# Op-ed: The Peanut Industry Has a Monopoly Problem—but Farmers Are Pushing Back

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Two shelling companies buy 80 percent of the nation's peanut crop each year, allowing them to drive prices down while costing U.S. taxpayers millions in subsidies.

By Ron Knox

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Between picky kids stuck at home demanding PB&Js and their parents' unquenchable snack habits, peanuts are having a moment. People's craving for peanuts and their various byproducts—butters, candies, ice creams, and so on—have pushed consumption and sales to record highs.

And it's not just a pandemic-fueled phenomenon. U.S. peanut consumption has grown just about every year for the past two decades, from around 1.5 billion pounds in 1999 to more than 2.3 billion pounds in 2018. Even the low-fat craze and the rise of peanut allergies couldn't curb its rise. Demand for peanuts outside of the U.S. has grown even faster. Peanut butter, it seems, is a hit everywhere.

But this rising demand hasn't trickled down to the thousands of small family farmers in the peanut belt—the vast swath of farmland stretching from the hills of Virginia through Georgia, Alabama, Arkansas, and beyond. Prices for raw peanuts have remained nearly flat year over year. And even with increasing consumption, peanut prices have sometimes fallen.

This may sound like a good thing for consumers, but it's not that simple. You see, we're also spending millions to prop up the industry with our tax dollars.

After decades in which peanut prices and production were governed by federal quotas, a free market system introduced in 2002 was supposed to allow the forces of supply and demand to work. The open market would see peanut shellers—processors who turn raw, in-shell peanuts into products like Skippy and Reese's—compete hard for the annual peanut crop, pushing prices higher. Or that was the plan.

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Instead, peanut farmers in Georgia and elsewhere have spent the last 20 years teetering on the edge of solvency, often relying on federal subsidies to survive. We've gotten here in large part because the free and competitive market that would have supported a fair price for farmers doesn't exist.

Instead, the peanut shelling industry is dominated by two powerful companies that together buy 80 percent of all peanuts grown in the U.S. The two companies, Golden Peanut and Birdsong, operate massive shelling facilities throughout the peanut belt, and together control or outright own nearly 200 buying points, where farmers must go to sell their raw peanuts.

The system isn't just unfair—it's wildly expensive. Subsidizing the peanut industry cost U.S. taxpayers more than $2 billion from 2014 through 2018. It' s the most costly per-acre crop to taxpayers in America, in large part because monopoly power controls pricing in the industry.

Federal price supports help farmers cover costs when an unexpected bumper crop or another shift in the market occurs. But when policymakers allow unchecked consolidation among buyers to drive down the prices farmers get for their crops and livestock, it leaves taxpayers to pick up the tab for monopolists' outsized profits.

Last year, a group of peanut farmers sued the big shelling companies, alleging that they took advantage of the concentrated market and a deeply opaque system of pricing peanuts to rip off family farms by coordinating on lowball prices for their crops. Birdsong and a smaller sheller, Olam, together paid the farmers $57 million to settle their part in the lawsuit; Golden Peanut opted not to settle. That case heads to trial this month.

The allegations in the lawsuit are significant— the kind of conduct the Justice Department can pursue as a criminal offense. But what the lawsuit exposed was perhaps one of the more egregious yet little-known instances of monopoly control over the food we eat.

## The Rise of Big Peanut

In many ways, the story of consolidation in the peanut industry mirrors many corners of American agriculture. Whether it's soybeans, beef, or chicken, powerful middlemen buyers, created through waves of unchecked mergers and buyouts, use their commanding position to underpay farmers for their raw ingredients, all while selling their processed products for significant profits.

But in nearly every other way, peanuts are unique in the broader world of American agriculture.

For most of the 20th century, growing and selling peanuts fell under strict government control, with a quota system dictating how much crop could be grown and a high, subsidized minimum price that established a fair market for farmers. If you owned peanut quota farmland, prices were good, particularly in years with any kind of peanut shortfall.

Production was limited but steady; if shellers wanted the crops to sell on to the big retail brands, they had to pay for it. And if all else failed, the government would ensure that farmers were paid more than $600 per ton for their peanuts, a price the U.S. Department of Agriculture (USDA) believed was needed to cover production costs.

