

## Risk Management Education Peanut Marketing Train-the-Trainer Workshops

### Farm Security and Rural Investment Act: Peanut Program 2002-2007

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#### Introduction

The 2002 Farm Security and Rural Investment Act (FSRI) abolished the peanut quota system, provided for buyout compensation to former quota owners, and the 2002-2007 peanut program structure and function became much more like those of traditionally supported commodities such as corn or wheat. This factsheet documents the major provisions and mechanisms of the FSRI peanut program.

The Farm Security and Rural Investment Act was signed into law by President Bush on May 13, 2002, by which date in normal years most of the peanut crop would already have been planted. FSRI abruptly and dramatically changed the peanut support program. The pre-2002 program was designed to support peanut producer income while ensuring an adequate supply of domestically produced peanuts. To accomplish these goals, the pre-2002 peanut program provided two tiers of nonrecourse marketing loan support: a higher rate for domestic food use (quota peanuts) and a lower rate for peanuts to be exported or crushed (additional peanuts). While any domestic producer could grow peanuts, only quota holders could market their peanuts in food channels, and then only to the limit established by their owned and/or

rented quota. Import quotas enforced by prohibitive tariff rates restricted entry of foreign peanuts into the U.S. market, and domestic prices were thus supported by restricting supply. The marketing quota program did not entail large federal budget expenses, but the FSRI peanut program obligates new expenditures by USDA far beyond levels seen in the past. Figure 1 indicates Commodity Credit Corporation (CCC) realized or forecast outlays on the peanut program for FY1961-2004.

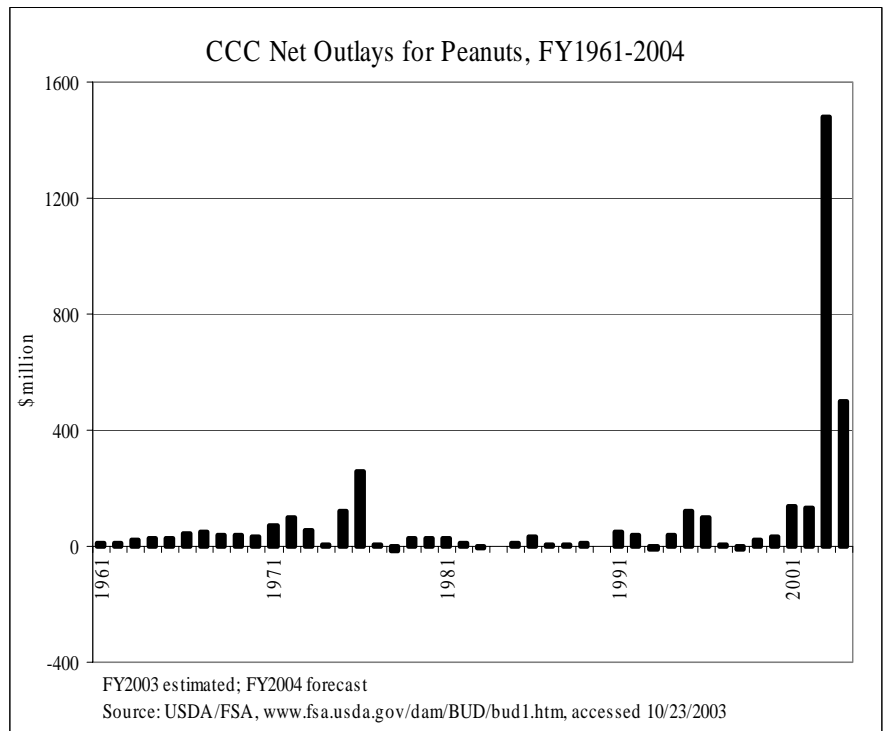


Figure 1.

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By far the largest outlays are the peanut quota buyout payments, but program outlays in the remaining years of FSRI will likely be at least triple those of pre-FSRI years.

**Peanut Quota Buyout (QBOP) Program**

Quota owners were compensated for the loss of their 2001 basic quota allotment value, receiving either \$0.11 per pound for five years, or \$0.55 per pound in a lump sum. Nearly all quota owners elected to receive the lump sum, and of the \$1.478 billion in estimated FY2003 peanut program outlays, USDA estimates that \$1.3 billion will be paid in the quota buyout. Table 1 shows the quota buyout totals by state of the recipient. Since most peanut producers owned only one-fifth to one-third of the quota peanuts that they produced (the rest being rented), it is likely that peanut producers realized \$260-\$390 million in income from the peanut quota buyout, and nonproducer quota owners received the remainder.

