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U.S. Peanut Program and Issues

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Summary

According to the U.S. Department of Agriculture (USDA), the United States is expected to be the fourth largest producer and exporter of peanuts in the world in 2015. In addition to its prominent role in international markets, U.S. peanut production and marketing is an important activity in several states located in the southeastern and southwestern United States. The U.S. peanut crop has been eligible for certain federal farm support programs since the 1930s—initially under a quota system and, since 2002, under the income support programs available for other major program crops like corn, wheat, soybeans, and rice.

Today, under the 2014 farm bill (Agricultural Act of 2014, P.L. 113-79), the major income support programs are marketing loan benefits and either the price loss coverage (PLC) or agriculture risk coverage (ARC) program (as determined by a one-time producer choice). For peanuts, almost all producers (99.7%) chose PLC because they expected it to provide higher payments and greater risk protection than would be available under ARC.

Marketing loan benefits are available immediately after harvest and are coupled directly to planting and production. In contrast, PLC and ARC payments are made to 85% of historical base acres and thus decoupled from producer crop choices. Also, PLC and ARC payments are not available until nearly a full year after harvest—October 1 following the end of the marketing year when full information on farm prices is available. The 2014 farm bill also created "generic" base acres—former cotton base acres from the 2008 farm bill. Generic base is added to a producer's total base for potential payments, but only if a covered crop is planted on the generic base. In other words, PLC payments on generic base acres are coupled to actual plantings (although payments remain subject to the 85% factor applied to eligible acres).

Under current peanut program provisions, peanuts have a separate program payment limit—a consequence of the quota buyout (P.L. 107-171; §1603). As a result of this feature, a farmer that grows multiple program crops including peanuts has in effect two different program payment limits: the first payment limit (of $125,000) is for an aggregation of program payments made to all program crops other than peanuts; and the second (also of $125,000) is for program payments made exclusively to peanuts. Thus, under an extreme scenario involving large payments for both peanuts and other program crops, this could potentially double a farmer's payment limits.

Farm policy economists have noted that peanuts have a statutory reference price that is set disproportionately above historical market prices, particularly when compared to other major program crops. Some contend that this potential advantage favors peanut production on generic base acres. However, the extent to which this scenario might play out is unclear, and both agronomic and market circumstances suggest that it might be somewhat limited.

Estimates of peanut program outlays for FY2016 vary. USDA (February 2015) projects FY2016 costs at $379 million, Food and Agricultural Policy Research Institute (August 2015) projects USDA program outlays for peanuts at $431 million, and the Congressional Budget Office (August 2015) projects $232 million. As a point of reference, the annual market value of U.S. peanut production has traditionally been in the range of $1.1 billion to $1.4 billion.

This report updates and revises an earlier August 19, 2015, version.

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Introduction

According to the U.S. Department of Agriculture (USDA), the United States is expected to be the fourth largest producer and exporter of peanuts in the world in 2015.[1] In addition to its prominent role in international markets, U.S. peanut production and marketing is an important activity in several states located in the southeastern and southwestern United States. Peanuts have participated in federal farm support programs since the 1930s—initially under a quota system, and since 2002 under the income support programs available for other covered commodities like corn, wheat, soybeans, and rice. This report updates and revises an earlier August 19, 2015, version. It provides a brief overview of the U.S. peanut sector and reviews current U.S. farm policy including a discussion of how peanuts (following market adjustments spurred by a 2002 federal quota buyout) fit within current policy relative to other program crops.

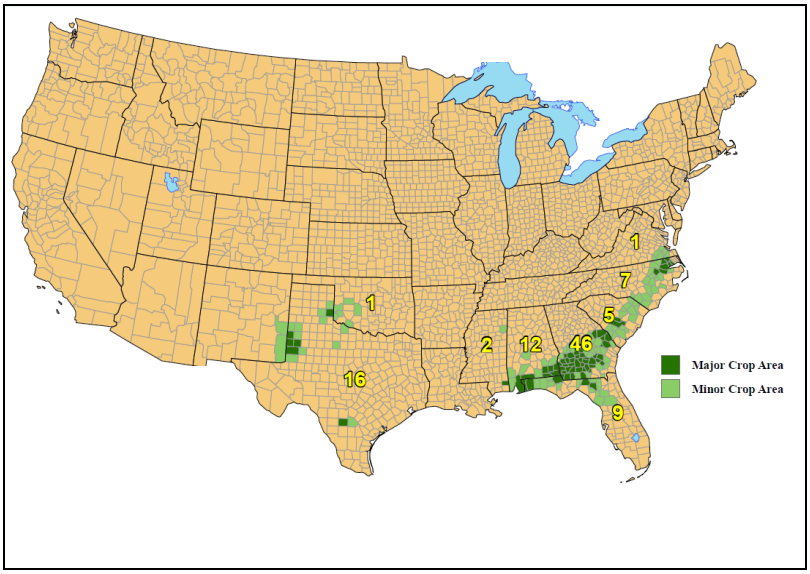
Peanut Industry Basics

Production Areas

U.S. peanut production is located primarily in the southeastern United States. The crop is planted in an arc stretching from southern Mississippi to southern Virginia, but with some additional smaller clusters of production in Texas, Oklahoma, and New Mexico (**Figure 1**). Georgia accounts for just under half of U.S. production, and Alabama has 12%. Most neighboring states account for single-digit shares.

Figure 1. U.S. Peanut-Producing Areas

Yellow number indicates state share of U.S. production (2006-2010)



Source: U.S. Department of Agriculture, Office of the Chief Economist, World Agricultural Outlook Board, http://www.usda.gov/oce/weather/pubs/Other/MWCACP/namerica.htm.

Notes: Alaska and Hawaii do not produce peanuts.

[1] USDA, Production, Supply, and Demand (PSD) database, November 9, 2015.

This geographic location of production reflects the peanut plant's need for 120-160 frost-free days and soil that is sandy and loamy (relatively equal amounts of sand, silt, and clay) for optimal crop performance. The peanut industry is also geographically concentrated within each state, with peanuts accounting for a large share of farm and related agribusiness income earned in a number of peanut-producing counties. About three-fourths of U.S. peanut acreage is dryland (1.1 million acres in 2012), and the remainder is irrigated (0.5 million acres).

Peanut Varieties and Uses

The major types of peanuts grown in the United States are Runner, Virginia, Spanish, and Valencia (**Table 1**). The Runner is the most common variety and is used in the manufacture of peanut butter. Peanut butter is the leading use of peanuts produced in the United States (45%), according to the American Peanut Council (APC). Snack nuts and in-shells account for approximately 30% of use. Candy and confections and peanut oil for cooking account for the remainder. According to APC, peanuts are the leading snack nut consumed in the United States, with a two-thirds share of the snack nut market.

Table 1. Peanut Types and Uses

Peanut type	Share of U.S. peanut crop	Primary use and characteristics	Where grown
Runner	80%	Manufacture of peanut butter; kernel size is uniform, which allows for even roasting	Georgia, Texas, Alabama, Florida, South Carolina, and Oklahoma
Virginia	15%	Snack peanuts and in-shell; kernel is large and known as "ballpark" peanut	SE Virginia, NE North Carolina, South Carolina, and western Texas
Spanish	4%	Snack peanuts, peanut butter and confections; kernel is small and round, with red skins	Texas and Oklahoma
Valencia	1%	Used for all-natural peanut butter and sold in-shell for roasting and boiling; sweet flavor; each shell contains 3 to 5 kernels	New Mexico

Source: National Peanut Board and American Peanut Council.

Industry Structure

Peanuts were grown on 6,561 farms in the United States in 2012, according to the 2012 *Census of Agriculture*, with an average farm size of 247 harvested peanut acres per farm (**Table 2**). Similar to output for other commodities, peanut production is primarily through larger farms that typically have lower per-unit costs of production. Peanut farms with at least 250 acres account for one-third of all peanut farms and three-quarters of national production. Most peanut farmers also plant other crops such as cotton, corn, or soybeans in multi-year rotations with peanuts in order to maintain soil health and crop yields.[2] The farm value of peanut production was $1.1 billion in 2014.

