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Peanut Backgrounder

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Abstract

Like producers of other agricultural commodities, U.S. peanut growers in recent years have confronted pressures from market forces and the impacts of policy developments, both domestic and international. Most notably, peanut policy was transformed in 2002 by the elimination of a decades-old marketing quota system. This policy step represented a fundamental change that was accompanied by substantial adjustments in the peanut sector, such as major shifts in production area. While demand growth since has been encouraging, strong production growth has contributed to an increase in peanut supplies and at least a short-term increase in government outlays for income support and storage costs. The prospect of further changes to the peanut program is a source of uncertainty due to Federal budget pressures and the potential implications of existing trade agreements and ongoing Doha Round world trade negotiations.

Keywords: Peanuts, farm policy, marketing quota, trade, adjustment, tariff-rate quota, Farm Bill, ERS, USDA

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Introduction

In 2002, peanut policy was transformed by the elimination of a decades-old marketing quota program (see box, “How the Marketing Quota Program Worked”).¹ This policy step represented a fundamental change that was accompanied by substantial adjustments in the peanut sector, such as major shifts in production area (fig. 1). Peanut producers now operate under the same set of core government programs as most other major field crops and face many of the same concerns as other agricultural producers, such as managing price and production risk. They also face some unique challenges associated with domestic farm policy and trade agreements.

While domestic demand prospects are bright, the outlook for peanut farm incomes is tempered by higher supplies and falling prices, greater competition in export markets, and some limited potential for higher imports as the full impact of regional trade agreements unfold. From a policy perspective, the lack of cash markets and price information has made implementing some provisions of the new program more difficult, and the prospect of further changes to the program is a source of uncertainty due to Federal budget pressures and the potential implications of ongoing Doha Round world trade negotiations. Because the historic policy change remains fresh in the minds of those in the peanut sector, their perception of potential changes under new farm legislation is likely to be framed by the recent experience of transitioning to a more market-oriented system.

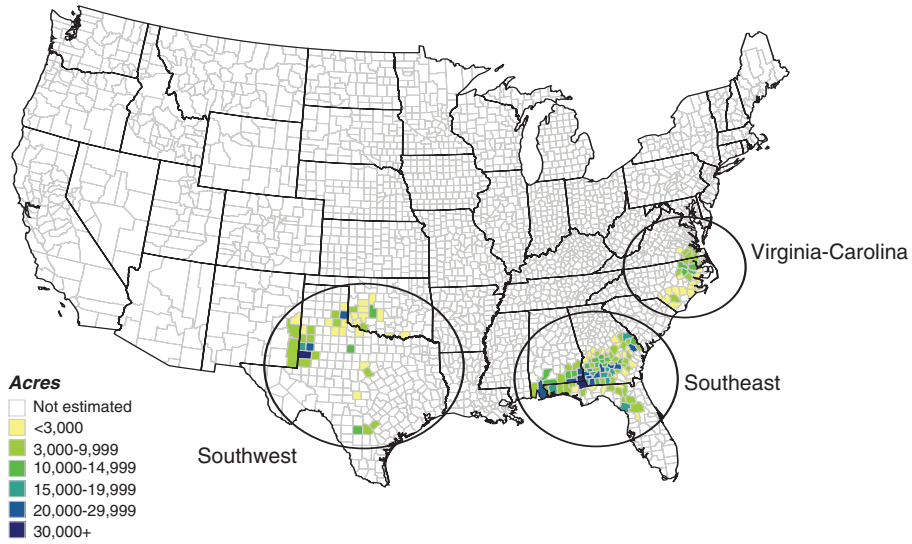
How the Marketing Quota Program Worked

The marketing quota system was a price support program that placed a limit on the amount of peanuts that could be produced and sold in the domestic market for food uses, such as peanut butter, snacks, and peanut candy. These peanuts were referred to as “quota peanuts” and the rights to sell them were allocated among roughly 70,000 quota owners who farmed or leased the quota on about 9,000 peanut farms at the time the program was ended. Under the former system, peanuts produced in excess of quota (“additional” peanuts) had to be either exported or diverted into the lower value crush market for peanut oil and meal. The quota level was established annually by USDA based on anticipated demand and then distributed among quota owners. The quota allocations were based upon area (acres) allotments originally established in 1949, which limited the amount of area each eligible farmer could plant to peanuts. The acreage allotments were converted fully to volume (poundage) quotas in 1981 to prevent excess production stemming from yield increases.

Peanut producers who owned or rented quota rights were assured of receiving relatively high prices based on a government-established “quota loan rate” of \$610 per ton during 1996-2001. Producers not controlling quota rights or who produced in excess of their quota were guaranteed only a lower “additional” loan rate of \$132 per ton. These peanuts were typically grown under contract for export at world prices (\$320-\$460 per ton). With the higher price of quota peanuts passed along to consumers, the program was intended to operate at no direct cost to the Government. The 2002 Farm Act shifted program costs from peanut consumers to all taxpayers.

¹The marketing quota program consisted of two loan rates and a limit on the quantity of peanuts eligible for the higher of the two loan rates. The limit was based on an annual determination of the quantity of peanuts projected to be used in the domestic market.

Figure 1
Acres planted to peanuts by county, 2004



Source: National Agricultural Statistics Service, USDA, "Agricultural Charts and Maps," available at <http://www.usda.gov/nass/aggraphs/crops.htm>.

Current Policy Overview

Commodity Program Provisions of the 2002 Farm Act

Until 2002, peanuts were among a small group of U.S. commodities with supply controls managed by marketing quotas. The peanut marketing quota program originated during the Great Depression as an effort to stabilize grower incomes, but the 2002 Farm Act ended this longstanding price support system. As part of the new program, peanut quota owners received quota buyout payments, and peanut producers are now eligible for the same kinds of government payments available to grain, oilseed, and cotton producers. These payments include marketing assistance loans on current production, and fixed direct payments and countercyclical payments for farmers with peanut base acres.² With the program change, farmers no longer face restrictions in marketing their peanuts. The 2002 Farm Act governs Federal farm programs over a 6-year period (2002-07) and includes the following provisions for the peanut sector.³

Marketing Assistance Loans

Current peanut producers are eligible for marketing loans, averaging \$355 per ton for current production.⁴ Marketing loans are intended to provide short-term liquidity until the farmer's crop is marketed and provide a guaranteed minimum revenue for production. Producers can repay the marketing loan at the loan rate (plus interest) or at an alternative loan repayment rate established weekly by USDA based on market prices, if it is less than the loan rate plus interest. They can also keep the loan and forfeit the peanuts used as collateral to the Government. Alternatively, producers can forgo the loan and accept a loan deficiency payment (LDP) if the repayment rate (reflecting market prices) is below the marketing loan rate. If the producer receives an LDP, or repays the loan at a repayment rate lower than the loan rate, the government-operated Commodity Credit Corporation (CCC) absorbs these costs.

Direct and Countercyclical Payments

Farmers who have established peanut base acres are eligible for fixed direct payments of \$36 per ton and for countercyclical payments (CCPs) that, depending on market prices, range from \$0-\$104 per ton. These benefits are tied to historical production levels on specific plots of land (peanut base acres) rather than production of any particular crop, so cropping decisions are flexible and more closely tied to market incentives, such as prospective returns from alternative crop choices.⁵

Peanut Quota Buyout Program

The 2002 Farm Act authorized peanut quota owners—regardless of whether they farmed or rented out their quota—to receive quota buyout payments. Quota owners could receive payments in five annual installments of \$220 per short ton during fiscal years 2002-06 or take the payment in a lump sum during the fiscal year specified by the quota owner. Payments are based on the owner's 2001 quota.⁶

²Base acreage refers to a farm's crop-specific acreage of wheat, feed grains, upland cotton, rice, oilseeds, or peanuts eligible to participate in commodity programs under the 2002 Farm Act. Base acreage includes land that would have been eligible to receive production flexibility contract (pfc) payments in 2002 and production area associated with other covered commodities (oilseeds and peanuts).

³For general information on commodity programs and specific peanut provisions in the 2002 Farm Bill, see "The 2002 Farm Bill: Provisions and Economic Implications" at <http://www.ers.usda.gov/features/farmbill/> (Title I), and *The 2002 Farm Act: Provisions and Economic Implications for Commodity Markets* at <http://www.ers.usda.gov/publications/aib778/>.

⁴Loan rates do not vary by county, but do vary according to each of the four main peanut types: Runners, Virginias, Spanish, and Valencia.

⁵This is in contrast to the type of price supports that existed before the 1996 Farm Bill, which required production of specific program crops to be eligible for target-price-based deficiency payments tied to those crops. Direct and countercyclical payments are the product of the national payment rates, 85 percent of the payee farm's base acres, and a farm's payment yield. The payment rate for direct payments is fixed at \$36 per ton. The payment rate for CCPs is the difference between a target price of \$495 per ton and, if lower, the "effective price"—which is the direct payment rate plus the higher of the national season-average farm price or the peanut marketing loan rate.

⁶Peanut sector revenues, the role of government payments, and the financial position of peanut farmers are discussed in subsequent sections and in the appendix.

