Testimony of Floyd Gaibler
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before the

Committee on Agriculture, Nutrition, and Forestry
United States Senate
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Mr. Chairman and members of the committee, thank you for the opportunity to come before you and review the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). I am pleased to be able to share information that the Department of Agriculture (USDA) has obtained from our experience in administering this program for almost four years, and to suggest what we see as important areas for attention.

As you are well aware, an aim of the Congress over time in successive farm bills has been to make the commodity programs more market-oriented, i.e., to provide a safety net for producers while minimizing the influence of commodity programs on farmer production decisions and on markets. The 2002 Farm Bill altered the peanut program in that regard, from one characterized by marketing quotas and two-tiered price support to one more like the support programs of other commodities. Previously, marketing quotas limited the quantity of peanuts eligible for sale on the higher-priced domestic food market, while additional peanut production was directed to the export and crush markets.

The new peanut marketing assistance loan program provides support to all peanut producers through non-recourse marketing loans similar to that provided to producers of other commodities. This program allows peanut producers to place their production under loan at harvest when prices are typically low and receive benefits based on the statutory $355 per ton average loan rate to help pay expenses at the time of harvest. Producers may wait until market prices move advantageously before redeeming the loan collateral and selling the commodity at a higher price. If subsequent market prices do not allow producers to repay the loan profitably, the grower may forfeit the loan collateral peanuts to the Commodity Credit Corporation (CCC) in satisfaction of the loan obligation. The producer also may repay the loan at a rate announced by USDA and market the peanuts previously placed under loan.

Under the new program, peanut producers may grow any amount of peanuts and market them for food, export, or crush. Under the prior program, producers needed a marketing quota in order to sell the peanuts in the more lucrative food market. Price support under the previous program provided a high level of price support for peanuts used in domestic food and a much lower level of price support for peanuts to be exported or crushed.

The two-tiered price support program operated as a tax on consumers, who paid a higher price for food peanuts than they would have without the program. As a result, taxpayer costs for the program were virtually nil, but high prices for peanuts restrained growth in food use. Historically, more than half of annual peanut production is used for food, with the remainder exported or crushed. The high quota support rate for food peanuts reflected this comparatively high value end use and illustrates a basic distinction between the food orientation of the US market and the oil and meal demand-driven world markets for peanuts.

The new peanut program also provides for fixed, decoupled payments of $36 per ton to producers on farms for which a peanut base has been established and for market-based counter-cyclical payments to these producers with a maximum $104 per ton annual benefit during periods of low market prices. These payments provide an additional safety net to producers when economic, or other conditions beyond their control, threaten the viability of their operations.

An additional benefit that is required by the 2002 Farm Bill to be made with respect to peanuts, but not for other commodities, is the payment by CCC of storage, handling, and other associated costs, irrespective of the level of the loan repayment rate (LRR).

While we have had few problems with the direct and counter-cyclical programs, one of the most perplexing questions that has emerged is why the peanut marketing loan program does not function like the marketing assistance loan program for other commodities. That is, a very high proportion of the annual output is placed under loan; very little use is made of loan deficiency payments (LDP's). Our conclusion is that storage and handling payments encourage heavy loan placements and that holdover industry practices from the previous era are impeding price discovery, inhibiting more efficient operation of the program.

The Current U.S. Peanut Industry—Vibrant, Stronger, and More Competitive

The changes Congress made to the peanut program with the 2002 Farm Bill have resulted in a more productive and economically efficient peanut industry. Producers, no longer constrained by the old marketing quotas, are now able to grow peanuts for any market. They are able to plant on more productive acreage. Shifts in plantings have contributed to higher yields and larger annual US peanut outturn. Peanut yields under the new program are averaging 13 percent higher than under preceding farm legislation.

Domestic food use of peanuts, the largest peanut off-take category, has averaged 15 percent higher under the 2002 Act. The reduction in the support price for food-use peanuts from $610 per ton to $355 per ton has facilitated lower peanut prices for consumers. Increased peanut food product advertising and promotion by manufacturers has spurred consumer interest as well. In March 2006, while school children enjoyed their classic American staple peanut butter-and-jelly sandwich, lunch providers' budgets benefited from the lowest March peanut butter prices in 20 years!

In this regard, the new peanut marketing loan program has been tremendously beneficial. Working closely with the peanut industry, USDA has successfully established a market-oriented marketing loan program and facilitated the many accomplishments listed above. In short, producers, consumers, manufacturers and government are all doing their part to ensure the continued growth of this great industry.

In evaluating the operation of the current program, it is important that four key factors are clearly understood:

(1) price discovery limitations impede the estimation of an accurate LRR (also called National Posted Price [NPP]);[1]

(2) producers are not receiving the full benefits Congress intended from the marketing assistance loan program;

(3) government paid storage and handling for peanuts placed under marketing assistance loans stimulate loan participation and creates rigidity in marketing; and

(4) exports remain strong.

Challenges with Peanut Price Discovery

Price discovery is important to the administration of all CCC marketing assistance loan programs because it provides the requisite information for establishing an accurate LRR. The LRR allows for repayment of loans at levels that move freely in response to the dictates of supply and demand. The new peanut marketing assistance loan program established a loan rate of $355 per ton. As with other commodities, the grower is guaranteed at least this price. If the price falls below this amount, the grower can receive the difference in the form of a marketing loan benefit or forfeit the peanuts to CCC.

Finding price information with which to determine the LRR, not customarily a problem for other commodities with marketing assistance loan provisions, is a unique problem for peanuts. For example, corn producers have a combination of mechanisms that provide price transparency in the market. Corn producers throughout the U.S. have multiple marketing options, including selling to local elevators, feed lots, and ethanol plants. Corn prices are openly reported on various market exchanges by many market price reporting services. In stark contrast, the comparatively small number of peanut producers in the U.S. has limited sales options, no market exchange, and limited market price information sources.

When Congress changed the peanut program from a marketing quota program, it established a nonrecourse marketing assistance loan program in an industry without price discovery mechanisms. Previously, peanut market prices were largely determined by the program, and the peanut industry had little need for price discovery. Now that both peanut producers and USDA need farm-level market price information, very little exists. This is attributable to both the concentrated structure of the peanut industry and industry reliance on private contracts.

Recent consolidations have resulted in a peanut industry with very few buyers. Market power is concentrated among shellers, leaving few alternatives to growers in marketing their peanuts. Industry concentration, coupled with previous marketing patterns, has facilitated widespread use of private contracting in the industry.

[1] National Posted Price (NPP) is USDA's weekly approximation of the farm-level market price for in-shell peanuts. Loan Repayment Rate (LRR) refers to the rate at which a marketing loan can be redeemed in a given week. When the market price is at or below the loan rate of $355 per ton, NPP and LRR are equal. When the market price is above the loan rate, NPP increases with the market price, while LRR remains at $355.

Private contracting, a holdover practice from the earlier program and the primary method of marketing peanuts, inhibits the availability of timely, transparently established market prices. Shellers and growers enter into individual contracts, often before planting. Private contracts provide little price information to USDA and impede the development of the sort of farmer stock cash market that would improve price discovery. If the industry could be encouraged to reduce its reliance on private contracts and instead trade on the cash market like other commodities, USDA could have access to the type of price information it needs to accurately determine the weekly NPP. However, incentives to continue the use of private contracts exist, with the most compelling incentive, storage and handling payments for peanuts under marketing loan, funded by taxpayers. Because private contracts (called option contracts) require growers to place peanuts under marketing assistance loan after harvest, they take advantage of storage and handling benefits, making the contracts more profitable than they were prior to the 2002 Farm Bill.

Available Peanut Price Surveys Provide Limited Market Information

One source of price information available to USDA for establishing the weekly NPP is the Agricultural Marketing Service (AMS) shelled peanut report. This report publishes shelled peanut prices for three types of peanuts, according to the different grades, by polling sheller representatives and peanut brokers over the telephone for prices on trades made during the previous week. However, a concentration of market power on the buying end lends itself to a more restrictive trading environment in which purchases cover peanut needs for extended durations of time, and where non-disclosure clauses written into large contracts prevent parties from sharing price information with AMS. AMS peanut price reporting and reliability is thus hindered by infrequent trades, low volume trades, and the potential for manipulation of prices through selective reporting.

USDA’s experience with using only AMS prices to establish the NPP was largely negative. When USDA first began its administration of the marketing assistance loan program in 2002, it relied only on AMS prices to establish the NPP. Within four weeks of the first announced NPP, the NPP had decreased 15 percent, from a level well above the loan rate to one which resulted in the payment of $20-40 per ton in marketing assistance loan benefits. Over the course of the 2002 crop year, USDA paid $50 million in marketing assistance loan benefits, even though other supply and use factors for the crop year suggested a robust market. USDA altered its NPP source data in response to this outcome by relying less heavily on AMS prices, and marketing assistance loan outlays have since decreased.

Also, the use of a shelled price is not appropriately matched to the loan program, which is based on grower product, or in-shell peanuts. Such use would necessarily imply a minimum processing margin for shellers guaranteed by taxpayers.

Including available international peanut prices in the NPP calculation is deemed inadvisable since the reporting companies do not provide information on volumes traded, indicate whether the reported prices are quotes or actual transactions, or detail the sources of their price information. Further, trading companies do not update prices often enough, are inconsistent with their updates and have a stake in the reported price levels. USDA contracted with independent professional economic analysts to study the peanut market and make recommendations for setting the NPP. They rejected the use of prices from international sources in setting the NPP and recommended that USDA focus on domestic prices.

The only dependable source of price information on peanuts at the farm level is reported monthly in the National Agricultural Statistics Service (NASS) *Agricultural Prices* report. The NASS report is a paper survey that captures volumes traded and prices received for farmer stock peanuts, including option prices paid to farmers. However, NASS only reports a single price that encompasses all types and does so only once a month, which may reflect a 4-8 week lag in actual transaction prices.

