Testimony

Of

Tim McMillan
Enigma, Georgia

Southern Peanut Farmers Federation

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Good Morning Chairman Crawford, Ranking Member Nolan, and members of the Subcommittee. My name is Tim McMillan and I am a seventh-generation family farmer from Berrien County, Georgia. Our farm is a typical diversified row crop farm with peanuts, cotton, cows, timber and some specialty crops. It is an honor for me to be here today before this Committee.

I am testifying today on behalf of the Southern Peanut Farmers Federation (Federation), the largest peanut grower organization in the United States. The Federation is comprised of the Alabama Peanut Producers Association, the Florida Peanut Producers Association, the Georgia Peanut Commission and the Mississippi Peanut Growers Association.

I want to thank this Committee for what you have meant to peanut farm families and communities across the peanut belt for many years. You have provided a program that pushed our industry to market our products more efficiently in the domestic and export markets. You encouraged our industry to move from a supply-management program to a market program in the 2002 Farm Bill. Finally, the Price Loss Coverage (PLC) program has assured growers that a safety net program was available when farm economies struggled.

I want to be clear today that the peanut provisions of the 2014 Farm Bill have worked as a safety net for peanut producers. If the PLC program had not been in place, I am afraid many farms in the Southeast would no longer exist because of the downturn in the farm economy which has plagued us the past three years. In addition, this bill continues to assure consumers a safe, affordable food supply.

The Federation supports maintaining the current PLC program in the 2014 Farm Bill including these key provisions:

- Current Reference Price for Peanuts
- Separate Peanut Payment Limit (as established in the 2002 Farm Bill)
- Storage and Handling Provisions

The 2014 Farm Bill was drafted during a period of high prices. When we compare average prices in 2011-2012 to 2016 prices, we see a 39% decline in peanut prices. Corn, soybeans, wheat and cotton all saw significant drops in prices when comparing the years that the 2014 Farm Bill was developed to 2016 prices.

The U.S. Department of Agriculture projected 2017 net farm income in the U.S. to be $62.3 billion which translates to a 49.6% decline in net farm income since 2013. I see the real impact of these numbers in the faces of my neighbors and hear it in discussions with lenders and our suppliers.

The peanut Price Loss Coverage (PLC) program has worked but peanuts are not sufficient to carry an entire farming operation. Corn and cotton prices have been depressed and with the lack of a cotton PLC program, more pressure has been placed on growers to plant peanuts by lenders and others. For many growers, the only option to survive was to plant more peanut acreage.

Peanut growers know that rotation is critical for their cropping systems. However, during this period of a severely depressed farm economy, many farmers modified their crop rotations in order to survive.

- U.S. peanut yield has declined by approximately 13%.
- Georgia's peanut yield has declined by 14%.
- Southeast average yield has declined by 11%.

Research has shown that with reduced rotation, not only will peanut yields drop but chemical costs increase. The cost of weed control continues to rise as resistant pigweed becomes more widespread, and some of our fungicides are becoming less effective as pathogens mutate and adapt. According to the University of Georgia's National Center for Peanut Competitiveness (NCPC), we have seen a downward trend in peanut yields since 2012.

According to the NCPC, these increased costs of production could make the current reference price ineffective.

Although the increased peanut acreage has impacted yields and cost of production, peanut acreage during the life of the 2014 Farm Bill is not out of line.

- Prior to the 2002 Farm bill, U.S. peanut acreage exceeded 1.6 million acres for several years, in the early 1990's, and exceeded 2 million acres in 1991.

- After we changed the peanut program in the 2002 Farm Bill from a supply management program to a market oriented program, U.S. peanut acreage has exceeded 1.6 million acres.
- Planted acreage of 1.6 million acres is not a new phenome.
- Average planted acres during the life of the 2014 Farm Bill is only approximately 16% more than the average acres planted during the years 2002-2013.

What about the demand for Peanuts?

It is very important to this discussion to note that demand has kept pace with the supply of peanuts. First, I want to address domestic demand. According to USDA and U.S. Department of Commerce data, U.S. per capita peanut consumption has grown from 6.6 pounds per capita in 2012 to 7.4 pounds per capita in 2016 – a 12% increase.

The peanut industry took two major steps to encourage demand. First, the Peanut Institute was created to fund research on the nutrition aspects of peanuts. Second, peanut growers voted to create the National Peanut Board (NPB) through a national check-off program overseen by USDA. As a result of these efforts, consumers in the U.S. and in other countries are increasingly recognizing that:

- Peanuts are heart healthy, fight obesity, reduce the risk of Type 2 diabetes plus have key micronutrients.
- Peanuts by means of Ready to Use Therapeutic Food (RUTF) are also a widely-used tool to fight severe malnutrition in children around the world.

Domestic demand and export demand have grown significantly in the last few years. Utilizing USDA's National Agricultural Statistical Service's (NASS) Peanut Stocks and Processing reports and comparing the first 6 months of the 2016-17 marketing year to a comparable time period for previous marketing years:

- The number of peanuts used for peanut butter has grown 64.4% since 2002 and 10% since 2014.

- Total shelled peanut use has increased approximately 47% since 2002 and 11% since 2014.

When we take a closer look at USDA's Foreign Agricultural Service's (FAS) export data, comparing the average exports of peanuts and peanut butter during the 2008 Farm Bill relative to the 2014 Farm Bill, we also see strong growth.

- Peanut exports increased by approximately 71%.
- Peanut butter exports have grown by 52%.

What About the Supply of Peanuts in the U.S.?

Peanut shellers speak openly about the tight supply of peanuts. Today's peanut prices do not support the concept that the 2014 Farm Bill is causing excessive peanut acreage planting.