Farm Bill Issues From a Domestic and Trade Policy Perspective

As with producers of other commodity program crops, the level, type, and eligibility for government payments under future legislation is a source of uncertainty for stakeholders in the peanut sector, such as peanut farmers and owners of peanut base acres. Most likely, peanut policy under the 2007 Farm Bill will be determined largely by decisions affecting the overall direction of farm policy, particularly programs associated with direct commodity payments to producers of major field crops, including peanuts. Domestic market conditions and Federal budget concerns are important in this debate, but trade policy and domestic support issues—particularly related to ongoing Doha Round World Trade Organization (WTO) negotiations and regional trade agreements—will also likely enter into discussions. Thus, adjustments in peanut-specific provisions will be debated largely within the context of budget priorities and international obligations that are intertwined with domestic market and policy developments.

The current and projected Federal budget deficit, in particular, could play a significant role in the farm bill debate. The 2002 Farm Act provisions were being considered at a time when projected budget surpluses allowed for increased spending on farm programs that were used partly to finance changes to the old peanut quota program. The 2007 Farm Bill debate, however, is occurring at a time when there is concern over projected deficits in the Federal budget, which could affect funding for domestic farm programs. This could result in potential changes to the overall level of spending and basic structure of commodity programs, or in modifications to the parameters of existing programs. For example, loan rates, direct and countercyclical payment rates, the use of commodity certificates, payment limitations,⁷ and crop insurance provisions could be reconsidered. In addition, funding for crops currently supported by commodity programs could compete with proposals to provide support for other commodities, to expand support for conservation programs, and to change current restrictions on planting fruits and vegetables (Womach, 2005).

Trade policy concerns associated with regional and international trade agreements, such as those of the WTO, have also increasingly become a part of the U.S. farm bill debate. As a member of the WTO, for example, the U.S. agreed to limit the amount of trade-distorting domestic support provided to the agricultural sector. Peanut producers benefit from marketing loans, countercyclical payments, and crop insurance subsidies that are, or may be, subject to aggregate spending limits under the existing WTO agreement.⁸ These spending limits could be further reduced and/or modified if an agreement is reached under the Doha Round.⁹ Tariffs and other barriers to market access—both in the U.S. and abroad—could also be an issue to consider as a new WTO agreement is being negotiated and the impact of regional trade agreements liberalizing U.S. peanut imports continue to unfold.

Furthermore, Brazil's successful challenge to U.S. cotton programs, although not directly related to peanuts, may have general ramifications for the U.S. commodity programs, including the marketing loan and countercyclical payment programs that were implicated in the ruling. The U.S. has already

⁷See Commission on the Application of Payment Limitations for Agriculture (2003) (<http://www.usda.gov/oce/oce/Document%20Archive/payments/paymentLimitsAll.pdf>).

⁸As of October 2005, the U.S. has not determined how commodity support program payments under the 2002 Farm Bill would be notified under WTO domestic support classifications.

⁹In October 2005, the U.S. proposed major reform for the Doha Round of WTO negotiations (Office of the United States Trade Representative, 2005.) For details on this and any subsequent proposals, see <http://www.ustr.gov/>.

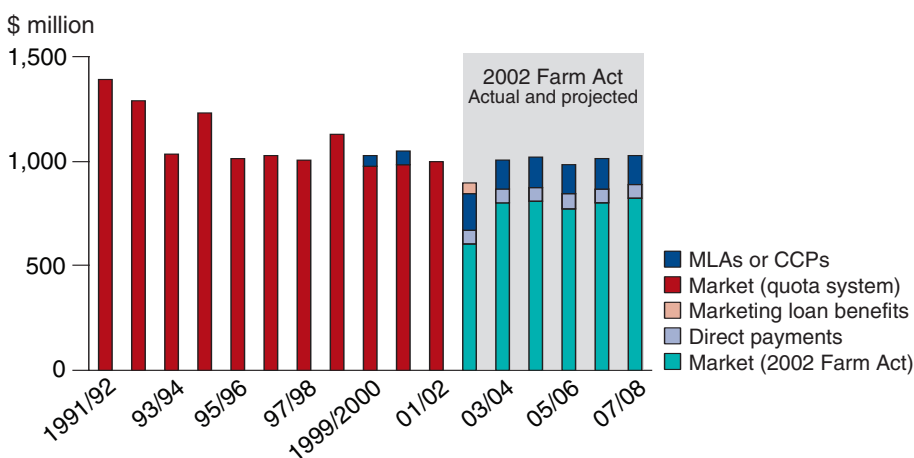
made some adjustments to its export credit guarantee programs to comply with one aspect of the WTO ruling on export subsidies (Schnepf, 2005).

Government Payments Constitute Significant Share of Peanut Sector Revenues

While overall commodity program payments to the peanut sector during the 2002 Farm Act have been low relative to those for some other crops and in the context of overall farm bill spending, government payments constitute a large share of peanut sector revenues and are comparatively large on a per-base-acre or value-of-production basis. Government payments to the peanut sector under the three main commodity programs (marketing loans, direct payments, and countercyclical payments), for example, are projected to average \$226 million annually during 2002-07. These peanut payments represent about 2 percent of total payments to all eligible crops made under these programs, but are equivalent to 29 percent of cash receipts from peanut production during this period (fig. 2).¹⁰ For comparison, marketing loan benefits and direct and countercyclical payments were equivalent to 19 percent of cash receipts for all eligible program crops and 5 percent of cash receipts to the entire farm sector during the last several years.¹¹ Including these government payments, average annual gross revenues to the peanut sector during 2002-07 are projected to remain slightly below levels during the 1996 Farm Act.¹²

The peanut sector receives additional government support—estimated to reach nearly \$74 million in fiscal year 2005—to pay for peanut storage and handling fees. These fees would otherwise be paid by peanut farmers and/or peanut buyers, depending on the terms of any applicable production or marketing contract between the two parties. These payments are scheduled to be made through the 2006 crop as required under the 2002 Farm Act.

Figure 2
Revenue sources for peanut farm sector



Notes: MLA = Market Loss Assistance; CCP = Countercyclical payment. Years refer to peanut marketing years (August-July).

Sources: 1991/92-2003/04: Economic Research Service, USDA, "Farm and Commodity Policy Briefing Room: 1996-2001 Commodity Provisions" at <http://www.ers.usda.gov/Briefing/FarmPolicy/1996emerge.htm#1>, and National Agricultural Statistics Service, USDA, "Agricultural Statistics Data Base"; 2004/05-2007/08: Office of Management and Budget, *President's FY 2006 Budget*, February 2005.

¹⁰While government payments constitute a substantial share of peanut-sector-specific revenues, peanut farmers tend to have relatively high household incomes and large, diversified farm operations, which reduce the relative importance of peanut-specific payments to the farm household (see appendix, "Peanut Farm Characteristics and Financial Profile").

¹¹Based on historical and projected calendar year data from 2003-05 (<http://www.ers.usda.gov/Data/FarmIncome/Finfidmu.htm/>). About 40 percent of all farms receive some type of direct government payment.

¹²Recall that farm-level revenues during the 1996 Farm Act reflected the influence of the price-supporting marketing quota system. Actual and projected revenues during the 2002 Farm Act (fig. 2) do not include peanut quota buyout payments or the government payment of storage and handling fees. Also note that the end of the marketing quota program eliminated the rental market for quota rights, which averaged about \$83 per acre in 2001. Eliminating the rental market for quota peanut rights thus lowered production costs for those previously renting quota and reduced revenues for the quota owners by an equivalent amount.

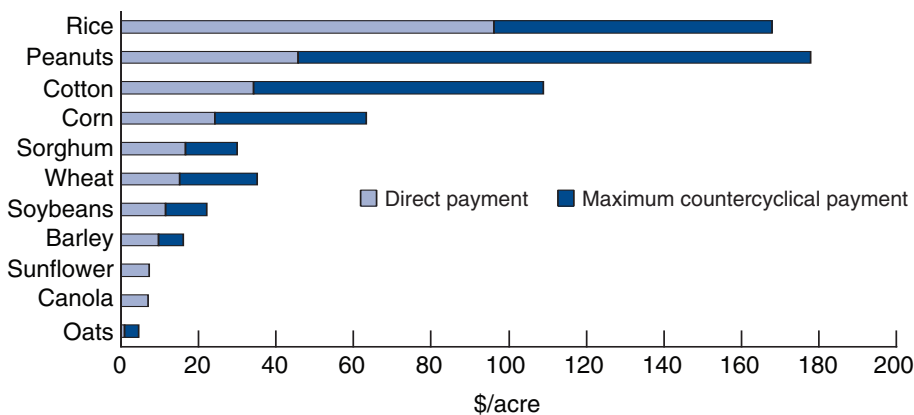
Most of the actual and projected payments are direct and countercyclical payments to farms with peanut base acres, rather than marketing loan benefits associated with current peanut production.¹³ However, if season-average farm prices are below marketing loan rates—as they are projected to be in 2005/06—peanut producers would be eligible for marketing loan benefits. With prices below the loan rate, those with peanut base acres would receive maximum potential direct and countercyclical payments of about \$180 per acre (fig. 3). Not included in these figures are the separate, one-time quota buyout payments of \$1.3 billion—paid out mostly in 2002 to nearly 70,000 eligible quota owners.¹⁴

Constraints and Pressures Imposed by International Agreements

Government outlays to peanut producers are not just relevant to the U.S. budget picture but have implications for, and are affected by, international agreements, such as those of the WTO and regional trade agreements.¹⁵ Existing trade agreements under the WTO and the North American Free Trade Agreement (NAFTA) in particular and potential new agreements, such as the recently approved Central American Free Trade Agreement, plus the Dominican Republic (CAFTA-DR), were important considerations when the peanut marketing quota system was ended in 2002. The program's overhaul was due partly to the realization that the marketing quota was likely incompatible with these trade agreements.¹⁶

The peanut marketing quota system had required strict import controls to preserve the domestic market for higher priced U.S. quota peanuts, and U.S. peanut imports were capped at far less than 1 percent of domestic consumption before 1994. However, the NAFTA and WTO agreements signed in the mid-1990s began to gradually increase foreign access to the U.S. peanut market (fig. 4).

