

What Impact Will the Elimination of Federal Funding for Peanut Storage, Handling and Other Associated Cost Have on the Southeastern Peanut Farms?

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Situation:

The Farm Security and Rural Investment Act (FSRIA) of 2002 abolished the decades old peanut quota program and established a marketing loan program for peanuts similar to other commodities produced in the United States. It also established that the storage, handling and other associated cost, for peanuts meeting Commodity Credit Cooperation (CCC) standards and voluntarily placed in the marketing loan program, be paid by the CCC through the end of the 2006 crop marketing year. As the FSRIA of 2002 is written, these costs for peanuts placed in the marketing loan are not federally funded for the 2007 crop year and beyond.

In today's marketing environment, the majority of peanuts produced in the United States are placed in the marketing loan program before commercial peanut shellers or manufacturers purchase them. The lack of Federal funding for storage, handling and other associated cost beyond the 2006 crop marketing year is poised to have a negative impact on peanut farms in the southeast. The CCC storage fees are set at \$2.71/ton/month for the length of the loan. In addition to storage, approximately \$35/ton for handling and other associated cost are covered by the CCC. This fee can vary slightly depending on Federal State Inspection Service (FSIS) grading fees by state. Due to industry structure, this study assumes the financial responsibility of these costs is passed on to the producer who places the peanuts in the marketing loan. The magnitude of the added expense to the peanut industry, and more specifically at the farm gate level, is a subject of much speculation and interest.

Response:

In response to industry speculation and interest, the National Center for Peanut Competitiveness (NCPC) carried out a preliminary study to determine the economic impact of storage, handling and other associated cost for peanuts placed in the marketing loan. Using the Texas A&M Ag and Food Policy Center's (AFPC) FLIPSIM model and the August 2005 baseline, the economic viability over the period 2005 to 2010 for the Southeastern representative peanut farms was analyzed with and without Federal funding of these costs for peanuts.

The benchmark analysis represents the scenario with the added expense of peanut storage, handling and other associated cost paid by the producer starting with the 2007 crop and beyond. Recent studies have suggested the average length of loan storage for peanuts prior to loan redemption is 136 days. Therefore, a prorated storage fee based on 136 days of storage at \$2.71/ton/month was added to the approximate \$35/ton handling and grading charge. Given these assumptions, approximately \$47.37/ton was added to the peanut enterprises production cost on each of the representative peanut farms.

The alternate scenario for this study negates these costs to the producer and assumes they will be paid by some entity, other than the producer, at no additional cost to the producer, *ceteris paribus*.

Results:

The overall economic viability of a farm is based on the probabilities of a farm having negative ending cash reserves and losing net worth. Viability is classified as good when these probabilities are 25% or less, moderate at 26-50%, and poor at greater than 50%.

For the benchmark analysis of the eleven Southeastern representative peanut farms, two are projected to have good overall economic viability, one moderate, and eight poor for the period 2005 to 2010. Three farms are projected to have less than a 25% probability of a negative ending cash reserve and the remaining eight are projected to have greater than 50% probability. Greater than a 50% probability of a decline in net worth is forecasted on eight farms, between 26-50% is forecasted on one farm, and less than a 25% probability on two farms.

The alternate scenario with storage, handling and associated cost funded beyond the 2006 crop categorically moves one farm from poor economic viability to moderate. It also moves one farm from greater than 50% probability of negative ending cash to between 26-50%. The alternate scenario categorically improves the probability of a declining net worth of one farm from greater than 50% to less than 25% probability. It should also be noted that the alternate scenario did change, and in many cases decreased, the likelihood of negative ending cash reserves and declining net worth for the peanut farms analyzed in this study. However, it did not change the probabilities enough to shift farms into different categories.

The benchmark analysis has a composite average net cash farm income (NCFI) for all farms over years 2005 to 2010 of \$21,591 per year. The average NCFI for the alternate scenario, which funds storage, handling and associated cost beyond the 2006 crop year, was \$46,851 per year. This is an economic impact of an average of \$25,260 per year per Southeastern representative peanut farm. Considering the farms on an individual basis, this impact ranges from a maximum average NCFI of \$75,283 per year on one farm to a minimum of \$3,365 per year on another.

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