The shelling industry was fragmented and competitive for decades; 92 shellers competed for farmers' sales around the southeast in 1970. But by the 1980s, Reagan-era consolidation reached the peanut industry, and real corporate power began to emerge.

Early that decade, Golden Peanut's predecessor, Gold Kist, had sued its closest peanut shelling rival, the global peanut titan Alimenta, claiming it had used monopoly tactics to try to force Gold Kist out of business. By 1986, Gold Kist had struck a deal with agriculture conglomerate Archer Daniels Midland to create Golden Peanut; the sheller turned a modest profit, a couple hundred thousand dollars, by 1988.

A year later, Golden Peanut welcomed Alimenta into the venture. With the alleged monopoly power on board, the company's profits jumped 10,000 percent in one year. By 1990, it cleared more than $56 million.

The same year, a family peanut farmer named Charles Hunt was struggling to strike a deal with Golden for that year's crop. It was a drought year, and a ton of peanuts could fetch $1,300—more than twice the statutory minimum. Golden had a contract with Hunt, but under terms of the deal, Hunt could try to find a better price, so long as Golden had first refusal to match it.

Golden refused, but when Hunt found a new buyer for the peanuts, Golden sued. The company claimed that the new buyer was not a "qualified handler" and the sale should be voided. Hunt counter-sued, accusing Golden of using its power to suppress the price it paid thousands of peanut farmers, in part by discouraging competing bids. A jury took two and a half hours to rule in favor of Hunt, and another four minutes of deliberations to award punitive damages.

Hunt didn't file the case under the antitrust laws, but, according to a paper by University of Georgia professor David Kamerschen, the facts in the case suggest Golden had perhaps abused its power as the largest sheller in the country. "By all of the critical measures, this is a concentrated market and Golden is a dominant firm," wrote Kamerschen, who testified for Hunt at the trial.

At the time, Kamerschen figured Golden bought around 31 percent of all peanuts grown in the U.S. Two years later, Golden grew again, when federal antitrust enforcers allowed it to buy a sheller called Dothan Oil, then the third-largest peanut buyer in the country. By 2011, when Archer Daniels Midland bought out its partners in the Golden Peanut venture, the sheller controlled around half of the shelling industry.

Today, just 14 shellers operate in the peanut belt, and most are too small to really vie for farmers' crops. For many growers, Birdsong and Golden are the only options, so they take whatever price the big shellers offer. Before 2002, growers received a more than $600-per-ton price guarantee; now that's been replaced with a marketing loan system that guarantees just half that.

And that costs all of us.

### A Cooperative Solution to the Peanut Monopoly

Peanut prices do still fluctuate with production; a bumper crop can send prices lower, and a drought or hurricane year will push prices up. But the federal lawsuit and the USDA itself suggest that concentration in the sheller industry has kept peanut prices lower than they would be in a competitive market.

Under the federal quota system, the potential harms of monopoly power had been insulated. Limited production typically kept prices above the cost of production, and if not, taxpayers came to the rescue. But the passage of the 2002 Farm Bill would transform the way the industry was structured, and hand far more power to the shellers to dictate peanut prices.

After heavy lobbying by the shellers, the 2002 bill replaced the quota system with a market-based system that let demand dictate how many peanuts farmers could and should plant. Gone was the more than $600 per ton price guarantee, replaced with a marketing loan system that guaranteed just half that. If farmers wanted fair prices for their nuts, they'd have to negotiate contracts with shellers that were quickly coming to dominate buying points and processing in the south.

While monopoly power touches nearly every crop grown in America, the rise of corporate concentration among shellers left the peanut farmers particularly exposed to the pricing power of those big shellers.

In peanuts, there's no cash market and no futures—meaning there is very little transparency as to why the price of raw peanuts is what it is. While competition among shellers was robust in the 1970s, today there are just a few shelling companies that buy raw peanuts, led by the dominant the Golden Peanut/Birdsong duopoly, meaning buyers have near-total control over pricing with scant oversight.