USDA Peanut Price Discovery Efforts

In attempting to overcome these deficiencies, we have made several attempts to engage the peanut industry in cooperative efforts to obtain more accurate and timely price information. USDA efforts to enhance price discovery began in July 2003 when USDA established its Interagency Peanut Task Force to review the price discovery process. USDA assembled staff from nine agencies in the Department. The Task Force determined that the most critical component in a successful marketing loan program is accurate and timely price information. Furthermore, the Task Force said that price discovery in the peanut sector has been complicated by a lack of transparent, consistent and market-oriented transaction data. Contributing to the lack of transparency is the small and highly consolidated structure of peanut buyers.

USDA followed up on the task force findings with a meeting of all industry segments in October 2003 to discuss challenges related to price discovery and to solicit their input in developing solutions. USDA sought to improve upon the NASS price series by increasing the frequency of the NASS survey from monthly to weekly. The peanut shelling segment of the industry stated its preference for the use of AMS and/or international prices for establishing the weekly NPP. At least one of the major peanut shellers declined to participate in a weekly survey.

In 2004, USDA contracted with an independent economic consulting firm to develop a methodology for calculating the NPP. The resulting analysis focused on the use of domestic prices to establish the weekly NPP, specifically AMS shelled prices. Based on USDA's previous experience with this method, USDA continued its use of prices from multiple sources to establish the NPP.

Subsequently, USDA undertook to determine potential marketing assistance loan outlays using the methodology recommended by the independent contractor during the period when USDA experienced the only significant level of forfeitures under the new program. Beginning in late February 2005, the third party estimation of the NPP dropped below the loan rate, and the spread between this hypothetical NPP and the actual NPP widened over time. Marketing assistance loan outlays using the third party NPP were estimated to total $42 million from February to November 2005. Actual marketing assistance loan benefits paid during this period were $7 million. Assuming that payment of $42 million in marketing loan gains would have prevented forfeiture of 106,000 tons (4.9 percent of production) during the period, the monetary loss to USDA resulting from these forfeitures only added $6 million to USDA outlays.

In January 2005, in response to interest from the New York Board of Trade (NYBOT) regarding the feasibility of adding peanuts to its exchange, USDA hosted a meeting between representatives of the peanut industry and experts on futures markets from the Commodity Futures Trading Commission (CFTC), Chicago Board of Trade (CBOT), Economic Research Service (ERS), and NYBOT. Presenters discussed the criteria necessary for a successful futures market. The outlook for the peanut industry was mixed. Representatives of CBOT and NYBOT stressed that the level of interest and participation in a futures market during its first month would likely determine its ultimate success. However, sheller representatives expressed reluctance to commit to serious participation in a futures market in its formative stages.

USDA's most recent meeting with all segments of the peanut industry occurred in November 2005. USDA reviewed the status of the marketing assistance loan program, explained its reasons for not relying solely on AMS prices for establishing the NPP, and recommended program improvements. The key recommendations were for a weekly NASS farmer stock price survey by type and for shortening the loan period to require loan maturity no later than June 30. Major industry participants showed little interest in either proposal.

USDA convened its Peanut Interagency Task Force in January 2006 to perform an internal review of the NPP calculation. The Task Force affirmed the NASS farmer stock price as the best indicator of the market and recommended that USDA continue its existing method of establishing the NPP until better price information becomes available.

USDA continues to pursue the establishment of a weekly NASS farmer stock price survey by type. During March 2006, NASS met individually with shellers to solicit their participation in a weekly survey. USDA considers the more frequent update on farmer stock prices imperative to successful operation of the marketing loan program. The benefits of full participation in this survey include 1) more timely and accurate farmer stock price information for the industry and USDA, 2) reduced lag between NASS farmer stock price updates, and 3) differentiation of farmer stock prices by type. Access to prices by type will allow for a more precise repayment rate. It may also result in a lower repayment rate for runner peanuts, which make up 80 percent of US production. Because NASS combines prices for all types, it may at times include prices for comparatively high-valued types.

It is readily apparent that access to timely and accurate price information is essential to successfully operating the marketing loan program in the manner Congress intended. One possibility for ensuring that USDA has the information it needs to operate the marketing loan program is for Congress to require industry participation in a price survey should the industry continue to refuse to participate voluntarily. Without this price information, the result will be unnecessarily high loan forfeitures when the NPP is set artificially high, or overpayment of marketing loan benefits when the NPP is set too low.

Peanut Option Contracts

The use of option contracts, which require peanuts to be placed under a marketing assistance loan, hampers the development of a reliable NPP. Since the new program, these contracts almost always set the sheller price based on the USDA-determined LRR[2]. Through option contracts, shellers offer producers a premium, or option payment, above the LRR in exchange for the right to redeem the grower's marketing loan (marketing assistance loans are required under the contract) at a time of their choosing and then process the peanuts. Because a large portion of all peanuts are marketed in this manner, option contracts have precluded the emergence of a cash market, resulting in little "arms length" price discovery. This, in turn, severely limits the amount of market price information available to USDA for use in establishing the NPP. This has resulted in a circular situation. Contracting precludes availability of broadly-based, representative price information with which to establish the NPP, but the sheller contract "price" depends upon that very same USDA-set price. This situation is very different from other commodities, where price information and buyers are widely available.

Option contracts base sheller prices on the NPP and provide authority to the sheller the right to redeem a grower's peanuts. Option contracts require peanut growers to take a marketing loan at harvest, when the producer receives payment for the peanuts of $355 per ton (the loan rate) plus any option payment from the sheller. When this occurs, a producer's role in peanut marketing virtually ends, because through the option contract, the producer has authorized the sheller the right to repay the marketing loan when the sheller so chooses at the prevailing NPP.   When the repayment rate is less than $355, shellers simply obtain the peanuts they redeem at a lower cost. The removal of producers from the loan redemption decision eliminates the producer role in ensuring fair market value. By taking producers out of the mix, buyers may be able to obtain loan commodities at below true market value, with the difference funded by taxpayers through excessive marketing loan benefits. This may explain sheller reluctance to reveal market price information to USDA.

Peanut Storage and Handling Payments

Another major factor that negatively affects loan program operations is the provision requiring CCC to pay storage, handling, and associated costs for loan peanuts through the 2006 peanut crop year. These benefits are generally not available to the producers of any other covered commodity, although cotton producers may receive credit for storage (not handling) when the loan repayment rate falls below the loan rate. Paid storage and

[2] Through option contracts, the per ton price received by peanut growers is the loan rate ($355) + option. However, the per ton price paid for peanuts by shellers is the loan repayment rate (a variable price less than or equal to $355) +option. For this reason, it is peanut shellers, rather than peanut growers, who are subject to changes in the LRR.

handling exacerbates problems with price discovery and precludes the NPP from fulfilling its intended role. Like marketing loan gains, option contracts shift most of the storage and handling benefit ($48 per ton on average) to peanut shellers at the expense of taxpayers. We suggest that this is an unintended result and that Congress intended the peanut marketing loan program to work similarly to programs for other commodities, with the benefits going to producers.

Storage and handling payments create a strong incentive to continue use of option contracts and place an abnormally large share of peanut production under loan. In 2005, 95 percent of production was pledged as collateral for CCC marketing assistance loans. By comparison, a normal rate of loan placement for cotton ranges from 50-80 percent, while the rate of loan placement for corn ranges from 10-15 percent.

The heavier use of the marketing assistance loan for peanuts relative to cotton may stem in part from the unique provision for peanut storage and handling charges, regardless of the level of the repayment rate. Cotton producers who are in a position to capture a marketing loan gain may incur storage payments if cotton prices rise above the loan rate. They thus have a higher risk of adverse price movements and an increased incentive to cash in on these benefits in a timely manner through redemption of loan collateral. In contrast, this incentive does not exist for peanuts, which is evident in the rate of peanut loan collateral redemptions. Because peanut shellers do not run the risk of losing storage and handling payments with an adverse price movement, shellers redeem loans as their needs prescribe. This reduces the effectiveness of the LRR to influence loan collateral redemptions and increases USDA's risk of forfeiture. Statistical analysis suggests no correlation between the levels of the weekly loan repayment rate and peanut loan collateral redemptions. This is in sharp contrast to the experience with other commodities.

In addition to impeding the operation of the marketing assistance loan program, paid storage and handling have proven expensive. Since 2002, larger peanut production and increasing shares of peanut production pledged as loan collateral have escalated USDA costs associated with peanut storage and handling. Prior to enactment of the 2002 Farm Bill, the Congressional Budget Office estimated that peanut storage and handling would cost $74 million over fiscal year (FY) 2003-2007. Actual FY 2003-2005 expenditures plus USDA projections for FY 2006-2007 suggest total outlays for peanut storage and handling of $509 million, nearly seven times the estimate.

The decision by Congress to terminate peanut storage and handling support after the 2006 crop will help the industry to adapt to the new program and function in a manner more consistent with other commodities. The industry will have a reduced incentive to negotiate option contracts and place large portions of production under loan. Price discovery mechanisms, such as a farmer stock cash market, will likely be more robust, thereby improving market information to producers and to USDA.

Producers use the loan program. Currently, nearly 100 percent of crops placed under loan lock in the minimum price of $355 per ton. The elimination of storage and handling payments will help USDA manage the peanuts under a marketing assistance loan by encouraging loan collateral redemptions in response to market conditions, rather than program provisions.

Loan Duration

Our experience also suggests an additional adjustment that would improve effectiveness of the peanut marketing assistance loan program. Shortening the term of the marketing assistance loan to no more than six months, with maturity by June 30 each year, would mitigate market conflict between "old" and "new" crop peanuts. June 30 was the date at which old crop loans were terminated under the previous program and this encouraged the movement of peanuts from one crop into the market prior to harvest of the next crop.