Figure 3
Value of direct and countercyclical payments per base acre¹



¹Assumes national average payment yields and maximum countercyclical payments.
Source: Young et al., 2005.

¹³In crop year 2002, marketing loan benefits (including certificate exchange costs) to peanut producers amounted to \$55 million, direct payments totaled \$67 million, and countercyclical payments (CCPs) came to \$170 million. According to CCC outlay data from the *President's FY 2006 Budget* (February 2005), direct payments were expected to average about the same as in 2002 during the remainder of the Farm Act, while CCPs would decline to about \$140 million annually (see links to Output 9, Output 16, Output 18, Output 50, and Peanuts at <http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/estimatesbook.htm>). No further marketing loan benefits were anticipated at the time of the Budget's publication due to expected prices above the loan rate. As noted earlier, peanut direct payments and CCPs go to farmers with peanut base acreage, many of whom have used planting flexibility provisions to produce other crops.

¹⁴The quota buyout expenditures were not included in figure 2 but were distributed to both historical peanut growers who owned peanut quota and to a larger number of quota owners who had leased their peanut quota rights to other farmers.

¹⁵See <http://www.ers.usda.gov/Briefing/WTO/Glossaries.htm> for a glossary of domestic and trade policy terms.

¹⁶CAFTA-DR is the recently approved Central American Free Trade Agreement, plus the Dominican Republic, between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. For agriculture and peanut related provisions, see <http://www.fas.usda.gov/info/factsheets/CAFTA/overall021105a.html>. For information on the WTO, see <http://www.ers.usda.gov/Briefing/WTO/>. For information on NAFTA, see <http://www.ers.usda.gov/Briefing/NAFTA/>.

Impact of WTO and Regional Trade Agreements

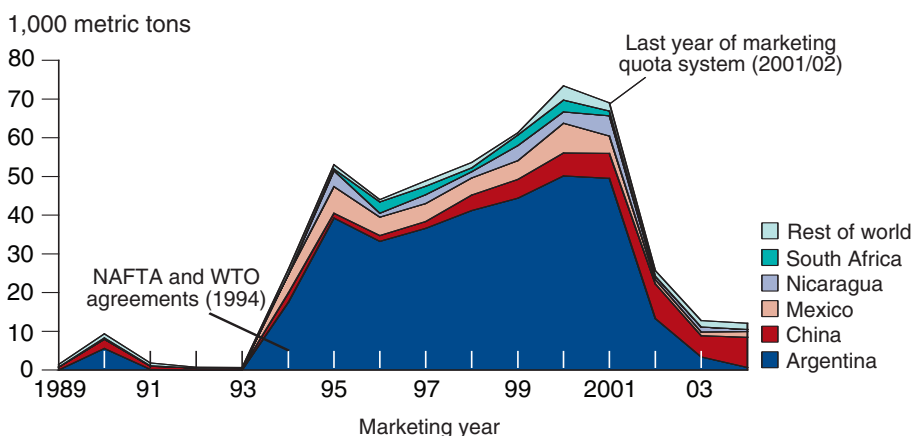
As part of the 1994 Uruguay Round Agreement (which also established the WTO), the U.S. implemented a tariff-rate quota (TRQ) system for peanuts, allowing peanut imports facing relatively low tariffs to rise to about 5 percent of domestic consumption.¹⁷ Although this TRQ remains fixed—pending any potential changes in a new WTO agreement—a separate TRQ in the NAFTA treaty will allow Mexican peanut imports to become completely tariff free by 2008. While Mexico is a relatively minor peanut producer, incentives to produce and export peanuts to the United States could have placed increasing pressure on the U.S. marketing quota program had it not been eliminated in 2002. The complete elimination of tariffs on Mexican peanut imports would likely have required reducing the quantity of domestic peanuts eligible for the quota loan rate, or a reduction in that loan rate. The recently signed CAFTA-DR treaty will also completely phase out all U.S. peanut tariffs on imports from Central America and the Dominican Republic over the next 15 years, which could eventually provide some additional opportunities for other countries, such as Nicaragua, to export peanuts to the United States.¹⁸

Currently, incentives to import peanuts from any source are quite low because the 2002 elimination of the marketing quota program resulted in lower peanut prices in the U.S. market, but as NAFTA and CAFTA-DR are fully implemented, peanut imports may grow somewhat. While the impact is uncertain, increased imports potentially could place downward pressure on prices and increase the cost of government payments tied to prices, such as marketing loan benefits and countercyclical payments. Alternatively, lower tariffs abroad could increase market opportunities for U.S. peanut exporters, lifting demand and prices (see box, “Market Access Issues”).

¹⁷For information on WTO and NAFTA provisions affecting U.S. peanut trade, see <http://usda.mannlib.cornell.edu/reports/erssor/field/ocs-bby/ocs1099.pdf>.

¹⁸Nicaragua is currently the world’s sixth leading peanut exporter and the third leading source of U.S. imports under the WTO TRQ (most of which is reserved for Argentina).

Figure 4
U.S. imports by source: Before the 2002 Farm Act, peanut imports had cut into the U.S. market



Source: USDA, Foreign Agricultural Service, “FASonline: U.S. Trade Internet System,” available at <http://www.fas.usda.gov/ustrade/USTImFAS.asp?QI=/>.

WTO Domestic Support Limits¹⁹

Under the WTO agreement, the U.S. agreed to limit total trade-distorting or “amber box” support for agriculture to no more than \$19.1 billion annually after 2000.²⁰ The value of amber box price support to the peanut sector ranged between \$303 and \$350 million annually between 1996 and 2001, or about 2 percent of the total limit. Government payment of storage fees and marketing loan benefits have previously been declared as amber box payments by the U.S., but the U.S. has not declared how government payments to the peanut sector and other crops under 2002 legislation will be notified to the WTO.

¹⁹For information on the domestic support provisions of the WTO, see <http://www.ers.usda.gov/Briefing/WTO/domsupport.htm>.

²⁰A traffic light analogy is used to categorize domestic support policies and place them in one of four colored policy boxes. Amber box policies are policies that directly influence production decisions and are subject to careful review and spending limitations.

Market Access Issues

The outlook for global peanut trade and U.S. peanut exports will depend, to a certain degree, on potential reductions to market barriers, such as tariffs and TRQs. According to the Agricultural Market Access Database (<http://www.ers.usda.gov/Briefing/WTO/data.htm>), the 101 WTO member countries had an average bound tariff rate on peanuts of 66 percent, slightly above the 62-percent average for all agricultural products (for a glossary of trade terms, see <http://www.ers.usda.gov/Briefing/WTO/Glossaries.htm>). Of these countries, only 16 had bound tariff rates of less than 20 percent (including the EU and Canada). While bound tariffs are the maximum permissible, other data (for 22 countries) show that applied tariffs were typically below 50 percent, and the average for these countries—excluding Korea which had a 251-percent tariff—was just over 12 percent.

The U.S. trade negotiating position calling for reduced tariffs and increased tariff-rate quotas could result in changes to the tariff rates and tariff-rate quota and increased imports of peanuts and peanut products but would also provide opportunities for increased U.S. exports. With the U.S. TRQ currently not filling, it appears that, under current market conditions, increasing the TRQ may not result in increased U.S. imports, but lowering the in-quota tariff level could have some effect. In addition to tariff barriers, sanitary and phytosanitary rules and regulations have significantly affected trade. For example, the level of aflatoxin (a carcinogenic byproduct of mold) is a key factor in peanut trading, but regulatory standards governing the permissible level of aflatoxins in peanuts vary widely among countries. The U.S. peanut industry standard and the international standard-setting body CODEX Alimentarius have both adopted the same tolerance level for aflatoxin in peanuts, while the EU has adopted more stringent standards, and many less developed countries allow higher levels. Differences in regulatory standards have potentially large trade impacts (for more information, see *Mycotoxin Hazards and Regulations: Impacts on Food and Animal Feed Trade*, <http://www.ers.usda.gov/publications/aer828/aer828h.pdf>).

Risk Management and Marketing Issues

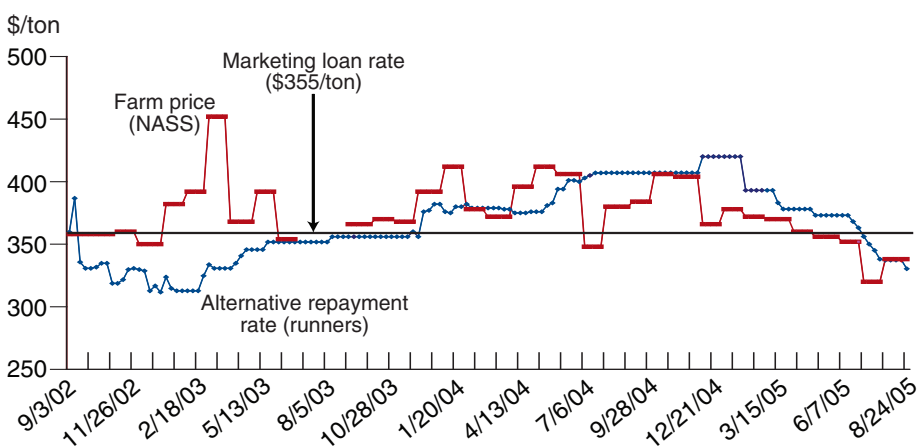
Farmers of different crops often use a range of tools to manage price and production risk, such as marketing loan provisions, hedging on futures markets, crop insurance, and contracting. Some tools are used more heavily by producers of some crops, while others might not be available. With peanut prices directly determined by government policy for decades, one of the ongoing challenges following the 2002 Farm Act has been adapting to the lack of easily accessible and timely price information, which has limited the number of marketing options available to peanut growers and complicated administration of the new program.

