PEANUTS

Report to the President on
Investigation No. 22-52
Under Section 22 of the
Agricultural Adjustment
Act, as Amended

USITC PUBLICATION 2369

MARCH 1991

United States International Trade Commission
Washington, DC 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Anne E. Brunsdale, Acting Chairman

Seeley G. Lodwick

David B. Rohr

Don E. Newquist

Staff assigned:

Valerie Newkirk, Investigator
Stephen Burket, Commodity-Industry Analyst
Catherine DeFilippo, Economist
Stephen Tokarick, Economist
Katherine Jones, Attorney

Bob Eninger, Supervisory Investigator

Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

C O N T E N T S

Appendixes

CONTENTS

Tables

CONTENTS

UNITED STATES INTERNATIONAL TRADE COMMISSION
March 22, 1991

REPORT TO THE PRESIDENT ON
INVESTIGATION NO. 22-52

Peanuts

Findings and recommendations

Commissioner Lodwick and Commissioner Rohr find that:

(1) changed circumstances require modification of the present quota on peanuts, set forth in subheading 9904.20.20 of the Harmonized Tariff Schedule of the United States (HTS); and

(2) the quota should be temporarily increased to 300 million pounds of peanuts (shelled basis), to be entered, or withdrawn from warehouse for consumption, on or before July 31, 1991.

Acting Chairman Brunsdale finds that:

(1) the circumstances requiring the quota on peanuts set forth in subheading 9904.20.20 of the HTS no longer exist; and

(2) the quota on imports of peanuts should be indefinitely suspended by the President.

Commissioner Newquist finds that:

(1) the circumstances requiring subheading 9904.20.20 of the HTS have not changed; and

(2) no action should be taken by the President to either modify or terminate the quota on imports of peanuts.

Background

On October 12, 1990, the Commission received a request from the Peanut Butter and Nut Processors Association for an investigation under section 22(d) of the Agricultural Adjustment Act of 1933, to remove entirely the restriction in effect on the importation of peanuts. In addition, an immediate suspension of the quota and an authorization of imports of 400 million pounds (shelled basis) was requested pending the outcome of the Commission's investigation.

On December 3, 1990, the Commission instituted investigation No. 22-52, Peanuts, to determine whether the quota on imports of peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter), as set forth in subheading 9904.20.20 of the HTS, may be suspended or

terminated by the President because the circumstances requiring the quota no longer exist, or whether the quota may be modified by the President due to changed circumstances (55 FR 52104, Dec. 19, 1990). The Commission held a public hearing in Washington, DC, on January 22, 1991, at which time all interested parties were allowed to present information and data for consideration by the Commission.

VIEWS OF COMMISSIONER LODWICK AND COMMISSIONER ROHR

The Commission instituted this investigation pursuant to section 22(d) of the Agricultural Adjustment Act[1] following receipt of a request filed on October 12, 1990, by the Peanut Butter and Nut Processors Association (the Association). The request sought institution of a supplemental investigation and expedited hearing under section 22(d) to remove entirely the restriction currently in effect on the importation of peanuts because of an alleged shortage in the available supply of domestic peanuts resulting from drought and increased incidence of aflatoxin.[2] The Association also requested "emergency action" in the form of an immediate suspension of the quota and an authorization of imports of 400 million pounds of peanuts (shelled basis) pending the outcome of the proposed investigation.[3] On January 22, 1991, the Commission held a public hearing in which interested parties, including the U.S. Department of Agriculture (USDA), were allowed to present their views. All interested parties were also allowed to file written submissions.

Based upon the information obtained in the course of the investigation, we determine that changed circumstances, particularly a short term supply shortage, warrant an increase in the import quota. Furthermore, we determine

---

[1] 7 U.S.C. 624(d).

[2] The President imposed the original quota of 1,709,000 pounds (shelled basis) in 1953 after he determined that imports of peanuts were being, or were practically certain to be, imported into the United States under such conditions and in such quantities as to render, or tend to render ineffective, or materially interfere with a program or operation of the U.S. Department of Agriculture with respect to peanuts, or to reduce substantially the amount of any product processed in the United States from peanuts.