Peanut Exports

Most of the criticism of USDA's administration of the peanut marketing assistance loan program focuses on the determination of the NPP. Some in the industry argue that the NPP is too high to allow the domestic industry to compete in the export market. However, we suggest that these arguments fail to recognize the fundamental changes made to the program by the 2002 Farm Bill. The program was changed from a two-tiered price support program, which distinguished between the domestic food market (with a high support price) and the crush and export markets (with a much lower support price), to a single price program. The NPP is intended as a market-clearing mechanism for all peanuts, regardless of end use. As such, the NPP reflects the combined value of all end uses, as revealed by the market price, and does not seek to direct peanuts to one market over another, as in the previous program. The NPP does not distinguish peanuts by end use or destination.

In addition, this ignores the long-term downward trend for peanut exports that began in the early 1990s. Prior to the 2002 Farm Bill, U.S. peanut exports began to decline due to increasing competition with China and Argentina. China produces 14 million metric tons (MT) of peanuts each year, while US production is 2 million MT. China has doubled its exports since the mid 1990s and improved quality. Total 2005 crop peanut exports from China are projected at 950,000 MT; U.S. 2005 crop peanut exports are projected at 234,000 MT. While a large portion of China's export increase has been to markets that previously did not import large quantities of peanuts, China has still managed to increase market share in nearly every market, including the European Union and Mexico. In both Europe and Mexico, this increased share of sales by China has come at the expense of Argentine and US peanuts.

Since 2002, U.S. peanut exports have stabilized to a consistent annual rate of around 250,000 short tons. This figure remains on par with many of the years leading up to the 2002 Farm Bill and does not indicate a loss of exports resulting from the 2002 Farm Bill or the level of the loan repayment rate.

Imports into the domestic market lend little support to the suggestion that the NPP is set too high. U.S. peanut imports have fallen 90 percent since 2001 and now comprise less than 1 percent of total use. As of March 31, 2006, imports from Argentina, our principle supplier, totaled less than 7 percent of the annual tariff rate quota that opened April 1, 2005. Put another way, 93 percent of the allowable peanut import quota remained unfilled last year. If the NPP was set too high for domestic peanuts to remain competitive, U.S. processors would likely be importing more peanuts.

USDA estimates that even a sharp reduction in the peanut LRR will capture few additional exports at a sizeable cost to US taxpayers. A reduction in the repayment rate from the 2005 season low (to date) of $330 per ton to approximately $260 per ton will likely only generate 60,000 short tons of additional exports and would add $161 million to the cost of the marketing assistance loan. This amounts to a taxpayer cost of $2,683 per additional ton of export.

Were USDA, as requested, to intentionally reduce the repayment rate to a level that would capture additional exports, it would likely present World Trade Organization (WTO) concerns. Marketing loan gains are subsidies for the purposes of the WTO Agreement on Agriculture and the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). As such, they qualify as amber box support and count toward the total U.S. support limit of $19.1 billion per year. In addition, the SCM Agreement provides that no country should cause, through the use of any such subsidy, serious prejudice to the interest of another country. When the perceived effect of a subsidy is significant price suppression, price depression, or lost sales in an individual market or in the world market, the WTO may rule as it did in the upland cotton case brought against the United States by Brazil that a subsidy creates serious prejudice.

Intentionally reducing the loan repayment rate for peanuts under USDA's marketing assistance loan program for the purpose of facilitating the export of peanuts could give rise to claims of serious prejudice under the SCM agreement. A successful challenge in the WTO on that basis would ordinarily require the U.S. to withdraw the measure or its impermissible effect. Failure to do so would then permit the complaining party to seek trade retaliation commensurate with the degree and nature of the adverse effects determined to exist.

For Consideration…

First, allow peanut storage and handling benefits to terminate with the 2006 peanut crop. This will help the peanut marketing assistance loan program adjust to more normal placement and redemption patterns. It will induce peanut loan redemptions and will likely reduce loan placements and industry dependence on option contracts. To the extent that it reduces the use of private contracts, it will improve price discovery and could foster a cash market for farmer stock peanuts, thus rendering mandatory price reporting unnecessary.

Second, establish June 30 as the date marketing assistance loans for peanuts mature each year. Under the prior peanut program, handlers cleared loan peanuts from warehouses by June 30 to ensure that storage facilities were available before the next crop's harvest began. The threat of peanuts perishing will be less of a problem under such an arrangement. Earlier maturity also will require redemption or forfeiture of peanut loan collateral at an earlier date, and thus reduces conflict that arises when "old" and "new" crops are marketed simultaneously.

And third, collect a weekly NASS farmer stock peanut price to provide USDA with dependable, timely, and accurate price information for estimating the market price and setting the LRR. If this option fails, we recommend exploring an incentive-based or mandatory price reporting system.

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Q&As
Peanut Pricing & Programs; General

Submitted by EPAS

Q: Why are peanut ending stocks projected to reach a record level in the 2005 season?

A: Despite strong growth in peanut offtake under the 2002 Farm Bill, increases in annual supply have outstripped increases in annual use, causing peanut ending stocks to rise. Several factors have contributed to large annual peanut outturn under the new program, most notably--very good yields in 2003 and 2004, and record peanut plantings in the 2005 season. In 2003, the average peanut yield was 3,159 pounds per harvested acre, compared with a trend yield (Olympic average of the preceding 5 years) of 2,647 pounds. In 2004, the average yield was 3,076 pounds, compared with a trend yield of 2,756 pounds. Shifts in the locus of production to more productive soils undoubtedly aided yields higher, but favorable weather helped, too. Yields for upland cotton, often produced on similar soils and in close proximity to peanuts, experienced similar yield increases in those years, without significant shifts in planted area. In 2005, a combination of high fuel and fertilizer prices, low prices for competing crops, and a cool, wet early-season planting period in some areas (which caused some potential corn and cotton area to be diverted to later-seeded peanuts), resulted in record peanut plantings. While yields in 2005 returned to near trend levels (2,960 pounds versus a trend yield 2,892), a record crop of 4.821 billion pounds was harvested.

Q: Current year peanut loan redemptions are reported running well behind last year's levels. What is the reason for the reported lower redemption levels?

A: On April 19, 2005 loans repaid for 2004-crop peanuts totaled 1,277,590 short tons. This year, 2005-crop peanut loans repaid on April 19 totaled 1,182,230 short tons—95,360 tons less than last season. However, in the current season, 38,818 tons of 2005-crop peanuts took a loan deficiency payment in lieu of loan entry (none last year), which when included with loans redeemed, reduces the difference from last season's pace to 56,542 tons. This difference is about the equivalent of a week's redemptions at current redemption rates.

The national posted price (NPP) for Runner-type peanuts in effect on April 19, 2006 was $342.35, compared with $378.06 a year earlier. For the entire 2005 season to date, the NPP has been well below levels of the previous season, and marketing loan benefits have been available (averaging $17 per ton on all loans redeemed and totaling $18.5 million). Conversely, for the 2004 season through April 19, no marketing loan benefits were available. The slightly slower rate of redemptions in the current season may reflect the slowing growth in some offtake components, notably food use, and weaker overall price sentiment, as reflected in the level of the NPP.

Q: What is the process that the Department uses to determine the weekly NPP? What are the factors that are used? Why is it not a transparent process?

A: The national posted price for peanuts (NPP), announced on Tuesday afternoon, becomes effective at 12:01 the following Wednesday morning and remains in effect until the next announcement occurs. The NPP announced on a given Tuesday results from the updating of a mathematical formula with any new peanut price data available during the previous week. The principle factors used in calculating the NPP are the Agricultural Marketing Service's (AMS) weekly price for medium shelled runner peanuts, and the National Agricultural Statistics Service's (NASS) monthly average price received for peanuts by farmers. The former price is reported on Friday afternoon and the latter is available at the end of each month. The NPP determined from the formula is for medium Runner-type peanuts. The repayment rates for the other 3 types are derived from the runner repayment rate by adjusting them by the same values for uniform marketing loan benefits across peanut types.

USDA initially used only AMS peanut prices in its weekly repayment rate determination. However, almost immediately the prices reported by AMS plunged precipitously and marketing loan benefits soared. USDA subsequently determined that the exact formula for the weekly NPP would not be made publicly available, in order to minimize the potential for manipulating the result. While the exact formula is not currently published, USDA has widely announced the sources and types of information employed in the weekly rate determination process. Thus, interested parties following the AMS and NASS publicly reported prices should have a reasonable expectation of the future direction of movement in the NPP. As compared to some repayment rate determinations for other commodities, the process for peanuts is less transparent than for upland cotton and somewhat more transparent than for rice.

Q: The peanut industry is forecasting that up to 500,000 tons of 2005-crop peanuts under loan will be forfeited this year. Does the Department agree with that estimate? Doesn't this high level of forecast forfeitures reinforce the position by some that the NPP is set too high above market-clearing levels?

A: In November 2005, USDA officially forecast potential forfeitures of 2005-crop peanut loans at 165,000 short tons. This estimate was based on November 2005 expectations concerning the supply and use factors forecast for the remainder of the 2005 crop year and expectations concerning the 2006 peanut crop. Since this estimate was made, all major components of 2005 offtake have weakened somewhat, while the 2005 crop has been estimated about 80,000 tons larger. Conversely, prospects for the 2006 crop of peanuts currently appear lower than earlier estimated by as much as 100,000 to 150,000 short tons. Considering these largely offsetting developments, USDA's official estimate of 165,000 tons appears to remain reasonable. It is worth noting that, to date there have been no forfeitures of 2005-crop peanut loans. Projecting the level of forfeitures that may occur several months into the future is very imprecise at this stage of the season. The actual level of forfeitures, if any, will be heavily influenced by prospects for the 2006 crop, the majority of which will be planted in May.