After harvest, farmers move peanuts to buying points or stations located throughout the production regions. Buying stations are operated by shellers, independent dealers, or warehouse

[2] The average total acreage of all crops on farms growing peanuts was 2,500 acres in 2013, according to USDA's Agricultural Resource Management Survey. See http://www.nass.usda.gov/Surveys/Guide_to_NASS_Surveys/Ag_Resource_Management/ARMS_2014_Peanuts_Highlights.pdf.

owners. These "first handlers" purchase the peanuts and provide services such as drying, cleaning, and arranging for marketing assistance loans provided by the U.S. Department of Agriculture (USDA). Shellers sell edible peanuts to processors for manufacturing and bid on USDA-owned stocks of peanuts (forfeitures under the marketing loan program) for processing or export. Sales between shellers and processors are arranged by brokers or done directly.

Table 2. Number of Peanut Farms and Harvested Acreage, 2012

State	Number of Farms	Harvested Acres	Average Peanut Acres per Farm
Georgia	2,833	731,946	258
Alabama	772	217,940	282
Florida	698	196,320	281
North Carolina	636	105,739	166
Texas	552	148,795	270
South Carolina	493	106,746	217
Virginia	170	20,208	119
Oklahoma	166	21,926	132
Mississippi	128	48,306	377
Other	113	23,705	210
United States	6,561	1,621,631	247

Source: 2012 Census of Agriculture, http://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_2_US_State_Level/.

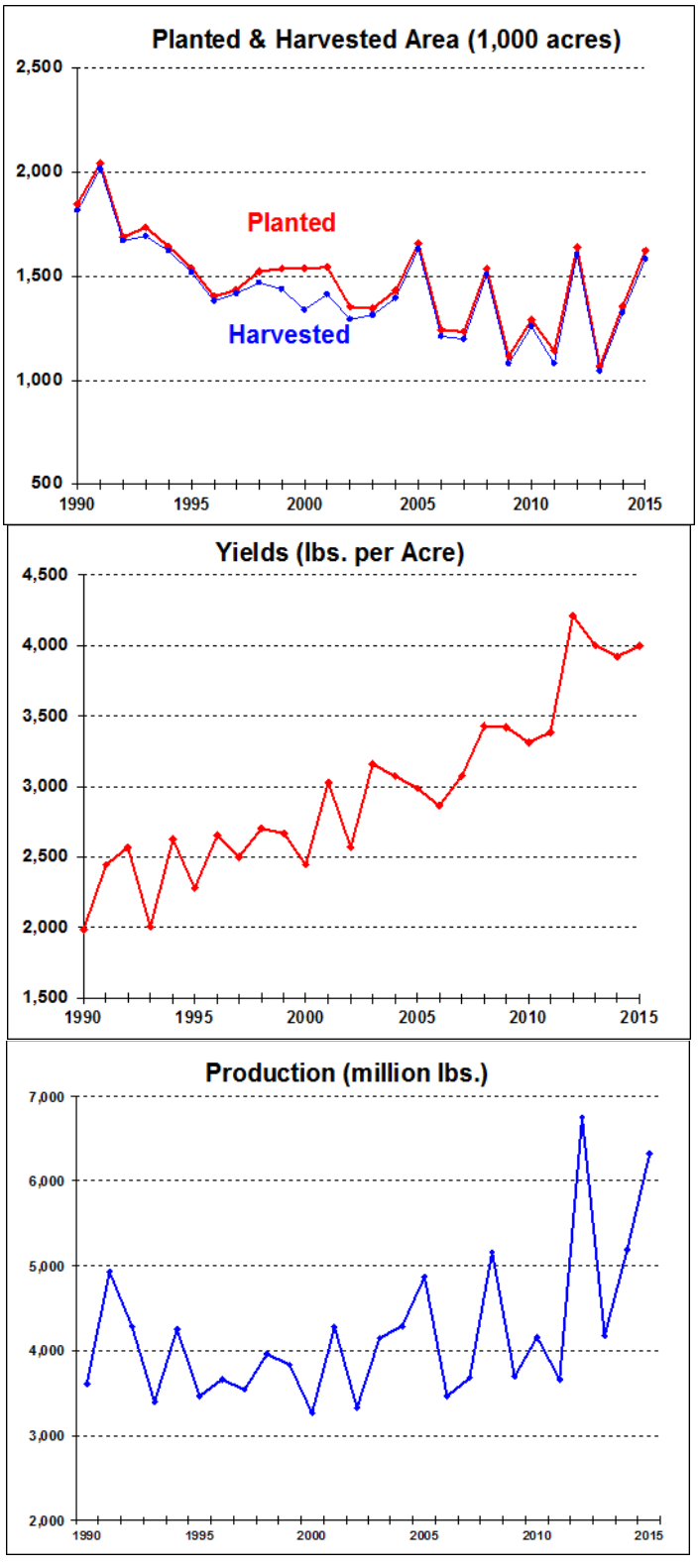
Notes: Other states reporting acreage in 2012 were Arkansas (36 farms), Tennessee (22), New Mexico (21), California (15), Louisiana (11), Kentucky (5), Missouri (2), and Maryland (1).

Unlike markets for major crops like corn and soybeans, the U.S. peanut market is considered "thin," with only two peanut shellers reportedly buying over 80% of all peanuts from growers. No futures market exists for peanuts, and private contracts between producers and shellers reportedly account for most transactions. Given the peanut industry's structure and pricing practices (contracting), little public price and other market information is available to USDA.

Production and Market Trends

Two opposing but related trends have shaped peanut production during the last quarter century. Planted acreage has declined while productivity (yield measured in pounds per acre) has increased (see **Figure 2**). Acreage had been declining even prior to the policy change in 2002 from a quota system, which tended to lock acreage in place, to traditional commodity support programs (see "U.S. Farm Policy and Peanuts"). The policy change allowed market forces to play a stronger role in producer decision making. As a result, peanut production shifted to higher-yielding land with lower production costs. This acreage shift, including a greater proportion of plantings in Georgia, along with improvements in varieties and management practices, propelled a long-term uptrend in peanut yields that helped to lift peanut production in recent years (**Figure 2**). Another phenomenon associated with the 2002 peanut quota buyout has been a substantial increase in market volatility as evidenced by the sharp up-and-down cycle of plantings and production since 2002.

Figure 2. U.S. Peanuts: Planted and Harvested Area, Yield, and Production



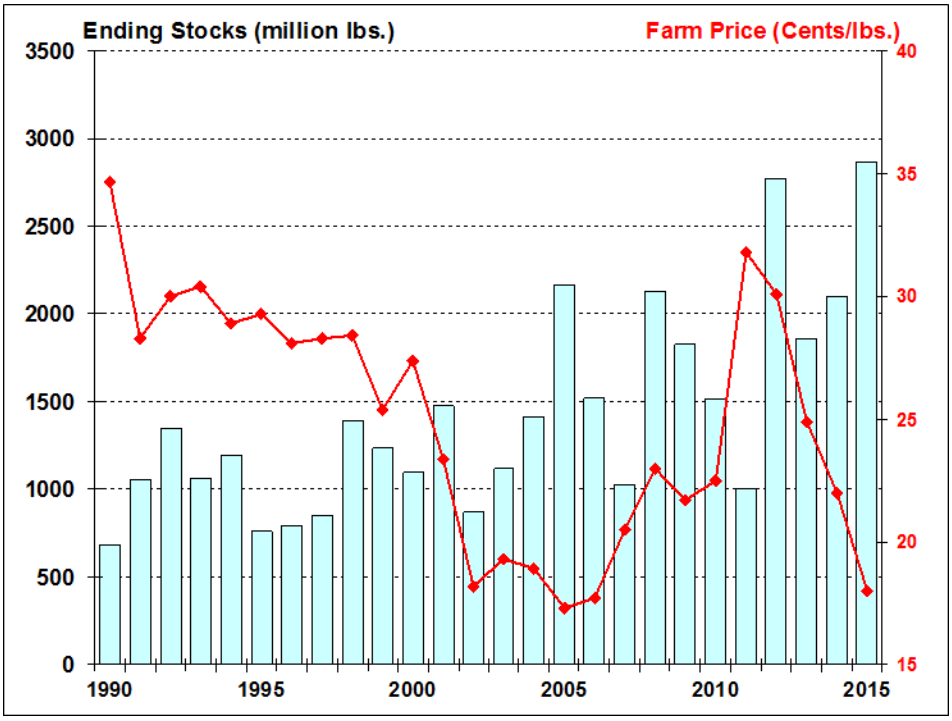
Source: National Agricultural Statistical Service, USDA, October 9, 2015.