**Table 1. Peanut Quota Buyout by State**

State	Quota Buyout (\$million)
Georgia	\$440.3
Alabama	\$136.2
Texas	\$129.7
North Carolina	\$98.0
Virginia	\$61.5
Oklahoma	\$56.8
Florida	\$40.4
South Carolina	\$6.6
New Mexico	\$5.4
Mississippi	\$4.7
Arkansas	\$1.8
Arizona	\$0.8
California	\$0.6
Missouri	\$0.2
Louisiana	\$0.1
Payments made during calendar 2002 by address of quota owner (not necessarily where peanuts were grown).	
Source: Environmental Working Group (www.ewg.org, accessed 10/21/03), with data from USDA/FSA	

**Direct and Counter-cyclical Payment (DCP) Program**

As with other supported commodities such as corn and cotton, the Direct and Counter-cyclical Payment (DCP) Program is offered for enrolled farms that have program base acres and payment yields. Direct payments (DP) form the part of the program not dependent on market prices, while counter-cyclical payments (CP) rise or fall depending upon current market prices. Payment acres are 85 percent of program base acres for both direct and counter-cyclical payments, but payment rates differ. Peanut base acres and program yields are fixed for 2002-2007, but producers must enroll each year.

For the 2002 crop year, operators who had produced peanuts during any of the years 1998-2001 received DCP payments based on their yields and acres for those years. Program acres and payment yields were not yet assigned to particular farms during 2002. For the 2003 crop year, producers assigned their historical acres and yields to particular farms, thus establishing the program acres and payment yields in effect until at least 2007. Under FSRI, there is no requirement to plant peanuts in any year in order to receive DCP payments. With a few restrictions on vegetable or fruit production, producers may plant virtually any crop on peanut base acreage.

Figure 2 shows 2003 peanut program total base acres and average payment yields by state.

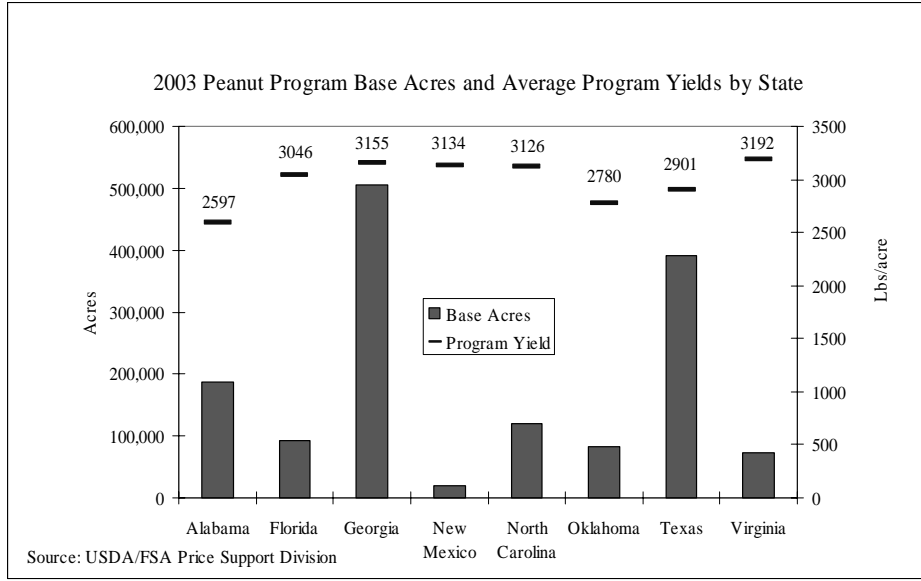


Figure 2. 2003 Peanut Program Acres and Yields

**Direct Payments**

Direct payments are analogous to the production flexibility contract (PFC) payments under the 1996 Farm Bill, in that there is no connection between the payment received and current planted acres or prices. The direct payment rate is fixed for 2002-2007 at \$36 per ton (\$0.018 per pound). Producers may elect to receive an advance payment and the timing of these payments is discussed below. The formula to calculate direct payments for 2003-2007 is:

$$DP = 85\% \text{ times peanut base acres} * \text{peanut payment yield} * \text{direct payment rate}$$

