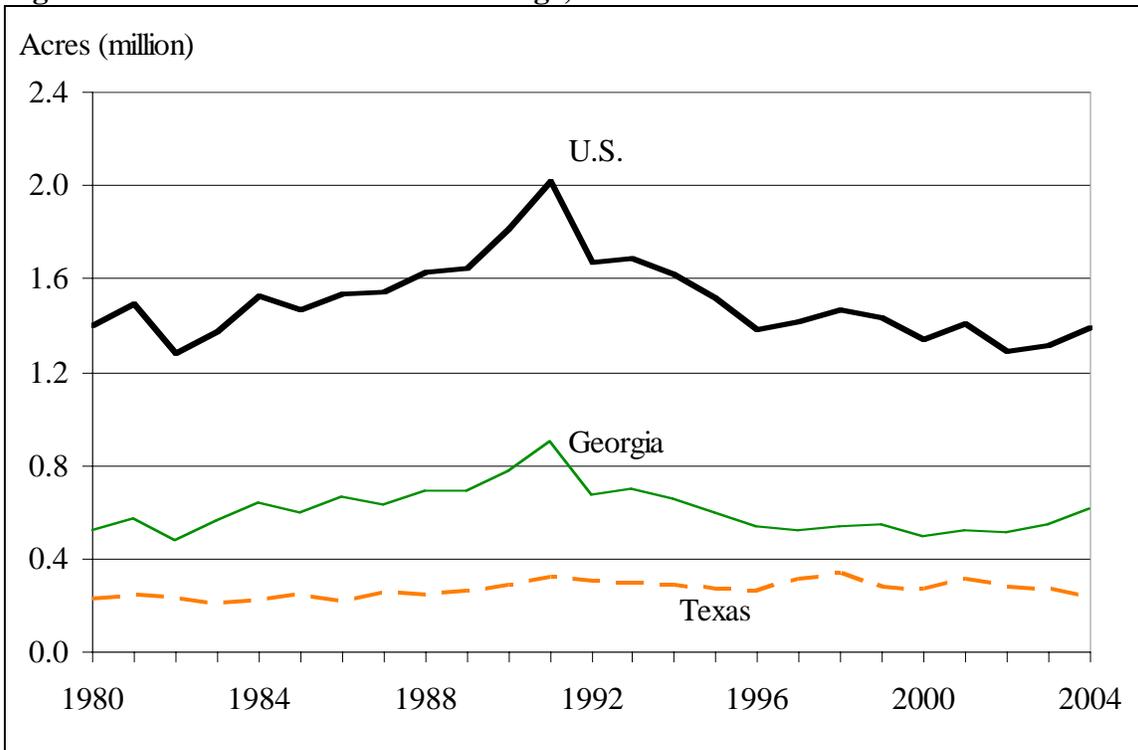
Source: USDA Economic Research Service, Oil Crops Yearbook

