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Peanut Program: Evolution from Supply Management to Market Orientation

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Peanut Program: Evolution from Supply Management to Market Orientation

Summary

The 2002 farm bill radically overhauls the peanut program, by completely replacing the supply and price management system in place for more than 60 years. It repeals the limit set on the amount of peanuts that farmers can sell domestically for food consumption, and substitutes in large part the revenue this "quota" system with its high level of price support had guaranteed them, with an infusion of annual government payments to "historic" peanut producers. The new program's price support and income subsidy features (covering the 2002 to 2007 crops) are similar to those authorized for producers of other crops. These will ensure that "historic" producers receive a return roughly comparable to what they accessed in the past, after taking into account they will no longer have to rent or buy quota. Actual returns will vary among farmers, depending on whether they had produced quota peanuts and had incurred the additional cost of renting quota. As part of this historic change, owners of peanut quota will be compensated for elimination of an income-generating asset.

As background, the 1996-2001 peanut program largely kept intact the broad outlines of previous policy except for two changes. Reflecting a compromise between growers and shellers (the marketers of peanuts to food manufacturers) and calls by others for the program's repeal, Congress in 1996 reduced the quota loan rate by 10% to $610 per ton. Other changes were intended to ensure the program operated at "no-cost" to taxpayers. The House during farm bill debate rejected program opponents' efforts to modify the Agriculture Committee-reported package by a 3-vote margin. From 1996 through 1998, program opponents pressed for further change, but failed in securing passage of amendments offered to agriculture spending bills. In other action, three emergency farm aid packages in the 1999-2001 period provided a total of $170 million in supplemental income payments to peanut growers. Another issue that lawmakers addressed in 2000, and may again face, is whether to assist growers to cover their share of program losses.

The new program reflects an approach proposed by many peanut farmers in the Southeast (the largest peanut producing region) and some in the Southwest who had concluded that the quota program could not be sustained for political and economic reasons. They were concerned that the quota system could not be defended much longer against opponents (food manufacturers and those ideologically opposed to government management of a food commodity) who had sought for many years to "reform" the program. These farmers also realized changes were needed to address competitive pressures from increased peanut and related product imports under the terms of current and anticipated trade agreements, and that additional budget resources made available for commodity programs could facilitate a policy change.

With peanuts marketed internationally at a price much lower than the level at which the past program supported the U.S. price of food peanuts, the peanut quota structure and import restrictions (by controlling the supply and significantly affecting the price) placed the cost of the peanut program largely upon the buyers of peanuts (manufacturers and consumers). The new program's changes shift these costs largely to the federal government and taxpayers.

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Recent Developments

President Bush on May 13, 2002, signed into law a 6-year comprehensive farm bill (P.L. 107-171, the Farm Security and Rural Development Act) that includes authority to support the price of peanuts, to extend income assistance to historical peanut producers, and to compensate peanut quota holders for the loss of an income-producing asset (sections 1301-1310). This measure authorizes a much different peanut program than that in place for more than 60 years, adds and makes changes to other existing commodity programs, and includes rural development and environmental programs, among other initiatives.

The U.S. Department of Agriculture (USDA) has begun to implement some provisions of the new peanut program. On July 8, USDA announced steps to put into effect a new peanut quality program. Under the 2002 farm bill, all peanuts marketed in the United States (irrespective of whether produced domestically or imported) must be officially inspected and graded by federal inspectors or federally licensed state inspectors. In the interim while the Agricultural Marketing Service (AMS) drafts new grading and handling regulations, USDA announced that the requirements of the current peanut marketing agreement and related programs will continue to apply; appointed 18 interim members representing producers and the peanut industry to the newly created Peanut Standards Board (PSB) charged with advising AMS on the details of the new quality program; terminated the existing Peanut Administrative Committee responsible for the expiring marketing agreement; and designated trustees to locally administer the mandatory peanut inspection program until the new regulations are established. On July 19, Secretary of Agriculture Veneman announced that historical peanut producers will be asked to update their peanut acreage history and yield information with the Farm Service Agency (FSA) by August 5. FSA will use this data to determine each producer's peanut base and yield that will serve to calculate the direct and counter-cyclical payments each will receive in the 2002-2007 period. On August 1, AMS issued a notice requesting nominations to the PSB, which is required to be in place by November 9.

U.S. Peanut Market

Peanuts are a regional crop, with most production occurring in three areas. In 1999-2001 period, the Southeast (Georgia, Alabama, Florida, and South Carolina) accounted for 57% of U.S. peanut output; the Southwest (Texas, Oklahoma, and New Mexico), 28%; and the Virginia-North Carolina region, 15%. The largest producer was Georgia, which accounted for 39% of total peanut output, followed by Texas with 22%. Production is geographically concentrated in each state; accordingly, peanuts account for a large share of farm and related agribusiness income earned in a number of peanut-producing counties. According to the *Census of Agriculture*, there were 12,211 peanut producers in the United States in 1997, down from 16,194 in 1992. Production nationwide, while fluctuating from year to year due to variable weather, averaged almost 3.8 billion pounds (1.9 million short tons) annually in the 1999-2001, down from an annual average of 4.3 billion pounds (2.14 million tons) in 1990-92. Peanut output generated $950 million in cash receipts each year from 1999 to 2001 to farmers, nearly a 28% decline from the $1.3 billion annual average in the 1990-92 period.

Lower production and cash receipts in the most recent period reflect the impact of two significant policy changes made by the 1996 farm bill: (1) setting the amount producers can sell domestically (the "poundage quota") equal to projected U.S. food demand,[1] and (2) lowering by 10% the support level for peanuts sold to meet U.S. food demand.[2] Higher imports also have contributed to lower receipts. Imports of peanuts (raw peanuts and the peanut equivalent of peanut butter) in 2000 accounted for 14% of domestic food use, compared to 2% in 1991. Increased imports reflect the market access commitments made by the United States under various trade agreements, and the incentive for other countries to sell into the higher-priced U.S. market compared to other export alternatives.[3]

Just over 46% of the 2000 peanut supply was consumed as food domestically. Of the remainder, 12% was crushed into oil (viewed as a premium cooking oil) and into meal (used as a protein supplement in livestock feed rations). Sales overseas accounted for about 11%, with the European Union, Canada, and Japan being major export markets. Consumption for domestic food use fell an average 2.3% each year from marketing year (MY) 1989/90 to MY1995/96, largely due to changing demographics (primarily smaller numbers of children among the baby-boomer generation), health and dietary concerns about the fat content in peanuts, and competition from other snack foods that had prompted consumers to shift away from higher-priced peanut products toward lower-priced snack products. In a reversal of this trend, starting in MY1996/97, U.S. peanut consumption for food has increased an average 1.8% each year. Observers speculate that this recent trend might reflect a decline in concern over fat in foods, a growing awareness by consumers of studies that show eating peanuts may be beneficial to health, and increased retail promotion by peanut product manufacturers. Of the peanuts used for domestic food use and export in MY2000/01, 46% were processed into peanut butter (a staple in American diets), 22% went into snack peanut products, 22% were used in peanut candy, and 9% were marketed as cleaned in-shell (i.e., ballpark, roasted).