Example 100 base acres, 1.5 tons (3000 pounds) program yield:

$$DP = 85\% * 100 \text{ acres} * 1.5 \text{ tons per acre} * \$36/\text{ton} = \$4,590$$

**Counter-cyclical Payments**

Counter-cyclical payments are similar to the deficiency payments paid under the 1990 Farm Bill. The payment is based on the concept that producers need income support when prices are low, but not when they are high. CP are only paid when the annual marketing year national

average price falls between the statutory target price of \$495 per ton (fixed for 2002-2007) and the sum of the national marketing assistance loan rate (\$355 per ton, also fixed for 2002-2007) and the direct payment rate (\$36 per ton). Counter-cyclical payments are at their maximum when marketing year price is at or below \$391, and are not paid when marketing year price is at or above \$459. Advance counter-cyclical payments are discussed below. The formula to calculate counter-cyclical payments is:

$$CP = 85\% * \text{peanut base acres} * \text{peanut program yield} * \text{counter-cyclical payment rate}$$

The counter-cyclical payment rate is:

- 1) if marketing year average price is \$391 or less:  $\$495 - \$36 - \$355 = \$104$
- 2) if marketing year average price is above \$391 but below \$459:  $\$495 - \$36 - \text{marketing year average price}$
- 3) if marketing year average price is \$459 or greater: \$0

Example 1, 100 base acres, 1.5 tons program yield, \$300 marketing year price:

$$\text{CP} = 85\% * 100 \text{ acres} * 1.5 \text{ tons per acre} * \$104 \text{ per ton} = \$13,260$$

Example 2, 100 base acres, 1.5 tons program yield, \$364 marketing year price

$$\text{CP} = 85\% * 100 \text{ acres} * 1.5 \text{ tons per acre} * \$95 \text{ per ton} = \$12,112.50$$

(equivalent to the 2002 CP payment, although base acres had not yet been established).

Example 3, 100 base acres, 1.5 tons program yield, \$500 marketing year price

$$\text{CP} = 85\% * 100 \text{ acres} * 1.5 \text{ tons per acre} * \$0 \text{ per ton} = \$0$$

**Advance and Final DCP Payments**

Depending upon the choice of the producer, advance direct or counter-cyclical payments are available. In program years 2003-2007, advance direct payment up to 50 percent of the total direct payment is available beginning in December of the year preceding harvest. The balance or final direct payment is made in October of the harvest year. For the 2002 crop only, the entire DP was made in fall 2002 after harvest.

The marketing year for peanuts runs from August 1 of the harvest year until July 31 of the year following harvest. The producer may choose to receive up to three partial counter-cyclical payments per marketing year. The first partial payment, equal to 35 percent of the estimated total CP, is available beginning in October of the year of harvest. The payment is based upon the USDA estimate at that time of the marketing year average price. USDA does not disclose how these interim peanut price forecasts are conducted. A second partial payment may be requested in February of the year following harvest. This payment may be up to 70 percent of the CP estimated using a new USDA forecast marketing year price (less the first payment, if received). Depending upon the choices made by the producer concerning the previous partial payments, the remaining or final

CP payment is paid after USDA/NASS issues its end-of-marketing-year average price in the July Agricultural Prices (see Information Resources).

Table 2 shows the earliest that peanut payments may be received for the 2002 and 2003 crops. The payment schedule for 2004-2007 will be the same as that for 2003 payments.

**Table 2. 2002 and 2003 Direct and Counter-cyclical Payment Schedule**

Month/Year	Payment
October 2002	2002 DP
December 2002	2002 1 <sup>st</sup> Advance CP
	2003 Advance DP
February 2003	2002 2 <sup>nd</sup> Advance CP
September 2003	2002 Final CP
October 2003	2003 Final DP
	2003 1 <sup>st</sup> Advance CP
February 2004	2003 2 <sup>nd</sup> Advance CP
September 2004	2003 Final CP

Figure 3 indicates the minimum 2003 DCP payments by state (assuming the CP is \$0), and the maximum 2003 DCP payments by state (assuming the CP is \$104). Since the CP can vary or be eliminated depending upon market prices, it is clear that there is price risk associated with payments from the DCP program. For example, 2003 DCP payments to Virginia producers could range from \$3.5 million to \$13.8 million depending upon market prices. The minimum and maximum payments for Georgia producers are \$24.4 and \$95.0 million, respectively. Of course, if state prices are well correlated with the national prices determined by USDA/FSA, then any CP ‘shortfall’ would be more than made up by increased cash marketings. However, contracting or forward pricing can confound the relationship between realized sales prices and posted national prices.