**Figure 7: U.S. Peanut Yields Per Harvested Acre, 1980-2004**



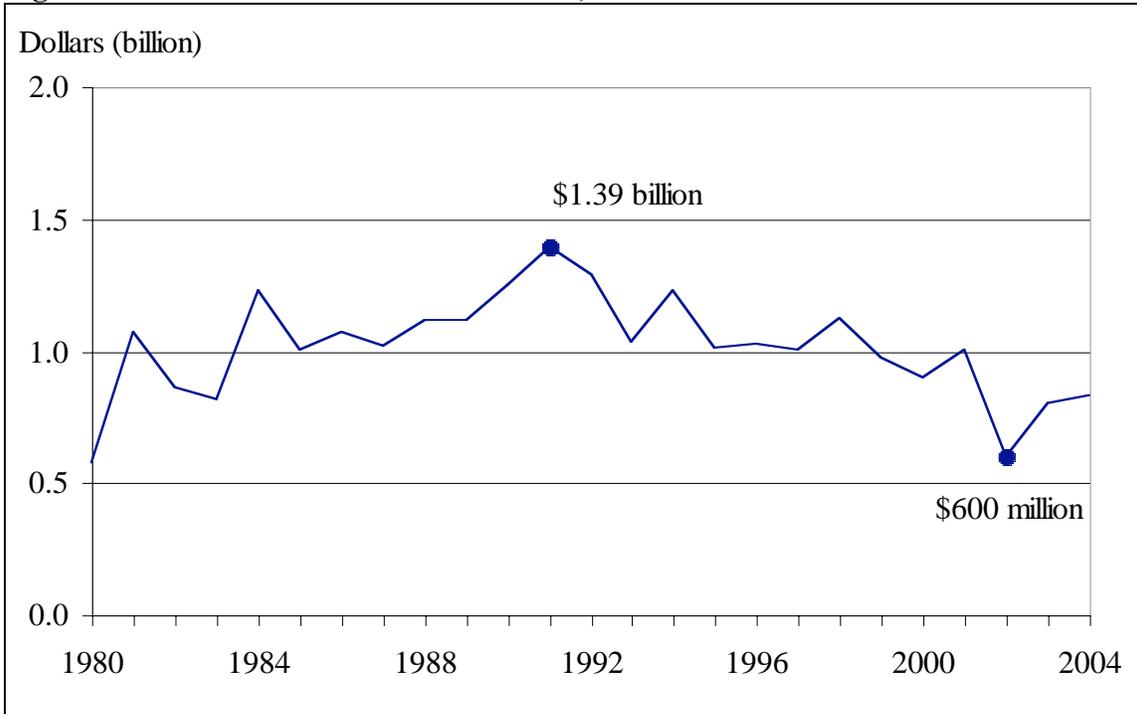
Source: USDA Economic Research Service, Oil Crops Yearbook

**Figure 8: U.S. Harvested Peanut Acreage, 1980-2004**



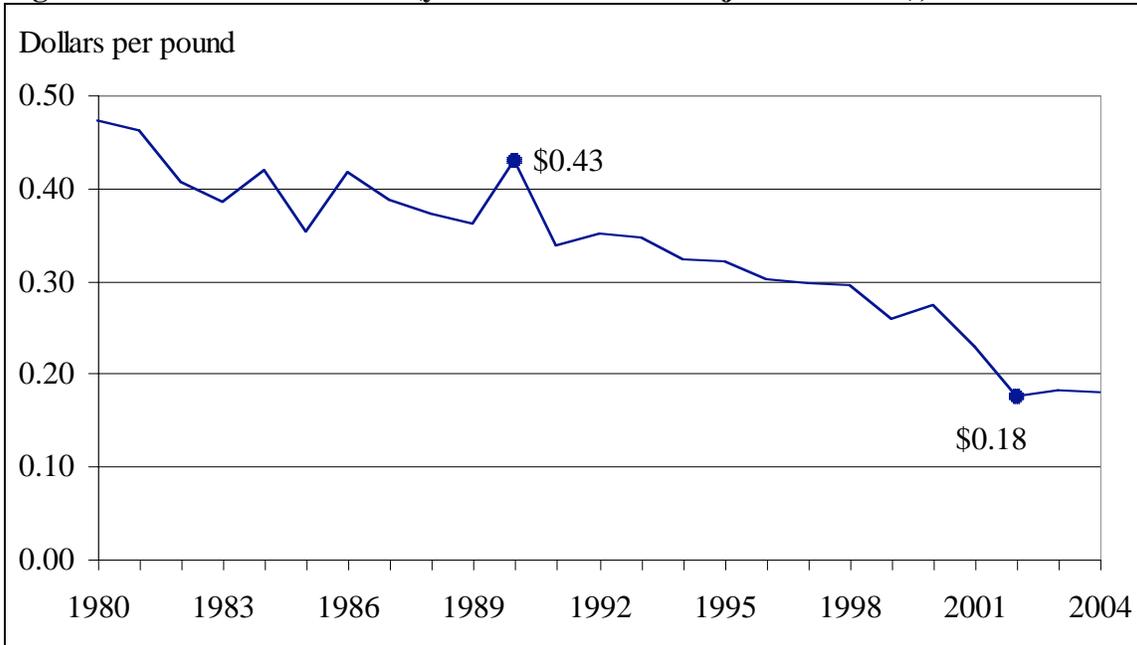
Source: USDA Economic Research Service, Oil Crops Yearbook

**Figure 9: U.S. Value of Peanut Production, 1980-2004**



Source: USDA Economic Research Service, Oil Crops Yearbook

**Figure 10: U.S. Peanut Prices (year-2000 inflation-adjusted dollars), 1985-2004**



Source: USDA Economic Research Service, Oil Crops Yearbook