Features of the 1996-2001 Peanut Program

To support the farm price of peanuts, the USDA for the 1996-2001 crops extended price support benefits to growers, placed a limit on the amount of peanuts

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[1]For more explanation, see **Poundage Quotas** on page 5.

[2]For additional information, see **Price Support** on pages 3-4.

[3]For details, see **Import Restrictions** on pages 5-6.

allowed to be sold for domestic food use, and generally restricted imports of foreign peanuts. The most significant changes made by section 155 of the 1996 farm bill (P.L. 104-127) reduced the level of minimum price guarantees available on domestically marketed peanuts ("quota" peanuts) and effectively eliminated the program's future budget exposure. The Congressional Budget Office at that time projected that the detailed changes made to key quota provisions would generate more than $400 million in budget savings over the FY1997-2003 period. In 1999, 2000, and 2001, Congress authorized $170 million in supplemental income payments to peanut growers as part of broad financial assistance packages approved for the agricultural sector.[4]

The new program enacted by the 2002 farm bill will first apply to the 2002 peanut crop beginning with harvest, which starts in August, without the price support, poundage quota, and marketing assessment features described below (see **Peanut Program in the 2002 Farm Bill** on pages 12 - 18 for details).

Program Overview

The peanut program's purpose historically has been to support the incomes of peanut producers and ensure ample domestic peanut supplies. Through the 2001 marketing year, it differed from the grains, rice and cotton programs in that USDA did not made direct payments to peanut growers (notwithstanding the supplemental income assistance Congress extended in recent years). Rather, growers' income has been supported primarily through USDA actions taken to manage peanut supplies and by making available the price guarantees set in statute. Unlike the voluntary nature of USDA's grain and cotton programs, the peanut program's features were mandatory on all farmers if those that produced quota peanuts voted to approve poundage quotas. In a referendum held December 1997, 94.8% of those voting favored poundage quotas. As a result, quotas applied to farm marketings of peanuts through the 2001 crop. The following summarizes the main features of the 1996-enacted peanut program.

Price Support. Two levels of price support benefits were available to producers, depending on the end use and destination of the peanuts sold. Benefits were extended in the form of "non-recourse" loans that USDA extended to three areawide marketing associations (see **Program Administration** below). Non-recourse means that an association pledged the peanuts acquired from growers (for which a payment is made) as loan collateral. Peanuts marketed for food use in the United States ("quota" peanuts) were eligible for a high level of price support. Peanuts exported or crushed into peanut oil and meal (referred to as "additionals") were eligible only for a much lower level of support. The higher "quota" support level reflected the historical premium assigned to peanuts sold domestically into the high-value edible use market and covered production costs. The lower support level for additionals reflected the much lower market value of peanuts sold for export or crushing. Operating under complex procedures, each association (under contract with USDA's Commodity Credit Corporation (CCC)) sells and disposes of acquired quota peanuts at not less than specified price levels, and of acquired additionals at

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[4]See **Income Support to Peanut Growers** on page 4.

market prices. To the extent that sales did not cover loan proceeds extended to growers, the difference ("losses") was made up by tapping association "profits," with the remaining losses absorbed by the CCC (until changed by the 1996 farm bill).

As required by statute, the *quota loan rate* for the 1996-2001 crops was frozen at $610 per ton (30.5 cents per pound). This change effectively reduced quota support by 10.1% from 1995's $678.36/ton (33.92 cents/lb.) level. Also, the 1996 farm bill retained the requirement that USDA set the loan rate for additionals at a level that ensures the CCC does not incur losses from their sale and disposal, and that also takes into account demand for peanut oil and meal, expected prices of other vegetable oils and protein meals, and export demand for peanuts. USDA on February 15, 2001, announced that the *additionals loan rate* for the 2001 crop will be $132 per ton (6.6 cents/lb.), the same as for the 2000 crops, but $43 less than the $175 per ton set for additionals marketed from the 1998 and 1999 crops.

Income Support to Peanut Growers. For the 1999, 2000, and 2001 crops, producers were eligible to receive payments intended to partially compensate growers for continuing low commodity prices and increasing costs of production (Table 1). The 1999 crop payment rates spelled out in FY2000 agriculture appropriations (Section 803(a) of P.L. 106-78) were set equal to 5% of the quota or additional loan rate. USDA accordingly disbursed $55 million to eligible peanut growers. Another emergency farm aid package specified the payment rate for the 2000 crop quota and additional peanuts (Section 204(a) of P.L. 106-224). USDA made $61 million available under this provision in spring 2001. A similar provision was included in the farm aid package (P.L. 107-25), signed into law August 13, 2001. It required USDA to disburse $54 million in supplemental payments to peanut growers by September 30, 2001.

Table 1. Peanut Loan Rates and Market Assistance Payments

	Loan Rate	Payment Rate	Total Program Benefit [a]
		dollars per ton	
1999 Crop			
Quota	$610	$30.50	$640.50
Additionals	$175	$8.75	$183.75
2000 Crop			
Quota	$610	$30.50	$640.50
Additionals	$132	$16.00	$148.00
2001 CROP			
Quota	$610	$25.72	$635.72
Additionals	$132	$13.49	$145.49

[a] Loan rate plus payment rate

Supply Management. Two mechanisms limited the amount of peanuts allowed to be sold in the domestic market: the national poundage quota and import restrictions. Both tools served to manage the amount of peanuts supplied for primarily U.S. food use.

Poundage Quotas. A national poundage quota limited the quantity of peanuts that producers sold for domestic consumption (see "buyback" exception below). The national quota was distributed among eligible states based on each state's previous year's share of the quota, and then distributed by "farm" to quota holders based largely on past production history. A producer holding or leasing farm quota received price protection at the high price support level, either by selling to commercial buyers or effectively transferring ownership of their unsold peanuts to USDA's designated marketing agent in return for price support benefits. A farmer could sell peanuts produced in excess of his farm quota(s) (referred to as "non-quota" or "additionals") primarily for export or crushing into peanut oil and meal. A farmer without a quota could produce as much as he wanted, but was required to market them as additionals for export or crushing. However, when quota peanuts fell short in meeting domestic food demand (as a result of lower production due to poor weather and/or of changing manufacturer preferences for peanut type), any farmer could sell additionals as quota peanuts under the "buyback" provision. As producers, shellers, and users adjusted to the new market environment created by the 1996 farm bill changes, buybacks in the 1996, 1997 and 1998 marketing years accounted for a much higher share of domestic peanut sales for food than in previous years (about 10-15% versus 1-3%). Buyback activity in the 1999 and 2000 marketing years fell significantly, apparently in reaction to farmer concern about the losses they were forced to absorb as a result of such activity associated with the 1998 crop.