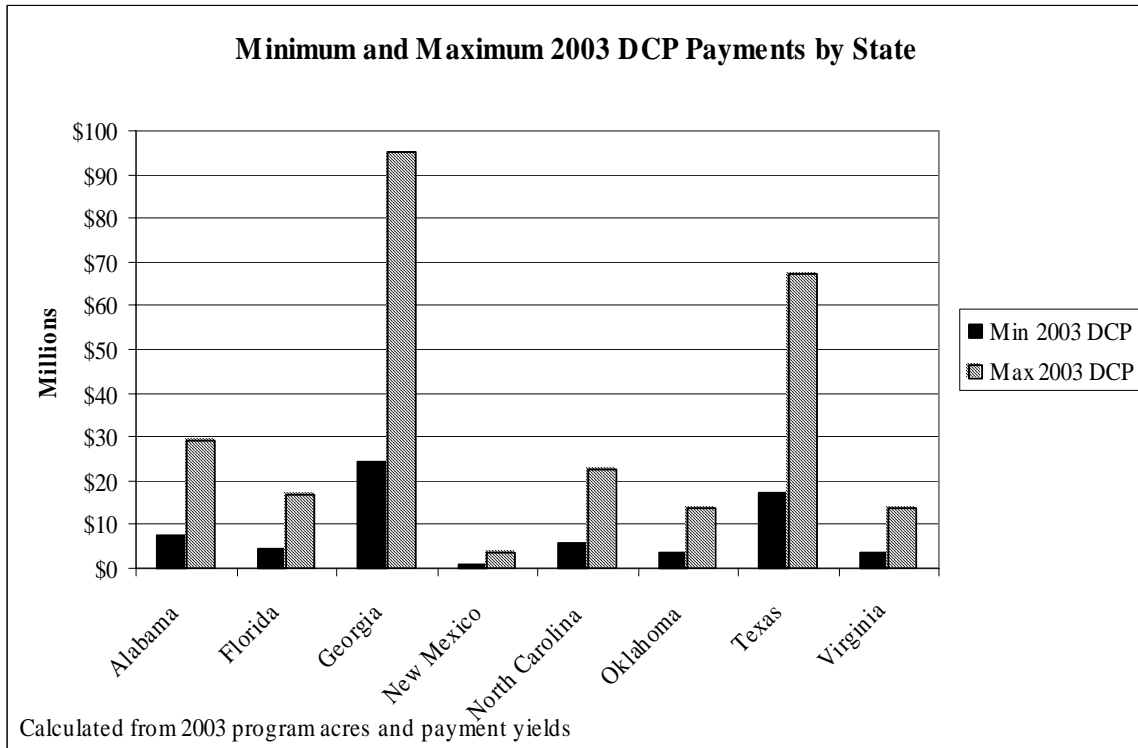


Figure 3. 2003 Direct and Counter-cyclical Payments by State

### Marketing Assistance Loans and Loan Deficiency Payments

A price floor for all U.S. peanut production is established through the peanut Marketing Assistance Loan (MAL) or Loan Deficiency Payment (LDP). To be eligible, the producer must share in the risk of producing peanuts, be in compliance with USDA conservation and wetland requirements, and have beneficial interest in the peanuts. The producer does not have to be participating in the Direct and Counter-cyclical Payment Program to receive a MAL or an LDP. If the producer is eligible, the peanuts must be in storable condition, be marketable for feed, food, or other approved uses, be Virginia, Runner, Spanish, or Valencia market types, not have been shelled or crushed, be inspected and graded (upon delivery, if farm stored). Upon loan approval, the producer will receive a 9-month marketing assistance loan (MAL). The final date to apply is January 31 of the year following harvest.