A critical long-run factor influencing peanut output is the nature of demand for peanuts. In general, the demand for peanuts and peanut products (especially peanut butter) is fairly inelastic.[3] This implies that even small changes in supply can result in large price movements.

Domestic food use has grown slowly but steadily over time. After averaging a 14% share of total use during the 2002 to 2011 period, U.S. peanut exports jumped sharply in 2012 and have over 20% of total use since. China entered the market that year as a buyer because their regular supplier (India) had encountered yield problems due to drought. Canada, the Netherlands, and Mexico are the top export markets and account for about half of U.S. exports. Argentine peanuts compete with U.S. peanuts in the European market.

High farm prices in 2011 encouraged U.S. producers to sharply increase plantings in 2012 (up 44% from 2010 plantings). A record U.S. peanut harvest in 2012—driven by both large plantings and record yields—resulted in record large domestic ending stocks despite record exports and strong domestic use (**Figure 3**). The 2012/13 marketing year ending stocks were also record large in terms of their relative size as a share of total use (54%). Large domestic supplies have contributed to a strong downward trend in U.S. farm prices for peanuts since 2012. In 2015/16 (August-July season), the average farm price of peanuts is expected to be in a range of 16.75 to 19.25 cents per pound (with a midpoint of 18 cents per lb) and ending stocks are projected at a new record high.[4]

Figure 3. Peanut Ending Stocks and Season-Average Farm Price



Source: ERS, USDA, *Oil Crops Outlook, OCS-15k*, November 13, 2015.

Notes: Farm prices are in current dollars. The peanut marketing year begins August 1.

[3] Inelastic demand means the percentage change in quantity demanded of a product following a change in its price is less than the percentage change in price.

[4] Economic Research Service (ERS), USDA, *Oil Crops Outlook, OCS-15k*, Table 8, November 13, 2015.

U.S. Farm Policy and Peanuts

Current U.S. farm policy provides three income support programs for several major crops including peanuts.[5] However, farm policy for peanuts has followed a different policy trajectory from the other program crops for most of the last century. From the 1930s until 2002, peanuts operated under a system of marketing quotas that rigidly controlled domestic supplies and prices.[6] In 2002, Congress eliminated peanut quotas under a new farm bill (Farm Security and Rural Investment Act of 2002, P.L. 101-171, §1301-§1309) through a series of payments that offset the loss of quota rights—these payments are referred to as a "buyout."[7]

Since the 2002 buyout, farm policy for peanuts has followed essentially the same structure as for other "covered" program commodities.[8] In addition to eligibility for major farm support programs, peanuts initially retained their long-standing eligibility for Commodity Credit Corporation (CCC) monthly storage payments (similar to the cotton storage payment program) when put under a 9-month nonrecourse marketing loan. However, eligibility for storage payments was terminated with the 2007 peanut crop.

The current farm commodity program provisions in Title I of the 2014 farm bill (Agricultural Act of 2014; P.L. 113-79) include three types of support for covered commodities for crop years 2014-2018:

- **Marketing Assistance Loan benefits**, which offer interim (up to nine months) financing for loan commodities (covered crops plus several others) at statutory loan rates and, if prices fall below loan rates, additional low-price protection in the form of marketing loan gains or loan deficiency payments;
- **Price Loss Coverage (PLC)** payments, which are triggered when the national season average farm price for a covered commodity is below its statutorily fixed "reference price"; and
- **Agriculture Risk Coverage (ARC)** payments, as an alternative to PLC, which are triggered when annual crop revenue is below its guaranteed level based on a multiyear moving average of historical crop revenue.

Under the 2014 farm bill, farmers with base acres of covered commodities were given a one-time irrevocable choice between PLC and "county" ARC (based on a county guarantee) on a commodity-by-commodity basis for each farm. Alternatively, all covered crops on a farm can be enrolled in "individual" ARC, which is based on a farm-level guarantee. If no choice was made, the producer forfeited any payments for the 2014 crop year and the farm was enrolled automatically in PLC for the 2015-2018 crop years.

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[5] For details on current farm income support programs, see CRS Report R43448, *Farm Commodity Provisions in the 2014 Farm Bill (P.L. 113-79).*

[6] For historical peanut policy, see W. C. McArthur, V. N. Grise, H. O. Doty, Jr., and D. Hacklander, *U.S. Peanut Industry*, AER 493, ERS, USDA, November 1982.

[7] For more on the policy shift, see CRS Report RL30924, *Peanut Program: Evolution from Supply Management to Market Orientation*, and E. Dohlman, L. Foreman, and M. Da Pra, *The Post-Buyout Experience: Peanut and Tobacco Sectors Adapt to Policy Reform*, IEB 80, ERS, USDA, November 2009.

[8] Major program crops, referred to as "covered commodities" include wheat, oats, and barley (including wheat, oats, and barley used for haying and grazing); corn, grain sorghum, long grain rice, medium grain rice, and pulse crops (dry peas, lentils, small chickpeas, and large chickpeas); soybeans, other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, and sesame seed), and peanuts.

For peanuts, almost all producers (99.7%) selected PLC because they expected it to provide higher payments and greater risk protection than would be available under ARC. Similarly most rice producers (100% for long grain and 96% for medium grain) and large majorities of barley (75%), canola (97%), sorghum (66%), and minor oilseed producers (56% to 84%) also selected PLC. In contrast, a near-unanimous majority of corn (93%) and soybean (97%) producers, and a large majority of wheat producers (56%), selected ARC.

A Separate Program Payment Limit for Peanuts

Under current peanut program provisions, the primary advantage that peanuts have over other program crops is that peanut producers participating in government support programs have a separate program payment limit—a consequence of the peanut quota buyout (P.L. 107-171; §1603). As a result of this feature, a farmer that grows multiple program crops including peanuts has essentially two different program payment limits:

- the first payment limit of $125,000 per person is for an aggregation of program payments made to all program crops other than peanuts;
- the second payment limit of $125,000 per person is for program payments made exclusively to peanuts.

Thus, under an extreme scenario involving large payments for both peanuts and other program crops, this could potentially double a farmer's payment limits to as much as $250,000.

Marketing Assistance Loan Program

Peanuts and other designated crops are eligible for benefits under the Marketing Assistance Loan (MAL) program. MAL provides interim financing in the form of a government loan for up to nine months for participating producers following harvest of their crops.

A farmer must produce a crop to benefit from the program because the crop serves as loan collateral if the producer applies for a loan. The MAL process begins after harvest, when farmers may request a marketing loan, which is offered by USDA at a loan rate established in statute for pledged production (P.L. 107-171; §1202)—for peanuts the loan rate is $355 per ton or equivalently, 17.75 cents per pound. If a farmer puts their crop under a marketing loan, then they receive loan proceeds equal roughly to the quantity of peanuts placed under loan times the loan rate. Farmers then closely watch the relationship between market prices and the loan rate. In the case of peanuts, USDA estimates and announces a weekly national posted price to be used in determining the marketing loan repayment rate and other benefits. Prior to loan maturity, a farmer may repay the loan principal and interest if the posted price is at or above the loan rate. As a result, the loan provides interim financing, allowing the farmer to receive cash as soon as the crop is harvested and avoiding sale of the crop during harvest when prices tend to be at their seasonal low. The program essentially provides a price floor for producers because the government will take ownership of the loan collateral (i.e., the pledged crop) if prices drop below the statutory loan rate.