Q: Some in the peanut industry have suggested that use of the NASS average price received by farmers for peanuts in the calculation of the weekly NPP causes a upward spiraling effect on the NPP, particularly where the prices reported to NASS reflect the tendency of buyers to base the prices they pay off the NPP itself. Does USDA agree?

A: The tendency to write peanut purchase contracts based upon the level of the NPP is troublesome, principally in that these practices can limit the amount of true market-based price information otherwise available for establishing the weekly NPP. However, USDA does not believe that use of NASS prices necessarily causes the weekly NPP to ratchet upward. The NPP itself is always based upon historical price information, and thus is not intended to be a forecast of current or future market prices. USDA believes that even if the NPP were so misinterpreted, market participants would choose to simply ignore the NPP in their future buying decisions in cases where the NPP was out of line with the true supply-and-demand determined, market-based price. Currently, the weekly NPP is about $50 per ton below the most recent full-month price reported by NASS—lending little support to the argument that there is a close tie between the NPP and the NASS price. Too, the NASS price is not the only reported price used in the weekly NPP calculation. Consequently, the weekly NPP may be observed to increase or decrease even when there is no new NASS-based price information available.

Q. The industry has raised concerns that the NPP is too high and erodes our ability to be competitive in exports. What is the Department's response?

A. In asserting that USDA should lower the peanut repayment rate to facilitate exports, the peanut industry is confusing the single price marketing loan program with the two-tiered price support program that existed prior to 2002. Previously, the peanut program provided price support at two different levels. A limited quantity of peanuts destined for the domestic food market (those produced under a marketing quota) were supported at a high price, while additional peanuts, destined for the export or crush markets, were supported at a low price. When Congress established the peanut marketing loan program in the 2002 Farm Bill, it established a National Posted Price (NPP) to act as a market-clearing mechanism for all peanuts, regardless of end use. The NPP reflects the combined values of all peanut end uses and does not seek to direct peanuts to one market over another. Suggestions that the NPP be employed differently run contrary to program intent.

USDA maintains that the NPP is set at a competitive level. Peanut exports have remained consistent at 250,000 tons in the years following the 2002 Farm Bill. Imports have fallen 90 percent since 2001 and now comprise less than 1 percent of total use. Last year, 93 percent of the allowable Argentine peanut import quota remained unfilled. If the NPP was set too high for domestic peanuts to remain competitive, U.S. processors would likely be importing more peanuts.

Q. If the peanut industry voluntarily provided farmer stock peanut price quotes to USDA or to a third party, would this be sufficient farmer stock peanut price information for the National Posted Price (NPP)?

A. USDA prefers to utilize publicly available, transparently-reported price information for determining the loan repayment rates for the various marketing loan commodities. With most other commodities, USDA has access to prices for trades made on cash and futures markets, or from third party entities with no financial interest in the reported prices.

With peanuts, verifiable information of this nature is not available, so USDA relies on government surveys to provide the prices used in determining the loan repayment rate. Peanut shellers and brokers voluntarily report shelled peanut price quotes over the telephone in a weekly Agricultural Market Service (AMS) survey. Because many contracts between shellers and manufacturers contain non-disclosure clauses, AMS captures relatively few trades. AMS prices are frequently accompanied by subjective descriptions of the trading activity, such as "very light", "light", etc, meaning that trade volumes are expressed in wide ranges. The voluntary nature of the survey can result in selective reporting of peanut trades.

By comparison, the National Agricultural Statistics Service (NASS) collects farmer stock peanut prices and volumes from first handlers (shellers and buying points) on a monthly basis through a paper survey, and is able to represent prices for a large proportion of U.S. peanut production.

USDA has requested industry participation in a weekly farmer stock price survey to be conducted by NASS. As USDA works to secure industry participation in a NASS survey, the peanut industry has proposed to provide farmer stock peanut price quotes to either AMS or a third party. However, AMS has yet to approve a change in its shelled peanut price survey. Any future change notwithstanding, an AMS farmer stock price survey might carry the same risk of selective reporting. To consider a third party farmer stock price source in the NPP calculation, USDA would likely need to verify that the collection methods produce a true market price and that the third party had no financial interest in the prices.

Q. Why does it appear that U.S. peanut exports have dropped since the 2002 Farm Bill?

A. U.S. peanut exports have been trending lower since the mid-1990s, when China began to boost its peanut exports. At 1,000,000 short tons for 2005, Chinese peanut exports now total more than twice the levels (385,000-469,000 tons) of the mid-1990's.

Under the 1996 Farm Legislation, U.S. producers could no longer carry over quota under-marketings from year to year. Producers thus had a significant incentive to over-plant to ensure adequate production of quota peanuts. These additional peanuts were then directed to the export or crush markets. Supported at $132 per short ton, U.S. peanut exports traded at world prices because they had no alternative marketing outlet (aside from a limited crush market). Thus, production of peanuts above that necessary to meet quota needs likely inflated U.S. peanut exports beyond what they would have been in the absence of the marketing quota program.

Export levels since the 2002 Farm Bill have stabilized to around 250,000 short tons annually. USDA does not see significant growth potential for U.S. peanut exports.

Q. How many more U.S. peanuts could be exported with a lower loan repayment rate?

A. Assuming pre-2002 market shares for U.S. peanut exports, USDA estimates an export potential of 120,000 short tons (in shell) above 2005 levels. However, this level of exports supposes pre-2002 peanut export price support of $132 per short ton and no price reaction by U.S. competitors. Given the realities of the export market, USDA's Foreign Agricultural Service estimates that U.S. peanut exporters could achieve half of the 120,000 short ton amount, or 60,000 short tons of additional exports, with a price cut to $260.

Since the beginning of the 2005 peanut crop year, the peanut loan repayment rate has ranged from $330 to $350 per short ton, with 2005 crop marketing loan benefits projected at $28 million. Estimated marketing loan gains for a $70 decrease in the LRR ($330-$260) for the 2.3 million short tons under loan are $189 million. USDA could expect to pay an additional $161 million in marketing loan gains for 60,000 short tons of exports. Put another way, U.S. taxpayers would have to pay $2,683 for each additional ton of peanuts exported.

Efforts to significantly increase U.S. peanut exports beyond their current market-determined level will likely result in massive marketing loan benefits and maximum counter-cyclical payments. If the LRR is established at this low level, it will impact the prices used to calculate counter-cyclical payments and likely lead to maximum annual CCP outlays of about $201 million per year.

Q. What are the trade implications to dropping the loan repayment rate to facilitate peanut exports?

A. Marketing assistance loans are considered trade-distorting subsidies under the WTO Agreement on Agriculture. As such, they are determined as amber box support and count toward the current total U.S. product-specific amber box support limit of $19.1 billion per year. Reducing the loan repayment rate to facilitate the export of peanuts would increase amber box support, making it more likely that the United States would reach its limit on trade-distorting support. In addition, such an action might encourage increased scrutiny of the peanut program by WTO members, especially if peanut exports were to increase significantly.

Q. What were the projected costs for the peanut program (including quota buyout costs) over the life of the 2002 Farm Bill? How does that compare to actual costs? Why are they different?

CBO estimate of peanut program outlays on 5/1/02 by fiscal year (in million dollars)

	2002	2003	2004	2005	2006	2007	Total
Direct payments	63	63	63	63	63	63	378
CCP	0	181	181	181	181	180	904
MLG/LDP	0	147	144	140	137	141	709
Storage/handling	0	15	17	17	17	8	74
Subtotal	**63**	**406**	**405**	**401**	**398**	**392**	**2,065**
Quota compensation	0	910	130	130	130	0	1,300
Total (includes quota buyout)	**63**	**1,316**	**535**	**531**	**528**	**392**	**3,365**

Actual costs (through 2005) and projected costs for peanut program by fiscal year (in million dollars)

	2002	2003	2004	2005	2006	2007	Total
Direct payments	0	97.3	70.7	69.1	61.9	56.3	349.3
CCP	0	161.1	98.1	191.1	165.4	180.6	796.3
MLG/LDP	0	49.7	0	6.5	28.0	0	84.2
Storage/handling	0.2	87.1	90.3	99.6	124.3	107.7	509.2
Subtotal	**0.2**	**395.2**	**259.1**	**366.3**	**379.6**	**344.6**	**1,745**
Quota compensation	0	1,221.1	10.3	5.6	12.3	0	1,249.3
Total (includes quota buyout)	**0.2**	**1,616.3**	**269.4**	**371.9**	**391.9**	**344.6**	**2,944.3**

Projected CBO costs for the peanut program were $3.4 billion through FY 2007. Actual costs (using USDA projections for 2006 and 2007) over the period are $2.9 billion. Projected and actual costs differ significantly in two areas: marketing loan benefits and storage and handling payments for peanuts under marketing loan.

CBO projected annual marketing loan benefits of around $140 million, while the highest actual marketing loan outlay totaled $50 million in FY 2003. FY 2004 (and projected FY 2007) marketing loan outlays were $0.

However, large storage and handling payments for peanuts under marketing loan offset most of this savings. CBO projected $74 million for storage and handling payments through FY 2007 (the benefit will end after crop year 2006), while actual storage and handling over the period totals $509 million.

The difference is attributable to both larger peanut production and increasing shares of peanuts being placed under marketing loan. Since crop year 2002, peanut production has sustained healthy annual increases, culminating with the record 2005 peanut crop, which was 45% higher than 2002 production. At the same time, the peanut industry has steadily increased the share of peanut production going under marketing loan, thereby raising costs for storage and handling. The share of peanut production put under marketing loan in crop years 2002, 2003, 2004, and 2005 was 40%, 80%, 91%, and 95% respectively.

Q: What are the opportunities to utilize forfeited peanuts in international food aid programs?