[3] While the Commission may initiate investigations on its own motion, only the President has authority under the statute to take emergency action. Thus, the Commission denied the request for emergency action.

that an increase in the quota for the growing year 1990/91 to 300 million pounds (shelled basis) will not "render or tend to render ineffective, or materially interfere with" USDA's support program for peanuts.[4] Accordingly, we recommend that the President allow the entry of 300 million pounds of imported peanuts (shelled basis)[5] on or before July 31, 1991.

The peanut program

The programs of USDA that are of concern to the Commission in this investigation are the price support and production adjustment programs for peanuts. The program for peanuts consists of a two-tier price support system tied to a maximum poundage quota. Peanuts produced subject to the poundage quota are supported at the higher of the two prices, while peanuts over-quota or those produced on farms not having a quota are supported at the lower rate. The quota support price acts as a floor price for domestic edible peanuts. For producers who fail to fill their quota in any given year there is a maximum 10 percent overmarketing allowance for the subsequent year. Pursuant to the program, producers may place peanuts under nonrecourse loan with the Commodity Credit Corporation (CCC) at the designated support price or may privately contract for the sale of their crop.[6]

With respect to the peanut program, the legislative history of the Food Security Act of 1985[7] describes the goals of the peanut program as being the

---

[4] See 7 U.S.C. § 624(d).

[5] Imports of inshell peanuts are to be charged against the quota at the rate of 3 pounds of shelled peanuts for each 4 pounds of inshell peanuts.

[6] For a more detailed explanation of the operation of the price support program for peanuts, see Report of the Commission (Report) at A-5-A-11.

[7] The Food Security Act of 1985 covers the peanut program for the 1990/91 crop year, while the Food, Agriculture, Conservation, and Trade Act of 1990 covers the peanut program for the 1991/92 crop year.

following: (1) to help maintain farm income, (2) to maintain an adequate supply of good quality peanuts for the domestic market, (3) to increase U.S. producers' competitiveness in the world market, (4) to avoid the "boom and bust" cycles that have traditionally plagued agriculture and agricultural producers, and (5) to lower government outlays.[8]

The basic goals of all the USDA programs are set forth in section 2 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1282), in which Congress explained its intention to:

> (1) provide farmers, insofar as practicable, with parity prices for agricultural commodities and parity of income;
>
> (2) assist consumers in obtaining an adequate and steady supply of agricultural commodities at fair prices; and
>
> (3) provide an orderly, adequate, and balanced flow of agricultural commodities.[9]

This original articulation of Congressional policies has been supplemented by subsequent declarations of policy. For example, in the Agricultural Act of 1961,[10] Congress restated the three purposes articulated in the 1938 Act and added others, including Congress' intention to reduce the cost of farm programs and to bring supplies and demand in balance.[11]

Statutory background

This investigation is being conducted pursuant to section 22(d) of the

---

[8] H.R. Rep. No. 271, Part 1, 99th Cong., 1st Sess., reprinted in 1985 U.S. Code Cong. & Ad. News, Vol. 2 (1985) at 1153-1155.

[9] 7 U.S.C. § 1282.

[10] Pub. L. No. 87-128, § 2, 75 Stat. 294 (Aug. 8, 1961).

[11] 7 U.S.C. § 1282 note. This section of the 1961 Act was never codified in the U.S. Code but was placed as a note after 1282 of title 7. See also 15 U.S.C. § 714 (stating purpose for creating CCC).

Agricultural Adjustment Act of 1933, as amended.[12] Section 22(a) of the Act allows the President to impose a quota or fee on imports of an article, when he determines that the articles "are being or are practically certain to be imported into the United States" in such a manner as to "render or tend to render ineffective, or materially interfere with" any USDA agricultural program. Section 22(d) allows the President to suspend or terminate actions previously taken under section 22(a), after an investigation and hearing by the Commission, in the event that "the circumstances requiring the proclamation or provision thereof no longer exist" or to modify the quota or fee if he determines that "changed circumstances" require such modification to carry out the purposes of the Act. A section 22(d) investigation is a continuation of, and supplemental to, an original 22(a) investigation and may be undertaken by the Commission under its continuing investigative authority. Since the President previously requested a Commission investigation in the original section 22(a) proceeding and since the section 22(d) investigation is a continuation of the original proceeding, an additional presidential request is not required.[13]

The Commission has conducted several previous supplemental investigations under section 22(d) with respect to peanuts. In its report to the President in connection with the initial section 22(a) investigation in 1953 recommending the import quota, the Commission (then the U.S. Tariff Commission), after recommending that the quota be imposed, stated:

> The Commission will observe future developments with respect to the trade in the products for which import restrictions are herein recommended and the effects of

---

[12] 7 U.S.C. § 624(d).