The 1996 law required USDA to announce a national poundage quota equal to projected U.S. peanut consumption for food and related uses (excluding seed). Use of this quota tool was intended to guard against a surplus, and to eliminate the program's budget exposure. Under previous farm bills, USDA each year was required to set the national quota (defined then to also include seed use) at not less than a specified statutory minimum, even if USDA's projection showed food use would be lower. The 1996 law eliminated the minimum provision. Under the revised definition, USDA on December 13, 2000, announced that the 2001 crop's national poundage quota will be 1.18 million tons (2.36 billion pounds), the same level as set for the 1999 and 2000 quota. USDA's decision to retain the same quota level for the third consecutive year reflected in part its assessment that (1) domestic peanut consumption for food had leveled off, and (2) projected increased peanut imports (allowed to enter under trade agreements) continued to displace domestically-produced peanuts that otherwise would enter U.S. food marketing channels. The 2001 quota level represented a 12.6% reduction from the minimum 1.35 million ton national poundage quota that was in effect for the 1991-1995 crops.

Import Restrictions. With peanuts marketed internationally at a price much lower than the level at which the peanut program supports the U.S. price of food peanuts, the quantity of peanuts and certain products allowed to enter the U.S. market to compete with domestic peanut production is restricted. Under multilaterally and bilaterally negotiated trade agreements, the United States imposes three *tariff-rate quotas* (TRQs) on peanut imports. The TRQ based on General Agreement of Tariffs and Trade (GATT) market access rules permits imports up to a specified level (the in-quota amount) to enter at a "bound," or fixed, tariff. Imports under two bilateral trade agreements enter duty free. Imports above the in-quota in each TRQ also can enter, but are subject to a very high tariff. This high tariff reflects the protective value of the previous small absolute quota. With the high above-quota tariff, foreign-origin peanuts from sources other than Mexico are not expected to be price competitive in the U.S. market for quite some time. Under the three trade agreements, U.S. market access commitments mean that the in-quota amount (compared to the pre-1995 import quota's 1.7 million pounds) is much larger in 2002 — 126 million pounds, rising slightly each year to reach 127.6 million pounds in 2007. Under the GATT agreement, Argentina is allocated an 83% share of the TRQ. Under the North American Free Trade Agreement (NAFTA), Mexico has duty-free access to the U.S. market for Mexican-produced peanuts under a quota that gradually rises through 2008. Afterwards, Mexican-origin peanuts will be allowed to enter in unlimited quantities. Israel had duty-free access for domestically produced peanuts under a small TRQ that expires, unless extended, at year-end 2002.

A separate GATT-based import quota also caps U.S. imports of peanut butter and paste at slightly above the 1993 level. However, imports of peanut butter and paste from Mexico under NAFTA are exempt from this quota, as long as peanuts used in these products are grown in Mexico. In general terms, the GATT-based import quotas are in effect indefinitely; the NAFTA provisions also apply indefinitely unless the United States or Mexico were to withdraw, upon notice, from the agreement.

The 1996- and 2002-enacted peanut programs did not amend peanut import policy under these trade agreements, which continue to be administered under existing Presidential authority.

Marketing Assessments. A budget deficit marketing assessment applied only to marketings of domestically produced peanuts. Imports were not subject to this levy. Assessments collected from growers and "first purchasers" represented the peanut sector's contribution to budget deficit reduction targets, imposed in the early 1990s. The assessment rate for the 1997-2002 crops was 1.2% of the "quota" or "additionals" loan rate, whichever applied. Growers paid 54.2% of the assessment rate; the first buyers' share was 45.8%. Under this requirement, USDA collected about $10-$12 million annually since FY1996 in assessments. As "directed" by Congress in report language in the FY 1999 agriculture appropriations measure, the Secretary of Agriculture in January 2000 decided to apply assessments already collected against the 1996, 1997, and 1998 crops to cover part of the Southeast area marketing association's losses as prescribed under a loss sharing mechanism included in the 1996 enacted program (see **Activation of Loss Sharing Provisions**).

Program Administration and Costs

Three area marketing associations are involved in administering the peanut program, acting as agents for the Commodity Credit Corporation (CCC) — the entity that finances USDA farm programs. These regional associations have kept track of quota and additional peanuts that are sold, offered price support loan benefits to farmers, and arranged for warehousing peanuts brought under loan. The CCC has financed each association's price support operations and overhead costs with funds borrowed from the U.S. Treasury. Separately, county offices of the Farm Service Agency (FSA) have administered poundage quotas, maintained farm data, and performed other functions by dealing directly with producers and quota holders. USDA estimated that FSA field administrative costs associated with loan making and quota management totaled $5.3 million in FY1999.

1995-96 Debate on the Peanut Program

The peanut program enacted as part of the 1996 farm bill largely kept intact the broad outlines of prior U.S. peanut policy, but addressed two issues – the level of price support available for quota peanuts and program cost. In hearings held by the House and Senate Agriculture Committees, growers argued that the program supported rural economies, urged that its basic structure be maintained, and suggested a few changes. Peanut shellers and some peanut product manufacturers, though, argued for significant reductions in the quota price support level. These two groups argued such a change was critical to the long-term survival of the peanut industry, and was needed to reverse declining consumer demand for peanut products. Other food manufacturers and their coalition partners favored outright repeal of the program, arguing government should not play a role in managing supplies and dictating prices. Reflecting these divergent views, House floor debate in February 1996 was particularly intense. The Agriculture Committee's proposed modifications to the existing program were retained by only a 3-vote margin (212-209). The closeness of this vote energized program opponents to press for further change in the floor amendments they offered later in 1996, and again in 1997 and 1998 (see next section).

The final provisions included aspects of the peanut growers' proposal, and a split-the-difference compromise between the 1995 crop's $678/ton quota loan rate and peanut shellers' call for a support level around $550/ton. Reflecting this, the enacted measure reduced price support on quota peanuts marketed domestically 10% to $610/ton. While growers in late 1995 had opposed any support reduction, manufacturers argued that the Committee-proposed reduction was not deep enough to reverse the decline in domestic peanut consumption. Some food manufacturers had argued for an even steeper cut - down to $450/ton.

Peanut Program Legislation in 1997-2001

Bills Introduced in 105th Congress

Representatives Shays and Lowey on June 11, 1997, and Senator Santorum on November 13, 1997, introduced H.R. 1864 and S. 1535, respectively, to phase out the current peanut program at the end of the 2001 crop year. The House bill was similar to the amendment that Representative Shays offered during 1996 farm bill floor debate in February 1996 that was rejected on a 212-209 vote. Both bills proposed to reduce the $610 per ton price support level for peanuts marketed for domestic food use (quota peanuts) to $550 for the 1998 crop, $515 in 1999, $480 in 2000, and $445 in 2001. S. 1535 also required USDA to add carryover stocks to projected domestic food use in determining each year's national poundage quota level, taking into account imports, government purchases, and "buyback" activity. Other provisions permitted the unlimited sale, lease, and transfer of quota across county and state lines; the sale of additionals also for seed, to U.S. government agencies, and for domestic food use to offset projected imports; capping the initial disbursement of loan proceeds to producers at 80% in 1998-2001; and revising the process for sharing loan losses. Beginning with the 2002 crop, both bills would have made available non-recourse loans at not more than $350 per ton. H.R. 1864 would also have authorized loan deficiency payments to be made to producers who choose not to take out non-recourse loans. With both bills proposing to repeal the current supply management system effective October 1, 2001, there would no longer have been any distinction between quota and additional peanuts in administering all price support operations. Supporters of both bills pointed out that the "Depression-era" program was anti-competitive, and restricted who can grow and sell peanuts to a small number of farmers at the expense of consumers. They argued that these proposals provided for a "fair transition period" for farmers and lenders to adjust to a new market, following which the peanut program would operate like most other commodity programs. Supporters of the peanut program countered that changes made by the 1996 farm bill reduced the quota support level by 10% and eliminated all government costs. They questioned the impetus to debate the program each year and argued that the 1996-enacted provisions should be given an opportunity to work.