If a producer takes out a marketing assistance loan, the producer receives the associated variety marketing loan rate with the crop as collateral (adjusted for inspection and grading). Marketing assistance loans are available for both farm-stored and warehouse-stored peanuts. For warehouse-stored peanuts, the Commodity Credit Corporation (CCC) pays all storage charges for peanuts under loan in CCC-approved warehouses at the rate of \$2.71 per ton/month in 2003, and also pays handling and other associated costs.

The U.S. average marketing assistance loan rate is fixed in FSRI at \$355 per ton for 2002-2007. Peanut market-type loan rates established each year by FSA may differ (see Table 3), but the quantity-weighted average is equal to the statutory loan rate. MAL repayment rates and loan deficiency payments are based on the type-specific loan rates and the National Posted Price (NPP). Each Tuesday at 3PM, FSA announces the NPP for each peanut marketing variety, and that price is effective beginning Wednesday.

Marketing loans mature on the last day of the ninth month after the loan application was approved, and the producer may either repay the loan at a rate which is the lesser of the NPP or the marketing loan principal (plus interest upon maturity), or may forfeit the peanuts as full loan repayment at any time in the interim, obtaining either a marketing loss or gain depending upon the current NPP.

**Table 3. Marketing Assistance Loan Rates by Peanut Type, 2002 & 2003**

Marketing Year	Runner	Virginia
2002	\$355.72	\$353.66
2003	\$355.98	\$353.27

Marketing assistance loans are adjusted positively or negatively by grading standards. The marketing loan rate by peanut type in Table 3 is adjusted by grading premiums or discounts for percent Sound Mature Kernels (SMK) plus Sound Splits (SS), percent damage, percent foreign material, percent SS, percent other kernels, and (for Virginias only) an Extra Large Kernel (ELK) premium. As collateral, Segregation 2 and 3 peanuts are discounted to 35 percent of the respective marketing loan value. For the 2003 crop, if peanuts are put under loan in CCC-approved warehouses, they must not have more than 10.49 percent moisture.

Table 4 indicates the minimum quality standards for Segregation 1, 2, and 3 peanuts. LDPs are not affected by premiums and discounts.

**Table 4. Peanut Grading Standards**

Segregation	Minimum Quality Standard
1	Farmer stock peanuts with not more than 2.49 percent damaged kernels nor more than 1 percent concealed damage caused by rancidity, mold, or decay and which are free from visible <i>Asperigillus flavus</i> .
2	Farmer stock peanuts with more than 2.49 percent damaged kernels or more than 1 percent concealed damage caused by rancidity, mold, or decay and which are free from visible <i>Asperigillus flavus</i> .
3	Farmers stock peanuts with visible <i>Asperigillus flavus</i> .

Farm-stored peanuts may also be eligible for MALs. Peanut quantities may be personally certified by the producer or measured by a county FSA agent. Farm-stored peanuts are not required to be inspected and graded at the time of loan application, but must be inspected upon delivery.

Peanut market and physical characteristics create potential problems for the MAL program: 1) peanut quality deteriorates when stored more than a few months, 2) there are limited numbers of peanut buyers; and 3) peanut markets are very thin, with no appreciable product sold during much of the marketing year. For commodity program function, the first factor implies that USDA may find itself in possession of deteriorating-quality peanuts at the end of a bumper-crop year because of the nonrecourse loan provisions; and the second and third implies that first-handler prices are not easily or reliably available, and potentially causing marketing loan/LDP and counter-cyclical payments that do not reflect market conditions.

As an alternative to the Marketing Assistance Loan, the producer may choose to receive a Loan Deficiency Payment. When the NPP is lower

than the loan rate for the market type, the producer can elect to receive an LDP equal to the difference between the NPP and the national loan rate for that market type. LDPs are assignable, and are not subject to premiums or discounts.

Figure 4 shows the national posted price and associated loan deficiency payment rate for the 2002 runner and Virginia crops. LDP rates were identical across marketing types throughout the 2002 marketing year. LDP rates increased from zero at harvest time steadily until mid-December 2002. After see-sawing around a loan deficiency payment rate of \$40/ton in late December and early January 2003, the LDP rate remained above \$40/ton from mid-January to mid-February, and then declined steadily to a low level for the remainder of the marketing year.