[13] See The Best Foods, Inc. v. United States, 39 Cust. Ct. 305, 310 (1957).

> imports thereof upon programs of the USDA and will take such action as may be appropriate when necessary for the purposes of section 22(d) of the Agricultural Adjustment Act as amended.[14]

Since that proclamation, there have been four supplemental section 22(d) investigations involving peanuts, of which three have been self-initiated.[15]

In a section 22(d) investigation, the Commission generally has engaged in a two-part analysis.[16] First, the Commission has examined whether changed circumstances exist that require modification or termination of an existing section 22 proclamation. Upon finding changed circumstances, the Commission next has determined what, if any, changes could be made to the existing proclamation without resulting in articles being or practically certain to be imported into the United States "under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with" USDA's programs.

Changed Circumstances

---

[14] Specified Manufactured Dairy Products, Flaxseed and Linseed Oil, Peanuts and Peanut Oil, Tung Nuts and Tung Oil, Inv. No. 22-6 (1953).

[15] The year after the initial peanut import quota was proclaimed, the Commission instituted a supplemental investigation upon a complaint by domestic peanut users that they could not meet their essential requirements for peanuts for that quota year without additional imports. See Peanuts, Supplemental Investigation Under Section 22, Agricultural Adjustment Act, as amended, Washington, February 1955. A second supplemental investigation was instituted in response to a letter from the Secretary of Agriculture in 1955. See Peanuts, Second Supplemental Investigation Under Section 22, Agricultural Adjustment Act, As Amended, Washington, May 1955. The third supplemental investigation took place in 1956 and was self-initiated. See Peanuts, Third Supplemental Investigation Under Section 22(d) Agricultural Adjustment Act, as Amended, Washington, August 1958. The most recent peanut investigation, in 1981, was initiated by the Commission on its own motion. The President, however, later issued a request for an investigation. Peanuts, Inv. No. 22-42, USITC Pub. 1124 (Jan. 1981). In two other instances, 1984 and 1986, the Commission declined to initiate investigations when requested to do so by the Association.

[16] See Cotton Comber Waste, Inv. No. 22-51, USITC Pub. 2334 (Nov. 1990).

Section 22(d) refers expressly to "changed circumstances" as a prerequisite to revocation or modification of a quota. Therefore, our analysis necessarily must begin with a discussion of the existence of changed circumstances that may warrant a change in the quota.[17] Neither the statute nor the legislative history defines the phrase "changed circumstances."[18] It is clear from an examination of the language of section 22(d), however, that the "change" must be related to the "circumstances requiring the [original] proclamation." Thus, current circumstances must be examined in light of the circumstances in existence at the time of the original peanut proclamation in 1953 that imposed the quota on imported peanuts in order to determine whether "changed circumstances" exist.[19] In comparing current circumstances with those in existence at the time of the original proclamation, it is also useful to refer to prior Commission investigations of the peanut program under section 22(d) in which the issue of changed circumstances was addressed.

In prior investigations under section 22(d), we have determined that a number of developments are sufficient "changed circumstances" to provide a basis for revocation or modification of an earlier section 22 proclamation. Among these are: (1) supply shortages (temporary shortages,[20] increased

---

[17] See Cotton Comber Waste, Inv. No. 22-51, USITC Pub. 2334 (Nov. 1990).

[18] Subsection (d), which contains the term "changed circumstances," was contained in the original section 22 in 1935. There was practically no discussion of subsection (d) during the Congressional debates on section 22.

[19] See Cotton Comber Waste, Inv. No. 22-51, USITC Pub. 2334 (Nov. 1990) (changes occurred since the imposition of restrictions on cotton imports 50 years ago).

