

I am here this morning on behalf of the American Peanut Product Manufacturers, Inc. (APPMI) and The J.M. Smucker Company. APPMI is a national trade association whose member companies manufacture a majority of the peanut butter, candy and snack peanuts consumed in the United States.

We have always preferred to buy U.S.-grown peanuts and we are appreciative of the opportunity to buy U.S. peanuts without limitation since Congress approved the new peanut program contained in the 2002 Farm Bill. The marketing loan peanut program has worked extremely well, except for the U.S. Department of Agriculture's administration of the repayment rate.

New Peanut Program Has Made the Industry More Competitive

We strongly support the new marketing loan program for peanuts, which is designed to make the U.S. peanut industry more competitive. We believe that this new program has served the entire peanut industry, by making each segment of the U.S. peanut industry more efficient. The program has allowed peanut product manufacturers to expand advertising and promotion of peanut products, as well as creating an incentive to develop new peanut products. In some cases, there have been price reductions in products containing peanuts.

As manufacturers, we are happy to be part of program that has led to growth in the peanut sector and we are very supportive of the growers in their efforts to make this program profitable for farmers. Since before the 2002 Farm Bill, we have worked with the growers and shellers alike, with the idea of being part of a unified industry. Even though we may not have a formal alliance, we believe the industry is unified in its goals.

New Peanut Program Translates to Increased Consumption & Production

The new market-oriented program, which lowered the peanut loan rate from \$610 per ton (in the 1996 farm bill) to \$355 per ton, has led to increased peanut consumption and production in the United States. According to USDA's Peanut Stocks and Processing Report, total peanut usage has increased by almost 32% since implementation of the new program in 2002. In the four-year period after the 2001-2002 crop year, peanut butter usage is up 35.6%, snack peanut usage is up 35.1%, and peanut candy usage is up 20.3% as a result of this competitive program.

Increased peanut product consumption is good news for the peanut industry. We believe that peanut usage is up at least in part due to additional advertising of peanut products, the introduction of a number of new products using peanuts, and a more favorable impression of peanuts among consumers. Industry research and promotion have touted the nutritional benefits of peanuts and today peanut butter and all peanut products are correctly perceived as healthful and carry a health halo.

Manufacturers Eye New Peanut Products

If you look at some of the innovative ideas that manufacturers have for new peanut products and with a new federal peanut program that will help make U.S. peanut producers competitive with any other peanut producers in the world - this is an exciting time to be in the peanut

business.

Speaking for The Smucker Company, we are excited about the growth we have experienced in the peanut butter segment and especially our JIF® brand. We have invested heavily in new peanut products, including Smucker's Uncrustables Sandwiches® and JIF To Go®, which is a portable snack-size container of JIF®. We have had a great response to our Uncrustables®, which is a thaw and serve, fresh-frozen peanut butter and jelly sandwich with no crust. We have invested in the peanut sector by building an \$70 million plant in Scottsville, Kentucky and by dramatically increasing our television and print advertising budget.

In fact, the J.M. Smucker Company has doubled its advertising spending in the peanut butter category since approval of the 2002 farm bill. This is reflected in the industry's total spending in this category, which has almost doubled from \$19 million in 2001 to \$34 million in 2005.

Other APPMI member companies have also introduced successful new peanut products. For example, The Hershey Company has come out with a Really Nuts®, which is a five-ounce tube of peanuts, and other snack nut mixes that include peanuts. It also has introduced several new peanut candy products, including REESE'S White Chocolate Peanut Butter Cups®, Peanut Butter Cups with Caramel®, Kisses Filled with Peanut Butter®, and a number of limited edition peanut-containing products.

Masterfoods USA has a new energy bar called Snickers Marathon® with 11 different flavors as well as its Snickers Cruncher®, Kudos Peanut Butter® and M&M Mega Peanut Chocolate Candies®. Masterfoods USA has also run the "most nuts ever" promotion of its Snickers® bar. Tom's Snacks has a number of new peanut-containing products, including an energy bar along with a number of new bars in a line that it manufactures for major companies.

Need for Transparent Process in Setting the Repayment Rate

The transition to this new program has gone smoother than any of us had anticipated. However, even with our strong support of the program, we want to use this hearing opportunity to discuss one concern that could improve the operation of the program. We believe that this Committee should take a look at how USDA administers the repayment rate for peanuts.

We can ill afford to continue to cause our peanut growers to lose the export market merely because the Department is unable or unwilling to develop a formula to identify the weekly world market price for peanuts as it does for cotton, rice and other commodities.

The 2002 Farm Bill requires that USDA "shall permit producers to repay a marketing assistance loan for peanuts" at a rate that reflects four factors (7 U.S.C. 7957(d)(1)(B)) as follows:

"(i) minimize potential loan forfeitures;

(ii) minimize the accumulation of stocks of peanuts by the Federal Government;

(iii) minimize the cost incurred by the Federal Government in storing peanuts; and

(iv) allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally."

It appears that USDA is not properly implementing the law, since peanut loan forfeitures have increased rather than minimizing forfeitures, since it has accumulated huge stocks rather than minimizing stocks, since these actions have led to increased peanut storage costs, and since its administration has caused a severe drop in U.S. peanut exports. USDA has only complied with one-half of the fourth factor by allowing U.S. peanuts to be marketing freely in the domestic market. Unfortunately, USDA has yet to establish the repayment rate at a level to allow peanuts to be marketed "competitively ... internationally". The Department has consistently set the national posted price for peanuts at a rate that prices U.S. peanuts out of world markets.

It appears that USDA is ignoring the world market with the adverse consequence of keeping U.S. peanuts from being competitive in the international marketplace. Since peanuts are not moving into export markets as much as they are capable, the United States is undermining its stature as one of the leading exporters of peanuts. USDA will cause irreparable damage to the U.S. export market for peanuts if it continues to ignore the capability of other peanut-exporting countries to fill the void created by non-competitively priced U.S. peanuts.

The peanut program contained in the 2002 Farm Bill sets forth clear criteria for administering the repayment rate, USDA has chosen to use a "black box" approach to establishing the repayment rate that does not appear to be recognize each of the key factors provided in the peanut statute. USDA's disregard for the law and less than transparent approach has caused much frustration and confusion among all segments of the industry.

We believe that USDA's determination of the weekly national posted price for peanuts should be a more transparent process, so that we have the ability to compute market fundamentals that could be used by the peanut industry to develop better forecasting models. Greater transparency in the method of establishing the national posted price would allow the industry to improve decision-making for planning purposes. Simply put, we all need an approach that is easily understood and of use to the peanut industry.

We are willing to work with this Committee, USDA, and the rest of the peanut industry to develop a solution to what has become a three-year concern about the repayment rate.

Peanut Handling & Storage Costs

We also are concerned about and strongly support extension of the payment of peanut handling and storage costs. Government payment of these costs expires at the beginning of the 2007 peanut crop year, effective August 1, 2007.

Peanuts are a semi-perishable crop requiring adequate storage to maintain their viability as an edible commodity. To protect the producers and allow orderly marketing, storage and handling

are necessary. The peanut handling and storage feature has been an important part of the loan program and should be restored for the 2007 crop year and included in the peanut provisions of the next farm bill.

Conclusion

In closing, all segments of the peanut industry - growers, shellers, manufacturers and allied partners - are unified in our support of each other and the current peanut program. We hope you will consider the minor modification that we have suggested as we all speak with one voice. We recognize that a competitive program is critical to a viable peanut sector.

Thank you for allowing us the opportunity to comment on the implementation of the peanut program.