Lack of Price Information Poses Ongoing Challenge for Marketing Loan Program

For USDA, the lack of price information has complicated the task of establishing the weekly loan repayment rate for in-shell peanuts—the market price barometer set by USDA and used to determine the level of potential marketing loan benefits. Under the 2002 Farm Act, the newly established marketing loan program for peanuts is designed to serve the same objectives as marketing loans for other crops—offering short-term financing and revenue stability. As it does with the other crops, USDA relies on accurate, timely market price data to establish the peanut loan repayment rate. However, although USDA and various other sources report U.S. and international peanut prices, there is no real benchmark price for in-shell peanuts, such as a futures market price, or cash prices reported at terminal elevators (e.g., the central Illinois cash price for soybeans reported by the *Wall Street Journal*).²¹ As a result, it was at times difficult to match movements in the weekly repayment rate with movements in monthly farm prices that were subsequently reported by USDA's National Agricultural Statistics Service (fig. 5). If the

²¹According to March 2004 USDA testimony before a hearing of the House Committee on Agriculture on the peanut program (<http://agriculture.house.gov/hearings/108/10825.pdf>), the difficulty in finding price information is a unique problem for peanuts compared with other commodities, such as corn. The problem is due to the relatively small number of U.S. peanut producers, who face limited sales options, no active cash or futures market, and limited market price information sources (House of Representatives, 2004.)

Figure 5
Weekly market price and alternative loan repayment rate



Note: The repayment rate varies by peanut type. For runner peanuts, the repayment rate is slightly higher (i.e., \$356.06 per ton in 2004) than the average repayment rate.
Sources: National Agricultural Statistics Service, USDA, "Agricultural Statistics Data Base"; Farm Service Agency, USDA, "Weekly National Posted Price for Peanuts."

repayment rate diverges from the market price, the Government may face higher budget outlays, either through increased marketing loan benefits (if the repayment rate is too low) or through the potential for loan forfeitures (if the repayment rate is too high).²²

The lack of price information and marketing options for peanut growers also rules out some of the marketing strategies available to producers of major commodities, such as the timing of sales based on cash or futures prices. A lack of potential market volume has been a disincentive to establishing a peanut futures price contract, so producers have mainly managed price risk by entering into private marketing contracts with peanut buyers, typically peanut shellers. About 80 percent of peanut production was marketed through contracts in 2004, but much less production was grown under contract in 2005. Production or marketing contracts are common among many agricultural products (e.g., livestock, tobacco, poultry, fruits, and vegetables), but the inability to time sales based on cash or futures prices (and the lack of price information) is seen as a disadvantage by some peanut farmers. In addition, while former quota holders had stable expectations about both their revenue (based on the quota loan rate) and the quantity (their share of quota) they could deliver at that loan rate, some current contract offers guarantee a price on only a portion of the grower's crop.

Another marketing option is to participate in one of the three Cooperative Marketing Associations (CMAs) that have formed since 2002. These cooperatives formerly administered the quota loan program and acted as marketing associations for peanut producers. In the new policy environment, the CMAs can process marketing assistance loans on behalf of USDA and have the authority to market peanuts on behalf of their members—providing participants with collective bargaining power and more marketing options. Participation in CMAs, or perhaps the development of grower-owned cooperatives, could become more common over time if growers perceive that consolidation in the shelling industry has limited competition among buyers.²³

Crop Insurance

Crop yield insurance subsidized by the Government—covering most (86-94 percent) of planted peanut acres in recent years—is another risk-management option available to peanut producers. The Federal Crop Insurance Corporation offers peanut producers two types of yield risk management programs with subsidized rates: multiple-peril crop insurance (coverage based on farm-level yields) or a group risk plan with coverage based on county-level yields (not typically used by peanut growers). These insurance policies make indemnity payments to peanut producers when current yields fall below a given percentage of historical yields (based on coverage levels selected). Between 1995 and 2004, net indemnities for peanuts (indemnity minus producer premium) ranged from \$5.4 million in 2003 to \$105.8 million in 2000, and averaged \$35.3 million annually. In contrast to some other commodities, peanuts are not covered by revenue insurance products. Despite the widespread use of crop insurance by peanut producers, some peanut industry representatives are calling for modifications, such as allowing growers to insure their crop against the dollar value of contracts.

²²The 2002 Farm Act specifies that the loan repayment rate be set at a rate that (1) minimizes potential loan forfeitures, (2) minimizes the accumulation of peanut stocks by the Federal Government, (3) minimizes the cost incurred by the Federal Government in storing peanuts, and (4) allows peanuts produced in United States to be marketed freely and competitively, both domestically and internationally.

²³There are about 10 shelling companies now in operation, down from 45 in the early 1980s and 92 in 1970. Two companies control about 70 percent of purchases and about two-thirds of peanut buying points.

Recent Market Trends and Challenges

Although relatively small from the perspective of the overall farm economy, peanuts are an important crop at the regional and local level. In 2004, about 9,000 farmers (out of 2.1 million nationwide) produced roughly \$800 million worth of peanuts in 3 main regions: the Southeast (Georgia, Alabama, Florida, and South Carolina), the Southwest (Texas, Oklahoma, and New Mexico), and the Virginia-North Carolina region. Most production (about three-quarters) takes place in the Southeast. Peanuts accounted for less than 1 percent of overall U.S. crop production value, but were the second most important agricultural crop in Georgia (behind cotton) and accounted for 30 percent of Georgia's field crop production value in 2004. Peanuts were also a leading crop in Alabama (18 percent of field crop production value) and Florida (8.7 percent).

Program Changes Prompt Lower Prices and Major Shift in Regional Plantings

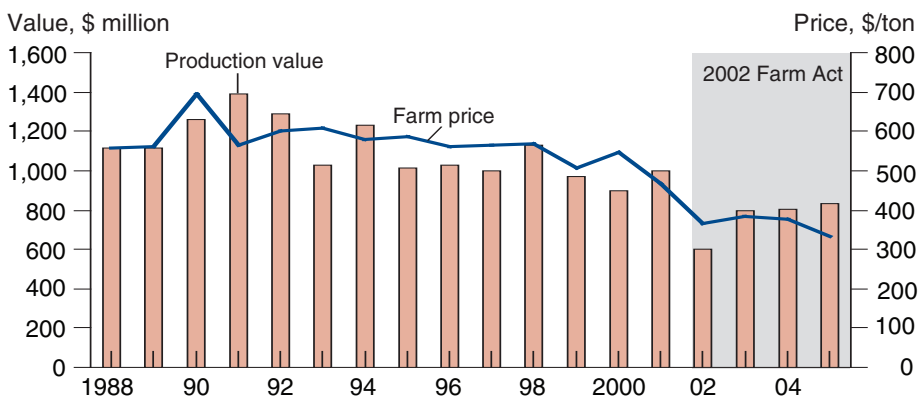
After marketing quotas were eliminated, the peanut sector initially appeared to be destined for a long-term contraction, particularly after the first year (2002) of the new policy when farm-level peanut prices and production value deteriorated.²⁴ The 2002 crop was worth \$605 million, 40 percent less than the average during the 1996 Farm Act. Reacting to the price decline, 2003 planted acreage fell to the second-lowest level on record since 1915. However, strong growth in peanut demand and production by more efficient producers has stimulated a rebound in peanut acreage and yields, indicating that incentives to grow peanuts remain comparatively strong despite prices that remain 20-30 percent below the pre-2002 Farm Act average (fig. 6; see also table 1 for historical supply, demand, and price information).

With acreage in 2005 the highest in more than a decade, maintaining overall planting incentives and production is not an immediate issue.²⁵ Instead, a major challenge for farmers and the sector in general has been adapting to

²⁴While farm production value averaged roughly \$1 billion during marketing years 1996-2001 (August-July), it fell to just \$605 million in 2002, before climbing to about \$800 million annually between 2003 and 2005. Farm-level prices fell about 30 percent, from \$470-\$570 per ton during 1996-2001 to \$365-\$385 per ton during 2002-04, and are projected lower in 2005.

²⁵In fact, strong yields and increased area combined to produce a projected near-record crop in 2005. The increased peanut area reflected the expectation of lower prices and returns from other crops, such as cotton, soybeans, and corn, compared with those of the previous year.

Figure 6
Average farm price and production value



Note: 2005/06 data is projected.

Source: World Agricultural Outlook Board, USDA, September 12, 2005.

significant changes in production location, as area has shifted both between and within each of the three main peanut-growing regions—a development related at least partly to the policy change. While acreage has declined sharply in the Southwest and the Virginia-North Carolina region since 2002, for instance, plantings in the Southeast have expanded considerably. Within 3 years, the Southeast increased its share of national plantings from one-half to more than three-quarters (fig. 7).