[20] Temporary supply shortages have been a very common changed circumstance, particularly in cases where the President has asked the Commission to examine whether a temporary suspension of a quota would be appropriate. See, e.g., Shelled Filberts, Inv. No. 22-4 (supplemental) (1955); Peanuts, Inv. No. 22-

(continued...)

demand relative to production,[21] and greater reductions in supply than in demand[22]); (2) underutilization of the quota;[23] (3) reductions in Commodity Credit Corporation (CCC) purchases and uncommitted stocks;[24] (4) discontinuance of domestic production;[25] (5) increases in prices of the product since the quota was imposed;[26] and changes in world market conditions due, for example, to wartime disruptions in trade.[27] As this illustrative list reveals, many changed circumstances have related to supply shortages and to changes that have eliminated or reduced the need for a quota or a particular feature of a quota. In past peanut investigations, the alleged changed circumstances have been supply shortages brought about by drought and

---

[20] (...continued)
42, USITC Pub. 1124 (1981); see also Nonfat Dry Milk, Inv. No. 22-30, TC 541 (1973); Nonfat Dry Milk, Inv. No. 22-32, TC 587 (1973).

[21] Certain Cheeses, Inv. No. 22-6 (supplemental) (1960). In Certain Cheeses, actual and potential domestic demand for dairy products had risen faster than domestic milk production. The Commission found that, despite increases in population, consumer purchasing power, and actual consumption, domestic production had increased only slightly. The Commission concluded that there was latent demand for additional dairy products and that liberalization of the quota would not adversely affect the price-support program for dairy products.

[22] Nonfat Dry Milk, Inv. No. 22-32, TC Pub. 587 (1973).

[23] Short Harsh Cotton, Inv. No. 22-1 (supplemental)(1957). See also Certain Cotton and Cotton Waste, Inv. No. 22-1 (supplemental)(1942) (Commission recommended indefinite suspension of the quota on certain card strips, finding that domestic supply needed to be supplemented and noting that the country with the largest allocation in the quota had, due to war conditions, practically ceased exporting to the United States).

[24] Certain Cheeses, Inv. No. 22-6 (supplemental) (1960) (CCC purchases and uncommitted stocks had declined sharply because of improved dairy situation).

[25] Short Harsh Cotton, Inv. No. 22-1 (supplemental) (1957).

[26] Short Harsh Cotton, Inv. No. 22-1 (supplemental) (1957)(prices had increased from the low, post-war prices existing when the quota was imposed).

[27] Long-Staple Cotton, Inv. No. 22-1 (supplemental) (1942).

disease, as in this case, or in one instance, crop damage due to a hurricane.[28]

In 1953, when the President first imposed the peanut quota, there was surplus domestic supply and declining domestic demand. Ending stocks of peanuts were increasing and there was substantial government expenditure in support of the peanut program, even with a virtual embargo on peanut imports as the result of restrictions contained in various war powers and defense production legislation. With the lifting of import restraints, imported peanuts, which were viewed at the time as close substitutes for domestic peanuts, were assumed to displace equivalent amounts of domestic peanuts, undermine domestic prices, and result in increased expenditures under the price support program.[29] Thus the President concluded that, with the expiration of the war-time restrictions on peanut imports, a quota on peanut imports was needed. Otherwise imports of peanuts were practically certain to be imported in such quantities as to materially interfere with the Government's price-support program for peanuts. The President set a 1,709,000 pound (shelled basis) limitation on the quantity of peanuts permitted to be imported during any 12 month period.[30]

In 1980, the Commission, after investigation, determined that changed

---

[28] See Peanuts, Supplemental Investigation Under Section 22, Agricultural Adjustment Act, as amended, Washington, February 1955; Peanuts, Second Supplemental Investigation Under Section 22, Agricultural Adjustment Act, as amended, Washington, May 1955; Peanuts, Third Supplemental Investigation Under Section 22(d) Agricultural Adjustment Act, as amended, Washington, August 1958; Peanuts, Inv. No. 22-42, USITC Pub. 3324 (August 1981) at A-3.

