

**Small Business Committee
Subcommittee on Regulations and Healthcare**

**Hearing on
Impact of Food Recalls on Small Businesses**

Testimony of

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Good morning Chairwoman Dahlkemper, ranking member Westmoreland, members of the Committee, I am Don Koehler, the Executive Director of the Georgia Peanut Commission. On February 1 of this year I completed twenty-two and a half years in that position. I am also testifying on behalf of the Southern Peanut Farmers Federation which represents peanut farmers in Alabama, Florida, Georgia, and Mississippi. The Federation represents about three fourths of the US peanut production. I want to say up front that the current outbreak and recall attributed to peanut products produced by the Peanut Corporation of America is the most devastating issue which has faced our industry in my time at the Commission.

Our Commission was established under the laws of the State of Georgia in 1961 to conduct programs in the areas of research, education, and promotion. We currently have 4535 producers of record in Georgia based on the 2008 crop year. That number has a potential to decline in 2009 given the current situation. We are talking 4535 small businesses which help to fuel the US economy.

An inscription on the right panel over the entrance to Washington's Union Station reads, "the farm, best home of family, source of our national wealth, the natural providence." That is largely true even today. Though farmers are far fewer in number they provide more to the economic health of our economy than at any time in the history of this country. By taking raw inputs and turning them into a useable commodity which is further processed in the U.S., farmers are a part of the creation of economic wealth in America.

Background

On January 9th of this year I was notified by the Georgia Department of Agriculture that the Minnesota Department of Health had identified peanut butter distributed by a company in Ohio and processed at a factory in Georgia as the source of Salmonella which was responsible for an ongoing outbreak. On January 10th the U.S. Food and drug Administration issued a voluntary recall notice on peanut butter processed at a plant owned by the Peanut Corporation of America (PCA) of Lynchburg, Virginia which was located in Blakely, Georgia.

The initial recall was expanded to roasted peanuts from the Blakely facility and then again later to include all product ever produced in the PCA plant in Plainview, Texas.

It would appear that the company had a culture of being a bad actor in our industry. Sanitary conditions in the plants were poor. Testimony by witnesses before the House Energy and Commerce Committee seriously questioned the prior knowledge and intent on the part of PCA and the state of their facility as well as products.

PCA was a supplier of peanut butter to the food service industry but also a supplier of peanut ingredients to numerous food manufacturers and in that respect had a broad reach for a relatively small processor. This has by some standards become the largest food recall in American history.

The recall has been ongoing for two months. The effects have rippled throughout the peanut industry.

Current Economic Situation

When the Salmonella recall hit, we asked the National Center for Peanut Competitiveness (NCPC) located within the University of Georgia's College of Agriculture to help determine the impact of the recall on our farmers. I have also spent a great deal of time discussing the recall and its impact on the market with people in the industry in whom I have a great deal of confidence. The Commission has held public meetings with producers in the peanut belt counties this year. I have used these resources in preparing this portion of my testimony.

Frankly, we are dealing with a situation of historic proportions, that the full impact will not be known until some point in the future. Rebuilding in the peanut industry cannot fully begin until the outbreak is over and the recall is complete.

The 2008 peanut crop was a record crop and the industry was faced with managing a significant carry-over. The fact that USDA has been slow reacting to the current market conditions in setting the weekly posted price of peanuts has complicated this issue greatly. Peanut sales are non-existent at any price for farmers who have not contracted peanuts and yet USDA has not reduced the posted price.

After the recall began, sales of peanut products have tumbled. Scan data would indicate that January sales of jarred peanut butter was off 24% however that number may be skewed because of deep discounts on peanut butter in January 2008. One major brand was still building back market share after their own smaller recall a year earlier. Still, general agreement is that peanut butter consumption is off as much as 20%. Peanut butter processing accounts for about 70% of the Southeast peanut market. Salted nuts are off about 8% and peanut butter cracker sales have tanked.