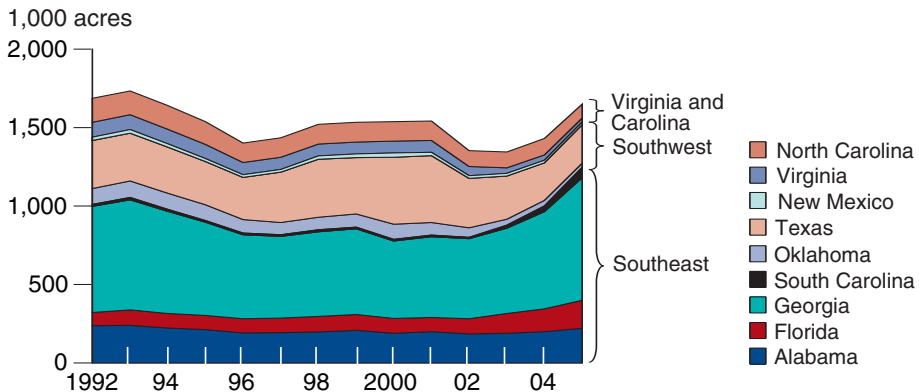
Table 1
Peanut supply and disappearance, 1989/90-2005/06

Year beginning August 1	Production	Domestic food use	Exports	Imports	Crush	Yield	Price
-----Million pounds-----						Pounds/acre	Cents/pound
1989/90	3,990	2,312	989	4	624	2,426	28.0
1990/91	3,604	2,020	652	27	689	1,985	34.7
1991/92	4,927	2,207	1,002	5	1,103	2,444	28.3
1992/93	4,284	2,122	951	2	891	2,567	30.0
1993/94	3,392	2,088	533	2	670	2,008	30.4
1994/95	4,247	2,009	878	74	982	2,624	28.9
1995/96	3,461	1,993	826	153	999	2,282	29.3
1996/97	3,661	2,029	668	127	692	2,653	28.1
1997/98	3,539	2,099	682	141	544	2,503	28.3
1998/99	3,963	2,153	562	155	460	2,702	28.4
1999/00	3,829	2,233	743	180	713	2,667	25.4
2000/01	3,266	2,179	527	216	548	2,444	27.4
2001/02	4,277	2,211	700	203	693	3,029	23.4
2002/03	3,320	2,228	490	75	857	2,561	18.2
2003/04	4,144	2,456	516	39	536	3,159	19.3
2004/05	4,262	2,598	490	37	393	3,057	18.9
2005/06	4,919	2,778	540	20	764	3,061	17.1

Notes: Units are farmer stock (in-shell) basis. 2005/06 data is forecast (as of October 12, 2005).

Sources: National Agricultural Statistics Service, USDA; World Agricultural Outlook Board, USDA; U.S. Department of Commerce.

Figure 7
U.S. planted peanut acres



Note: Southeast = Alabama, Florida, Georgia, and South Carolina; Southwest = Oklahoma, Texas, and New Mexico; Virginia and Carolina = Virginia and North Carolina.

Source: National Agricultural Statistics Service, USDA, "Agricultural Statistics Data Base."

The area shifts suggest that many of those who produced peanuts before 2002 have ceased peanut production and switched to other crops or retired. Most likely, these producers were less competitive quota owner/operators who relied on the \$610-per-ton quota loan rate to cover production costs. At the same time, other more efficient producers—probably those who grew nonquota peanuts for export or new producers attracted by the opportunity to sell peanuts domestically without renting quota rights—have expanded.

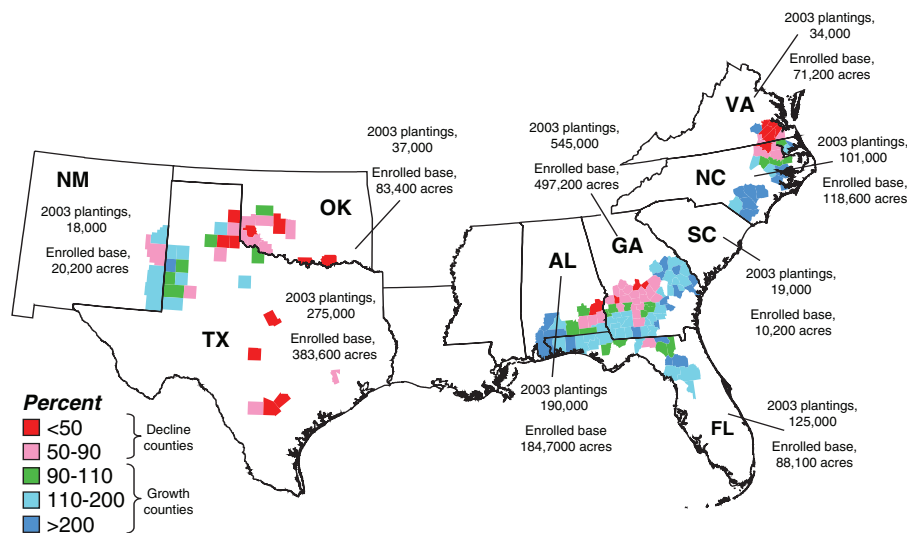
In addition to peanut area shifts between regions, there has also been a pronounced relocation of area within the regions and individual States. Even Georgia, which saw the largest overall gains in acreage since 2002, has had areas of growth and decline, reflecting the new mobility of peanut production. For example, figure 8—which maps percentage changes in peanut acreage by county between 2003 and the pre-Farm Act period (1998-2001)—shows a large decline in south-central Georgia, while surrounding areas grew.²⁶ Alternatively, while total area in Texas dropped, parts of western Texas saw increased plantings. Overall, the data indicate that at least 25 percent of U.S. area planted to peanuts before the 2002 Farm Act (the peanut base area) had fallen out of production by 2003, but this decline was offset partly by increased plantings elsewhere.²⁷

Yield Improvements Appear Tied to Policy Change

Data also indicate that counties with good yield histories have been gaining area at the expense of counties with poorer performance and that national average peanut yields during 2002-05 improved by almost 300 pounds per acre, or 11 percent, compared with yields during the 1996 Farm Act period (1996-2001).

Figure 8
Percent of peanut base acres planted in 2003 by county

Enrolled farms peanut base (U.S. total) = 1.466 million acres



Note: Base acres reflect average 1998-2001 historical peanut plantings enrolled under the 2002 Farm Act.

Sources: ERS calculations using data from the National Agricultural Statistics Service, USDA, "Agricultural Statistics Data Base," and the Farm Service Agency, USDA. Data not available for all counties.

²⁶This map is best viewed in color. The shaded areas represent counties that grew peanuts during the "base" period (1998-2001) and in 2003. The blue areas are counties with increased acreage in 2003 compared with acreage in the base period. Green areas had relatively stable acreage, and pink and red areas declined in acreage. The new ERS "Farm Program Acres" data product (<http://ers.usda.gov/Data/BaseAcres/>) allows the user to produce similar maps by county and State for 2004. Information from this data tool confirms that the acreage changes observed for 2003 continued in 2004. The 2003 map is used for ease of presentation.

²⁷Since only county-level data were available, the numbers do not reflect possible additional shifts in production between farms within the same county.

Yields were aided by favorable weather, but it does appear that national average yield improvements since 2002 partly reflect the impacts of greater planting flexibility and market orientation brought about by the 2002 Farm Act.

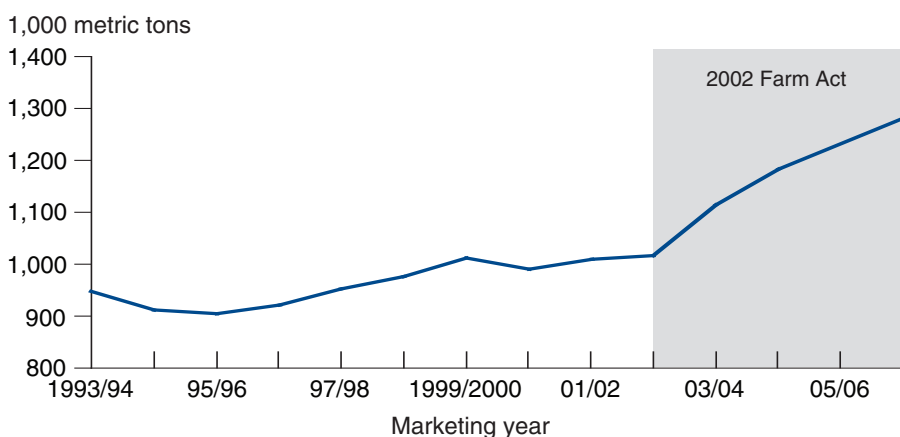
Previously, the quota system may have hindered yield improvements by creating rigidities in planting decisions and preventing acreage mobility to more productive areas. Before 2002, for example, the cost of acquiring quota rights and restrictions on the transfer of quota rights between counties and States tended to concentrate production on land originally granted quota acreage “allotments.” Higher prices for quota peanuts encouraged less efficient quota holders to continue producing.²⁸ Acquiring quota rights to expand production was also costly or impossible for more efficient producers elsewhere. Now, more production appears to be taking place on land with better soil and climate conditions, and yields may also be benefiting from improved crop management practices, such as crop rotation strategies and the use of inputs (e.g., fertilizers and chemicals).

