

I am Ted Higginbottom and I am here today on behalf of the Western Peanut Growers Association (WPGA), a trade association of peanut growers located in this part of Texas. We hope to be able to come before you in the near future and present an all-industry position on behalf of a coalition called the "United Peanut Alliance." This proposed umbrella alliance will include every segment of the U.S. peanut industry. However, I should make clear that today I am speaking only for the WPGA.

United Peanut Alliance

The concept of a United Peanut Alliance grew out of a farm bill meeting of the peanut industry right here in Lubbock on August 8 that included all sectors of the peanut industry. It is our goal to eventually have all grower areas actively participating in the alliance.

This alliance will be open to every sector of the peanut industry, and I am pleased to report that we already have growers, buying points, shellers, and manufacturers participating in this group. Our intent is to develop an all-industry position on the peanut program for the next farm bill. An alliance will help the industry coordinate information and serve as a forum to help obtain consensus for a common position on U.S. peanut policies and peanut program features where possible.

We Support the Current Peanut Program Law, But Not the Way It Has Been Administered

The peanut program designed by the Senate and House Agriculture Committees in the 2002 farm bill is a very good one, as evidenced by the dramatic increase in the consumption and production of peanuts in the first few years following enactment of this new program. Unfortunately, the U.S. Department of Agriculture has denied the peanut industry a true marketing loan program such as is available to other program commodities. USDA's actions are turning a program that was initially a great success into a failure.

As outlined in the "Petition for Relief from American Peanut Growers to Congress," in which ten peanut grower organizations asked for relief, USDA has administered the repayment rate in such a way to price U.S. peanuts out of the export market. USDA's unwillingness to provide a market-clearing repayment rate has led to a build-up of excessive peanut stocks that now overhang the market. The reason we now have so many peanuts in the pipeline is because USDA refused to give us the marketing loan that we were promised by Congress. To provide the Committee more detail of our concerns, I ask that this petition be made a part of the hearing record.

Our industry supports the concept of the marketing loan peanut program that was contained in the 2002 farm bill. Why shouldn't we? The concept of a marketing loan, first adopted by Congress in the mid-1980's for cotton and rice, and later extended to the other program crops - soybeans, wheat, and feed grains - has proven itself. For all of these commodities, it has allowed the USDA to get out of the costly business of acquiring and storing huge quantities of farm commodities that overhang markets and depress the price of the commodity for farmers. These marketing loan programs have worked because USDA followed the intent of Congress and set the repayment rate on commodity loans at a market-clearing rate. As a result, these

commodities have moved into the marketplace rather than sit in storage.

By contrast, the USDA's administration of the loan repayment rate has caused U.S. peanuts to be priced out of the export market. If we look at the other commodities that have a marketing loan program, we can see that peanuts are the only commodity that has large government forfeitures and huge, price-depressing stocks.

USDA Administration of the Peanut Program Has Caused a Train Wreck in 2006

Up until this year, the peanut program has proved to be profitable for peanut farmers and good for the entire industry. The 2002 farm bill allowed the U.S. peanut industry to go from a declining industry that could not compete with imports to a growth industry. Total peanut usage has increased by almost 32% since implementation of the new program in 2002. U.S. peanut production has followed the increased demand, with more peanuts being produced in new areas across the peanut belt.

However, 2006 is proving to be disastrous for peanut growers. For the past few years peanut industry leaders have warned USDA that a train wreck would happen if it did not properly administer the marketing loan program. This is the year the train wreck finally happened. The depressed prices caused by the build-up in peanut stocks have forced the market price of peanuts down to about the loan level of \$355 per ton. The 2006 acreage reports prove that farmers cannot grow peanuts for this price. Peanut growers have severely reduced plantings in the current crop year. Nationally, estimated peanut acreage is down 27%, while the reduction of acreage in Texas is down at least 44 percent.