A: The Department will consider any requests from recipients through the program agencies, the U.S. Agency for International Development and the Foreign Agriculture Service. However, we have not received requests for peanut products. This lack of requests may be in part due to preferences of the recipients, and from concerns with respect to the shipping and storage of products with a limited shelf life.

Q: The peanut industry claims that the high NPP is responsible for a temporary halt in peanut shelling operations. What is the Department's response?

A: USDA sees no evidence that this is the case. The peanut industry continues to redeem peanuts from under loan at a pace of 35,000-45,000 short tons per week. If the NPP is too high and shelling operations are shutting down, why does the industry continue to redeem large quantities of peanuts?

Q: Did the Secretary receive any feedback on the peanut program during the 52 farm bill listening sessions held throughout the United States last year?

A. During the 52 listening sessions held throughout the United States, the Secretary received only two comments concerning peanuts. Both provided positive feedback on the program. Neither comment mentioned the marketing loan. Comments on the marketing loan program did not surface until farm bill hearings hosted by the U.S. House of Representatives' Committee on Agriculture. During two separate House hearings, representatives of the peanut industry provided the same verbatim testimony that criticized USDA's setting of the peanut loan repayment rate.

Peanut Q&A submitted by DACO

Q: **What is the Department's policy of disposition of forfeited peanuts? What factors are considered on whether peanuts are sold on a restricted or unrestricted basis?**

A: While disposition options include shelling and storing the peanuts or using them for Food Aid Programs (which may involve value-added products), it is the Department's general policy to sell forfeited commodities as rapidly and orderly as possible to avoid excessive government costs in storing the commodity. At the same time, it is a statutory requirement that commodity sales may be made at any price that the Secretary determines will maximize returns to the Commodity Credit Corporation.

The volume of forfeitures has a bearing on Department policy. Peanuts forfeited to the Commodity Credit Corporation from the 2002 crop of peanuts (3,000 tons) were all sold through negotiated sales. Storing warehouse operators were given the opportunity to negotiate a sale before any potential third party buyers. Forfeiture of 2004-crop peanuts totaled about 105,000 tons, which were made available for sale to all potential buyers at the same time. Nearly 73,000 tons were sold last fall, shortly after loan forfeiture, as unrestricted use sales. The remaining quantity from the 2004 crop was sold from January through March, with several sales methods tested, including sales for unrestricted use, restricted use (crush only), and using an auction sale format rather than negotiated sales.

The restricted use sales generally resulted in lower sales proceeds than unrestricted use sales. Accordingly, the Department may normally be inclined in future sales to sell peanuts as unrestricted use. While farmer-stock peanuts may suffer quality problems with excessive storage periods, this should not enter into Department decisions with respect to restricted use sales, as warehouse operators may rotate company-owned new crop peanuts in place of their receipted obligations for old crop peanuts.

Q: How are peanuts provided in school lunch and other department feeding programs?

A: Peanut butter is provided to the school system through the National School Lunch Program administered by the Food and Nutrition Service (FNS). It is shipped in 500-pound barrels which are sent to processors to be further processed into peanut butter sandwiches. Peanut butter is also provided in 5-pound jars to be used to make peanut butter sandwiches at the school, and used in such desserts as brownies and cookies. Peanuts are provided in 5-pound vacuum sealed packs and are distributed to children in small cups as whole roasted peanuts. Peanuts are also a small percentage of trail mix used in the school lunch program.

In Fiscal Year (FY) 2005 the Kansas City Commodity Office (KCCO) procured 31,495,213 pounds of peanuts and peanut products (mostly peanut butter) for FNS at a cost of $20,961,373. So far in FY 2006, KCCO has purchased 13,004,691 pounds of peanuts at a cost of $8,523,846. Although peanuts are used in other FNS programs such as: the Commodity Supplemental Feeding Program, The Emergency Food Assistance Program, and the Food Distribution Program on Indian Reservations, the majority are purchased for the School Lunch Program.

Submitted about DFQF

Q: U.S. peanut producers are concerned with the potential impact of a Doha round proposal to provide duty free, quota free access (DFQF) access for

products exported by Least Developed Countries. How does the Administration intend to address these concerns?

A: The language adopted at the Hong Kong Ministerial on duty-free and quota-free access for Least Developed Countries (LDC) is prospective in nature.

Specifically regarding peanuts as part of the DFQF commitments in Hong Kong, the commitments remain only general in nature. No product specific commitments have been made.

The Department of Agriculture and the U.S. Trade Representative are well aware of industry's concerns in this matter. We will keep those concerns in mind and consult with affected parties when we get to the stage of developing specific proposals to implement DFQF commitments.

The change to a more market oriented program in the 2002 Farm Bill has reduced the attractiveness of the U.S. market to imports. U.S. peanut imports have fallen 90 percent since 2001 and now comprise less than 1 percent of total use. As of March 27, 2006, imports from Argentina, which enjoy duty free access via the Generalized System of Preferences for its WTO quota allocation, totaled less than 7 percent of the annual tariff rate quota that opened April 1, 2005.

The U.S. is committed to ensuring that the DDA will be successful, and continues to work diligently in every reasonable fashion to achieve this goal.

However, at this stage, the lack of ambition particularly in agricultural market access is strongly hampering a timely, meaningful conclusion.

General and HOT Issues

ECP – Emergency Funding

Q: When Congress appropriated funds for the ECP they intended these funds to be utilized ASAP. Why are ECP funds not yet available to producers in the 2005 Gulf of Mexico hurricane affected States?

A: FSA had previously allocated to State over $31 million in ECP funding to address hurricane damages. These funds were made available because States were able to return ECP funds because of wise and prudent use of available funding.

Funding has yet to be apportioned to FSA. When funds become available ECP funds will be allocated to States to be available until expended.

Provisions in the language of the Emergency Supplemental Appropriations provided for assistance in areas not normally covered by the ECP and regulations need to be published before funds can be used in these new areas.

New practices need to be developed with an assurance that public funds will be used to achieve the goals of the program while ensuring program integrity.

Background:

When the hurricanes happened, there were very limited ECP funds available nationwide. FSA sent out directives to request that States that had any ECP funds available to return them to National headquarters to be reallocated to hurricane affected States. FSA was able to allocate $31 million because of wise and judicious use of ECP funds nationwide.

The President signed into law the Military Construction Appropriations and Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006, on December 30, 2005. This bill provided $199,800,000 for the ECP and included language to make payments for components that were not currently eligible under the ECP regulations. ECP regulation must be amended to include provisions for oysters, nurseries, forestry and poultry houses before any ECP funds are obligated for these new components.

FSA is working with various agencies and interest groups to obtain information on how to best utilize public funding to address these new components of the ECP.
New practice must be developed that will provide the level of coverage expected by Congress when they provided ECP funding and to ensure that ECP funds are used wisely and judiciously.

ECP – Emergency Funding

Q: Will FSA be able to accomplish the goals of the program with the amount of funds appropriated?

A: The need for funding currently exceeds the amount of funds available. We can provide assistance on a first come-first served basis or we can prorate the funding to provide assistance at a reduced level to more people. We wish to appease as many people as possible but at the same time address the concerns of Congress. Whichever way we go – someone will not be happy.

With limited ECP funding all of the goals and objectives stated in the Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006, cannot be met.

Background:

The ECP has, for many years, been funded by supplemental appropriations, as the need arises. Congress has always provided ECP funding to assist farmers and ranchers in times of natural disaster to get back on their feet and be productive. The magnitude of disaster damage from these hurricanes was the worst ever in this country's history. The ECP is being asked to provide assistance on things that are not normally assisted with.

FSA is working to providing needed assistance and hopes that with wise and judicious use of ECP funding that the funds provided will be adequate. As thing look right now, the funding does not appear to be sufficient to provide complete coverage for all agricultural producers affected by the gulf hurricanes.

ECP – Emergency Funding

Q: Will States be able to receive compensation through the ECP for the clean-up of public oyster beds?

A: States are not currently eligible for ECP assistance. We believe the recently enacted law intends that States be eligible to receive compensation for oyster bed rehabilitation and refurbishment. Therefore, we are providing language in the ECP amended regulations to provide for this.

We have been informed by OGC that there is no authority under the ECP to provide for grants to States under the ECP. We may pay cost shares to the State government or its agencies; however, a State and all of its agencies would be considered 1 person and limited to 1 payment limitation of $200,000. We are considering amending the pay limitation for States that implant oyster bed restoration.

Background:

The Bill provided for the rehabilitation and refurbishment of public and private oyster beds. Public oyster beds are the domain of the States. ECP does not normally provide assistance to State governments or its agencies. ECP regulations are being amended to permit assistance with State governments. However, each State government is considered to be 1 person, for person determination purposes, and therefore, only eligible as 1 person for payment limitation purposes. Under the ECP this limitation is $200,000 per person per disaster.

ECP – Emergency Funding

Q: Technical assistance, to ensure that these projects are correctly completed, will have to be completed. Will there be sufficient resources available to have adequate technical assistance?

A: We believe that we can provide the needed technical assistance for most of the areas covered in the Bill, except that we are not sure of how to handle oysters. We are currently looking into this aspect of the program.

We believe that we can provide sufficient assistance for the forestry component of the bill through the Forest Service and the use of State Foresters. It will take some time because of the massive damages incurred by the hurricanes.

We are working on standards and specifications that need to be addressed when reconstructing or repairing a poultry house. We are working with the poultry industry to develop standards for the reconstruction of damaged facilities.

We appreciate the continued dedication of our FSA staff in the impacted counties. Their tireless effort in taking care of the farm community is exemplary in Federal Service.

Background:

Under the ECP, up to 10 percent of the ECP allocation may be used for technical assistance. There are times that technical assistance must be utilized to ensure practice integrity. However, in many cases, FSA personnel are capable of providing the needed technical assistance and no outside assistance is needed. When FSA does the technical assistance themselves, this saves more funds to be used for farmers and ranchers.

