Accompanied by: Mr. Armond Morris on behalf of the Georgia Peanut Commission
Tifton, Georgia

Mr. Jimbo Grissom behalf of the Western Peanut Growers Assn.

Seminole, Texas

Good morning Chairman Chambliss and Members of the Committee, my name is Stanley Fletcher. I am a professor at The University of Georgia and the Director of the National Center for Peanut Competitiveness. I am honored to be invited to present testimony on the implementation of the peanut provisions of the Farm Security and Rural Investment Act of 2002.

First, I want to commend you, Chairman Chambliss, and Members of the Committee for your willingness to work with your colleagues and a group of peanut leaders to develop a new and more globally market oriented competitive peanut program. However, I am not here today to say that the implementation has been flawless.

The new peanut program can be viewed as being successful on the domestic front. In fact, one can observe the market forces at work in the peanut sector. There has been a significant change in cropping patterns. Some areas have shifted away from peanut production while other areas have expanded. In addition, we have new areas that never have produced peanuts under the old peanut program that are producing today. Peanut producers are responding to market signals.

During the 1990s, domestic peanut consumption was basically viewed as being relatively stagnant. However, the new peanut program, which included the lowering of the peanut price, has allowed the domestic peanut industry to be competitive in the market place. There have been more new peanut products introduced. Since 2002, U.S. total peanut domestic consumption has increased by 16.5% (based on USDA Peanut Stocks and Processing reports).

With the passage of NAFTA and the Uruguay Round of GATT (now WTO) trade agreements in the 1990s, peanut imports were increasing significantly, reaching a high of 71,782 MT (approximately 100,000 tons FSP) in 2001. The new peanut program allowed the domestic industry to compete with the imports. The 2005 peanut import level was just 12,196 MT which is approximately an 83% drop in imports. This clearly indicates that the U.S. peanut industry can compete and be successful.

While the U.S. peanut industry can be successful in the domestic market, this does not hold true for the international market. The U.S. peanut industry used to have over 30% of the world peanut trade under the old peanut program during normal crop years. In 2005, the industry had approximately 13% of the world trade. If one looks at the trend since 1992 (a normal crop year), the U.S. peanut export volume has dropped 54% from 1992 to 2005. The problem does not lie within the peanut program itself. Rather, the problem exists due to the method USDA is

using to implement the language in the law.

U.S. peanut exports are highly dependent on the National Posted Price set by USDA. Peanut is not a homogenous commodity and it is a semi-perishable commodity. You have runner peanuts, Virginia peanuts, Spanish peanuts and Valencia peanuts. While these types of peanuts can be substituted to a minor degree, they each have a particular market. For the 2005 crop year, only two percent of the crop was sold commercially at inspection time. In other words, 98% of the crop moved through the loan program. The majority of the peanut crop moving through the loan has an option contract between the farmer and the sheller. If the sheller exercises the option, the price paid to the farmer is the loan repayment rate, basis grade, which is the lesser of the national posted price and the loan rate (basis grade). Thus, USDA is in reality setting the market price for farmers.

USDA commissioned a third-party study for recommendations on calculating the National Posted Price. I was not involved in this study. However, this study recommended using the shelled peanut prices between shellers and processors as the key factor in calculating the National Posted Price. The shelled peanut prices are the only prices determined from a competitive market environment. In contrast, the USDA-NASS peanut prices reported have serious flaws. The prices they collect do not necessarily reflect the price that the farmer actually receives for their peanut crop. Furthermore, there is no separation of prices by peanut type which is critical. Thus, shelled peanut prices should be the major factor in the calculation as recommended by the USDA third-party study. This would be a step in the right direction in recapturing our export markets.

How is the peanut program working in terms of a safety net for peanut farmers? To address this issue, the National Center for Peanut Competitiveness has eleven peanut representative farms for the Southeast and is working with the Agricultural and Food Policy Center (AFPC) at Texas A&M utilizing their FLIPSIM model. In the fall of 2004, we analyzed the overall economic viability of the 11 representative farms over the period of 2005-2010. Seven representative farms were in the good classification of overall economic viability, three farms were in the moderate classification, and one farm was in the poor classification. This past week the Peanut Center re-examined the 11 farms using the January 2006 baseline and eliminating storage and handling for the 2007-2010 crop years. Only one representative farm was in the good classification of overall economic viability, one farm was in the moderate classification and nine farms were in the poor classification. The primary factors were elimination of storage and handling fees, energy costs and interest rates. This does not paint a good picture for the long term health of Southern agriculture and peanut farming.

Thank you.