Another measure (H.R. 1875), introduced by Representative Crane on June 12, 1997, proposed to permit U.S. firms to import Mexican peanuts into free trade zones (FTZs), to be processed into peanut butter and paste for sale in the U.S. market. Duty-free imports of Mexican peanuts are capped under NAFTA, but there is no limit on the amount of peanut butter produced from Mexican peanuts that can enter. According to an AP wire story, the president of the peanut shelling company (which also operates a peanut butter plant) seeking this change said this proposal would have put American companies on equal footing with Mexican peanut butter manufacturers, without forcing them to move to and build new plants in Mexico. Peanut growers countered, saying that the plan would cost farm jobs because Mexican peanuts entering a FTZ would displace American-grown peanuts. Their spokesman pointed out that peanut shellers and manufacturers not located in a proposed FTZ would also have been at a disadvantage.

House Floor Amendments Debated During 105th Congress

In the late 1990s, opponents of the peanut program turned to the appropriations process to pursue their objectives. In House floor debate on the *FY1998* agriculture appropriations measure (H.R. 2160), Representative Neumann on July 24, 1997, offered an amendment that effectively would have required USDA to administer a peanut program for the 1998 crop with a loan rate for quota peanuts not higher than $550 per ton. If enacted, this proposal would have reduced the quota price support level $60 (or almost 10%) from the minimum $610 per ton then available. This amendment drew from a provision in H.R. 1864 that called for the same amount of reduction in quota price support. The House rejected this amendment on a vote of 185-242.

During floor debate, supporters of the amendment argued that the "quota" features of the program limited the supply of peanuts and thus kept the price of peanuts paid by consumers higher than would be otherwise. Members mentioned that the domestically-supported price was almost twice the world price of peanuts, in part because of the added costs that producers incurred in acquiring and/or renting quota. Two members added that USDA's implementation of the 1996 farm bill's program had "created an artificial government-induced shortage" of peanuts — an example of "Government price fixing" that ignored consumer interests. Others argued that the program benefitted an "elite few" — those who owned 68% of the quota nationwide (according to GAO's 1993 report) due to inheritance or purchase but that did not farm peanuts themselves. As a result, they claimed the program supported quota holders at the expense of consumers and taxpayers.

The amendment's opponents countered that the 1996 changes ended direct taxpayer support of the peanut program (saving $434 million over 7 years) and made it market oriented. Several mentioned that the government's "contract" made in the 1996 farm bill provided peanut growers with a safety net that should not be violated and should be allowed to work as enacted. It was pointed out that growers already had to adjust to a 10% reduction in their support price and must live with that level now for 7 years without any adjustment for inflation. Several argued that the proposal represented an effort by large "greedy" food corporations to increase their profits at the expense of small family farmers and rural communities, claiming that consumers would not see cheaper peanut butter and candy bars. It was further noted that even though farmers have already experienced a price cut, manufacturers have not "passed on one penny" of savings to household consumers.

During House floor debate on the *FY1999* agriculture appropriations measure (H.R. 4101) on July 23, 1998, Representative Neumann again offered an amendment that would have required USDA to administer a peanut program for the 1999 crop with a loan rate for quota peanuts not higher than $550 per ton. In the debate that followed, many of the arguments made in 1997 were again presented. The House rejected this amendment on a 181- 244 vote.

Legislative Activity in 106th Congress

Bills Introduced. Senator Santorum on April 14, 1999, introduced S. 802 (slightly different from S. 1535 offered in the 105th Congress) to phase out the current peanut program at the end of the 2001 crop year. Representative Shays introduced an identical bill (H.R. 2571) on July 20, 1999. These measures would have reduced the authorized $610 per ton price support level for peanuts marketed for domestic food use (quota peanuts) to $550 for the 2000 crop and $500 for the 2001 crop. Quotas would have been eliminated for the 2002 and subsequent year crops. Starting in 2002, all peanuts produced would have been eligible for non-recourse loans at not more than $350 per ton. A new section would have amended the National School Lunch Act to require (upon enactment) that peanuts and products purchased by USDA for donation under six nutrition programs be bought at prevailing world market prices, and that such purchases be only of additional (non-quota) peanuts. The bill's supporters argued that the proposed changes would "correct the inequities of the peanut quota system," result in a price support program similar to that available for other crops, and enable USDA to purchase lower-priced peanuts for its nutrition programs. Another measure (H.R. 2598, introduced by Representative Wu on July 22, 1999) proposed to end the peanut program, effective October 1, 1999.

Peanut growers and product manufacturers met in May 1999 and reportedly agreed to not battle out their differences in Congress. Reflecting this truce, no amendment to alter the peanut program was offered during House and Senate consideration of their respective *FY2000* agriculture appropriations bills (H.R. 1906; S. 1233). A similar agreement affecting consideration of the *FY2001* agriculture spending bill reportedly also was struck between growers and manufacturers.

Floor Action. The FY2000 agriculture appropriations measure included as part of a broad farm aid package, payments for producers of the 1999 peanut crop as compensation for low commodity prices and continued increases in peanut production costs (section 803(a) of P.L. 106-78). Payments were made to producers on produced quota or additional peanuts equal to 5% of the loan rate set for each peanut category. A similar provision to provide payments to growers harvesting the 2000 crop was included in the 2000 farm aid package approved by Congress (section 204(a) of P.L. 106-224).[5] Taxpayers rather than peanut product manufacturers covered the cost of these income transfers; the payments made by the U.S. Treasury to producers had no direct impact on the price that peanut shellers and food manufacturers paid for peanuts. Separately, to address the impact of 1999 program losses on Southeast growers, section 2102 of P.L. 106-246 provided a mechanism for USDA to cover the balance of these losses, to be paid back by growers in future years (see next section).

Activation of Loss Sharing Provisions

Producer concern about the financial impact that activation of the 1996-enacted loss-sharing provisions would have on their returns from the 1999 peanut crop led USDA and Congress to adopt remedies in 2000. More recently, the expectation that Congress will enact a much different peanut program effective with the 2002 crop affected the marketing of 2001 quota peanuts. This development is expected to result in a substantial reduction in the returns that peanut growers receive for the 2001 crop, and may prompt some to again seek comparable relief.

