

2005: WHAT IMPACT HAS THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002 HAD ON SOUTHEAST PEANUT FARMS?

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The year is 2005. Three growing seasons are now complete since the passage of the Farm Security and Rural Investment Act of 2002. How has the passage of that act impacted Southeastern peanut farms? The National Center for Peanut Competitiveness has carried out numerous studies to analyze the impacts brought forth by the change in peanut policy.

One study analyzed the impact on aggregate income and economic activity generated from the change in peanut program for the years 2002 to 2007 for the southeast peanut producing region and the US as a whole. Considering trends in production since the change in program an economic model was used to determine the impact on a yearly and aggregate basis for Alabama, Georgia, Florida, South Carolina and the US.

For each of these states and the US as a whole, the change resulted in a positive impact on the aggregate income and the resulting economic activity generated from this increase in income. For the southeast, increases in aggregate income range from \$75.4 million to roughly \$1.36 billion. The US increase in aggregate income from the change in peanut program is \$2.96 billion. The economic activity generated from these increases in income ranges from \$158.4 million to \$2.85 billion for the individual southeast states and \$6.22 billion for the US. This study points out one area of positive impact seen in these states from the change in policy.

Another study conducted by the National Center for Peanut Competitiveness compared the potential income generated from the peanut enterprise of the 12 Southeastern representative peanut farms under the 1996 and the 2002 farm bills for years 2002 to 2007. The analysis compared the difference in the annual gross peanut revenue under each of the bills for each of the farms, as well as a composite average of the farms.

Two production scenarios were considered for this study. One scenario was that each farm would see no change in the total peanuts produced. The second scenario was that each farm would increase production by 2% for each year after 2002. The revenue considered in the study under the 2002 farm bill included the value of production at \$355/ton and government payments. The government payments included the annual quota buyout for pounds of quota owned by the representative farm, direct payments of \$36/ton and counter-cyclical payments of \$104/ton on 85% of the peanut base.

Revenue under the 1996 farm bill considered quota and additional peanuts with quota valued at \$610/ton and half of the additional valued at the average contracted price of \$325/ton and the other half valued at the average payout price of loan additional that were crushed of \$200/ton. Quota rent, as well as the potential assessment that would have been imposed on the 2002 crop to cover losses generated by the program in 2001, were included. Quota pounds were reduced by 2% for each year after 2002. Again, two production scenarios were considered with one

assuming a decrease of 2% for years after 2002 and the second assuming an increase of 2% for each year after 2002.

Results showed that when producers captured 100% of the direct and counter-cyclical payments, regardless if production remained constant or increased under the 2002 analysis, revenue generated under the 2002 bill was higher than that generated under the 1996 bill for all years for all 12 farms. When producers captured direct and counter-cyclical payments equal to the portion of cropland owned and production increased by 2% each year, revenue was greater under the 2002 bill for all years for all farms. When production was held constant, revenue was greater under the 2002 bill for all farms for all years except 2007. In 2007 under this scenario, 3 farms had slightly lower income than under the 1996 bill (\$2300, \$6200, \$6800).

When the aggregate of the six years is considered the benefits from the 2002 bill can be seen to a greater extent. When constant production is considered, the benefit ranges from \$69,800 to \$797,775 when the producer receives benefits equal to the percentage of cropland owned. Benefits ranged from \$182,300 to \$1,549,100 if producer received 100% of the payments. Under the changing production scenario, benefits ranged from \$95,650 to \$972,790 when the producer receives benefits equal to the percentage of cropland owned. Benefits ranged from \$220,850 to \$1,724,130 if producer received 100% of the payments.

The purpose of this study was not to consider the economic viability of peanut producers, but rather to compare the peanut income generated under the two farm bills. It does not provide information on the sustainability of these farms, but it does point out that given this database, revenue generated under the 2002 farm bill is substantially greater than what might have been generated under the 1996 bill when all the various intricacies of the peanut industry are considered.

One additional study has considered how the traditional peanut areas have been impacted by the change in peanut program. Results show that peanut acreage has shifted given the change in the program. Given that quotas were eliminated, the opportunity for non-traditional peanut areas to now grow peanuts has arisen. Areas in the southeast, Georgia, Florida and South Carolina, have seen significant acreage increase and shifts in production areas. Texas, Oklahoma and Virginia have seen significant decreases in acreage while other states have seen shifts within the production areas with no significant impact on the total acres planted and states that were considered minor under the prior program are showing an expansion of acreage under the new program.

These studies help to verify the impacts seen from the change in the peanut program. For the Southeast peanut region, which has primarily been the focus of these studies, the impact seems to be positive. With the passage of the FSRIA of 2002 the peanut industry faced a cross-road. Along with change came uncertainty, but without change the US peanut industry's future was uncertain.

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