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Pecan Industry: Current Situation and Future Challenges, Third National Pecan Workshop Proceedings

Discussion - Agricultural Economics Session I - The 3rd Pecan National Workshop, June 21-23, 1998

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Recorder: Wojciech J. Florkowski, The University of Georgia

After the presentation made by Dr. J. Pena, the following discussion took place.

Tommy Thompson: What is the reasonable yield?

Jose Pena: I hear that 2,000 lbs per acre is achievable in West Texas; yields typically range from 600 lbs to 700 lbs per acre. There is a wide gap in yields. You can probably expect the average yield to be around 900 lbs. Early varieties are good from the marketing standpoint, but they don't yield high. Growers must have a reason for growing them (the early varieties) because they do not yield as much Wichita and Desirable.

Mike Kilby: In Arizona we harvested about 18 mln lbs in 1997, while about 11 mln lbs in 1998. According to producers, yields reach 2,400 lbs per acre every year; but yields range also from 1,500 to 2,000 lbs Shellers offer the price to growers because shellers market pecans. Do we know what does it cost shellers to market pecans?

JP: The cost to market pecans is included in the shelling costs and is hard to extract. Shelling cost for a large sheller range from about $0.30 to $0.40 per lb, depending on the size, quality, and other factors. The retail pecan price dictates what shellers can pay and is based on supply and demand factors, and the meat yield. If shelled pecan meats sell for $3.50-$4.00 per pound shellers can afford to pay $1.00 to $ 1.10 per pound for in-shell pecans. To pay more shellers have to be paid more. In terms of yields, producers tell me that they achieved higher yields, but if you take production and divide it by operational acres, average yields of improved varieties on an up year approximate the yields that we are talking about.

TT: What is the definition of an early variety? Are such varieties yielding lower?

JP: Early varieties are the varieties harvested early. Growers have records and shared the data. I was shocked that yields were in 800 lbs per acre range or even less for early varieties compared to 1,100 lbs to 1,200 lbs per acre in the same orchard for later maturing varieties.

Steve Sibbett: Increasing production was successful for almond production, increasing production is the gist of your problem. From growers standpoint it makes sense to make money by lowering the production per unit, not by expecting high prices. If you can not lower the per unit production costs you cannot make money, unless your land costs you little, etc. The walnut industry has no checkoff program.

JP: In case of almonds and walnuts a certain percentage goes overseas. In order for pecans to be even with walnuts and almonds (market wise), one-half of pecans must go overseas. But yes, the key to profit is to lower the cost per unit to stay within what the market offers.

SS: Marketing strategy is such that the higher production, the more marketing effort. But if you have a static production as shown for pecans, how can you expect marketing to improve what is happening?

JP: Wide production swings are having an adverse effect on market prices. Production was more stable in the 80's than in the 90's. The industry has reverted to wide production swings, creating high uncertainty for large end users and adversely affecting stability in the market. These wide production swings may be signs

of frustration with market prices. As an industry, reducing these wide production swings would be very advantageous.

MK: Somebody told me it took him seven years to figure the pecan market, and was able to do it and that's why we see the price decline.

JP: I'm not sure what a seven-year market cycle means. The point is that growers cannot control the market. They can only control inputs. As Steve was saying, if you increase production with the same total costs, you decrease per unit costs. Growers should apply the concept of marginality, (i.e., compare the cost of an additional unit of input to the value of the additional output produced by using this input). Compare your sprays to the yield response. For example, a spray of herbicides must be linked to yield not to the presence of weeds themselves. Too much concentration of input in terms of the value of the crop, that's where the problem is today. Too much labor inputs. Irrigation water, for example, appears to be applied too often, 7-8 chemical sprays, when 4-5 may achieve the same yield levels. For example, many growers are using tensiometers to manage irrigation water use, yet studies indicate that by using tensiometers, more water is often applied to achieve the same statical yields, etc. The marginality concept is a measure of the input/output relationship. Gradually increase the use of an input until the cost of that input is equal to the value of the product produced while holding other input use constant.

SS: But all inputs applied in one season have implications for the next year's crop, so be careful.

JP: Yes that is very true but, growers still should try to apply the marginality concept to input level use.

SS: Why production swings then? " I reduce the input use" say the growers.

Bill Goff: What is the future of pecan industry? Are we going to lose a lot of growers?

JP: That is a difficult question to answer. The group could, perhaps, answer it better. Up until the 90's, the market generally cleared cash and some overhead costs. Now, market collapses are getting into equity. Some growers haven't survived. Generally speaking, the survivors are better managers, but there are many problems. Crowding is a major problem. For example, I drove from Texas on highway 285. While I didn't physically inspect the orchards, it appeared that a large proportion of the orchards were overcrowded. Overcrowding consumes inputs, yet overcrowded orchards do not produce to their capacity. With regard to Bill Goff's specific question, it appears unlikely that we will have a mass exodus from pecan production.