As background, losses in the Southeast associated with a higher-than-average portion of the 1999 crop placed under quota loan triggered all eight of the peanut program's loss sharing provisions.[6] Because these losses were substantial (projected

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[5]See **Income Support to Peanut Growers** on page 4 for details.

[6]The pre-1996 "area cross-compliance" provision served to reduce the program's cost to the federal government (i.e., as area association and/or CCC-owned peanut inventories were sold) by requiring producers to offset some of this cost under a complex process. In practice, sharing losses had pitted regions against each other, as well as growers of additionals against those that primarily sold quota peanuts. The eight-step process added by the 1996 farm bill expanded upon and re-prioritized the order in which any losses in an area quota pool were to be covered. These provisions are found in section 155(d) of the

(continued...)

to reach $60 million), USDA in late 1999 faced pressure from growers to apply the marketing assessment funds collected in the 1996-98 period to cover in part these losses. Growers of quota peanuts expressed concern that if the last loss sharing provision was triggered, they would face paying an assessment of up to $95 per ton for every ton of 2000 crop quota peanuts marketed, according to USDA estimates. Further, language in the FY2000 agriculture appropriations conference report "expect[ed]" USDA to use funds collected but not yet transferred to the U.S. Treasury to offset these losses. To address this issue, Secretary of Agriculture Dan Glickman on January 10, 2000, approved the use of $28 million to reduce projected 1999 losses, which in turn, reduced the assessment that Southeast growers faced paying later in 2000. Even with this decision, assessment funds collected during FY2000 were not expected to cover the balance of expected 1999 quota peanut losses ($32 million). As a result, quota growers in the Southeast region faced the prospect of paying an additional assessment in 2000/01. Because such a payment would have cut into grower income received in the 2000/01 marketing year, some groups advocated the option of designating the assessments collected in future years to cover 1999 losses. This approach was reflected in a provision included in P.L. 106-246 (section 2101 of Title II, chapter 1) that directed USDA to borrow from the Commodity Credit Corporation to cover the balance of these losses. At that time, growers were expected to pay off this "loan"as the CCC collected marketing assessments from them in 2000, 2001, and 2002 until the entire amount was repaid.

A similar situation has again developed with respect to the 2001 crop. High peanut yields contributed to a 30% increase in production compared to 2000. Though USDA expects domestic food consumption (primarily filled by quota peanuts) to recover somewhat in the 2001/02 marketing year, the prospect of much lower peanut prices under the new program anticipated last fall to be authorized in the 2002 farm bill (see below) encouraged buyers to minimize their inventory. Anticipating that prices in the 2002/03 season could be about half of this year's level, shellers cut back on purchases of 2001 crop quota peanuts. Reflecting the decline in the price of quota peanuts, farmers in the Southeast as of late January 2002 had placed about 20% of their quota peanuts under loan. With no buyers for this sizable quantity of high-priced peanuts, the prospect has increased that producers will experience a loss as the areawide marketing associations sell these peanuts at much lower prices into the export or crushing markets. As the loss sharing provisions take effect, available resources (including the marketing assessments collected and intended to repay 1999 crop losses) will not be sufficient to cover projected losses. According to one estimate, the financial loss that growers in the Southeast face ranges between $140 to $180 per ton, if the eighth loss sharing provision is activated. Peanut producers in other producing regions also reportedly face absorbing losses, which are expected to be much lower – under $10 per ton.

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[6](...continued)
1996 farm bill (P.L. 104-127; 110 Stat. 924-925; 7 U.S.C. 7271(d)). Though complex, these changes in the process to be followed to cover losses within and between associations were intended to place greater responsibility for absorbing losses on those individual producers and regions that actually generate them. Depending on other decisions that USDA makes, the cumulative impact of this prioritized loss-sharing mechanism was intended to bring program costs down to zero.

Legislative Activity in 107th Congress

Peanut Program in the 2002 Farm Bill

The 2002 farm bill provides for a radically new peanut program framework (sections 1301-1310 of P.L. 107-171, the Farm Security and Rural Investment Act of 2002). The completely overhauled program repeals the quota system in place since the 1930s that limited the amount of peanuts allowed to be marketed for domestic food use, replacing it with an approach similar to that found in the programs available for other crops that extend price and income support to producers. The new peanut program replaces the revenue that the prior supply management structure (using farm-level quotas) with its high level of price support had guaranteed farmers, with a large infusion of direct government payments. The Congressional Budget Office (CBO) has estimated that the new program will cost almost $2.9 billion over the farm bill's authorized six-year period.

The enacted peanut program effectively transfers the cost of the peanut program from consumers (primarily food manufacturers) to the federal government. Under the pre-2002 policy, manufacturers paid higher prices for food-use peanuts because of the program's two-tier price support structure, a restrictive import quota that protected the peanut production sector from foreign competition, and the restriction on the sale of domestically produced peanuts for U.S. food use by farmers with no quota.

Major Provisions of the New Program. The 2002 farm bill completely restructures the previous peanut program to make available to growers of peanuts the same type of price support and income subsidy benefits that producers of wheat, feed grains, cotton, rice, and soybeans will also receive. The three components of the redesigned peanut program are:

- marketing loan benefits (non-recourse loans or corresponding payments),
- fixed direct payments, and
- counter-cyclical deficiency payments.

Table 2 provides the level of program benefits available under each component. Benefit eligibility and additional details on each component are described in the following sections. According to the farm bill's timetable, USDA will make the first direct and counter-cyclical payments to historic peanut producers this fall.

Another significant program feature are the peanut program payment limits that will apply per farm or per individual. These are separate and in addition to the limits that apply to payments made per farm on the production of other eligible crops. All but one of the enacted provisions apply to the 2002 to 2007 crops.

As part of this historic restructuring, the 2002 farm bill will compensate owners of the peanut quota, many of whom are not peanut farmers, for the loss of an income-producing asset.

Table 2. Program Benefit Levels Available to Peanut Farmers and Historical Peanut Producers: 2002 Farm Bill, for the 2002-2007 Crops

POLICY OBJECTIVE / *PROGRAM TOOL*	*$ per ton*	*¢ per pound*
Price Support / *Loan Rate*	355	17.75
Basic Subsidy / *Direct Payment*	36	1.80
Supplemental Income Subsidy / derived relative to *Target Price* of	495	24.75

Eligibility for Program Price and Income Support Benefits. Under the new program, all producers of peanuts will be eligible to receive marketing loan benefits on each year's crop. However, only historical peanut producers (e.g., those who were actively involved in planting and harvesting peanuts in the 1998-2001 period) will be eligible to receive direct payments and counter-cyclical assistance each year, irrespective of whether or not they continue to produce peanuts. These payments will be made on past production on historical acreage, not on current production (see **Formula for Calculating Payments** below).