As peanut growers entered the 2016 crop year, USDA had published incorrect inventory numbers. Based on the incorrect numbers, the peanut industry assumed that supply significantly exceeded demand which had a negative effect on peanut prices received by farmers, ranging from a $355/ton (loan rate) to approximately $380/ton.

- Based on the reduced prices, the Southeast, the largest region of peanut production in the U.S., reduced peanut planting by approximately 11%.

Once USDA corrected the mistake during the growing season, contract prices for the uncontracted 2016 crop and any unsold 2015 crop in the loan increased significantly to the $450/ton range. Recently, any uncontracted 2016 crop peanuts have seen contracts increase even more. As one major sheller stated in their newsletter "This will continue to support 2016 crop values as the market is forced to ration supply of quality tons." As of today, demand exceeds supply. Given this economic situation, early contract prices for the 2017 crop have been reported in the $475-$550/ton.

- Peanut shellers are still offering higher 2017 crop contract prices which encourage peanut acreage.

- Shellers would not be offering these types of contracts unless signals from manufacturers and exporters clearly indicate that they need more peanuts for the marketplace.
- These actions are not being driven by the 2014 Farm Bill but instead by the markets and the rules of supply and demand.
- The shellers' actions indicate that the program has not created an excess supply of peanuts in the marketplace.

Peanuts have not seen significant forfeitures at USDA. For the 2015 peanut crop year, the latest data available to the NCPC, approximately 62 tons were forfeited. This translates into approximately .0021% of the total 2015 peanut crop being forfeited. USDA sold those tons at an average price of $363.67/ton which was above the loan rate of $355/ton translating into a <u>profit</u> for the government and <u>no</u> cost to the taxpayer. To date, according to the NCPC, there have been no peanut loan forfeitures from the 2016 peanut crop.

From the evidence we see in the marketplace, there is not an oversupply of peanuts. According to the NCPC, "The peanut program in the 2014 Farm Bill has not led to excessive peanut acreage."

What About the Impact of Generic Acres on Peanuts?

As you are aware, the cotton industry opted for the STAX program in the 2014 Farm Bill while cotton producers maintained their generic base acres. These generic base acres are available to any covered commodity in the 2014 Farm Bill. This Committee wisely established a program allowing growers to keep these base acres. Without these base acres, the current struggling farm economy would be much worse.

The United States Department of Agriculture's (USDA) Farm Service Agency (FSA) February 2017 data examined the allocation of generic base acres and updated the program payments for covered commodities planted on these generic base acres.

- For the 2014 crop year, only approximately 58% of the generic base acres were allocated to a covered commodity.

- Approximately 7.4 million generic base acres were not utilized by cotton farmers for the 2014 crop year.
- Approximately 32% of the generic base acres assigned to soybeans.
- 26% of the generic base acres assigned to wheat.
- 19% of the generic base acres assigned to corn.
- 13% of the generic base acres assigned to grain sorghum.
- Only 7% of the generic base acres assigned to peanuts.
- Less than 53% of the 2014 peanut certified acres had generic acres attributed.

Were there significant changes in these planting ratios for the 2015 crop year? The answer is no.

- Approximately 61% of the generic base acres were allocated to a covered commodity.
- Approximately 7 million generic base acres were not utilized by cotton farmers.
- Approximately 90% of the generic base acres were assigned to soybeans, wheat, corn and grain sorghum.
- Only 8.7% of the generic base acres assigned to peanuts.
- Approximately 57% of the 2015 peanut certified acres had generic acres attributed.

Based on USDA deadlines for the 2016 crop year, it is assumed that the 2016 ratios will not differ significantly from the 2015 data. With the generic base acres attributed to the covered commodities of the 2014 farm bill, these commodities did receive payments.

- For the 2014 crop, the total payments for the covered commodities on generic acres were almost $149 million.
- For the 2015 crop, the attributed generic base acres generated approximately $444 million in payments for the covered commodities.
- Almost a threefold increase in generic base acres payments to cotton producers from the 2014 crop year to the 2015 crop year.

- Given the depressed commodity prices, the 2016 crop year payments to be received in October 2017 are assumed to be similar to the 2015 crop year payments.

For the 2014 crop, only 27% of all ARC-PLC peanut payments was derived from generic base acres attributed to peanuts. For the 2015 crop year, approximately 33% of the total payments derived from generic base acres attributed to peanuts. While these payments were attributed to peanuts, in reality, the payments were received by cotton producers who are also peanut producers. Thus, any scoring in terms of the cost of the peanut program should take into account the generic acre impact. As I stated earlier, cotton was not a covered commodity in the ARC-PLC programs. Generic acres, as part of the safety net, allowed cotton producers, who also grew other commodities like peanuts, corn, soybeans, wheat and rice, to participate in some limited manner and stay on the farm. For many farmers, generic base actually made it possible to keep planting cotton on our farms in order to maintain some level of crop rotation. Without this generic acre program, many farmers across the U.S. would have had their farm income, the safety net reduced dramatically. This program has worked at a time when prices were low.

The Federation supports the National Cotton Council's request for USDA to approve a cottonseed program for cotton producers.

Peanut Growers Support Viable Risk Management Tools

The Federation supports the risk management provisions of the 2014 Farm Bill. Congress approved a peanut revenue insurance program in the 2014 Farm Bill. This was a product of the peanut industry working with USDA's Risk Management Agency and crop insurers to develop a tool that worked for producers. Growers are participating in this program.

In conclusion, the Federation supports the peanut provisions in the 2014 Farm Bill and appreciates the opportunity to work with you as we move forward with the next farm bill.

Thank you for allowing me to testify today.