Technical assistance is required where a practice needs detailed technical work that FSA cannot provide. FSA has used the NRCS as the technical service provider for the ECP. However, for this endeavor, the NRCS has indicated that they may not be able to provide the needed technical assistance and FSA will need to look outside of NRCS for additional technical assistance. Additionally, FSA will need detailed expertise for oyster rehabilitation and refurbishing and for forestry assistance.

ECP – Fires (TX and OK)

Q: There are major wildfires going on in Oklahoma and Texas. Is the ECP being utilized to assist farmers and ranchers who were affected by these wildfires?

A: The ECP has in the past and will in the future provide assistance to farmers and ranchers affected by wildfires, as funding permits. ECP funds are in great demand and there may a time when ECP funds are not available.

The ECP will repair or replace fencing damaged or destroyed by wildfires.

FSA has provided a waiver to assist some producers in Oklahoma whose damage was by wildfires that were not naturally started.

Background:

FSA will provide ECP funding to address wildfire damages in Oklahoma and Texas, as funding permits. There are many different natural disasters occurring throughout the nation. Droughts, floods, tornados, hurricanes, and severe storms continue to occur in many different States. Limited ECP funds will be used as wisely and judiciously as possible.

The majority of eligible ECP work involves the repair and replacement of fences burned by the wildfires.

ECP assistance is limited to wildfires that are naturally started, such as lightening. Fires that are man caused (like arson) are not normally eligible under the ECP. The Deputy Administrator has approved ECP assistance for all wildfires in Oklahoma (even man caused fires) because the natural conditions (dry, drought, high winds) fanned the flames to such a degree that the wildfires became a natural disaster.

ECP – Fires (TX and OK)

Q: Will there be enough ECP funds provided to address all the needs of the Oklahoma and Texas farmers and ranchers?

A: Currently the demand for ECP assistance exceeds the supply. FSA will be able to provide ECP assistance to producers in Oklahoma and Texas to address the needs brought on by the wildfires. However, the ECP funding provided may not be all that was requested.

Background:

Request for ECP funding has continued to come in throughout the year. The damages from hurricanes in the Gulf of Mexico were unprecedented and Congress has provided $199,800,000 to address those damages. However, continued drought conditions, flooding from heavy rains, tornado damages spawned from severe storms, and wildfires in Oklahoma and Texas, continue to put a drain for ECP funding.

Through judicious use of ECP funds by States, we currently have a reserve of approximately $18 million available to allocate to States. We plan to use these funds to address the needs of States affected by other than hurricanes from the Gulf of Mexico. We have more requests for more than the ECP funds available. We believe that we can allocate funds to address the needs of States with the funds available. However, if requests continue to pour in – then the ECP funding will not be sufficient.

CRP – Emergency Forestry

Q: What is the status of the CRP Emergency Forestry Program?

A: FSA is in the process of finalizing decisions and drafting the rule. Plans are for the rule to be published and software issued by late spring.

We anticipate starting sign-ups in June 2006.

Background:

In December 2005, Congress passed a resolution amending the Food Security Act to include the Emergency Forestry Conservation Program. Public law 109-148 provided for enrollment in the States suffering forestry damage directly related to hurricanes Katrina, Ophelia, Rita, Dennis, and Wilma. The program shall be used to restore land through site preparation and planting of similar species as existing prior to hurricane damages or to the maximum extent practicable with other native species. Producers in Alabama, Florida, Mississippi, North Carolina, and Texas counties declared primary presidential or secretarial disaster areas in 2005 because of hurricanes are eligible to apply for assistance. The Farm Service Agency is charged with managing the Emergency Forestry Conservation Reserve Program (EFCRP).

$404.1 million in funds

Eligibility (per county)

- 35% loss of merchantable timber (6” at 4.5 DBH)
- Non-industrial private forestland (NIPF)

Payment

- Lump sum
- Annual payment
- Cost-share at 50%
- $50,000 payment limit applies
- CRP policies apply

CRP Reenrollments and Extensions

Q: What is the status of CRP reenrollments and extensions?

A: In January 2006, FSA began notifying producers of expiring 2007 CRP contracts (16 million acres) of their status for reenrollment (3.2 million acres of new 10 to 15 year contract) or extension (12.8 million acres of 5, 4, 3, 2 year contract). The basis for their ranking will be the original EBI score not including the cost component plus 25 points awarded for offers within a National Conservation Priority Area.

Almost every expiring contract will be provided an opportunity to reenroll or extend the contract. A few producers in counties above 25% may not be provided an opportunity to reenroll or extend.

Reenrolled contracts will be paid using updated soil rental rates. Extended contracts will be paid the rental rate on the existing contract. Contracts with wetlands that are reenrolled will receive a 15 year contract.

FSA will conduct a compliance review on each contract proposed for reenrollment or extension. We want to ensure that any reenrolled or extended contracts are not full of noxious weeds or invasive plants. Producer will be charged a fee from $45 to $500 for compliance.

All re-enrolled land will have a new conservation plan. All extensions will have pen and ink changes to their contract. Contracts that expire in 2007 will be approved for reenrollment or extension by September 30th of this year.

FSA began notifying producers with contracts that expire 2008, 2009 or 2010 in April 2006.

Background:

On August 4, 2004, President Bush announced the Administration's commitment to full enrollment of CRP up to 39.2 million acres. To ensure that the benefits of CRP continue, the President announced that USDA will offer early reenrollments and extensions of existing contracts to current CRP participants.

CRP – Northern Bobwhite Quail Initiative

Q: What is the Conservation Reserve Program's Northern Bobwhite Quail Initiative? What are its benefits/results?

A: President Bush announced the Quail Initiative on August 4, 2004. The initiative is aimed at creating 250,000 acres of habitat for the northern bobwhite quail and other upland bird species. Limited to the historic 35-State range of the northern bobwhite quail, an estimated 750,000 birds annually are projected to increase through this targeted initiative. The Manager's Report to the 2002 Farm Bill encouraged creation of the initiative. In a relatively short time, FSA has already enrolled over 90,000 acres of new quail habitat.

Q: What are the costs? How much is its budget?

A: An estimated $125 million to participants will be made. Of CRP's 39.2-million-acre enrollment authority; 250,000 acres have been budgeted.

Q: How is it authorized? When is it due to expire?

A: The initiative was announced by President Bush on August 4, 2004, and enrollment began October 1, 2004. The initiative is authorized by the Conservation Reserve Program which was established by Title XII of the 1985 Farm Bill and is currently authorized through December 31, 2007.

Q: What is the status of the correction process for Tobacco Transition Payment Process (TTPP) Contracts?

A: The correction processes have been/are being developed and deployed in phases. The following correction processes are currently in production:

- Cancel of contracts being held in "In Dispute" status prior to the final approval
- Splitting of a contract using the CCC-971 process, when the original contract holder dies and the original contract is split among heirs
- Cancel payment

Background:

As of 04/20/06, there are twenty contracts, not in "In Dispute" status waiting to be paid. Of those 20, seven are from 2005 and thirteen are from 2006. Fifteen of the 20 have subsidiary eligibility issues, or no members recorded in the entity. All fifteen require action of the contract holder to resolve. Five are in the 30 day appeal period to expire. These twenty outstanding payments total $15,221.80.

Software is in development for the more complicated corrections process which deals with contracts that have under- or over-payments, and the ability to create receivables. The development of this software was delayed to allow time to complete the 971 (contract transfer requests due to death or among family members) process. There were 4,645 requests with 7,125 resulting contract transfers. It is expected that this software will be in production by July 14, 2006.

The software for under-/over-payments will primarily address contracts where something on the original contract was improperly agreed to and signed. Careful policy adjustment and complex software processes are both required to correct these situations. In some cases, corrected 1099's will also be required. Under-/over-payment processing will be used on contracts where:

- the tax payer ID number was incorrect,
- the person named on the contract had been deceased for several years before the contract was written (before the program's inception is some cases),
- pounds were incorrect due to data entry errors.

There are approximately 600 contracts in this category, totaling approximately $2,150,000.

Q: **Why is FSA raising its guarantee fees and what are fees expected to be for FY 2007?**

A: Fees are being increased to reduce Federal budget deficits. The Department issued guidance which requires guaranteed loan fees to be structured to reduce budget authority in fiscal year (FY) 2007.

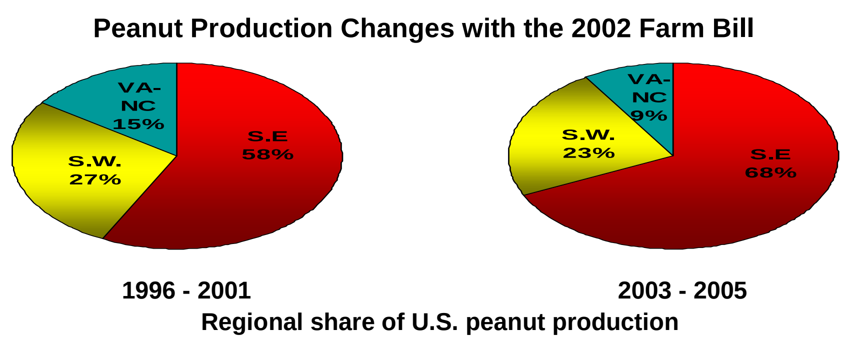
Guaranteed Farm Ownership (FO) and Operating loan (OL) origination fees will be raised from the current 1.0% to 1.5%. In addition, Lines of Credit originated in FY 2007 will be charged a 0.75% continuation fee annually. FO loans and OL with a structured repayment schedule (non-revolving term loans) will not be charged an annual fee.

FSA will be able to adjust the fees annually, based on program costs or other factors.

Q: Will the fee increase prevent any producers from obtaining credit?