Special Marketing Loan Benefits

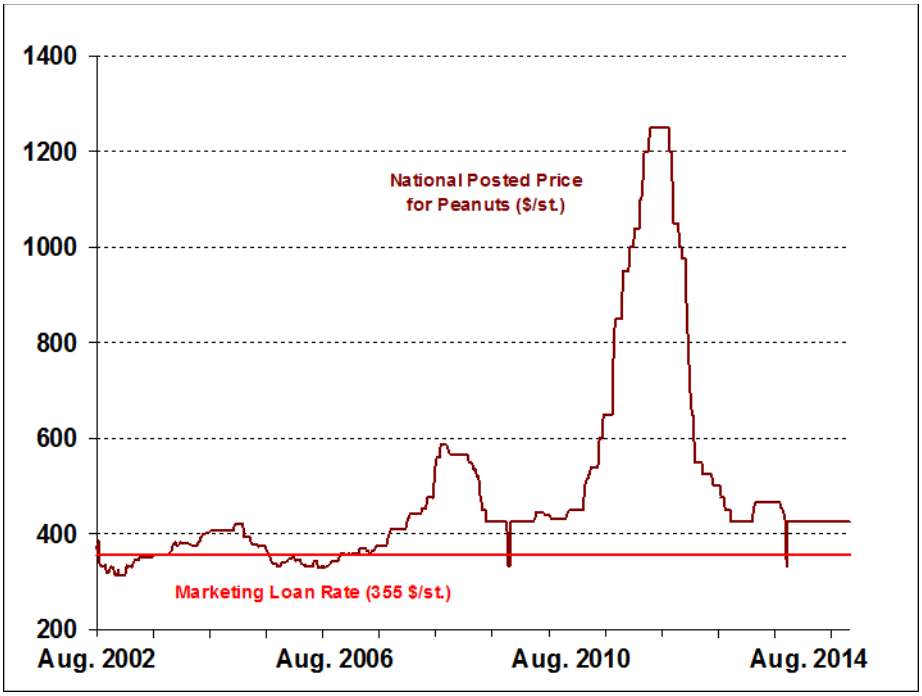
Defaults (or forfeitures) on marketing loans are not common because USDA provides the producer the opportunity to capture benefits even when the posted price is below the loan rate. In this case, farmers are allowed to repay the loan at the lower posted price, thus receiving a "marketing loan gain" (MLG) from the government because farmers do not repay the loan in full. The MLG is equal to the difference between the loan rate and the weekly national posted price.

Also, accrued interest is waived, but the producer pays storage and handling charges for the quantity of peanuts under loan. As an alternative to putting the crop "under loan" when prices are low, farmers may request a "loan deficiency payment (LDP)," with a payment rate equal to the difference between the loan rate and the posted price (same as the MLG). Farmers then receive an LDP payment without going through the loan process.

For most of the last decade, the farm (and posted) price of peanuts has been above the loan rate, so annual marketing loan benefits have been either zero or minimal (**Figure 4**).

Figure 4. Peanut Prices and Marketing Loan Rate

Producers receive benefits when the weekly national posted price is below the loan rate



Source: Data from Farm Service Agency, USDA

Notes: Posted price data are for Runner-type peanuts, with an average loan rate during entire period (August 2002 - June 2015) of $355 per ton. During periods of weak market prices marketing assistance loan benefits have resulted, including $49 million for crop year 2002/03 and $31 million for crop year 2005/06.

Forfeiture of the Pledged Crop

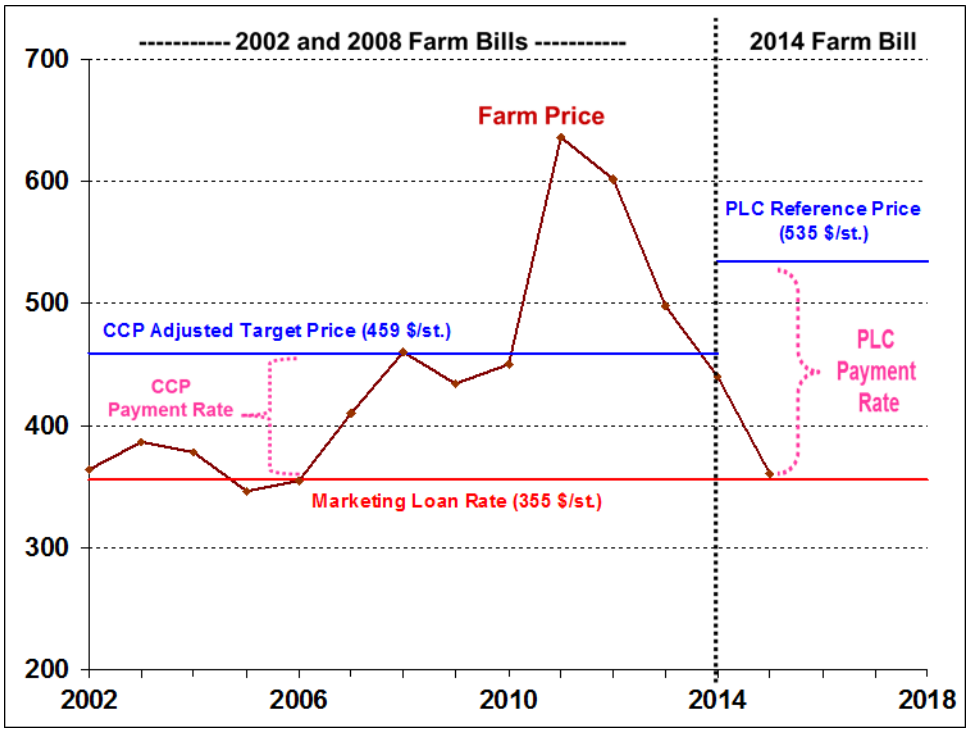
Forfeiture of the pledged crop in lieu of loan repayment is an option that is available for all marketing loan crops. Rather than repaying the loan with cash, farmers can fulfill their loan obligation by forfeiting the crop pledged as collateral. This option can be attractive for peanut producers if the posted price is below or even slightly above the loan rate because USDA, by law, then pays for costs associated with storage, handling, and interest. For large producers, another key feature of the forfeiture option is that the "gain" associated with forfeiting the crop, unlike a gain from repaying the loan with cash (or receiving an MLG or LDP), does not count toward the payment limit of $125,000 per person. Producers decide which route to pursue (repay loan with cash or forfeit) depending on the expected value of each option, their need for loaned funds, and their likelihood of exceeding the payment limit. If a farmer chooses to forfeit the crop, USDA takes ownership of the crop. Storage costs continue to accrue to USDA until it sells the crop or, in the case of peanuts, uses the CCC-owned peanuts for domestic nutrition programs.

Price Loss Coverage (PLC) Payments on Peanut Base

In addition to marketing assistance loan benefits, producers with base acres for any covered commodity (including peanuts) are eligible for a second (and higher) layer of income protection under the Price Loss Coverage (PLC) program. For peanuts, PLC payments are triggered when the annual farm price is below the statutory PLC reference price of $535 per short ton (i.e., 2,000 lbs) or equivalently, 26.75 cents per pound, as established under the 2014 farm bill (**Figure 5**).[9]

Figure 5. Peanut Income-Support Program Price Triggers Since 2002

Payment rate = Reference price minus national farm price (or loan rate, if higher)



Source: Farm price data are from ERS, USDA, *Oil Crops Outlook, OCS-15k*, November 13; farm program parameters are from respective farm bills—2002, 2008, and 2014.

Notes: Under the 2014 farm bill, the PLC payment rate is the reference price of $535 per ton minus the annual farm price (or loan rate if higher). Under the 2002 and 2008 farm bills, the trigger for counter-cyclical price (CCP) payments was $459 per ton, which equaled the target price of $495 per ton minus the direct payment rate of $36 per ton. The loan rate is part of the formula because marketing loan benefits provide additional price protection when prices fall below the loan rate.

PLC and ARC payments are made after October 1 following the end of the marketing year.[10] As a result, government payments arrive more than a year after the crop is harvested. For example, the payment associated with the 2014 peanut crop (planted in spring 2014 and harvested in summer 2014) will be made after October 1, 2015.[11] (In contrast, marketing loan benefits are available immediately upon harvest for crop years 2014-2018.)

[9] See **Table 4** for a comparison of PLC reference prices for selected program crops.