Marvin Harris: By selecting 10 growers your have the better than average growers, so you will have higher yields and a higher input use. How to account for yields of others if a 900 lbs per acre is higher than average? Do they need to apply more inputs?

JP: The grower set was picked and in this sense, is biased. The input levels were compared to the sample collected in the early 1990's of 57 growers selected at random. In the current sample, inputs were higher (i.e., 6-7 sprays vs. 5 in the early 90's and over 30 inches of irrigation water vs. 20 inches in the early 90's). We needed growers with good records. I don't think their yields were significantly higher or lower than the randomly selected group of the early 90's.

Randy Sanderlin: Your selective group can be considered better than overall, so the problems may be bigger than we recognize.

JP: No, I don't think so. Records were the selection criteria. My opinion of the costs is that cost may be lower across the industry, especially in terms of how overhead costs are calculated.

Bruce Wood: In Georgia 90 % of farmers have not income from farming and have to subsidize their operations from jobs outside farming.

JP: Yes, the same is true in the pecan industry. Some growers continue to produce pecans because they have other crops and/or forms of income. Pecan production increases utilization of their resources to minimize overall per unit production cots.

Nancy Roe: What shocked us was to hear that a pecan buyer when asked if prices were going to improve, the buyer said no.

JP: During the Western Pecan Grower's conference in March 1998, a speaker from the processor's side suggested that growers need to produce 20% more pecans. The question is: if at the current level of production, prices are not clearing the breakeven level, why does the processor industry say we need to product 20% more pecans. I believe the suggestion has to do with production stability.

BG: What are the production costs in Mexico?

JP: Production costs per unit are very close to production costs in the U.S. While labor costs are a lot lower, almost all other costs are higher. Fuel cost are about the same, yields are comparable to the U.S. Interest rates exceed 30%. Bottom line: yield 600-800 lbs per acre, labor costs less, chemicals and equipment cost 20% more, so basically the production costs per unit of production in Mexico are the same as ours.

Esteban Herrera: Some expect the production in Mexico, especially western Mexico, will increase. The total annual production will reach 100 mln lbs Pecan market follows supply and demand conditions and sometimes we expect too high prices. There is some gray area as the industry weights price on other expectations. If prices are high, we need the imports from Mexico to meet the demand. At the same time Mexico's consumption is hurt, but if price is low, consumption is up. In future we will have middle range of prices, but not a constant price and this will effect pecan use and consumption.

JP: Forward contracting of pecans was offered, but no takers were found. After the two recent market collapses, the marginal price improvement this past season is a good sign, especially since shellers were forecasting large supplies. Shellers estimated the 1997/1998 crop to be much higher than USDA's estimate and imports to be about 80 million lbs from Mexico, so the total sheller forecasts of supplies were high. Shellers tend to lean on higher numbers. If the marginal improvement, despite the forecast of large supplies, is a function of better demand, maybe there will be some improvement this season. Texas is suffering from a drought and the production is expected at about 35 million lbs, with a small native crop. Total production will be way down and a lower level of carry-in stocks is expected. Prices should improve, but don't expect improvements to the price high of the early 90's.

BW: Developing the market is important, but how we can do it if we have no stable supply and quality product. I don't see it. Do like the almond industry: increase supply and drive some out of business?

JP: We'd like to have steady supply of pecans not the one fluctuating by 50% from one year to another.

This portion of the discussion took place after the two other presentations in the Agricultural Economics Session I. Questions were hold until the last presentation was ended.

Tommy Thompson: How did you remove oil? From pecan meal?

Sue Knight: You could, but we used pieces and halves for extracting oil leaving them intact. You could sell such pieces and halves as reduced fat kernels. Reduced fat pecans taste sweeter and many people buy pecans for chopping and adding them to their dishes. You could also put reduced fat pecans in new products because of low fat and fewer calories enable you to able the product 'light' or 'reduced fat', so pecans can enter a new market.

TT: Will the pecan oil be expensive?

SK: Oil is a different product sold on a different market.

Esteban Herrera: Pecans are often rancid. Does the industry needs to better appeal to customers?

SK: Consumers who ate pecans that taste bad could not buy them again. We reported in the paper on studies regarding the controlled atmosphere packaging. In one study it was stated that pecans in a package are living organisms and, therefore, need oxygen. Lowering oxygen levels should help to maintain self life. We extended shelf life by reducing fat, but you may lower oxygen level to two percent; in the atmosphere it is about 21%.