Domestic Demand Has Been Accelerating

In addition to improving yields, another encouraging development for the peanut sector has been the strong growth in demand for peanuts and peanut products in recent years. Food use, the principal source of demand for peanuts in the U.S., has grown by nearly 30 percent just since 2001/02, raising demand to record levels (fig. 9).²⁹

Although consumption had already been on a slight upward trend since the mid-1990s, lower peanut prices stemming from the 2002 policy change appear to be a leading factor behind this recent consumption surge. Competition with other snack foods had been cited as a factor limiting peanut consumption growth, but lower prices have increased the competitiveness of peanuts. For example, the price of peanut butter, the leading use for peanuts, has been trending down since 2002, indicating that lower farm prices for peanuts are working their way to the retail level (fig. 10). Increased advertising, the introduction of new products, reduced input costs for peanut

Figure 9
U.S. demand for peanut food use climbs rapidly following 2002 Farm Act



Sources: World Agricultural Outlook Board, USDA.

²⁸Most quota peanut production (about 60 percent) was by growers who rented quota rights, but renting quota was expensive, averaging over \$80 per acre in 2001. While nonquota growers were allowed to produce peanuts anywhere beginning in 1981, being limited to the lower priced export (or crush) market reduced incentives to expand even in areas well suited to peanut cultivation.

²⁹While vegetable oil extraction drives peanut demand in many developing countries, the dominant source of U.S. peanut demand (about 70 percent) is direct consumption (food use). The proportion of peanuts crushed for oil and animal feed is small, especially when compared with other oilseeds (e.g., soybeans). Lower quality peanuts used for crushing make up about 13 percent of domestic use, and seed and residual uses make up the remainder. Peanut butter accounts for about half of food-use consumption, and snack peanuts and peanut-containing candy account for about 20 percent each. The remaining 10 percent is roasted in-shell (ballpark) peanuts.

processors/manufacturers, and the popularity of high-protein low-carbohydrate diets may also have helped boost overall demand.³⁰

Trade Outlook Uncertain

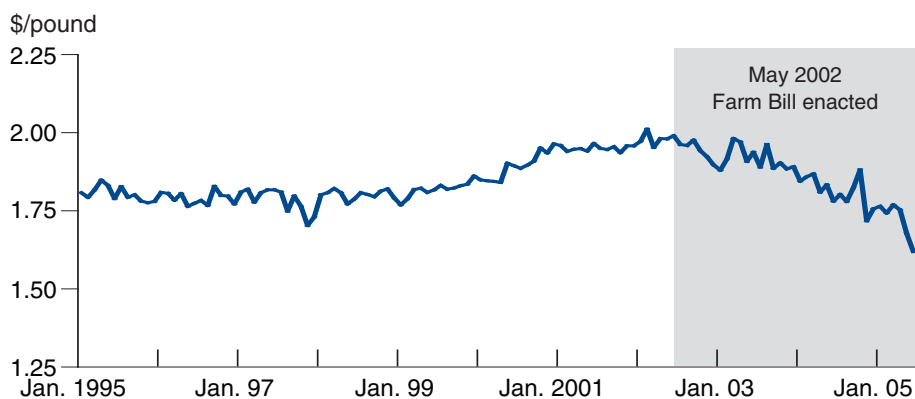
While domestic demand has been rising, the longer term outlook for U.S. exports, which have been an important source of demand, looks less promising. Despite fairly strong growth in global peanut trade and a reputation for premium quality, U.S. peanut exports and their share of global trade have been on a downward trend since the early 1990s.³¹ This trend largely reflects competition from lower cost exporters, particularly in less quality-conscious markets. Most notably, China has dramatically increased its share of global trade and now accounts for over one-half of global exports (fig. 11).³² U.S. exports to some markets remain relatively stable, however. These markets include the European Union (EU), where buyers are willing to pay premiums for U.S. quality, as well as nearby markets (Canada, Mexico, and Caribbean) where lower transportation costs enhance U.S. competitiveness.

³⁰A July 2003 U.S. Food and Drug Administration ruling that allows packaged peanuts to contain “qualified health claims” that associate peanut consumption with reduced heart disease risk could also be having an effect.

³¹Global trade growth in peanuts was moderately strong (over 40 percent gain) between 1990-94 and 2000-04, but trade still represents only about 5 percent of global production. U.S. peanut exports fell from an average of 363,000 tons during the early 1990s to 247,000 tons during 2000-04 (about 14 percent of production). Exports were valued at close to \$200 million in 2004.

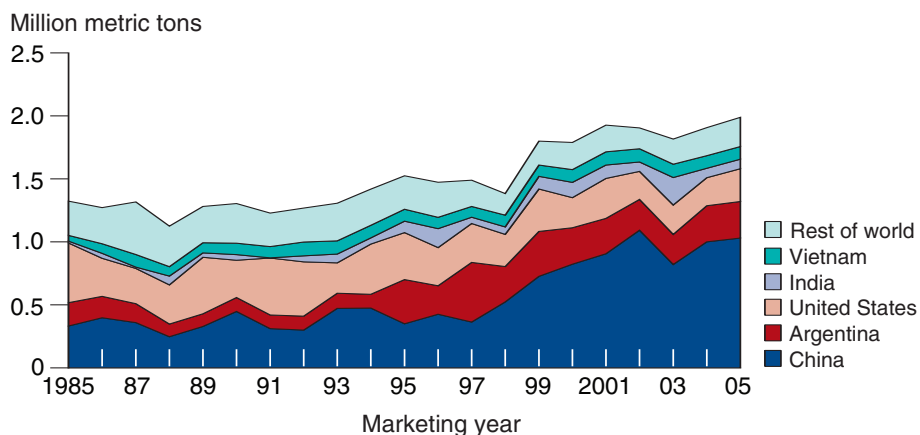
³²Peanut production in China soared from an average of 7.3 million metric tons during 1990-94 to 14.3 million tons in 2004 (more than seven times U.S. production).

Figure 10
Retail price of peanut butter, January 1995-June 2005



Sources: Bureau of Labor Statistics, peanut butter, creamy, U.S. city average.

Figure 11
Exports by country: China emerges as world's leading peanut exporter



Source: Foreign Agricultural Service, USDA, “Production, Supply and Distribution (PSD) Online.”

In addition, although the United States remains a leading peanut exporter, ranking third in export volume behind China and Argentina, the 2002 Farm Act probably further weakened incentives to export because U.S. producers who previously grew nonquota peanuts for export can now seek higher returns in the domestic market.³³ Under the old program, peanuts grown beyond the quota could not be consumed in the domestic market and had value in only the export or crush markets. Support for nonquota peanuts was limited to a minimal loan rate of \$132 per ton. Accordingly, these peanuts were either priced to sell in international markets or in the domestic crush market.

Although exports are down, imports are also expected to remain well below pre-2002 levels in the near term due to the decline in domestic prices since the 2002 Farm Act. Lower domestic prices have helped drop peanut imports to less than one-fifth the level immediately preceding the 2002 Farm Act and have limited the immediate impact of regional trade agreements (i.e., NAFTA, CAFTA-DR) that are liberalizing U.S. peanut imports. As these agreements are fully implemented, however, peanut imports from these regional trading partners eventually may increase, particularly in years when the domestic crop falls short of expectations.

³³Another reason that U.S. peanut exports have declined since 2001 is that the 1996 Farm Act included a new provision that created strong incentives for quota holders to overproduce their quota, which increased the potential supply for export. Under the 1996 Act, quota holders could no longer carryover unused marketing quota from one year to the next. Thus, if they faced a production shortfall, revenue from unused quota production could not be recouped the following year. Thus, quota holders tended to produce more than needed to meet their quota and channeled surplus production into export markets.

Conclusion

Like producers of other agricultural commodities, U.S. peanut growers in recent years have confronted pressures from market forces and the impacts of policy developments, both domestic and international. While demand prospects are brighter than in the mid-1990s—and production has apparently shifted to more efficient regions and producers—the outlook for peanut farmers is tempered by relatively low domestic prices, increased competition in export markets, and some potential for higher imports as the full impact of regional trade agreements unfold. Strong production growth has also contributed to an increase in peanut stocks and at least a short-term increase in government outlays for income support and storage costs. With the change in the peanut program of 2002, managing prices as well as production risk has become increasingly important but remains complicated given the limited availability of market information (e.g., price data) and few marketing options.

Future policy developments affecting the peanut sector are likely to be undertaken within the scope of the overall direction of farm policy. In addition, adjustments in peanut-specific provisions are likely to be debated within the context of domestic budget priorities and philosophical preferences, particularly with regard to programs affecting direct commodity payments to producers of major field crops. Current and future trade agreements affecting trade policy and domestic support obligations will also be intertwined with this debate. Although the peanut sector accounts for a relatively small overall share of direct government payments to program commodity producers, the relatively large payments per base acre and government expenditures associated with expanding production make the prospect of changes to these programs a particular source of uncertainty.

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Data Links

Foreign Agricultural Trade of the United States (FATUS) (<http://www.ers.usda.gov/data/FATUS/>) provides U.S. agricultural exports and imports, volume and value, by country, by commodity, and by calendar year, fiscal year, and month, for varying periods, such as 1935 to the present or 1989 to the present. Updated monthly or annually.

Production, Supply and Distribution (PSD) (<http://www.fas.usda.gov/psd/>) contains official USDA data on production, supply, and distribution of agricultural commodities for the United States and major importing and exporting countries. The database provides projections for the coming year and historical data for more than 200 countries and major crop, livestock, fishery, and forest products.