[10] Only PLC is described in this report because it covers 99.7% of eligible peanut acreage. For an explanation of ARC, see CRS Report R43758, *Farm Safety Net Programs: Background and Issues*.

[11] The 2014 peanut crop marketing season is August 2014 to July 2015.

For individual farms, payments are calculated using the national PLC payment rate and individual farm information on historical program yield and acres. The PLC payment formula is the PLC payment rate *times* historical farm program yield *times* 85% of historical peanut base acres.

- The national **PLC payment rate** is equal to the PLC reference price minus the higher of the season-average farm price or the marketing loan rate.
- With respect to **farm program yields**, during program signup in early 2015, producers were given the choice of keeping the same farm-level program yield used for calculating the farm's counter-cyclical payments under the 2008 farm bill (generally based on 1998-2001 yields or earlier) or updating the farm program yield according to the formula of 90% of the 2008-2012 average yield per planted acre for the farm.
- **Peanut base** represents historical peanut planting on each farm and totals 2 million acres nationwide.[12] As with program yields, the 2014 farm bill provided farmers with a one-time opportunity to update individual crop base acres by reallocating acreage within their previous base to match their actual crop mix (plantings) during 2009-2012.

A new feature of the 2014 farm bill income support programs is that, unlike income support programs from previous farm bills, payments under PLC and ARC are made on base acres, not current plantings. This feature—decoupling payments from current plantings—is intended to better comply with World Trade Organization (WTO) commitments on domestic support and to minimize any influence on producer behavior and subsequent market distortion. The payments are considered "partially decoupled" because the payment amount remains connected to current market prices. An exception to the decoupling is payments associated with generic base acres, whereby current plantings can affect payment acreage.

PLC Payments for Peanuts Planted on "Generic" Base

PLC payments can also be made on "generic base acres." Generic base acres are the renamed cotton base acres from the 2008 farm bill. Under the 2014 farm bill, cotton is no longer a covered commodity and thus no longer eligible for PLC or ARC payments. Instead, the former cotton base, now "generic base," is added to a producer's total base for potential payments, but only if a covered crop is planted on the generic base.[13] In other words, PLC payments on generic base acres are fully coupled to actual plantings (although payments remain subject to the 85% factor applied to eligible acres).

Unlike PLC payments on peanut base acres, which are made regardless of which crop is planted, the PLC payment on generic base in any given year is proportional to a farm's plantings of peanuts and other covered crops on the entire farm. More specifically, for each crop year, generic base acres are attributed to a particular covered commodity base (for potential payment) in proportion to that crop's share of total plantings of all covered commodities on the farm in that

[12] **Table 6** shows program base for peanuts and the other major program crops. Base acres are the historical planted acreage on each FSA farm, using a multi-year average from as far back as the 1980s. Base acre provisions since 1981 are described in C. E. Young, D. W. Skully, P. C. Westcott, and L. Hoffman, *Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act*, ERS, USDA, September 2005, pp. 36-41.

[13] Generic base acres were included in the 2014 farm bill to address a trade dispute involving Brazil and the U.S. cotton industry. As part of the cotton policy reform, the 2014 farm bill excluded upland cotton from PLC/ARC programs, thus leaving cotton base without any program. To bring cotton base under the new program, it was renamed "generic base" and opened up to any program crop. See CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*.

year.[14] The coupled nature of PLC payments on generic base is an important new program feature because of the large number of generic base acres available under the 2014 farm bill—17.5 million acres.[15] Substantial coupled plantings could potentially occur to the extent that this land remains under cultivation (as discussed below in "Relative Planting Incentives Under Farm Programs"). It is likely that many of the former cotton base acres are no longer used for annual crops—similarly, the original decoupling under the 1996 farm bill resulted in base acres in many places returning to pasture or fallow, but still remaining eligible for assistance).

Expanded Federal Crop Insurance Coverage in 2014 Farm Bill

Federal crop insurance is available for about 130 crops, including peanuts. Traditionally, a yield-based federal crop insurance policy was available for peanut producers to protect against yield loss due to weather, if purchased by producers. The insurance guarantees are established just prior to planting, based on historical yields and expected market prices (not statutory prices used in farm programs). The insurance premiums are subsidized by USDA, and subsidy rates vary based on the type of policy and coverage selected.[16]

The 2014 farm bill mandated a peanut revenue insurance product for the 2015 crop year so farmers could choose between a traditional yield-based policy and one that protects against declines in revenue (yield times price). Revenue policies have been available for many other farm program crops for almost two decades, but developing one for peanuts has been problematic because its relatively small market is considered "thin" and futures market prices are not available for setting the price guarantee. After considerable study, USDA's Risk Management Agency decided to base prices for the new revenue product on several factors, including the futures prices of cotton, wheat, soybean oil, and soybean meal, as well as the Brazilian price of peanuts, peanut stocks, and the FSA loan rate for peanuts.[17]

The rapid adoption of the new revenue insurance policy by peanut producers suggests that there was a strong demand for this product. For the 2015 crop, peanut producers purchased a total of 23,434 federal crop insurance policies covering nearly 1.5 million acres. Of this total, 44% of the policies and 68% of the covered acres were enrolled in revenue insurance.[18] Under the 2015 peanut policies, $9.6 million was paid out in indemnities including $7.1 million under revenue policies.

Adjusted Gross Income Limit

As with other farm program crops, payment eligibility depends on a gross income limit and rules on being "actively engaged." To qualify for any commodity program benefits, recipients must pass an eligibility requirement based on adjusted gross income (AGI) used for federal taxes. The AGI limit is a single, total (farm and non-farm) AGI limit of $900,000 (using a three-year average). Also, to be eligible for payments, persons must be "actively engaged" in farming.

[14] If the total number of acres planted to all covered commodities on the entire farm does not exceed the generic base acres on the farm, only the amount of acreage actually planted to a covered commodity is attributed to that covered commodity for payment purposes.

[15] **Table 6** summarizes peanut base acres and total generic base under the 2014 farm bill.

[16] See CRS Report R40532, *Federal Crop Insurance: Background*.

[17] For more information, see http://www.rma.usda.gov/help/faq/peanutrevenue.html.

[18] Federal Crop Insurance Corporation (FCIC), Nationwide Summary of Business—By Commodity, as of November 16, 2015, http://www.rma.usda.gov.

Actively engaged, in general, is defined as making a significant contribution of (i) capital, equipment, or land, and (ii) personal labor or active personal management.[19]

Relative Planting Incentives Under Farm Programs

Crop planting choices in general, and on base acres in particular, are based on relative net returns among competing crops, plus rotational considerations. Farm program payments do not figure in the determination because they are decoupled from planting decisions. In contrast, crop choices on generic base acres must consider both relative net returns as well as potential proceeds from government programs (i.e., both ARC and PLC) because of their coupling to crop plantings.

Market conditions vary widely based on relative crop prices, yield prospects (both irrigated and non-irrigated), and production costs. A preliminary assessment of potential market conditions for 2016 using a combination of data from USDA and the University of Georgia suggests peanuts could be a very competitive option for producers behind soybeans on irrigated acres and wheat on non-irrigated acres when comparing cost and returns for competing crops (**Table 3**).

Table 3. Comparison of Net Returns for Peanuts and Competing Crops, 2015/16

Crop	Prices Projections		Expected Yield		Expected Revenue	Variable Cost (VC)	Net Returns Above VC
Irrigated Crops							
Cotton	$0.59	$/lb.	1,200	lbs./acre	$708	$524	$184
Soybeans	$8.90	$/bu.	60	bu./acre	$534	$294	$240
Peanuts	$0.18	$/lb.	4,700	lbs./acre	$846	$653	$193
Corn	$3.65	$/bu.	200	bu./acre	$730	$662	$68
Wheat	$5.00	$/bu.	75	bu./acre	$375	$323	$52
Sorghum	$3.60	$/bu.	100	bu./acre	$360	$349	$11
Non-irrigated Crops							
Peanuts	$0.18	$/lb.	3400	lbs./acre	$612	$550	$62
Cotton	$0.59	$/lb.	750	lbs./acre	$443	$423	$20
Wheat	$5.00	$/bu.	55	bu./acre	$275	$199	$76
Soybeans	$8.90	$/bu.	30	bu./acre	$267	$212	$55
Corn	$3.65	$/bu.	85	bu./acre	$310	$313	-$3
Sorghum	$3.60	$/bu.	65	bu./acre	$234	$223	$11

Source: Calculations are by CRS. Prices are from USDA, *WASDE*, November 9, 2015, and ERS, USDA, *Oil Crops Outlook, OCS-15k*, November 13, 2015; yield and variable costs of production data are from University of Georgia, College of Agricultural and Environmental Sciences, Extension, Cost Enterprise Budgets, January 2015, http://www.agecon.uga.edu/extension/budgets/cct/index.html.