Due to this uncertainty and non-existent sales at the sheller level, no contracts are being offered to farmers at this time. This is a critical issue because farmers in many cases need a contract or at least some indication of the market to achieve financing and make planting decisions. These decisions should have been made no later than February because a major option for farmers to consider if they don't plant peanuts is corn. Corn in the peanut belt of Georgia is planted in

March while peanuts are planted in May. This has made planning very difficult for farmers who grow peanuts.

In two locations in Georgia, groups of farmers have invested in and built modern shelling facilities. At least one of these facilities received funding from the state and federal governments to encourage the farmers to seek added value for their product. These small businesses have fewer than 50 employees. The current situation may hurt them disproportionately because they are small compared to the two major peanut shellers. Peanut buying points, which serve as the transfer point from the farmer to the peanut shellers, are paid on volume handled. Reduced volume significantly impacts their efficiency and income. Most of these are independently owned small businesses in our rural communities. Please note these rural communities are not seeing large economic growth. Adding value to local products and creating local jobs is critical for their economies.

And, then there is the impact on our farmers.

The NCPC, using their accepted Representative Farm Model, looked at the situation our farmers face.

The market has collapsed so the best case scenario seems to be the loan rate of \$355 per ton. With the present projections for only variable costs, excluding land rent, farmers would need to have irrigated yields of almost 4700 pounds per acre and non-irrigated yields of over 3500 pounds to achieve just a zero cash flow. Typically, the mean yield on the farms in the Southeast would be just under 3800 pounds per acre for irrigated acres and about 2800 pounds for non-irrigated production. Currently, the University of Georgia Extension Service peanut production budgets for the year 2009 project potential yields at 3700 pounds per acre for irrigated production and 2700 pounds per acre for non-irrigated yields.

You can see there is little to no likelihood of farmers' cash flowing under today's situation.

Another way to view this, the NCPC took a five year Olympic average of the U.S. peanut production that would total slightly over 2.1 million tons of peanuts. They then used USDA's posted price for peanuts and came up with an average price of \$408.37 per ton. Determining the difference of that price and the loan rate and including other factors such as option payments, the total loss numbers ranged from \$114 million to a high of \$121 million.

If you take in to account a loss of production these numbers grow. Growers tell us they anticipate a reduction of acres of at least a third. The NCPC Representative Farms would indicate a reduction of 40 to 60 percent is possible. This means a loss of \$225 to \$450 million dollars in farm gate value due to reduced production. Using the NCPC conservative economic multiplier of 2 we could see total economic losses of a billion dollars due to this recall.

What can be done to help our industry?

The formula that USDA uses to set the national posted price for peanuts, the price used to allow peanuts to move freely into the domestic and export market from the government loan, is a farce. The industry and government researchers have demonstrated time and again that the price USDA posts for peanut markets is too high. This has harmed our export efforts. This price was

published this past week at \$449. No peanuts are being traded at this level. Doesn't the USDA read the newspaper or watch television? Congress should ask USDA to review this formula and report back in a firm time period as to how the formula can be made to be more realistic.

Peanut butter has been a staple for U.S. and international feeding programs. Our various programs are administered by the USDA. Where has USDA been in this process? Our market is in trouble yet we have not seen public statements from the Department about the nutritious value of peanuts, what products are safe to use, etc. Now is the time for USDA to heighten their use of our products in domestic and international feeding programs. We need their help more than ever before!

Peanut butter is 25 percent protein and costs about \$2 per pound. This translates to about 9 cents per percent protein. Only whole chicken or bone in chicken legs offer a better protein value and those take significantly more preparation to make them ready to consume. Peanut butter offers a great value for use in feeding the needy.

Conclusion

The impact of this recall has been far reaching. Farmers, as small businesses have felt the real economic impact of this recall. Because farmers do business with other small businesses who supply them their inputs, the ripple will not likely stop at the farmer.

The devastation caused by this recall falls far beyond PCA and far beyond the companies who dealt directly with PCA as suppliers or customers.

Georgia's peanut growers stand ready to work with Congress and regulators to improve the food safety system in this country. While our system is one of the best in the world, nothing is so good it can't be improved. **We want to be sure this can never happen again.**