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Summary findings for the Potential for Shrimp Processing in South Carolina

Draft analysis of the feasibility of alternatives for processing and marketing SC landed shrimp indicate the following:

1. **The “Cadillac” option.** Construction of a new processing plant with a capacity of processing 2 million pounds of head on shrimp per year would require investment of \$2.5 to \$3.5 million dollars for land, new buildings, new equipment that includes peeling and deveining machinery and all heading, grading, freezing and storage equipment. Assumes a new COOP or LLC will be formed to manage the plant and that external public/private funds are used to finance new infrastructure and working capital. For example, USDA Rural Development has a Business and Industry guaranteed loan program for processing plants built in rural areas with less than 50,000 population. Rural development can provide up to 80 percent loan guarantee for loans of \$5 million or less. This is an incentive for banks to make economic development loans to rural areas. There are probably other state economic development incentives that could be used.

Given the current costs for land, building and equipment, we find the following:

- Processing cost per pound of head on shrimp would be \$.69 for a 2 million pound run; \$.97 for a 1 million pound run.
- Equivalent tail costs per pound are \$1.15 and \$1.61, respectively.
- **At current ex-vessel prices for head on shrimp**, adding hauling costs to the processing plant, dockside packing fees, and processing costs results in per pound costs for headed shrimp products at the plant that range from about \$4.71 for 26-30s to \$3.29 for 61-70s.
- **Adding \$1 per pound to the current ex-vessel prices of head on shrimp** -- the mark of quality premium -- results in per pound costs at the plant ranging from \$6.38 for 26-30s to \$4.96 for 61-70s. This assumes a 2 million run plant. These prices seem a bit high but are not out of line with stated “list” prices from several processors for final delivery.
- **At current ex-vessel prices for head on shrimp**, cutting the processing run to 1 million pounds of heads on shrimp yields tail prices FOB at the plant that range from \$5.19 for 26-30s to \$3.77 for 61-70s. These prices seem competitive with other DOMESTIC offers.
- **Adding \$1 per pound to the current ex-vessel prices for head on shrimp**, and cutting the processing run to 1 million pounds of heads on shrimp result in tail prices FOB at the plant that range from \$6.86 for 26-30s to \$5.44 for 61-70s.
- If market prices equal or exceed these costs of processing, then profits from the processing plant will be available for distribution to Coop or LLC members.
- Shrimp that do not meet mark of quality standards will be sold thru existing channels.

2. The “Georgia Shrimp Company” Option.

- Form an LLC that requires 25 to 30 members to invest \$20,000 each to establish a small scale plant with freezer capacity. No external debt required but a full time manager is employed.
- Provide head on and headless shell-on product only.
- Use sweat equity and used equipment.
- Net Income analysis in progress.

3. The Contract Processor Option.

- No new local investment needed.
- Processing costs range from \$.37 to \$.70 cents per pound of head on shrimp. Capacity and willingness to process SC shrimp exist in the Southeast region.
- Transportation costs range from about \$.08 to \$.15 per pound of tails each way.
- SC landings can be processed on a separate run and identity preserved by boxing or bagging with SC logos with a cost of \$.06 per pound for containers.
- Storage cost (IQF or Blocks) would be about \$.05 to \$.06 per pound in the combined receiving and delivery months. Intervening months require an additional \$.01 to \$.015 per pound per month charge. Assuming average storage time of 3 months, total storage costs at commercial sites in SC or elsewhere would likely be about \$.10 per pound per year.
- Assuming \$.60 processing cost per pound of heads on shrimp(or \$1.00 per pounds of tail), \$.10 one way transport cost, and storage cost of \$.10 per pound, then the total price for tails FOB at the plant would be about the same as the “Cadillac” option 1.
- One benefits of the contractor option is no new capital is needed to begin to market SC premium shrimp. Second, production risks are borne by the contractor. Third, if SC interests can command a quality price premium, then quality markup margins would accrue to SC interests rather than the processor.
- Drawbacks include: limited quality control by SC interests; price risk borne by SC owners of the shrimp in storage.