**Beneficial interest and marketing loan assignments**

To obtain either a peanut marketing assistance loan or a loan deficiency payment, the producer must have retained ‘beneficial interest’ in the peanuts. USDA defines beneficial interest as residing with the producer if the producer controls the peanuts, if the producer runs the risk of financial loss, and if the producer retains title to the peanuts. All three conditions must be true. Beneficial interest must be maintained continuously until the date an LDP is requested, or the earlier of the dates when the loan is repaid or when the CCC takes possession.

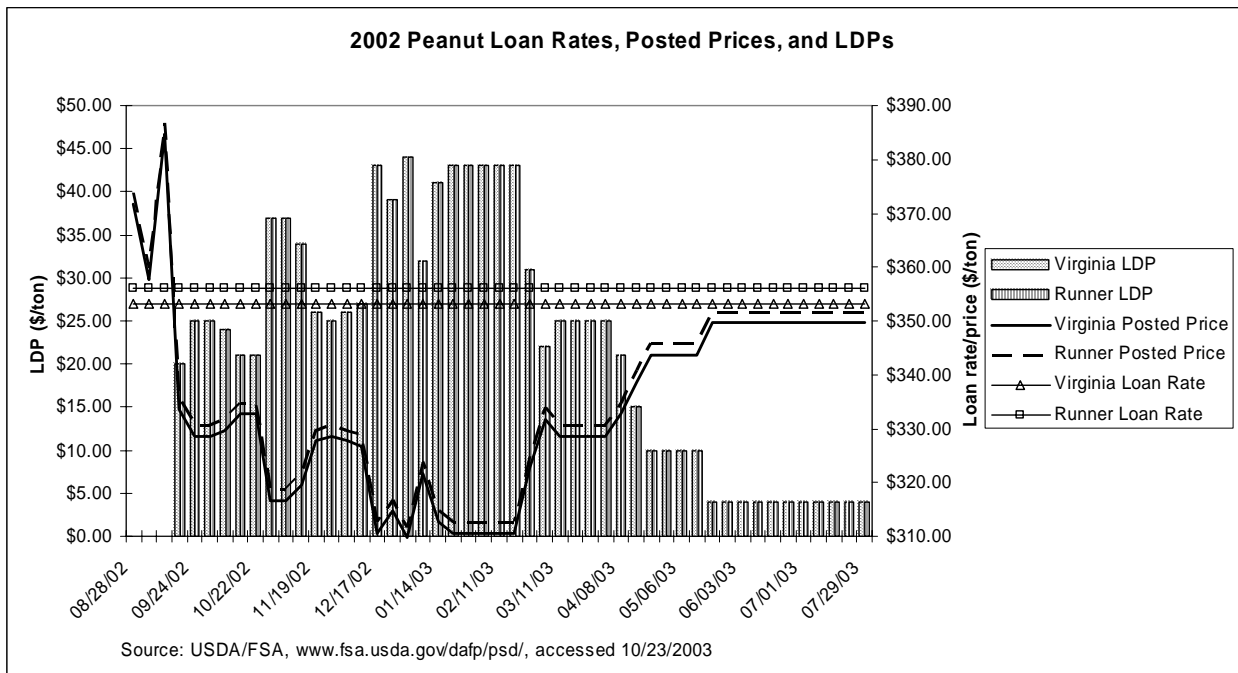


Figure 4.

Table 5 describes how USDA defines beneficial interest.

**Table 5. Beneficial Interest Conditions**

<b>Condition</b>	<b>Definition</b>
Control	A producer has control if the producer keeps the ability to make all decision(s) affecting the peanuts.
Risk of loss	A producer has the risk of loss if responsible for any loss or damage, or will receive an indemnity in the event of loss or damage.
Title	A producer is considered to have title if the peanuts have not been sold or delivered to market.

Source: Adapted from USDA/FSA Notices LP-1913 and LP-1917

**Payment Limits**

Unlike most other supported commodities, peanut payments have a separate set of direct, counter-cyclical, and marketing assistance loans/loan deficiency payment limits under the 2002 Farm Bill. The payment limits are over and above any similar payments received from other supported commodity programs. Additional payment limits from the 2002 Farm Bill, such as the \$2.5 million adjusted gross income limit, also apply to peanuts. Table 6 describes the peanut payment limits per ‘entity.’