Marketing Loan Benefits. Any peanut farmer will be eligible for non-recourse marketing assistance loans and loan deficiency payments, calculated against a loan rate of $355 per ton for <u>all</u> peanuts produced. In practice, a producer would pledge harvested peanuts as collateral to obtain a non-recourse loan at this rate from the Farm Service Agency or other designated entities. The availability of such a loan effectively provides operating capital to the producer until the loan is repaid one of three ways: (1) with interest within 9 months if the market price is above the loan rate, (2) without interest at a USDA-determined price ("loan repayment rate") if market prices are below the loan rate, or (3) by the transfer (forfeit) by the producer of the pledged peanuts to the CCC as full settlement of the loan at the end of the loan term with no penalty. Under the second option, the difference between the USDA-determined price and the loan rate received by the producer is called a marketing loan gain. Provisions stipulate that USDA must set this loan repayment rate at a level that minimizes loan forfeitures, the accumulation of peanut stocks, and USDA storage costs; and allows U.S.-produced peanuts to be marketed freely and competitively both domestically and internationally. Alternatively, instead of taking out a non-recourse loan, a producer may elect to receive a loan deficiency payment that is equal to the marketing loan gain.[7]

Fixed Direct Payments. A producer with a history of producing quota and/or additional peanuts will receive annual fixed direct, payments of $36 per ton. These payments (not linked to either current production or prices) will be similar to the production flexibility contract payments first made to producers of wheat, corn

[7]For additional background on this price support mechanism, see CRS Report 98-744 ENR, *Agricultural Marketing Assistance Loans and Loan Deficiency Payments*.

and other feed grains, cotton and rice under the 1996 farm bill,[8] and modified somewhat by the 2002 farm bill. Payments will be made only to a farmer who grew peanuts in 1998-2001, even if he now or in the future decides not to produce peanuts and/or shifts to grow other permitted crops. The amount of the payment made to an eligible farmer will be the same each year for the program's duration, and be based on a statutory formula (see Table 3 and **Formula for Calculating Payments**).

Counter-Cyclical Income Assistance. A producer with a history of producing quota and/or additional peanuts will also receive supplemental income subsidies in the form of "counter-cyclical" payments each year when the "effective price" is less than the "target" price of $495 per ton. These payments are designed to provide more government support when peanut prices decline, and less income support when prices improve. They are intended to automatically supplement other subsidies available under the new program, such as marketing loan benefits and fixed direct payments. Counter-cyclical payments (subject to a reduction for direct payments received) will be triggered when the national average market price for peanuts is below $495 per ton. Payments will be made only to a farmer who grew peanuts in 1998-2001, even if he now or in the future decides not to produce peanuts and/or shifts to grow other permitted crops. The amount of the deficiency payment made to an eligible farmer will be the same each year for the program's duration, and be based upon a statutory formula (see Table 3 and **Formula for Calculating Payments**).[9]

Formula for Calculating Payments. Three factors will be used to calculate the amount of fixed direct and counter-cyclical payments that each historic peanut producer will receive. Payments will be equal to a recipient's farms' payment yield, multiplied by 85% of his farms' average peanut acres (defined as "payment acres"), further multiplied by the program component's payment rate (Table 3). USDA will derive each recipient's average yield and acreage factors, using available data showing the peanut yield and acreage planted to peanuts or prevented from being planted for each of a producer's farms in the 1998-2001 crop years. Once calculated, each historical producer will have a one-time opportunity through March 31, 2003, to assign these yield and acreage results to cropland on a farm of his choice. Payments based on this formula will be made only to historic peanut producers, even if they decide not to grow peanuts or shift to producing another permitted crop.

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[8]The Agricultural Market Transition Act (AMTA, Title I of P.L. 104-127) offered multi-year production flexibility "contracts" to producers with land previously enrolled in a target price deficiency payments program for these crops. AMTA earmarked a specific amount of funds for contract payments to be made over 7 years in fixed but declining annual amounts, and was intended to stabilize and constrain commodity program entitlement spending. The objective was to break the tie between payments and: market prices, the planting of a specific crop, or annual cropland diversion requirements. Payments to an individual participant were based on his established acreage and yield (per-acre output) under the old programs. The rules allowed a participant starting in 1996 to plant almost any combination of crops on contract acreage. The only other restrictions affecting producer eligibility were that contract land must be used for agricultural purposes, that fruits and vegetables generally cannot be produced on such land, and that conservation rules must be followed.

[9]For additional background on this policy tool, see CRS Report RS20913, *Farm "Counter-Cyclical Assistance"*.

Table 3. Factors for Calculating Annual Payments to a Historical Peanut Producer

	Recipient's Payment Yield [a]	
X	Recipient's Payment Acres (Peanut Acres [b] x 85%)	
X	Payment Rate Equal to	
	$36 per ton	the Effective Price, derived as: (1) the difference between the target price of $495 per ton, and (2) the national average market price, **or** $391, [c] **whichever is higher**
=	DIRECT FIXED PAYMENT	COUNTER-CYCLICAL PAYMENTS

[a] The average of the peanut yield (pounds per acre) associated with each of a producer's farms in the 1998-2001 crop years, excluding any year in which production did not occur.
[b] The average of the planted acreage associated with each of a producer's farms in the 1998-2001 period, including any acres prevented from planting because of a natural disaster or condition beyond the producer's control.
[c] Equal to the loan rate ($355) per ton plus the fixed decoupled, or direct, payment rate of $36 per ton.

Quota Compensation. Holders of peanut quota in 2001 will be compensated at the annual rate of 11¢ per pound, or $220 per ton. Over the five years of authorized compensation, quota holders will receive 55¢ per pound, or $1,100 per ton. These payments are intended to compensate owners for the loss of an income-producing asset that they either inherited or purchased. The conference agreement permits any holder the option to receive this compensation in the form of one lump sum payment. About two-thirds of the quota compensation is expected to be paid out to individuals and entities that did not themselves produce peanuts, but instead rented quota in 2001 to other farmers.[10]

Payment Limitations. Because the new peanut program replaces the high market prices guaranteed by the quota feature of the previous peanut program with marketing loan benefits and payments, the issue of payment limits received considerable attention as conferees sought to resolve differences between House and Senate provisions. Since many peanut producers also grow other crops in rotation with peanuts and receive payments under these other commodity programs, the terms of and the payment limit level set in the 2002 farm bill affected their view of how they might fare under a radically restructured peanut program. In other words, decisions legislated on these matters would affect the maximum amount of

[10]This breakdown is based on the results of a 1991 cost-of-production survey, which showed that two-thirds of the peanut poundage quota then was rented, and that producers owned about one third of the quota. U.S. Department of Agriculture, Economic Research Service, *Peanuts: Background for 1995 Farm Legislation*, April 1995, pp. 2, 14.

government payments and loan benefits that farm operations that grow peanuts would receive under any policy change.

The House peanut program explicitly provided (section 169 of H.R. 2646) that the limits on peanut program payments to an individual and/or entity would be *separate and in addition to* the aggregate limit now in place on payments made under all of the grains, cotton, and oilseeds programs. Recipients of peanut program payments would be subject to the same rules and eligibility criteria (i.e., the three entity rule, spouse allowance, use of marketing certificates) that applied to producers receiving payments for other crops. The Senate farm bill (section 169 of S. 1731), by contrast, proposed to subject the payments of all eligible crops (including peanuts) to *one combined* annual limit per individual and/or entity. It also would have tightened the rules and eligibility criteria for receiving program payments. Both measures explicitly stipulated that the quota compensation payments proposed for peanut quota owners would not be subject to either set of payment limits and conditions.