WTO Agricultural Trade Policy Commitments Database (<http://www.ers.usda.gov/db/wto/>) contains data on implementation of trade policy commitments by WTO member countries. Data on domestic support, export subsidies, and tariffs are organized for comparison across countries. This queryable database offers various options for viewing and downloading data.

Quick Stats: Agricultural Statistics Data Base (<http://www.nass.usda.gov/QuickStats/>) offers U.S., State, and county-level agricultural statistics for many commodities and data series. Quick Stats offers the ability to query by commodity, State, and year. The dataset can be downloaded for easy use in a database or spreadsheet.

Farm Program Acres (<http://www.ers.usda.gov/data/baseacres/>) allows downloading and mapping of county-level farm program and planted acreage data for nine major program crops (corn, grain sorghum, barley, oats, wheat, rice, cotton, peanuts, and oilseeds).

Farm Programs, Price Supports, Participation, and Payment Rates (<http://www.ers.usda.gov/publications/agoutlook/aotables/jul2003/aotab19.xls>) contains program parameters for individual commodities.

CCC Net Outlays by Commodity and Function (<http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/2006PresBud/Pres%20Bud%20Table%2035.pdf>) provides total Commodity Credit Corporation expenditures by commodity.

U.S. and State farm income data includes calendar year data on direct government payments.

- **Direct government payments, history** (<http://www.ers.usda.gov/data/FarmIncome/finfidmu.htm#payments>)
- **Latest forecast** (http://www.ers.usda.gov/Briefing/FarmIncome/Data/GP_T7.htm)

Price Support Loan and LDP Activity Report (<http://www.fsa.usda.gov/dafp/psd/Reports.htm>) includes data on year-to-date and the previous 4 years of marketing loan and loan deficiency payment expenditures.

National and County Commodity Loan Rates (<http://www.fsa.usda.gov/dafp/psd/LoanRate.htm>) provides county and national marketing loan rates.

U.S. WTO Domestic Support and Support Reduction Commitments (<http://www.ers.usda.gov/briefing/FarmPolicy/data/totalusa.xls>) summarizes the U.S. domestic support notifications to the WTO.

Appendix: Peanut Farm Characteristics and Financial Profile

Peanut Farms Relatively Large and Diversified

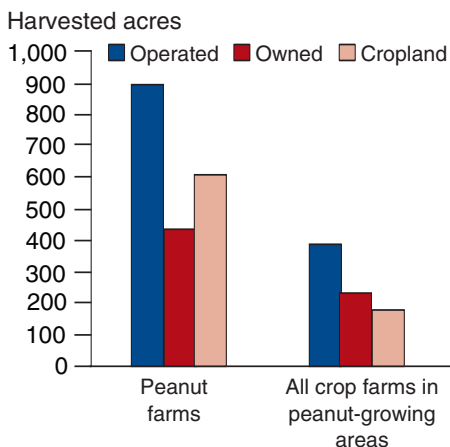
Compared with other farms in the same regions, peanut farms on average tend to be relatively large and grow a diverse crop mix. Most peanut farms rely on farming activities for the majority of their total household income (See app. tables 1-4 for detailed information on farm characteristics and financial statements by region and level of specialization in peanut production). According to the 2004 Agricultural Resource Management Survey (ARMS),³⁴ peanut farms average 606 acres of cropland compared with an average of 176 acres for all farms that operate in peanut-growing regions (app. fig. 1; app. table 1). Peanut farms are also fairly diversified, with peanut acres averaging only one-quarter of their overall cropland area and 17 percent of operated acres, but peanuts accounted for 30 percent of the farm value of production. Peanuts are typically grown in a 3- to 4-year rotation on farms that also grow cotton, soybeans, corn, and wheat, with cotton the most common crop alternative (app. fig. 2).

Characteristics of U.S. Peanut Farms by Region

The 2004 ARMS profile (app. tables 1-4) shows some substantial differences among peanut farms and farm operators in each of the three major peanut-producing regions (the Mid-Atlantic, Southeast, and Southwest United States). For example, while most U.S. farms (68 percent) that grew peanuts in 2004 were located in the Southeast, peanut farms in this region were generally smaller than those in other regions, with 42 percent of the

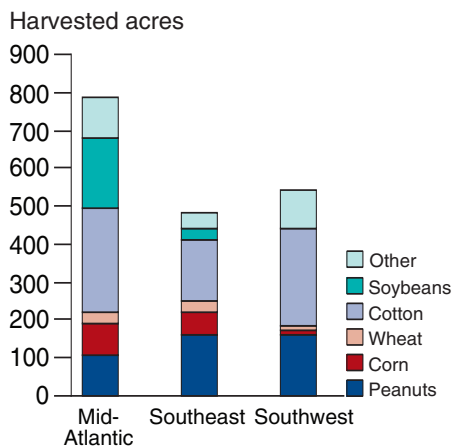
³⁴For this report, peanut farms are defined as those farms that had any peanut production in 2004. For more information on ARMS and to access data, see <http://www.ers.usda.gov/Briefing/ARMS/>.

Appendix figure 1
Acres on peanut and crop farms, 2004



Note: Peanut-growing areas include Mid-Atlantic, Southeast, and Southwest States. Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

Appendix figure 2
Crop mix on farms that planted peanuts in 2004



Note: Data reflect harvested acres only, not all cropland. Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

farms averaging less than \$40,000 in sales (app. table 1). The largest farms that grew peanuts were found in the Mid-Atlantic and Southwest regions. The Mid-Atlantic region had the highest proportion of farms with sales of \$500,000 or more in 2004, but were the least specialized in peanuts (peanuts accounted for 50 percent or more of farm production value on 12 percent of farms). Southwest peanut farms were the most specialized in peanuts (peanuts accounted for 50 percent or more of the farm value of production on 53 percent of Southwest farms). Southeast peanut farms had slightly more peanut acreage per farm than Southwest farms, but were less specialized than farms in the Southwest (peanuts accounted for 50 percent or more of the farm production value on 41 percent of Southeast farms).

Appendix table 1

Characteristics of U.S. peanut farms, 2004

Item	Mid-Atlantic	Southeast	Southwest	All peanut farms
Percent of peanut farms	11	68	21	100
Farm size (average acres):				
Operated	1,070	814**	1,062*	894*
Owned	450*	443**	411*	437**
Rented	621	371	651	457
Cropland	797	537	732	606
Sales class (percent of farms):				
Less than \$40,000	29*	42*	30*	38
\$500,000 or more	35*	14*	8**	15*
Peanut acreage (average):				
Harvested	109	162	159	156
Percent irrigated (2002)	6	32	83	41
Yield (pounds per acre)	3,589	2,811	3,517	3,022
Other crop acreage (average):				
Corn for grain	82*	61*	11**	53
Wheat	28*	28*	12**	24*
Soybeans	185	34*	0	43
Cotton	276	159*	261*	193
Tobacco	20*	id	0	7**
Production specialty (percent of farms): ¹				
Peanuts	12	41	53	41
Tobacco	id	id	0	8*
Cotton	id	12*	id	13*
General crop	37*	27*	21*	27*
Beef cattle	0	3**	id	4**

Notes: id = Insufficient data for legal disclosure; nr = Not reported due to a limited sample size and a high coefficient of variation (CV); * = CV between 25 and 50; ** = CV greater than 50.

¹The production specialty is the commodity that accounted for 50 percent or more of the farm value of production during 2004. General crop farms did not have a single commodity that met this criterion.

Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

Total Household Income and Wealth Above U.S. Average

ARMS data also show that peanut producers had comparatively high overall farm household incomes,³⁵ averaging about \$110,000 in 2004 (app. table 2). This was about 80 percent higher than the national average income for all U.S. households. In contrast to most other farm households—which receive an average of about 90 percent of total household income from off-farm sources—about two-thirds of household income of peanut farmers comes from farming activities. Most off-farm income was from wages and salaries earned by farm operators and family members.

In addition to having relatively high incomes compared with nonfarm households, peanut producers typically have greater levels of wealth. For

³⁵This refers to farm and nonfarm income to all family members in the farm household. For information on farm income and farm household well-being and how they relate to the nonfarm sector, see http://www.ers.usda.gov/Briefing/FarmIncome/fbsas-set_txt.htm.

Appendix table 2

Financial characteristics of U.S. peanut farms, 2004

Item	Mid-Atlantic	Southeast	Southwest	All peanut farms
Farm income statement				
(\$ per farm):				
Gross cash income	798,917**	284,369	281,619	338,315
Livestock sales	4,924**	11,737	11,196*	10,900
Crop sales (all crops)	695,337**	209,338	192,052	257,177
Government payments	47,817	34,866*	37,617	36,822
Cash expenses	506,099**	202,695	40,754	33,416
Net cash farm income ¹	292,819**	81,674*	97,382*	107,380*
Depreciation	53,148*	23,191	20,610**	25,819
Net farm income	394,931**	77,812*	99,692*	112,648*
Farm balance sheet				
(\$ per farm):				
Assets	1,755,697*	1,187,879**	832,078	1,172,616*
Liabilities	152,448	109,474*	94,242*	110,799
Equity	1,603,249*	1,078,404**	737,836*	1,061,817*
Debt/asset ratio	0.09*	0.09*	0.11*	0.09*
Return on equity	24.63**	6.75*	13.51**	10.61*
Farm household income				
(\$ per household):				
Total household income	166,900**	93,407*	134,380*	109,944*
Farm-related income ²	134,573**	55,349*	104,388*	74,230*
Off-farm income	32,327	38,059	29,992*	35,714
Earned sources	22,955*	28,824*	22,779**	26,903
Unearned sources	9,372	9,234	7,213*	8,811

Notes: id = Insufficient data for legal disclosure; nr = Not reported due to a limited sample size and a high coefficient of variation (CV); * = CV between 25 and 50; ** = CV greater than 50.