[19] The 2014 farm bill instructed USDA to write regulations that define "significant contribution of active personal management" to more clearly and objectively implement existing law. The proposed rule was issued in March 2015, and the comment period ended May 26, 2015. Issuance of the final rule is pending.

Notes: The calculations above are illustrative only. They combine 2015 pre-planting yield and costs estimates from Georgia—the leading U.S. peanut-producing state, with USDA post-harvest price estimates. Individual farm agronomics including irrigation availability and rotational considerations related to cropping patterns, soil types, plant disease and insect infestations, etc. are also important factors in crop selection, but are not included here.

It is important to note that **Table 3** excludes fixed costs and thus does not attempt to predict actual profitability across crops. In the short run, crop choices can be made by comparing returns above variable costs; however, to ensure economic viability in the long run, producers must also cover fixed costs, which are not considered in this table. This consideration is particularly valid for peanuts, where equipment lines are unique to the crop and represent significant up-front costs. Also, the variable cost estimates used in Table 3 represent the estimate for a single point in time and are subject to changing market conditions for a host of farm inputs including fuel, fertilizer, pesticides, labor, and land.

A similar preliminary outlook for 2016 PLC and ARC payments for major covered commodities—using a combination of data from USDA and the Food and Agricultural Policy Research Institute (FAPRI)—suggests that peanuts may be an attractive planting option on generic base acres relative to most other competing crops (**Table 4**). Peanut program payments under PLC (the program choice of over 99% of peanut base owners) are projected at $270 per acre. However, most corn and soybean base owners chose the ARC program. Under the ARC scenario presented in **Table 5**, corn and soybeans are projected to receive ARC payments of $33 and $43 per acre, respectively.

Table 4. Comparison of Potential PLC Program Payments for Peanuts and Competing Crops, 2016 Projections

Crop	Prices				National Average Program Yield		National Average Payment Rate ($ Per Acre)[a]
	PLC[b]	SAFP[c]	Per-Unit Payment Rate[d]	Unit			
Peanuts	$535.00	$392.20	$142.80	$/ton	1.897	tons/acre	$270.85
Peanuts	$0.2675	$0.1961	$0.0714	$/lb.	3,793.4	lbs./acre	$270.85
Corn	$3.70	$3.71	$0.00	$/bu.	132.0	bu.acre	$0.00
Sorghum	$3.95	$3.73	$0.22	$/bu.	67.6	bu.acre	$14.87
Soybeans	$8.40	$9.15	$0.00	$/bu.	37.4	bu.acre	$0.00
Wheat	$5.50	$5.05	$0.45	$/bu.	45.3	bu.acre	$20.39

Source: CRS calculations using national average program yields (FSA, USDA) and expected national season-average farm prices (SAFPs) for 2016/17 from FAPRI, *Baseline Update for U.S. Agricultural Markets*, FAPRI-MU Report #03-15, August 2015.

Notes: This table is illustrative only. Program yields used here are the national average for both irrigated and non-irrigated crops. The calculation above assumes that the farm program yield is the same as the national average program yield. In practice, each individual farm has its own specific program yield for each program crop (differentiated by irrigated versus non-irrigated) based on its historical data. PLC payments (paid on 85% of base acres) are made when the SAFP for a crop is below its 2014 farm bill reference price. At this early stage, projections for the 2016 SAFP are speculative and subject to substantial variation with changing prospects in domestic and international markets.

a. The per-acre payment rate equals the per-unit payment rate times the program yield. It is applied to 85% of an eligible producer's base acres for the respective program crop.

b. The statutory PLC reference price.

c. The FAPRI August 2015 projection of national season average farm-prices received for 2016/17.

d. The payment rate is the PLC reference price minus the SAFP (or loan rate, if higher). If the SAFP exceeds the reference price, then no payment is available. If the SAFP is below the marketing loan rate, additional benefits accrue under the MLP (but paid on actual production).

Table 5. Comparison of Potential ARC Program Payments for Peanuts and Competing Crops, 2016 Projections

	Prices			Yield			Revenue ($/acre)		
Crop	ARC MA[a]	SAFP[b]	Unit	ARC MA[a]	US AVG[c]	Unit	ARC Guarantee[a]	US AVG[d]	ARC Payment Rate ($/acre)[d]
Peanuts	513.33	392.20	$/ton	2.0	1.9	st./ac.	$870.16	$750.47	$101.18
Peanuts	0.257	0.196	$/lb.	3,942	3,827	lb./ac.	$870.16	$270.85	$101.18
Corn	4.79	3.71	$/bu.	158.2	166.8	bu./ac.	$652.09	$618.83	$33.26
Sorghum	4.77	3.73	$/bu.	60.6	64.0	bu./ac.	$248.35	$238.27	$9.63
Soybeans	11.87	9.15	$/bu.	44.5	44.9	bu./ac.	$454.19	$410.84	$43.36
Wheat	6.70	5.05	$/bu.	44.5	45.9	bu./ac.	$256.63	$231.80	$24.84

Source: CRS calculations using national average farm prices and yields (NASS, USDA) and expected national season-average farm prices (SAFPs) for 2016/17 from FAPRI, *Baseline Update for U.S. Agricultural Markets*, FAPRI-MU Report #03-15, August 2015.

Notes: This table is illustrative only. Yields used here are national averages. The calculation above assumes that county-level yields are the same as the national average yield. In practice, each county will have its own specific program yield for each program crop based on its historical data. ARC payments (paid on 85% of base acres) are made when the county-level revenue for a crop is below the calculated product of the 5-year Olympic moving averages for national prices and county yields. At this early stage, projections for 2016 prices and yields are speculative and subject to substantial variation with changing prospects in domestic and international markets. Peanuts are added to this table purely to facilitate comparisons with other crops. Less than 1% of peanut base owners chose to participate in the ARC program.

a. ARC moving averages (ARC MA) are calculated using the Olympic average (i.e., throw out the high and low years) of the preceding five years. The ARC guarantee equals 86% of the ARC benchmark revenue for each commodity as determined by the product of the ARC MAs for national prices and county yields.

b. The FAPRI August 2015 projection of national season average farm-prices received for 2016/17.

c. The U.S. average (US AVG) is a FAPRI August 2015 projection for 2016/17.

d. The payment rate is the ARC Guarantee minus the actual county revenue. If the actual county revenue exceeds the ARC Guarantee, then no payment is available.

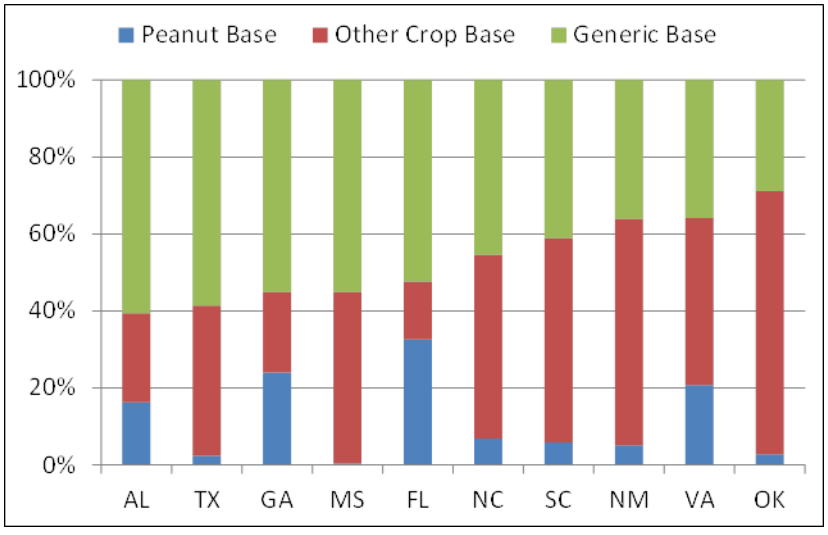
When potential PLC and ARC program payments (**Table 4** and **Table 5**) are combined with potential market returns (**Table 3**), peanuts appear to have an advantage over other program crops in competing for generic base acres. This competitive edge will vary across producing zones with yield and cost conditions, as well as changes in relative prices.