Need for Congress to Amend the Law to Force the Establishment of a Proper Repayment Rate

Even though the initial transition to the new program went more smoothly than any of us had anticipated, the program is no longer working properly. It is clear that the peanut program will never work as long as USDA is allowed to deny the peanut industry a market-clearing price that gives us a true marketing loan program like other commodities. We believe the operation of the program and the future of the peanut industry can be put back on course only if this Committee intervenes and writes an amendment that mandates the establishment of a market-clearing loan repayment rate.

We know that USDA has claimed in testimony before this Committee on May 2 that it is impossible to determine the world price of peanuts. However, USDA also has admitted that, after hiring a third party contractor to come up with a solution to this problem, it failed to follow the recommendations of this contractor to use shelled stock prices and convert them back to farmer stock prices to determine the national posted price. The excuse given at the hearing was that it would be too costly.

I submit that there is enough understanding of U.S. and world peanut markets available in the peanut industry to design a formula that would produce a market-clearing loan repayment rate. However, this information will only be available if this Committee or the House Agriculture Committee calls together an all-industry task force. Only if the government calls for such a meeting can sectors of the peanut industry avoid having a problem with anti-trust laws.

Therefore, we request that this Committee initiate such an effort and use the information gained to write an amendment that will mandate USDA to set the peanut loan repayment rate at a market-clearing level.

Peanut Handling & Storage Cost

We also are concerned about and strongly support extension of the payment of peanut handling and storage costs. Government payment of these costs expires at the beginning of the 2007 peanut crop year, effective August 1, 2007. We appreciate the help that Chairman Chambliss and others have given us on this issue this year.

In contrast to other program commodities, peanuts are a semi-perishable crop requiring adequate storage to maintain their viability as an edible commodity. To protect the producers and allow orderly marketing, storage and handling are necessary. The peanut handling and storage feature has been an important part of the loan program and should be restored for the 2007 crop year and included in the peanut provisions of the next farm bill.

Payment Limitations Should Not Be Changed

One issue that receives a great deal of attention in the national media is payment limitations. I am appalled at how misleading this information is. I appreciate the Committee coming to West Texas, because we are a prime example of an area that would be devastated if some of the payment limitation amendments being considered by Congress are adopted. More restrictive payment limitations would wreck the farm economy of this area.

West Texas farmers can have hope of making a profit only if they can achieve large economies of scale. We have to be extremely efficient in order to pay for our high input costs. A typical peanut and cotton farmer in West Texas may have to own more than one peanut combine that costs around \$250,000 each and a cotton stripper that costs around \$175,000 each. Large John Deere tractors cost around \$150,000 each. Since we must irrigate everything, we must invest in very expensive irrigation equipment and pay escalating fuel costs to operate this equipment. The current crop year has been extremely dry, so it has become even more difficult to pay the higher energy costs that are necessary to run the irrigation equipment.

When the critics of farm programs talk about large farmers getting big payments from the government, they are misled. These funds are used to pay for expensive seed, fertilizer, and fuel as well as tractors and other farm equipment made by U.S. workers. The "large farmers" are often small farmers who became larger in order to survive. I know of many farmers like myself who started with a few hundred acres and were able to grow to a size that allowed us to make a living farming. However, farming is a tough and unforgiving business. I also know of many more farmers who were not as fortunate and were forced to earn their livelihood elsewhere.

I believe that the current farm programs are essential to maintaining the competitiveness of American agriculture. Unwise payment limitations designed to make us a nation of small farmers would seriously undermine the competitiveness of American agriculture and the

abundant supply of food and fiber that we provide for the American consumer.

Conclusion

We believe this Committee did a great job in rewriting the peanut program in 2002. As I recall, it was this Committee that added payment of storage and handling to the program when the farm legislation was considered in the Senate. The Committee needs only to make a few changes in order for the program to regain the initial success it enjoyed after 2002. We thank the Committee for conducting this hearing in Lubbock and we look forward to working with you on an improved peanut program that carries out the intent of Congress when the law was rewritten in 2002.