In a report, the USDA made the distinction between prices for peanuts and other cash crops, like corn, clear. The difference is market power, and the ability for outsiders to glean some information about what the price of a crop should be. In corn, the report showed, crop sales are "transacted by many buyers and sellers at observable prices in a multitude of active cash markets," and corn growers "are assured of price competition over their crop."

With no futures market, there's no price transparency or decent way for farmers to manage risk other than relying on taxpayer bailouts. There's no market to determine what the crop is worth. The shellers get to decide what they feel like paying. The market power of peanut shellers "constrains farm choices and potentially impacts commodity prices and producer welfare," the USDA found. In such a market, the report asks, "How can peanut producers be sure they are receiving a fair price?"

As the facts in the lawsuit suggest, they can't.

Without a futures market, prices aren't set until long after a crop is planted, often leaving farmers to negotiate prices with just one or two nearby buying points that are either owned or leased by one sheller. The lawsuit alleges that the two big shellers have conspired to push those prices down, endangering family farmers and leaving taxpayers on the hook.

After concern that low prices from the shellers and inadequate federal support were putting peanut farmers at risk, the 2014 Farm Bill introduced a new, bigger federal subsidy for peanut farmers. The program, "price loss coverage," provided an additional direct payment to farmers to cover the difference between the federal minimum per-ton price, and whatever rate shellers offer that year.



Under the current bill, the minimum payment for a pound of peanuts is just less than $.27 a pound, while the 2019-2020 market average price was around 20 cents. That means taxpayers were on the hook for more than six cents a pound. The first year of the "price loss coverage" program, taxpayers shelled out more than $323 million to make up for low prices.

"Without the Peanut Program [subsidy], I believe that one-third of the farmers I know would go out of business."

Small farmers have fought hard to keep the price loss coverage program in place. Michael Davis, a sixth generation peanut farmer in Florida, said during a 2017 campaign to save the program that it was the only thing keeping many of his neighbors operational.

"Without the Peanut Program, I believe that one-third of the farmers I know would go out of business, which would dramatically impact our communities," Davis told the industry publication AgFax.

While the federal payment support program does in some ways incentivize farmers to plant more peanuts, increasing the potential cost to taxpayers, a higher market price—set by shellers who face real competition—would drastically reduce what taxpayers must pay to keep peanut farmers afloat.

Now, farmers and buying point owners are moving to break the control of the big shellers. In addition to the antitrust lawsuits, over the past five years at least five significant farmer-owned cooperatives have organized in the peanut belt. The largest, Premium Peanut, includes farmer members and buying points throughout south Georgia, who all sell their crops into the group's massive, sophisticated shelling plant.

Locked into buying points that were in turn locked into contracts, and prices, with big shellers, farmers started the cooperative in 2014 while hunting for an alternative, where they could be guaranteed a buyer for a set quantity of crops and, in good years, make more money for their work.

"With us, they know that if they bought a thousand shares of the company, they have a home for a thousand tons of farmers' stock peanuts every year. We will buy them, we will warehouse them," Karl Zimmer, CEO of Premium Peanut, told The Counter in 2017, a year after the cooperative's shelling plant opened.

Bob Parker, president of the National Peanut Board and a former executive at Golden Peanut, told me the rise of peanut farmer cooperatives is the most significant change he's seen in any cash crop in America over the past decade or so. Parker likens the cooperatives to community banks, which are often supported by the deposits of local businesses and, in turn, operate to the benefit of small and local businesses in the community. He estimates that cooperatives from Georgia to Texas could soon account for a quarter of the peanut shelling market.

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"I think it's a unique thing in the peanut industry. No other industry has gone through the kind of deconsolidation that peanut has," Parker said.

Tyron Spearman, head of the National Peanut Buying Points Association, said he's seen farmers leave their longtime, big sheller-controlled buying points for those operated by Premium and other cooperatives. Premium now has more than 200 farmer members. "The co-op movement is really getting to these big shellers, and they're not going to have the power they used to," Spearman said

The real impact of the cooperatives remains to be seen. The massive market share of Golden Peanut and Birdsong won't evaporate overnight. But the push for peanut farmers to harness their collective power against the control of the big shellers may just bring brighter days ahead for an industry that has long been under the thumb of monopoly power.