In an extreme case, if a producer with generic base acres expected a sizeable peanut PLC payment rate relative to other program crops, their entire farm could be planted to peanuts (or peanuts and no other covered crop), and their PLC payments on generic base would be calculated using exclusively the payment rate for peanuts. Alternatively, if expected market returns and PLC payment rates do not favor peanuts, farmers with generic base acres could plant their entire farm to crops other than peanuts. An outcome between these two extremes is expected to prevail if farmers maintain typical rotations, which are needed to maintain soil health and long-term yield potential for all crops. Nevertheless, high potential PLC payments on generic base could cause producers to "stretch" their rotations and benefit from additional peanut payments on generic base.

Farm policy economists have noted that peanuts (and rice) have a statutory reference price that is set disproportionately above historical market prices, particularly when compared to the reference prices for other major program crops.[20] Since the peanut quota buyout in 2002, monthly peanut farm prices have been below their respective reference price 87% of the time, and below the marketing loan rate 18% of the time.[21] This compares with monthly corn farm prices (56% of the time below the reference price and 5% of the time below the marketing loan rate); soybeans (39% and 4%), wheat (22% and 4%), sorghum (59% and 12%), and barley (65% and 0%). Rice has comparable "in-the-money" percentages with the announced Adjusted World Price (AWP) for rice with 90% of monthly farm prices falling below the reference price, and 32% below the marketing loan rate. Some contend that this potential advantage favors peanut production (relative to other program crops) on generic base acres. However, the extent to which this scenario might play out is unclear, and both agronomic and market circumstances suggest that it might be limited.

The outlook for average farm prices across major program crops is likely to be a key determinant of both farm program payments and crop planting choices on generic base. This is because the size of the farm program payments increases in proportion to the decline in farm price below the reference price and loan rate. The largest impacts on planting decisions could be in states where the generic base is large relative to the total base (**Figure 6**) because the planting mix determines the payment. At one extreme is a farm with 100% generic base, when acreage eligible for specific crop payments corresponds directly to the covered crops that are planted. At the other extreme, for a farm with no generic base acres, the payment acres are predetermined and will not change regardless of what the farmer plants—namely covered crops to the individual crop base acres.

Figure 6. Shares of Total Base on Farms with Generic Base



Source: CRS, using data from USDA's Farm Service Agency.

Notes: Other crop base includes primarily corn, soybeans, rice, and sorghum.

[20] D. Orden and C. Zulauf, "The Political Economy of the 2014 Farm Bill," invited paper, AAEA session *The 2014 Farm Bill: An Economic Post Mortem*, ASSA Annual Meetings, January 4, 2015, Boston, MA.

[21] Calculations are by CRS using monthly farm price data from the National Agricultural Statistical Service, USDA, from January 2002 through September 2015.

The share of generic base is more than 50% for several peanut-producing states, including Alabama, Texas, and Georgia (**Figure 6** and **Table 6**). These states could see additional plantings of peanuts in future years if relative returns (including government payments) favor peanuts.

Table 6 summarizes peanut base acres and total generic base under the 2014 farm bill. Planted peanut acreage for major producer states for 2012-2015 is also shown.

Table 6. Peanut Base, Generic Base, and Peanut Planted Area by State

State	Peanut base	Generic base	Peanut plantings			
			2012	2013	2014	2015
Georgia	753,328	1,456,949	735,000	430,000	600,000	790,000
Texas	401,032	7,204,323	150,000	120,000	130,000	165,000
Alabama	260,991	657,231	220,000	140,000	175,000	200,000
N. Carolina	157,643	866,638	107,000	82,000	94,000	90,000
Florida	152,206	105,308	210,000	140,000	175,000	185,000
Oklahoma	93,010	589,031	24,000	17,000	12,000	10,000
S. Carolina	78,770	347,713	110,000	81,000	112,000	113,000
Virginia	75,516	103,423	20,000	16,000	19,000	19,000
New Mexico	24,267	98,088	10,000	7,000	4,500	5,000
Mississippi	14,144	1,623,887	52,000	34,000	32,000	43,000
Subtotal	**2,010,907**	**13,052,591**	**1,638,000**	**1,067,000**	**1,353,500**	**1,620,000**
Arkansas	6,177	1,148,575	NA	NA	NA	NA
Louisiana	1,288	995,813	NA	NA	NA	NA
Tennessee	1,125	743,850	NA	NA	NA	NA
Arizona	428	406,931	NA	NA	NA	NA
Missouri	211	440,015	NA	NA	NA	NA
Colorado	75	0	NA	NA	NA	NA
Nebraska	34	8	NA	NA	NA	NA
Other states	0	795,128	NA	NA	NA	NA
Total	**2,020,243**	**17,582,911**	**1,638,000**	**1,067,000**	**1,353,500**	**1,620,000**

Source: Base acres: Farm Service Agency (FSA), USDA; planted acreage: NASS, USDA, October 9, 2015.

Notes: NA = not estimated by NASS, USDA.

Selected Policy Issues

Generic Base Acres

The domestic and trade policy concern is that farm program payments made to plantings on generic base are fully coupled to production and thus potentially market distorting. As a result, program payments made to generic base would likely count toward the U.S. amber box limit of $19.1 billion. Furthermore, if such payments are substantial and can be linked to a surge in exports, they could potentially be vulnerable to challenge by another WTO member.[22]

Potential Marketing Loan Forfeitures

As mentioned earlier, large peanut producers who have pledged their peanut crops as collateral for nine-month USDA marketing loans could confront a payment limit issue leading to forfeiture of their crop to USDA. This situation could result if incurring marketing loan benefits (i.e., marketing loan gains or loan deficiency payments) would cause them to surpass the payment limit of $125,000. In such a situation, a producer could simply forfeit the collateral peanuts to USDA (via the Commodity Credit Corporation) and keep the original loan value. The CCC would then be responsible for handling and storage costs and the eventual marketing of the peanuts.

USDA, in its November 2015 crop forecast, projected U.S. peanut ending stocks for the 2015/16 crop year to be record large at 2.87 billion pounds or 52.3% of total use.[23] If such an oversupply situation continues into the future, USDA could face challenges with the marketing loan program for peanuts. If supplies are large enough to depress prices for successive years, but farm subsidies (via generic base) provide incentives to plant peanuts, a large amount of peanuts could go under loan and forfeitures could accumulate. In a severely depressed market, USDA might have difficulty finding a buyer without offering a deep discount, which would result in large net outlays for the government. USDA could wait for a price recovery, but doing so would result in additional storage charges. Sufficient storage capacity might also be an issue if stocks increase substantially.

Prospective Government Farm Program Outlays

Following the 2002 buyout of the peanut quota program, federal peanut income support payments (excluding storage payments and the buyout) have averaged $192 million per year. Additionally, peanut storage payments averaged $79 million per year from 1996 to 2007 (the last year of eligibility), and $0 since their elimination in 2007 (**Figure 7**).