[29] Specified Manufactured Dairy Products, Flaxseed and Linseed Oil, Peanuts and Peanut Oil, Tung Nuts and Tung Oil, Inv. No. 22-6 (1953) at 55-58.

[30] Specified Manufactured Dairy Products, Flaxseed and Linseed Oil, Peanuts and Peanut Oil, Tung Nuts and Tung Oil, Inv. No. 22-6 (1953) at 55-58.

circumstances warranted a modification of the quota on peanut imports. At that time there had been a 42 percent drop in total domestic production due to a drought in all three major growing areas, and the quantity of domestic peanuts available for edible use was further reduced due to an increased incidence of aflatoxin infection related to the drought.[31] As a result, there was a substantial reduction in ending stocks and the available supply of peanuts was well below the needs of processors. Further, the shortage had led to increases of over 100 percent in spot market prices. Such levels were substantially higher than in any prior years.[32]

As in 1980, we determine that current circumstances are sufficiently changed from those in existence in 1953 to warrant a modification of the existing quota on peanut imports.[33] A drought in the Southeast, the largest of the three domestic growing areas has led to a significant decline in domestic production. In addition, production in the Southeast experienced a significantly increased incidence of aflatoxin, which further reduced supplies available for use in the edible market.[34] Further, there is a shortage of edible peanuts currently available to peanut processors with the likelihood of a prolonged shortage due to low carryover stocks for the first part of the 1991/92 crop year.[35] As a result, domestic prices in the spot market have

---

[31] Peanuts, Inv. No. 22-42, USITC Pub. 1124 (January 1981) at A-6.

[32] Peanuts, Inv. No. 22-42, USITC Pub. 1124 (January 1981) at A-22.

[33] In 1984 and 1986, the Commission denied requests for the initiation of supplemental investigations under section 22(d) because available information at the time of the request indicated that there was no basis for anticipating a shortfall in U.S. peanut supplies during those years. See Report at A-5.

[34] Report at A-21.

[35] Report at A-25.

doubled and are well in excess of the support price.[36] Moreover, in recent years, when prices were much lower and there was no supply shortage, the price support program incurred little expense and the CCC took virtually no deliveries of peanuts placed under loan.[37]

Material interference

As with changed circumstances, neither the statute nor the legislative history defines "material interference," or sets forth criteria for analyzing the potential effects of an increase in imports on USDA programs or for estimating an exact level at which material interference might occur. In prior investigations, "material interference" has been defined as "more than slight interference but less than major interference."[38] When determining whether material interference is occurring or would occur if a quota were modified or terminated, the Commission has examined factors such as (1) information relating to domestic supply and demand, including volumes and trends regarding U.S. production and U.S. demand; (2) the available supply of imports, including import levels, changes in import volumes, world production, and world stocks of the imported product; (3) pricing data, including the relationship between import prices, U.S. prices, and the support price; and (4) data relating to the Government programs, including CCC outlays, CCC

---

[36] Report at A-38.

[37] Report at A-9.

[38] Cotton Comber Waste, Inv. No. 22-51, USITC Pub. 2334 (Nov. 1990) at A-17; Certain Articles Containing Sugar, Inv. No. 22-46, USITC Pub. 1462 (1983) at A-30, n.11; Sugar, Inv. No. 22-45, USITC Pub. 1253 (1982) at A-7; Casein and Lactalbumin, Inv. No. 22-44, USITC Pub. 1217 (1982) (imports were not materially interfering with USDA programs even though they were causing USDA to expend at least "a few" million dollars).

surpluses, and changes in the cost to the Government of running a program.[39] In the 1980 investigation, the likelihood of material interference was examined in the context of whether increased imports would cause increased purchases by the CCC or otherwise cause a significant decline in the price to farmers.[40]

The USDA cites many of these same criteria in its post-hearing submission, suggesting that the factors that warrant consideration in determining material interference and the relative importance of those factors may vary considerably depending on the current commodity, market, and trade conditions. With respect to the relevant USDA peanut programs, USDA recommended that the Commission take into account the effect of any increased peanut imports on: (1) the sufficiency of availability of edible peanuts; (2) U.S. stock levels; (3) acquisitions and costs to the CCC; (4) effects on loan pool operations and buybacks; and (5) effects on the 1991 domestic crop.[41]