¹Net farm income is net cash farm income less costs for depreciation and noncash benefits for hired workers, plus the value of the inventory change in 2004 and any nonmoney income. Nonmoney income includes the value of farm products consumed on the farm and an imputed rental value for the farm operator dwelling.

²Farm related income is that portion of farm income that is accrued by the farm household. Farm-related income is net cash farm income less costs for depreciation and farmland rental income. The total is then adjusted to reflect any other households that share in the farm business income, and the farm earnings of household members other than the farm operator.

Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

the latest years available, average wealth for peanut farm households (defined broadly to include the household's current value of farm and nonfarm assets less the current value of farm and nonfarm debt) was over \$1 million compared with under \$600,000 for all farm households and less than \$400,000 for the average nonfarm household. The difference is mostly attributed to the concentration of business equity held by farm households. The portfolio of assets held by farm households is heavily weighted toward farm assets relative to housing and other nonfarm assets. In contrast, the average nonfarm household asset portfolio is most influenced by home values.

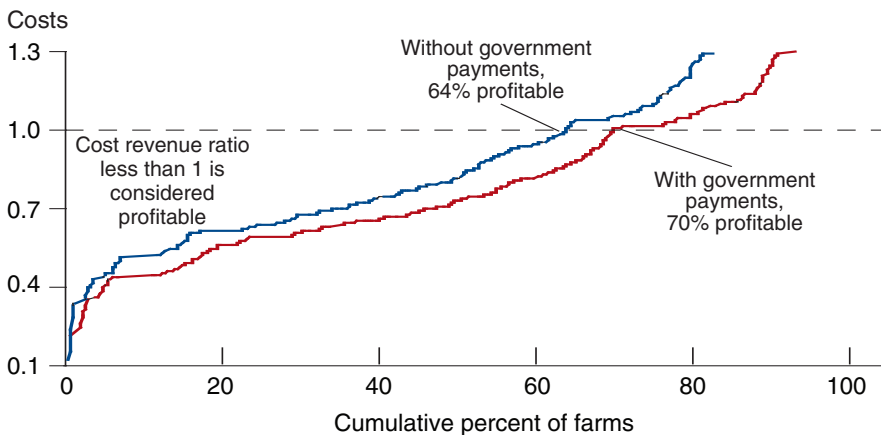
Financial Characteristics Vary by Region and Farm

While the overall picture for the average peanut-producing farm paints a picture of comparatively high incomes and wealth relative to other farm and nonfarm households, there is considerable diversity among farms and between regions. For example, total household incomes among peanut farmers in the Mid-Atlantic States (predominantly large farms with the least specialization in peanuts) were nearly double those of peanut farmers in the Southeast in 2004 (app. table 2). Average net farm income was also highest on peanut farms in the Mid-Atlantic. Peanut farms in the Southeast had the lowest net cash farm income and net farm income.

Peanut farms in the Southeast (generally smaller farms with a high percentage of peanut acreage compared with other regions) had the lowest farm-related income and the highest off-farm income. Much higher farm-related income in the Mid-Atlantic and Southwest regions boosted total household income in those regions substantially above household income on peanut farms in the Southeast.

In addition, a significant portion of peanut-producing farms have whole farm operations that are not profitable. Over one-third of all peanut-growing farms were unable to cover farm operating costs with farm-related income. Appendix figure 3 shows that 64 percent of peanut-growing farms had total farm revenues greater than costs during 2004 if one excludes government payments.

Appendix figure 3
Distribution of peanut farms by economic costs per dollar revenue, 2004



Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

Average income to operator households of farms that show positive value of production of peanuts, 2004

Item	Farms with:		
	Peanut value of production better than 50 percent of total	Peanut value of production less than 50 percent of total	All
Number of farms	*3,466	4,933	8,398
Percent of farms	41.3	58.7	100.0
<i>Dollars</i>			
Total cash farm business income	220,084	*412,306	332,988
Livestock income	*4,957	15,254	11,005
Crop income	*149,065	*325,254	*252,552
Government payments	*30,652	40,178	36,247
Other farm related income	@35,410	*31,619	*33,183
Less total cash expenses	153,031	279,849	227,519
Variable expenses	122,542	226,295	183,483
Livestock expenses	*1,909	*3,453	2,816
Crop expenses	*68,062	113,785	94,918
Other variable expenses	52,572	*109,057	85,749
Fixed expenses	*30,488	53,554	44,036
Real estate and property taxes	@1,737	4,780	*3,524
Interest on farm debt	*9,069	*15,012	*12,560
Insurance premiums	*7,948	12,300	10,504
Rent and lease payments	*11,734	*21,463	17,448
Net cash farm business income	*67,053	*132,456	*105,469
Less depreciation	#15,373	31,814	25,030
Less wages paid to operator	#1,463	*3,251	*2,513
Less farmland rental income	@335	*496	*430
Less adjusted farm business income due to other household(s)	@-25	@28,400	@16,671
Equals adjusted farm business income	#49,907	*68,495	*60,825
Plus wages paid to operator	#1,463	*3,251	*2,513
Plus other farm-related earnings	#20,590	4,079	*10,892
Equals earnings of the operator household from farming activities	*71,960	*75,825	*74,230
Plus earnings of the operator household from off-farm sources	*39,934	32,749	35,714
Earned income	*29,458	25,109	26,903
Off-farm wages and salaries	*24,858	*21,525	*22,900
Earned by operator	#13,671	*7,757	*10,197
Earned by spouse	*11,102	*13,578	12,556
Earned by other household members	#86	*191	*148
Off-farm business income	#4,600	*3,583	*4,003
Unearned income	*10,477	7,640	8,811
Equals average farm operator household income	*111,894	*108,574	*109,944
Percent from farming activities	64.3	69.8	67.5

* = The standard error of the estimate is greater than 25 percent and less than or equal to 50 percent.

= The standard error of the estimate is greater than 50 percent and less than or equal to 75 percent.

@ = The standard error of the estimate is greater than 75 percent.

d = The value is not available due to insufficient information.

Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004." Provided by Robert Green, ERS.

The number able to cover operating costs rises to 70 percent when government payments are included as farm revenues.³⁶ These numbers are similar to those of all crop farms in regions where peanut farms are located.

Farm Operator and Typology Characteristics by Region

The average age of all peanut farm operators was 53 in 2004, with 60 percent age 50 or more (app. table 4). The Southeast had the largest percentage of operators that were 50 and older and the Southwest had the most operators that were less than 50 years old. Peanut operators in retirement or holding a nonfarm job were concentrated in the Southeast and Mid-Atlantic regions. Most peanut operators in all regions were primarily engaged in farming.

The ERS farm typology combines farm characteristics, including operator occupation and farm sales, in order to assign farms into homogeneous categories (Hoppe, Perry, and Banker). The measure of farm typology used in this report classifies farms into three categories: (1) commercial farms (any farm with annual sales of \$250,000 or more), (2) rural residence farm (farms with sales less than \$250,000 and whose operators report their primary occupation as either retirement or nonfarm), and (3) intermediate

³⁶These numbers refer to the whole-farm operating costs and revenues of farms that grow peanuts, rather than simply peanut-related expenses and revenues.

Appendix table 4

Farm operator characteristics of U.S. peanut farms, 2004

Item	Mid-Atlantic	Southeast	Southwest	All peanut farms
Age	55	54	49	53
Age class (percent of farms):				
Less than 50 years	46**	32*	64**	40*
50 years or more	54*	68*	36**	60*
Education (percent of farms):				
Completed high school	91	82	98	87
Completed college	20	24**	26**	24*
Primary occupation (percent of farms):				
Farming	80	78	83	79
Retirement	8*	6*	id	7*
Nonfarm job	12**	16	id	14
Farm Typology (percent of farms): ¹				
Rural residence farms	18*	23*	35**	25
Intermediate farms	20*	38	21**	32*
Commercial farms	62	39	44*	43

Notes: id = Insufficient data for legal disclosure; nr = Not reported due to a limited sample size and a high coefficient of variation (CV); * = CV between 25 and 50; ** = CV greater than 50.

¹Rural residence farms had operators whose primary occupation was retirement or a non-farm job. Intermediate and commercial farms had operators whose primary occupation was farming. Intermediate farms had sales of less than \$250,000, whereas commercial farms had sales of \$250,000 or more.

Source: Economic Research Service, USDA, "Agricultural Resource Management Survey, 2004."

(farms with sales less than \$250,000 and whose operators report farming as their primary occupation).

The distribution of peanut farms by farm typology indicated that most peanut farms (43 percent) were characterized as commercial farms and the least (25 percent) as rural residence farms. Peanut farms in the Mid-Atlantic had the largest percentage of commercial farms (62 percent) and the least classified as rural residence (18 percent). Peanut farms in the Southwest had a large percentage (44 percent) classified as commercial farms and had the largest percentage of rural residence farms (35 percent) compared with the other regions. Peanut farms in the Southeast had the largest percentage of intermediate farms (38 percent) compared with the other regions.