The House approach calling for a separate peanut payment limit acknowledged that some larger farm operations (e.g., those that grow both cotton and peanuts) would very quickly reach the current payment limit. To ensure that the peanut producing portion of these large farms could fully benefit from payments available under the proposed new program, proponents succeeded in including a separate limit for peanut payments. Senate-approved provisions, however, included a lower aggregate limit and more stringent eligibility criteria on payments made to an individual/entity or married couple under all commodity programs (including the new peanut program). The Senate position reflected the philosophical view that the raising of payment caps and liberalizing of eligibility rules over time (i.e., to circumvent them, according to supporters of limits) has encouraged the growth of large farms and helped to drive small- and mid-sized farms out of business. Those opposed to this trend further argued that farm programs have benefitted most a small group of large producers and a large number of absentee landlords who need aid the least.[11] To counter the Senate provisions, House opponents argued the lower limits would make the new peanut program "ineffective." Their view is that large peanut/cotton operations would not be able to fully maximize benefits under both programs if the Senate provisions become law.

In final action, farm bill conferees agreed to make the payment limits *separate and in addition to* the same limits that will also apply to payments made under the grains, cotton, and oilseeds programs that a peanut producer can receive if eligible for them. The limit on peanut program payments, and also separately under the other "program" crops, is $180,000 per person, per year (or $360,000 under the 3-entity and spouse allowance rules). Benefits are higher for those operations that use commodity certificates and loan forfeiture gains to access additional marketing loan

[11]For additional information, see CRS Report RS21138, *Farm Commodity Payment Limits: Comparison of Proposals*, and CRS Report RL31272, *A New Farm Bill: Comparing the House and Senate Proposals with Current Law*, April 12, 2002, pp. 9-11.

Table 4. Commodity Program Payment Limits and Peanuts: Comparison of Previous Law to the 2002 Farm Bill Conference Agreement

	PREVIOUS LAW	CONFERENCE AGREEMENT
Overview	Not applicable to peanuts	Peanut payment limit is separate and in addition to the limit on grains, cotton, and oilseed program payments.
Marketing Loan Benefits [a]	$150,000	$75,000 [b]
Fixed Decoupled, or Direct, Payments	$80,000	$40,000
Counter-Cyclical Payments		$65,000
Total Per Person	$230,000	$180,000
3 Entity Rule / Spouse Allowance	$230,000	$180,000
Total Limit	$460,000	$360,000 [c]

Note: See footnotes 10 and 11 for sources of additional information

[a] Marketing loan gains and loan deficiency payments.
[b] There is no practical limit, in that a producer can use commodity certificates and loan forfeiture gains to bypass the stated limitation.
[c] To illustrate, a large peanut and cotton farm would be eligible for payments equal to double the amount shown for each type of payment and rule. A very large operation producing both crops (and organized to maximize the receipt of program benefits) would be eligible for $720,000 in payments. However, with no effective limit on marketing loan benefits (see footnote b), payments under the cotton and peanut programs can be higher than this limit.

benefits. Table 4 provides a breakdown of the newly-authorized payment limitation (by category), and compares them to the prior law's limits for program crops.[12]

Program Cost. Converting the pre-2002 peanut program to one designed to operate similar to the price and income support programs for other crops will involve considerable budgetary expense. The Congressional Budget Office (CBO) projects that the 6-year cost of the enacted peanut program (relative to the April 2001 baseline) will be $2.87 billion (Table 5). Over the 10-year budget period used to score the farm bill, CBO projects the new program will cost $3.9 billion.

Over the farm bill's authorized 6-year period, the quota compensation component will account for 45% of the peanut program's entire cost. If the amount authorized to compensate quota owners is excluded from this cost projection, current and historic peanut producers will receive an average $249 million annually in

[12]For more on this issue, see the CRS Agriculture Policy and Farm Bill Electronic Briefing Book page entitled "Commodity Program Payment Limits Under the 2002 Farm Bill."

payments and marketing loan benefits. Concerned that growers would have to absorb the storage costs associated with peanuts placed under loan, farm bill conferees addressed this issue by directing USDA to use CCC funds to pay storage, handling, and related costs through the 2006 peanut crop. CBO estimates budget outlays for such storage costs will total $74 million.

Table 5. Cost of Enacted Peanut Program (compared to April 2001 Baseline)

	Six Years (FY2002-2007)	Ten Years (FY2002-2011)
	millions of $	
Marketing Assistance Loans	287	495
Counter-Cyclical Payments	828	1,435
Direct Payments	378	628
Storage Costs	74	74
Treatment of Crop Insurance Policies for 2002	3	3
Subtotal, Program Benefits	1,570	2,635
Quota Compensation	1,300	1,300
Total	2,870	3,935

Note: Peanut program costs (excluding quota compensation payments) are expected to be about $500 million more during the FY2002-2006 period than shown in this table, according to an estimate prepared by CBO using its most recent (March 2002) baseline.

Source: Congressional Budget Office, May 1, 2002 estimate

Rationale for Policy Change. The enacted peanut program is based on the approach offered by a coalition of peanut farmers from the Southeast and west Texas who had concluded that the program structure in place for more than 60 years could not be sustained for political and economic reasons. This group was concerned that the quota system could not be defended much longer against opponents (food manufacturers and those ideologically opposed to government management of a food commodity) who had sought for many years to "reform" the program. These farmers also realized changes were needed to address competitive pressures from increased peanut and related product imports under U.S. commitments made in current trade agreements (particularly under NAFTA, which has opened the U.S. market to Mexican origin peanuts, peanut butter, and peanut products). Peanut shellers and food manufacturers supported this change, viewing the coalition's proposal as accomplishing their longstanding objective of reforming the peanut program and gaining access to lower-priced peanuts.

Peanut growers from the Southeast, central Texas and the Virginia-North Carolina region opposed to the marketing loan concept, however, advocated another approach they felt would better stimulate consumption of U.S.-produced peanuts. They favored continuing a two-price system, and making a few changes to the quota program. Under their proposal, producers that sell quota peanuts would have received price support at a higher level than available under the quota program. Purchasers, though, would have been able to buy these peanuts at the much lower world price, and USDA would have made up the difference. To illustrate, if the farm bill set the support price at $650 per ton and the world price was $350 per ton, USDA would have covered the difference with a $300 per ton payment to the farmer.[13]

Both groups developed their respective proposals to facilitate their desired policy change seeing the opportunity to tap the additional $73.5 billion in multi-year budget resources made available by the FY2002 budget resolution for agricultural commodity programs.

