Statement Before the

Committee on Agriculture, Nutrition & Forestry

United States Senate

Washington, DC

Hearing on

“Risk Management & Commodities in the 2012 Farm Bill”

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Presented By:

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Madam Chairman and Members of the Committee:

These comments on the peanut program for the 2012 farm bill are presented on behalf of the "Southern Peanut Farmers Federation" and the "United Peanut Alliance." The Federation is comprised of the four peanut growing states in the Southeast region, which includes Alabama, Florida, Georgia and Mississippi; and the Alliance is comprised of the six-peanut growing states in the Virginia-Carolina region and the Southwest region, which includes North Carolina, South Carolina and Virginia; and New Mexico, Oklahoma, and Texas; respectively.

This group of growers represents all of the major peanut growing states, who have come together to present a future program to the committee that works for all three peanut growing regions. The last few years have been extremely difficult for peanut growers and we are testifying today to describe the problems we face, and offer recommendations on how the committee can craft a new program that will make planting peanuts a viable proposition for us in the future.

We support two important peanut provisions for the 2012 Farm Bill. These include assuring peanuts have an equitable risk management tool at the U.S. Department of Agriculture and a peanut program that provides "producer choice" between a counter-cyclical program, assuming no direct payments, with a higher target price and a revenue program.

Our Experience in 2011

First and foremost, the committee needs to know that Texas experienced a devastating drought in 2011, which was the worst in the history of the state, and this drought extended to Oklahoma and neighboring states. In addition, the Southeast peanut region also experienced a serious drought. For the entire year, I received 1.2 inches of rain on my farm and it fell at only two or three tenths of an inch at a time.

In addition to drought, we had extreme winds and excessive heat throughout the 2011 growing season. There were several days in which 60 mph winds were sustained. Winds of 20 to 40 mph were almost a daily event at planting time and the early growing season.

We also had 48 days with 100 degree temperature or higher (which shattered the previous 29-day record). In fact, we had 131 days with temperatures that were 90 degrees or higher. Consistent high temperatures and no humidity will cause peanuts to quit producing.

Thus mine and many other peanut yields were cut by two-thirds, with fields normally producing 5,000 pounds per acre only yielding 1,700 pounds per acre. Some crops appeared or looked good, but when pulled up there was nothing there, so these crops became hay for livestock. Unfortunately, growing this crop for hay cost growers just as much as a crop that made a third of their normal yield. In the Southeast many non-irrigated producers totally lost their peanut crop or had only 200 pounds per acre. Clearly, we have never seen these extreme conditions in our area before -- there is simply no precedent for this disaster.

Our Situation in 2012

In the Southwest there are several reasons that farmers may not grow peanuts in 2012. First, available peanut contract prices must be equitable to other commodities grown in the region to compete for acres, and that is not currently the case. This is substantiated by the analysis performed by the National Center for Peanut Competitiveness using their representative peanut farms. Most bankers are requiring peanut contracts upfront prior to them making a loan to plant peanuts. In some instances, bankers have basically forced farmers to grow cotton rather than peanuts due to the insurance policy differences. Due to the insurance, growing cotton is considered a safety net for the bank’s risk in addition to the farmer’s risk. This is also the case in the Southeast peanut region.

After experiencing extreme drought during the 2011 growing season, the only reason I get to stay in business is because of my cotton crop insurance. The cotton insurance allowed me to pay back my operating expenses, but there was nothing left for my land or equipment payments. Under these circumstances, another year like this one and it will not be economically feasible to produce peanuts due to the risk associated with the current lack of insurance that is available for peanuts. The National Center for Peanut Competitiveness has found this to be the case in many of their representative peanut farms.

Local peanut infrastructure is suffering. With a multiyear decline in peanut acreage on top of last year’s devastating peanut crop many buying points, shellers, peanut equipment dealers and chemical companies are severely feeling the economic effects. Another year like 2011 and I am afraid we will not be able to sustain our local infrastructure.

Acres shown are approximate:

Peanut Acres	2011	2010	2009	2008	2007
South Plains	57,477.00	104,461.00	107,470.00	177,322.00	126,870.00
State of Texas	100,698.90	159,444.90	158,435.40	249,917.00	182,995.00

As you all know, West Texas is not the only peanut growing area with problems. Each growing region has their unique set of risk management problems. Their needs and risks are just as great as ours, whether it be due to severe market price fluctuations, burrower bugs, floods, hurricanes or the unexpected skyrocketing input costs.

The Need for Equitable Peanut Insurance

In light of these circumstances, we would like to focus on building a host of risk management tools for peanuts. There is a multi-peril crop insurance policy available for peanuts, but it is fatally flawed. Unlike the other major field crops there is not a futures price or a pricing mechanism, to establish the guarantee price needed to develop effective peanut crop insurance policies. Based on research and meetings with futures market experts from Chicago and New York City exchanges, a peanut futures market will never exist.

Currently, the system for peanut multi-peril insurance forces growers to contract their peanuts before planting in order to get the highest insurance coverage. Without a peanut contract, a farmer could only insure his peanuts for $500 per ton maximum for the 2011 crop. With a peanut contract, a farmer could insure his peanuts for $600 per ton maximum even though at harvest those same peanuts were bringing closer to $1200 per ton. Even though the farmer had insured his crop at the maximum level available, he received only 50 percent of the lost crop's value.

We need equitable treatment with other crops in the crop insurance arena. Our producers must have access to a full range of workable and useful crop insurance products in order to compete for acreage.