A: We do not expect there to be much adverse impact on FO loans. These are long term loans and a 50 basis point increase, which can be financed with loan funds, should have minimal effect on the cash flow. However, the impact will be much greater on OL loans. These are short and intermediate term loans and any fee increase has a greater effect on the operation. The lines of credit will have the largest fees and will be impacted to the greatest extent. Some marginal operators will be unable to obtain guarantee credit and may have to rely on the more limited and expensive FSA direct OL program, or be put out of business.

Chart 1

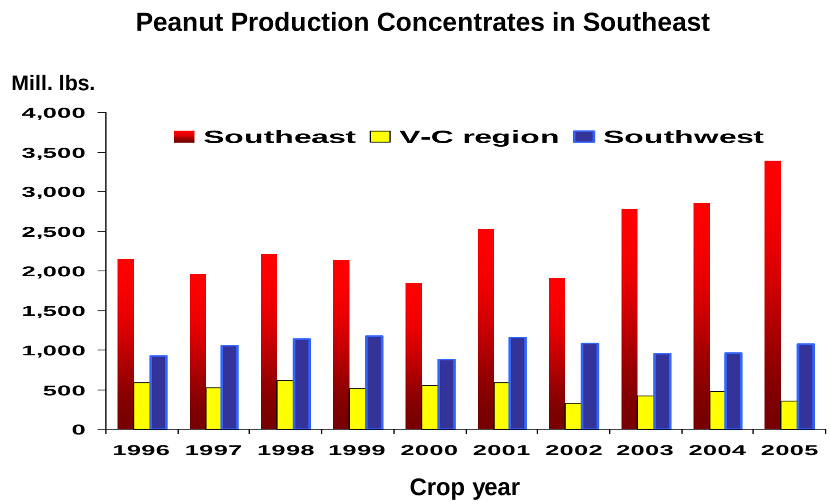


- Southeast's share rises to 68% on gains in Georgia.
- Southwest production declines led by Oklahoma
- VA-NC's share decreases from 15% to 9%.

PEANUT PRODUCTION SHIFTS UNDER 2002 FARM BILL

PRODUCTION (1,000 lbs)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ALABAMA	449,805	372,490	432,415	448,050	271,180	532,325	379,800	508,750	557,200	613,250
FLORIDA	236,160	226,060	233,100	260,380	213,710	250,100	197,800	345,000	364,000	410,400
GEORGIA	1,433,770	1,333,830	1,511,655	1,400,800	1,328,400	1,711,620	1,313,000	1,863,000	1,817,800	2,152,500
SOUTH CAROLINA	32,550	30,450	28,175	25,300	29,500	30,600	19,140	57,800	112,200	168,000
MISSISSIPPI										44,800
SOUTHEAST	**2,152,285**	**1,964,830**	**2,205,345**	**2,134,530**	**1,842,790**	**2,524,645**	**1,909,740**	**2,774,550**	**2,851,200**	**3,388,950**
NORTH CAROLINA	367,500	329,640	397,155	298,840	338,250	356,475	210,000	320,000	367,500	288,000
VIRGINIA	219,260	191,250	221,250	218,120	210,375	234,750	119,700	95,700	104,000	66,000
VA.-CAROLINA	**586,760**	**520,890**	**618,405**	**516,960**	**548,625**	**591,225**	**329,700**	**415,700**	**471,500**	**354,000**
TEXAS	689,000	822,150	917,900	926,800	698,500	895,900	868,000	810,000	803,700	910,000
OKLAHOMA	195,210	184,800	159,750	189,600	120,600	197,890	159,600	98,000	102,300	105,600
NEW MEXICO	37,950	46,710	62,040	61,600	54,990	67,044	54,000	45,900	59,500	62,700
SOUTHWEST	922,160	1,053,660	1,139,690	1,178,000	874,090	1,160,834	1,081,600	953,900	965,500	1,078,300
TOTAL U.S.	**3,661,205**	**3,539,380**	**3,963,440**	**3,829,490**	**3,265,505**	**4,276,704**	**3,321,040**	**4,144,150**	**4,288,200**	**4,821,250**

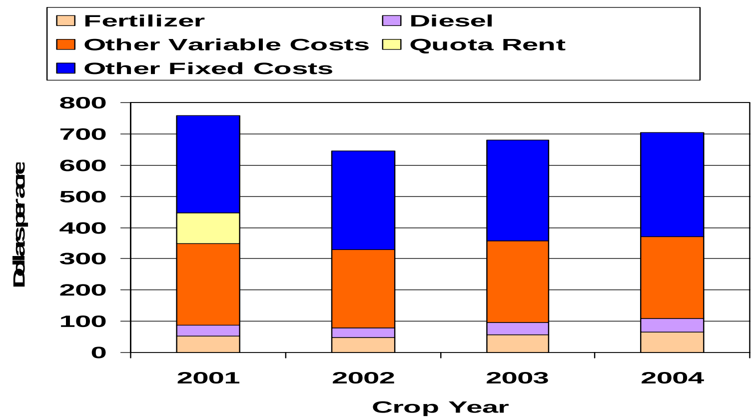
Chart 2



- Southeast's increase more than offsets declines in V-C and Southwest

Chart 3

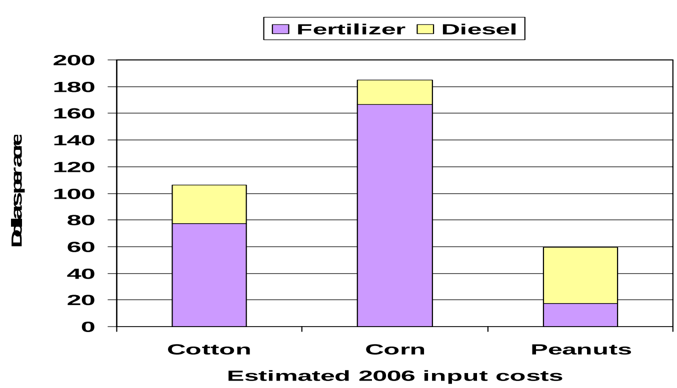
Producers Benefit from Lower Peanut Production Costs Under the 2002 Farm Bill



- ❑ Until the 2002 crop year, SE peanut growers paid around $98 per acre in quota rent.
- ❑ Higher energy prices in recent years have increased diesel and fertilizer costs.

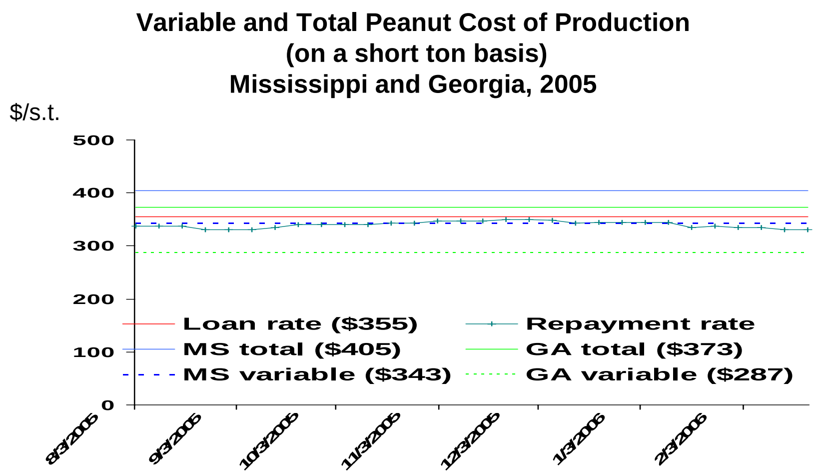
Chart 4

Fertilizer costs are lower for peanuts than for alternative crops in South Georgia



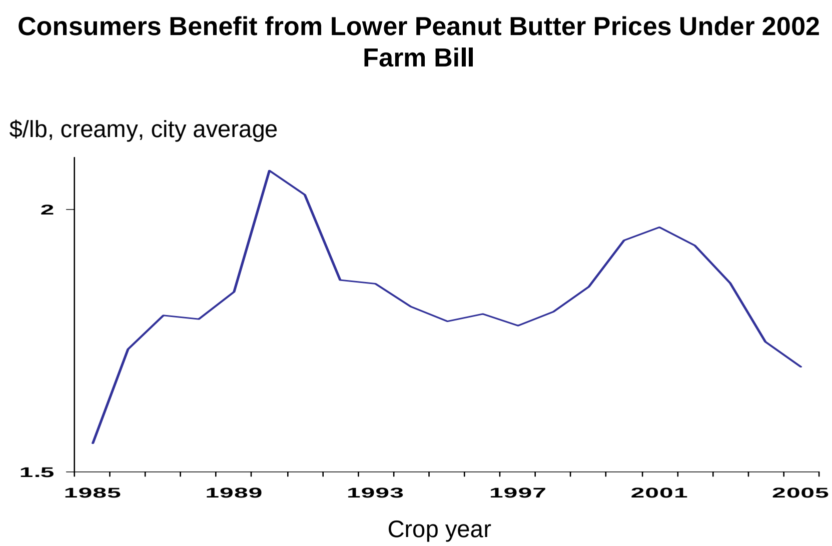
- ❑ As fuel prices rise, so does the cost of producing fertilizer.
- ❑ A relatively low fertilizer input makes growing peanuts more attractive as fuel and fertilizer prices increase.