Adding pressure for change, House opponents of the program signaled in mid-June 2001 they would introduce their proposal (H.R. 2164) during farm bill debate if the House Agriculture Committee did not "reform" the peanut program. Their bill proposed to reduce the loan rate for all peanuts to not more than $350 per ton by 2004 (i.e., 43% below the $610 per ton loan rate for quota peanuts), repeal the quota system altogether starting with the 2004 crop (with no compensation to quota holders), and require the Secretary of Agriculture to purchase peanuts and peanut products for nutrition programs at a lower price. H.R. 2164 would have substantially reduced the level of program benefits available to peanut farmers and quota owners, and thereby benefitted consumers (primarily food manufacturers), who would pay a lower price for peanuts. Other changes proposed in H.R. 2164 would have largely eliminated program costs after 2004.

Floor Consideration. Members offered five amendments during floor consideration to modify the House and Senate Agriculture Committee's reported farm bill (H.R. 2646; S. 1731). Some addressed regional issues, one focused on the divisive issue in Georgia over whether quota owners were being fairly compensated for the loss of their quota, while others sought to clarify the future relationship between peanut growers and other key participants in the peanut industry. One Senate amendment proposed to terminate the peanut program after 2005.

The House by voice vote on October 3, 2001, agreed to an amendment offered by Representative Stenholm to retain a role for the area marketing associations[14] in administering the new program. Representative Etheridge on October 4 proposed to raise the target price against which counter-cyclical payments would be calculated from $480 to $500 per ton. He subsequently withdrew his amendment. Senator Inhofe on February 12, 2002, proposed to start the new program with the 2003 rather than 2002 crop; he later withdrew his amendment. The Senate by voice vote also on February 12 agreed to an amendment offered by Senator Miller to increase the quota compensation rate from 10 to 11 cents per pound (modified from an earlier proposal to raise the rate to 12 cents/lb.), to clarify the role of area marketing associations with

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[13]This description is based on "Peanut Policy Update," May 7, 2001, by Nathan B. Smith, University of Georgia Cooperative Extension Service.

[14]See **Program Administration and Costs** on pages 6-7 for background on these associations.

respect to peanut storage and the handling of peanut "marketing pools," to subject the imposition by these associations of certain overhead expenses and by other loan servicing agents of storage costs to a state-level referendum vote by historic producers, and to require that all peanuts placed under a marketing assistance loan be subject to state or federal inspection and grading, among other changes.[15]

Senator Lugar offered an amendment that would have completely phased out the peanut program (together with the current income and price support provisions for other commodities) after the 2005 crop. The level of price support would have been "progressively and uniformly" lowered starting with the 2003 crops and reach zero in 2006. During this period, USDA would have increased the quota in phases to anticipate its elimination effective with the 2006 crop. Price support would have been replaced with vouchers of up to $30,000 made available annually through 2006 to any producer who signed a "risk management contract," and undertook specified risk management activities. Examples include buying whole farm revenue insurance and/or contributing to a whole farm stabilization account. This voucher system would have applied to all commodity (and not just peanut) producers. His proposal was defeated (70-30) during Senate farm bill floor debate on December 12, 2001.

Conference Action. House and Senate negotiators charged with resolving differences between the peanut provisions in their respective farm bills considered them in an atmosphere of mounting pressure in March and April 2002 that they also reach decisions on various far-reaching issues so that final provisions apply to the 2002 crops. Farmers and their lenders, facing planting and financing decisions, expressed concern over whether the quota program or the radically different new program would apply to the 2002 crop that was about to be planted. In south Georgia, this usually begins in early May. Further, program-specific issues that conferees debated included settling upon the level of budget resources to allocate for the proposed peanut program change, reaching agreement on differences over the level of program benefits (i.e., price support, income assistance, and quota compensation levels) to provide, and determining the payment limits and accompanying terms that should apply to the financial benefits that peanut producers receive under the new program.

House and Senate conference leaders on March 19, 2002, reportedly agreed to allocate $2.6 billion for the peanut, sugar, and dairy program provisions added by the Senate's farm bill. Of this total, one account mentioned that they had set aside $500 million for the higher 10-year costs associated with the Senate's peanut program.[16] This issue of budget resources for the new peanut program remained in flux until conferees reached final agreement on a multitude of farm bill provisions on April 30.

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[15]In the farm bill conference, negotiators retained the Stenholm amendment, accepted Miller's increase in the quota compensation rate to 11 cents per pound, and addressed the other issues raised in the Miller amendment by authorizing CCC funding to cover storage costs for peanuts placed under loan, and subjecting <u>all</u> peanuts marketed in the United States to one uniform set of inspection and grading standards.

[16]AgWeb.com, *Inside Washington Today*, "Update: Several steps back for farm bill 'progress'" by Jim Wiesemeyer, March 27, 2002.

Analyses of New Program. A General Accounting Office (GAO) analysis of the House Agriculture Committee's approved peanut program showed that new and existing producers would benefit more from the new support mechanisms than they would under a continuation of the quota program and its relatively high support level. Its report stated that peanut shellers, food manufacturers, and consumers would pay less because of the much lower support level. The lower prices, though, would be offset by a substantial increase in USDA outlays to maintain producer income. GAO also expected that the new support measures will reduce incentives for increased imports.[17]

An initial analysis by USDA's Economic Research Service similarly points out that the production incentives created by the 2002 farm bill's peanut and other commodity programs "will vary among different types of producers" (e.g., whether a farmer had produced primarily quota peanuts or produced additional peanuts, or whether the farmer has no history of peanut production).[18] The factor identified as key in influencing if a farmer plants peanuts is whether expected program benefits and/or the projected peanut market price cover the variable costs associated with producing peanuts.[19] Another issue some farmers will consider (looking at both market prices and program benefits) is whether producing peanuts results in higher returns compared to producing other crops.

Some observers expect that peanut producers, shellers, and food manufacturers will proceed cautiously in adapting to the peanut program changes. Since sales of peanuts in the United States have never been subject to the same market forces that other crops have been for years, analysts can only speculate at this time what the farm and wholesale price of food-use peanuts might be, and how that will over time affect producers' and users' decisions on producing and purchasing peanuts, respectively. Observers will also be watching to see the extent to which food manufacturers (operating in a new program and marketing environment) pass on savings from paying much less for peanuts to retail consumers.

Other Legislative Action

The FY2001 emergency farm aid package enacted by Congress and signed by the President on August 13, 2001, authorized market loss payments to peanut farmers. Section 3 of P.L. 107-25 (H.R. 2213) provided $54.21 million in supplemental payments to growers that had produced 2001 crop quota and additional peanuts. Section 11 required USDA to make these supplemental payments by September 30, 2001. The impact of these payments on overall support of peanut producers is reflected in Table 1.

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[17] *Peanut Program: Potential Effects of Proposed Farm Bill on Producers, Consumers, Government, and Peanut Imports and Exports,* GAO-01-1135R, September 26, 2001.

[18] USDA, ERS, "Farm Bill 2002: Analysis of Selected Provisions: Peanuts," June 21, 2002 (available on the Web at [http://www.ers.usda.gov/Features/FarmBill/Analysis/peanut2002act.htm]).

[19] Variable costs are the out-of-pocket cash expenses paid for inputs unique to the commodity being produced. Variable expenses depend on production practices and on quantities and prices of inputs. These include inputs such as seed, fertilizer, feed, chemicals, and hired labor.

Additional Reading

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