Growers Are United to Work Toward a Solution

Working toward these goals, the nation's peanut farmers came together two and a half years ago to begin work with private industry and RMA to develop a viable insurance program for peanuts. This new program is very much like the successful revenue insurance policies for cotton and corn as well as several other crops. This new peanut policy would take a farmers average production history and let the farmer insure a percentage of it according to what the farmer needs to have guaranteed. This part is not changed from the present program, but what is different is the fact the farmer will be assured to receive what the peanuts are actually worth if he has a shortfall in production and not some arbitrary amount set in stone months before planting time. The farmer will receive payment on what the peanuts are worth at a certain period of time during the year, so farmers know whether they can afford to plant.

Rotterdam Price as the Basis

Since the days of the quota system, peanuts have not had a price discovery method which would satisfy the needs of RMA and insurers to adequately develop the much needed risk management tools for peanuts. We believe the Rotterdam price is the solution to this price verification problem. After much research, the Rotterdam price is believed by industry experts to be the most workable pricing mechanism for our commodity. In fact, this price series was used by the U.S. government during the negotiations of the GATT agreement in regards to peanuts.

The first part of next month, peanuts as a united industry will submit a final proposal to RMA for the development of a revenue insurance program using the Rotterdam price for price verification. We are excited about the prospects of having this verification system which will finally allow peanuts to begin developing a new array of risk management tools for our commodity.

Needs for the 2012 Farm Bill

We appreciate the work that RMA and others have and will put forth toward this effort. However, we continue to have very serious concerns regarding the 2012 farm bill and the possibility of peanuts again being excluded from options of risk management.

It is critical that we have the support of RMA and the Agriculture Committees to get the peanut crop insurance program viably priced and implemented in 2013. USDA has ample authority to make crop insurance for peanuts available to farmers before the new farm bill is enacted. To ensure action by USDA, we ask that the committee report out a farm bill that contains an affirmative statement that USDA shall implement a viable peanut crop insurance program for the 2013 crop year.

Peanut growers currently rely on direct payments, the marketing loan program, and counter-cyclical payments as a safety net that they have been able to use in obtaining loans from their bankers to plant a crop each year. If we had the choice, we would support the continuation of these programs at the current levels. However, faced with the prospect of significant cuts to the agricultural budget as part of current federal deficit reduction efforts, we understand that the Agriculture Committee needs to look at new farm program options. With cuts to agriculture spending in mind and in an attempt to have all three of the peanut grower regions together in support of a unified position, we offer the following observations and recommendations to the Agriculture Committee for a new peanut program to provide peanut farmers with a safety net that is equivalent to what is available for other commodity growers.

The absence of a crop revenue insurance policy for peanuts only serves to make the lack of risk management tools much worse. Most of the commodity program options being discussed this year are predicated on the existence of crop revenue insurance as a foundation of the policy. That option is simply foreclosed for peanuts because RMA has not yet been able to clear a revenue policy for our crop.

In addition to having a viable crop revenue insurance program in place by 2013, we need to provide peanut farmers with a real choice between a new revenue program for peanuts; and a target price program for peanuts. Once we have a crop insurance program established using the Rotterdam price, peanut growers would like to have the option of a "producer choice" between:

1) A **counter-cyclical type program** (with no direct payments) with a \$534 per ton target price and a \$355 per ton marketing loan; or

2) A new **revenue program** based on the Rotterdam price with a price floor of \$534 and a differentiation in peanut yields between irrigated production and non-irrigated production with a \$355 per ton marketing loan.

Under both choices, peanut farmers would continue to have a marketing loan program as it exists in the current Farm Bill in order to market their peanuts.

This producer choice option is critical due to the difference in the economic environment for peanuts relative to the Midwestern corn and soybean farmers. Farmers can only sell to two major shellers and a few small shellers which is an oligopoly marketing environment. Thus, peanut farmers are subject to potential major price swings. When prices become depressed which peanut farmers experienced in 2009, revenue insurance programs do not provide a safety net.

A peanut revenue insurance program must be developed and made available to peanut growers beginning with the 2013 crop year. The price on which this program is based shall be the

Rotterdam price index as adjusted to reflect the farmer stock price of peanuts in the U.S. This price may be adjusted by USDA's Federal Crop Insurance Corporation (FCIC) to correct distortions or anomalies that would undermine the program. In any case where the FCIC Board determines that such adjustments must be made, it must do so in an open and transparent way and report to the House and Senate Agriculture Committees its reasons and rationale for such adjustments.

Peanuts are unique in needing crop insurance that accounts for differences in the four peanut types – Runner, Virginia, Spanish, and Valencia peanuts. We support the Agriculture Committee's inclusion of language in the farm bill ensuring that USDA adjusts the relative price for these four types of peanuts from the Rotterdam price.

Once the necessary improvements to peanut crop insurance are in place, any savings that are achieved from cuts to the ACRE program, direct payments, and counter-cyclical payments should first be devoted to the implementation of a revenue insurance program that is as beneficial to peanut growers as the revenue insurance programs available to other commodities.

Any additional savings should be directed to a new farm level revenue "assurance" program for peanuts that is comparable to that of other commodities, so peanut growers have the same access to additional risk management tools beyond those provided in the new revenue insurance policy. We also ask that the Agriculture Committee continue all other elements of the peanut title of the 2008 farm bill.

We look forward to working with the committee to fix peanut crop insurance this year and at the same time craft a new peanut program that will work for all peanut growers.