The 3-entity rule allows an individual to receive full payments on one operation, and up to half payments on two other operations. Most producers organize their business operations so as to avoid these limits.

**Table 6. Peanut Program Payment Limits**

<b>Program</b>	<b>1-Entity Limit</b>	<b>2-Entity Limit</b>	<b>3-Entity Limit</b>
Direct Payments	\$40,000	\$60,000	\$80,000
Counter-cyclical Payments	\$65,000	\$97,500	\$130,000
Marketing Loan Gains/ Loan Deficiency Payments	\$75,000	\$112,500	\$150,000

**USDA Forms**

Commonly used forms for the peanut program are listed in Table 7. Most commonly used USDA forms are accessible at [forms.sc.egov.usda.gov/eforms/mainervlet](http://forms.sc.egov.usda.gov/eforms/mainervlet).

	Worksheet	instances for 2003 crop year
FSA-211	Power of Attorney	To authorize someone else to conduct business with the county FSA office.

**Table 7. USDA/FSA Forms**

Form ID	Form Title	Description
CCC-509	Direct and Counter-cyclical Program Contract	Enrollment in each year’s DCP
CCC-605P	Designation of Agent	To designate an agent to redeem peanuts from loan
CCC-633	Loan Deficiency Payment and Certification	To request an LDP for peanuts in which producer has beneficial interest
CCC-666	Farm Stored Loan Quantity Certification	To certify peanuts stored on farm
CCC-677	Farm Stored Note and Security Agreement	Records measurement of on-farm stored peanuts
CCC-679	Lien Waiver	To obtain a lien waiver for peanuts that are pledged for a marketing loan from CCC or being sold to CCC under a purchase agreement. Also designates how loan proceeds should be disbursed when another party has a lien on the commodity.
CCC-697	Request To Lock In A Market Loan Repayment Rate	To lock-in a marketing loan repayment rate for a limited period of time.
CCC-709	Direct Loan Deficiency Payment Agreement	To request an LDP when beneficial interest in the commodity is lost at the time of harvest, delivery, or ginning.
CCC-912-P	Agreement for Designated Marketing Association Terms and Conditions	DMA can act as agent of CCC for certain functions
Form ID	Form Title	Description
FSA-1007	Inspection Certification and Calculation	Acceptable production evidence only in certain

**Conclusion**

This factsheet provides reference information about the 2002-2007 peanut program for producers and supporting businesses or agencies. Further detail can be found by consulting the local USDA Farm Services Agency office or by accessing the USDA/FSA site at [www.fsa.usda.gov](http://www.fsa.usda.gov).

**Information resources:**

USDA/FSA Forms

[forms.sc.egov.usda.gov/eforms/mainervlet](http://forms.sc.egov.usda.gov/eforms/mainervlet)

Peanut Marketing Assistance Loan and Loan Deficiency Payment Factsheet

[www.fsa.usda.gov/pas/publications/facts/peanuts03.pdf](http://www.fsa.usda.gov/pas/publications/facts/peanuts03.pdf)

Direct and Counter-cyclical Payment Program Factsheet

[www.fsa.usda.gov/pas/publications/facts/html/dcp03.htm](http://www.fsa.usda.gov/pas/publications/facts/html/dcp03.htm)

Beneficial Interest Requirements for Loans and Loan Deficiency Payments Factsheet

[www.fsa.usda.gov/pas/publications/facts/html/benint00.htm](http://www.fsa.usda.gov/pas/publications/facts/html/benint00.htm)

USDA-Approved Peanut Warehouses

[www.fsa.usda.gov/approved\\_whses/peanuts/approved\\_peanut\\_whses.asp](http://www.fsa.usda.gov/approved_whses/peanuts/approved_peanut_whses.asp)

USDA Grading Premiums/discounts

[ftp://ftp.fsa.usda.gov/public/notices/PS\\_479.PDF](ftp://ftp.fsa.usda.gov/public/notices/PS_479.PDF) (9/2/2003)

USDA Agricultural Prices

[usda.mannlib.cornell.edu/reports/nassr/price/zap-bb/](http://usda.mannlib.cornell.edu/reports/nassr/price/zap-bb/)