Chart 5



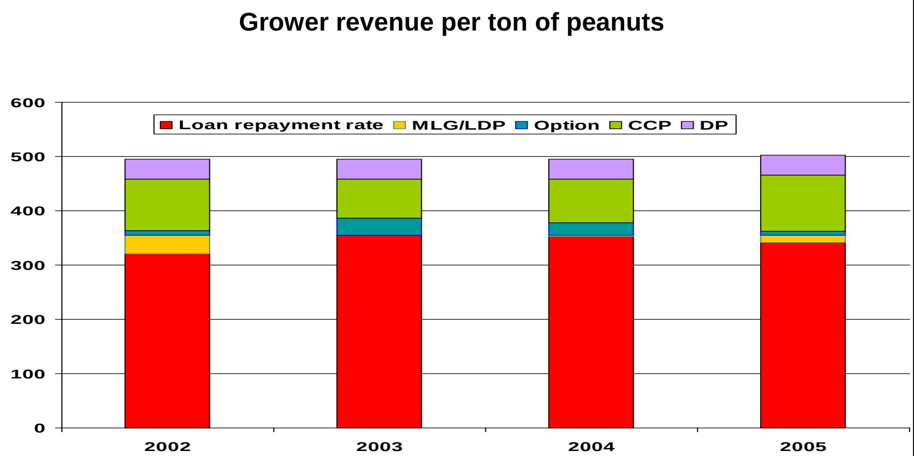
- Total costs exceed repayment rate in MS and GA.
- Repayment rate falls below variable costs in MS.
- MLG/LDP's in effect for the entire season.

Chart 6



- Reduced input costs prompt manufacturers to reduce peanut butter prices to near 20-year low.
- Dec. 2005 peanut butter price ($1.37/lb.), lowest in 227 months.

Chart 7



- Total revenue in years 2002-2004 is $495 per short ton.
- Grower revenue reaches $502 per short ton in 2005 through a reduced loan repayment rate and a maximum counter-cyclical payment.

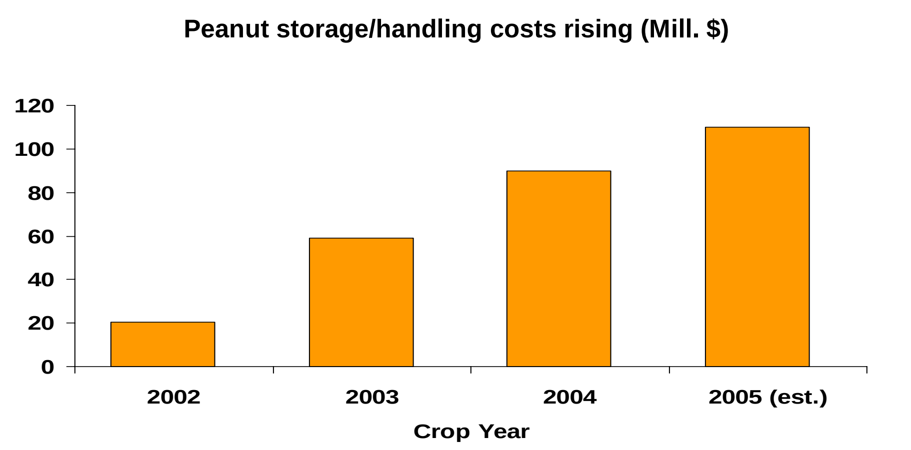
Chart 8

Peanut program costs by fiscal year (in million dollars)

	2003	2004	2005	2006*	2007*
Direct payments	97.3	70.7	69.1	61.9	56.3
Counter-cyclical	161.1	98.1	191.1	165.4	180.6
MLG (includes certificate gains)	23.7	0.0	6.5	27.0	0.0
LDP	26.0	0.0	0.0	1.0	0.0
Storage/handling	87.1	90.3	99.6	124.3	107.7
Total (not including quota compensation)	**395.2**	**259.1**	**366.3**	**373.6**	**344.6**
Quota compensation	1221.1	10.3	5.6	12.3	0.0

***Estimate**

Chart 9



- As both production and share of peanuts placed under loan expanded, USDA storage and handling increased.
- In 2002, 40 percent of peanut production was placed under loan; in 2005, 95 percent of peanut production was placed under loan.

Chart 10

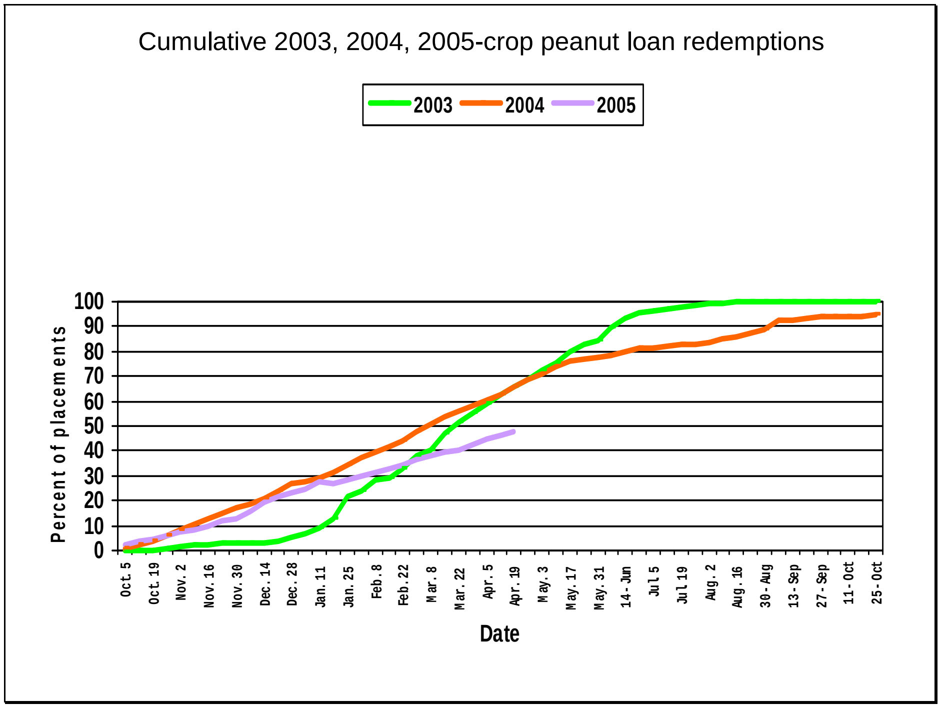
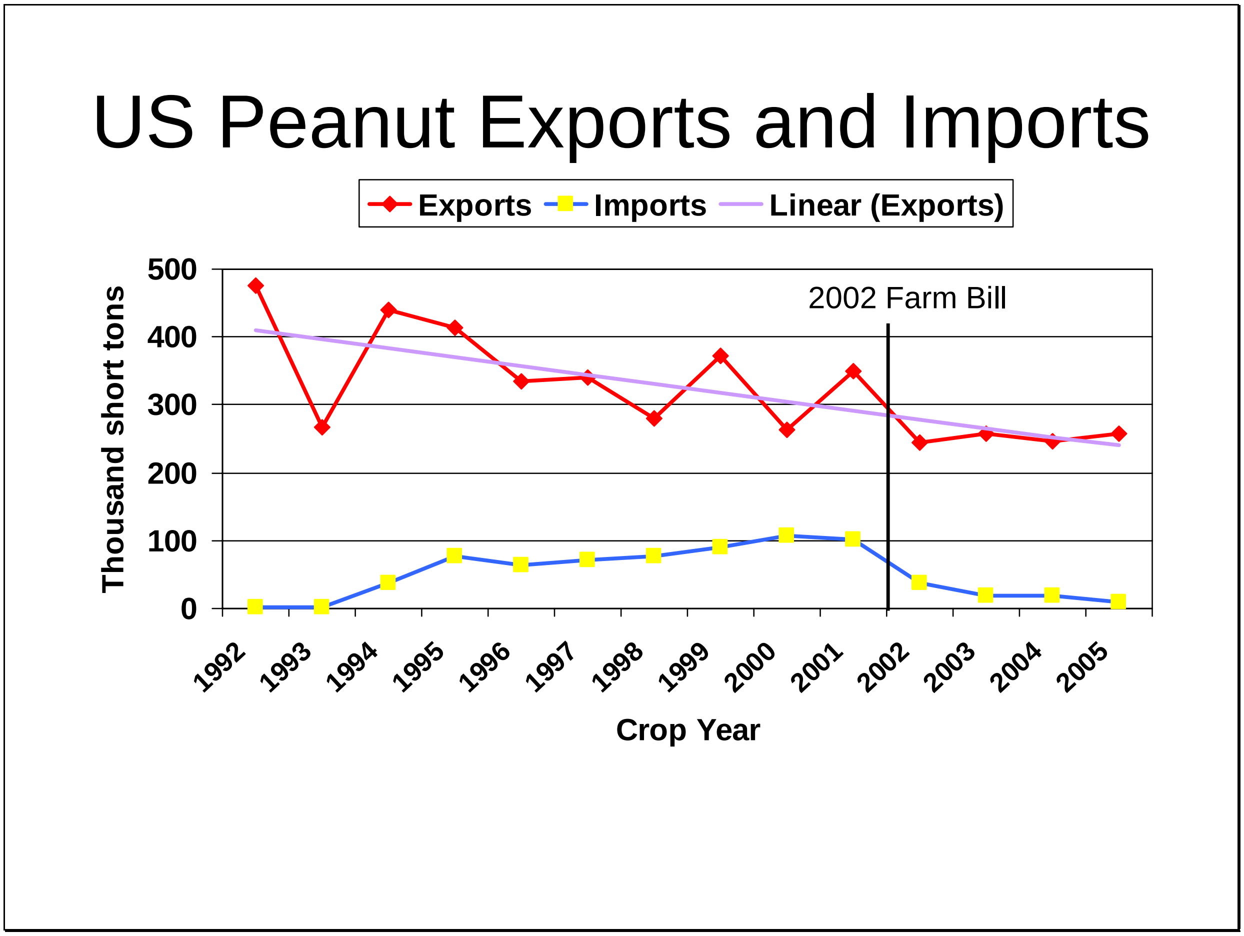


Chart 11


US Peanut Exports and Imports
Exports
Imports
Linear (Exports)
Thousand short tons
500
400
300
200
100
0
2002 Farm Bill
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Crop Year