With ongoing congressional concern for budget deficits and federal spending, the cost of the peanut programs might garner the attention of policymakers who want to reduce federal spending. In April 2014, two months after the 2014 farm bill was signed into law, the Congressional Budget Office (CBO) projected CCC program outlays for peanuts of $84 million for FY2016 and an annual average of $71 million for the five-year 2014 farm bill period (FY2014-FY2018). As new information on market conditions as well as producer participation and program outlays for

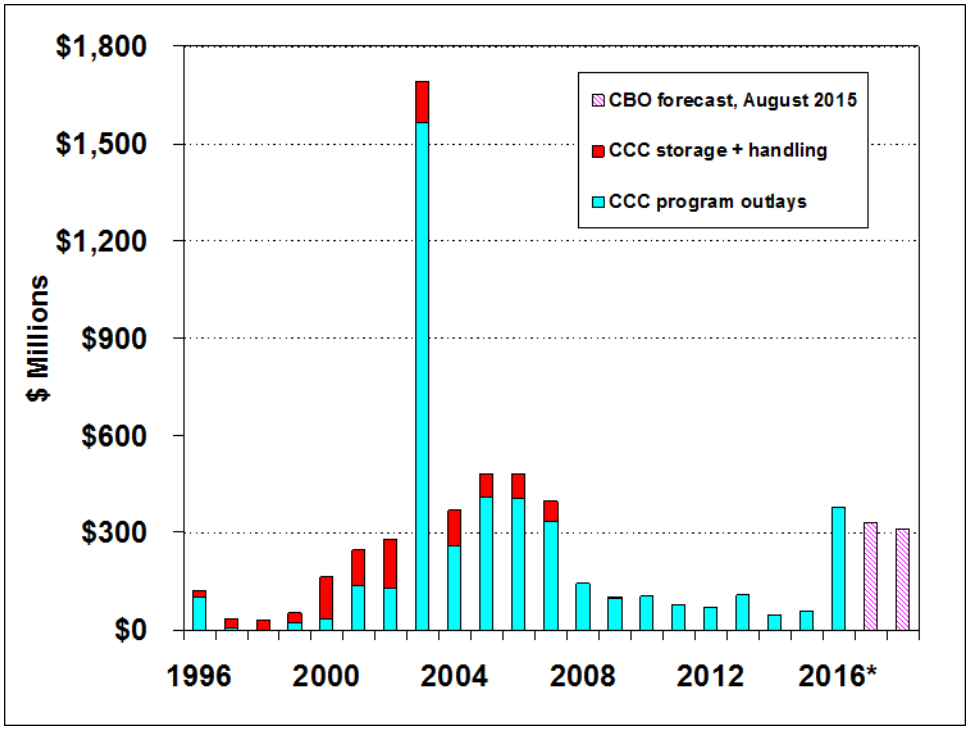
[22] When the effects of domestic subsidies—such as expanded production and exports—spill over into international markets and can be shown to induce price suppression or altered trade patterns, then those subsidy programs may be subject to challenge under WTO dispute settlement proceedings. See CRS Report RS22522, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*.

[23] ERS, USDA, *Oil Crops Outlook, OCS-15k*, November 13, 2015.

FY2014 and FY2015 have become available, projections of potential outlays have been revised upward. In February 2015 USDA projected peanut program costs of $379 million for FY2016.[24] In June 2015, FAPRI projected farm program outlays for peanuts of $431 million for FY2016 and an annual average of $337 million for the five-year 2014 farm bill period (FY2014-FY2018).[25] Finally, in August 2015, the CBO projected CCC program outlays for peanuts at $232 million for FY2016, and at an annual average of $198 million the five-year 2014 farm bill period.[26] As a point of reference, the annual market value of U.S. peanut production has traditionally been in the range of $1.1 billion to $1.4 billion, depending on crop size.[27]

Figure 7. USDA CCC Net Outlays for Peanuts

Fiscal years 1996 to 2016 estimated; 2017-2018 projected



Source: Farm Service Agency (FSA), USDA, "Table 35—CCC Net Outlays by Commodity & Function, Fiscal Years 2007-2016E," CCC Budget Essentials, February 2015; and CBO, "August 2015 Baseline for Farm Programs," August 26, 2015.

Notes: FY2003 costs include the CCC buyout of peanut quotas. CBO projections do not include storage and handling costs of CCC-owned peanuts. 2016 is a USDA forecast; 2017 and 2018 are CBO projections.

Government payments for the 2016 crop will depend on how low the average peanut price is relative to the reference price. USDA will make its first forecast of 2016 farm prices in May

[24] Farm Service Agency (FSA), USDA, "Table 35—CCC Net Outlays by Commodity & Function, Fiscal Years 2007-2016E," CCC Budget Essentials, February 2015. USDA's analysis for the President's FY2016 budget includes projections of peanut PLC outlays that rise to $679 million in FY2017 and continue to grow to $799 million in FY2025. In addition, USDA projects substantial peanut storage and handling costs (related to marketing loan forfeitures) that rise from a projected $31.2 million in FY2017 to $85.3 million in FY2025; available at: http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/AboutFSA/Budget/pdf/pb16_commodity_estimates.pdf.

[25] FAPRI, *U.S. Crop Program Fiscal Costs: Revised Estimates with Updated Participation Information*, June 2015.

[26] Congressional Budget Office (CBO), "August 2015 Baseline for Farm Programs," August 26, 2015.

[27] An exception occurred in 2012 when record production combined with high prices to push crop value to $2 billion.

2016. The current 2015 outlook for peanut farm prices of $360 per ton (or 18 cents per pound) implies a PLC payment rate of $175 per ton. When combined with a total peanut base of 2 million acres and an average PLC payment yield of 1.5 tons per acre, total PLC payments on 85% of peanut base acres would be $446 million for the 2015 crop or about $68,000 per farm using the number of peanut farms (6,561) in the 2012 Census of Agriculture.[28] Additional PLC payments on generic base (attributed to peanuts) could push total PLC payments substantially higher in 2016 and beyond. Under expectations for larger peanut crops and the ensuing low market prices, additional costs would be associated with the marketing loan program, including storage and handling costs.[29]

Market Development

The American Peanut Council (APC) administers the U.S. peanut industry's export market development program, receiving approximately $2 million per year in government funds under the Market Access Program (MAP).[30] MAP aids in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products.[31] MAP funding has been targeted for reductions by some Members of Congress, who maintain that it is a form of "corporate welfare," or to help offset increased expenditures on other programs. Such efforts have been unsuccessful.

For the domestic market, some in Congress have begun encouraging USDA to purchase more peanut butter for domestic food programs and for international food aid as a way to increase peanut usage.[32]

Arguments For and Against the Peanut Support Program

The arguments for and against the peanut support programs are the same as those for U.S. farm programs in general. Proponents argue that an income safety net is needed to help producers deal with the substantial price volatility associated with commodity markets. They say a marketing assistance loan program is needed to provide greater marketing options for producers who are at a distinct market-power disadvantage when dealing with a small number of powerful buyers. And in peanut's particular case, proponents argue that farm program support is needed to help offset the substantial market volatility that has emerged since the elimination of the peanut quota system.

In contrast, critics argue that market signals are sufficient to allocate resources within the sector, and that subsidies distort resources away from more efficient uses. Some critics argue that farm subsidies actually keep small, inefficient operators in business and that, in the absence of subsidies, the inefficient operators would not be competitive and the land would be maintained and operated by more efficient, technologically savvy operators who would get better yields and

[28] PLC payments on peanut base = 0.85 times 2 million acres of base x $135 per ton x 1.5 tons per acre = $344 million.

[29] Both CBO and FAPRI project annual peanut production of 5 to 6 billion pounds over their extended forecast periods: CBO, "August 2015 Baseline for Farm Programs," August 26, 2015; and FAPRI, *U.S. Crop Program Fiscal Costs: Revised Estimates with Updated Participation Information*, June 2015.

[30] U.S. Department of Agriculture, "USDA Helps Open and Expand Export Markets for U.S. Agriculture Through 2014 Farm Bill Programs," press release, April 16, 2014, http://www.usda.gov/wps/portal/usda/usdamediafb?contentid=2014/04/0063.xml&printable=true&contentidonly=true. APC is the trade organization that represents all segments of the peanut industry. It operates a number of marketing, research, and other programs for the peanut industry.

[31] CRS Report R43696, *Agricultural Exports and 2014 Farm Bill Programs: Background and Issues*.

[32] "House Ag Members Quiz Vilsack on Wide Range of Issues," *Hagstrom Report*, February 11, 2015.

returns from the same acreage. Others argue further that funds allocated to farm support would have greater returns if spent in other sectors.

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