An examination of the information before us reveals that U.S production of peanuts fell from 4.0 billion pounds (farmer's stock basis) in 1988/89 and 1989/90 to 3.6 billion pounds in 1990/91, a decline of 9.7 percent.[42] The decline in U.S. production is largely attributable to a 24.7 percent drop in production in the Southeast, the largest producing region in the United

---

[39] See, e.g., Cotton Comber Waste, Inv. 22-51, USITC Pub. 2334 (Nov. 1990) at A-18; Sugar, Inv. No. 22-45, USITC Pub. 1253 (1982); Certain Tobacco, Inv. No. 22-47, USITC Pub. 1644 (1985); Nonfat Dry Milk and Animal Feeds Containing Milk or Milk Derivatives, Inv. No. 22-34, USITC Pub. 633 (1973) at A-10 (additional imports would not be of sufficient magnitude as to materially interfere with programs but would satisfy increasing domestic demand).

[40] See Peanuts, Inv. No. 22-42, USITC Pub. 1124 (January 1981) at A-7.

[41] See Post-hearing submission of USDA at 11.

[42] Report at A-21.

States. The reduced crop in the Southeast resulted from a drought in Georgia, Alabama, and Florida. Available supplies for use in the edible market were reduced further due to an increase in the quantity of peanuts infected with drought-related aflatoxin.[43]

Beginning stocks of peanuts, also referred to as "carryover" stocks, which are necessary to supply processors with peanuts from the beginning of the crop year (August 1) until the new crop becomes available (late October), have fallen significantly. The USDA estimates that approximately a 2.5 months carryover supply of peanuts is required to satisfy domestic demand. Using this estimate, carryover stocks in the amount of 793 million pounds (farmer's stock basis) will be needed for the 1991/92 crop year. Carryover stocks, however, have declined steadily from 1 billion pounds in 1987/88 to an estimated 500 million pounds currently.[44] Moreover, the actual amount is likely to be even less due to possible aflatoxin contamination and the shrinkage that will result during the cleaning process in which the aflatoxin would be eliminated. Thus, it appears that the current supply of edible peanuts, including carryover stocks, is insufficient to meet the demand of processors, at least until the first harvest of the 1991/92 crop becomes available to processors in mid-to-late October, 1991.[45]

Imports at the current quota level account for less than 0.5 percent of

---

[43] Segregation 3 peanuts, the lowest grade of peanuts, accounted for 9.9 percent of the 1990/91 crop because of aflatoxin contamination. Typically only 0.5 percent of the crop is graded as Segregation 3 peanuts. Report at A-21, n. 45.

[44] Report at A-25.

[45] Report at A-25.

total U.S. consumption.[46] Total world production of peanuts has been approximately 45 billion pounds (inshell basis) in the last two crop years.[47] Total exports have averaged approximately 5 percent of world production in the last several years.[48] India and China are the two largest producers of peanuts in the world, but importation of raw peanuts from these countries into the United States is currently prohibited because of peanut stripe virus.[49] Thus, raw peanuts from those countries must undergo additional processing, and incur additional costs, in order to be sold in the U.S. market.[50] Because its growing cycle is the opposite of the U.S. cycle, Argentina is the foreign producer most likely to supply peanuts to the United States market before the 1991/92 U.S. crop becomes available. Argentina, however, does not produce enough edible peanuts to satisfy the shortfall in U.S. domestic supply unless its entire crop of edible peanuts were diverted to the United States, an unlikely event given the amounts historically consumed domestically or shipped to its primary export markets.[51]

Domestic prices for peanuts have dramatically increased for crop year 1990/91, with prices more than doubling between August and December 1990.[52] The principal cause of the rapidly escalating prices apparently is an approximately 10 percent decrease in supply of edible peanuts in a market

---

[46] Report at A-27.

[47] Report at A-31.

[48] Report at A-31.

[49] Report at A-43.

[50] Report at A-43.

[51] Report at 31, Table 11.

[52] Report at A-39-A-40.

characterized by inelastic demand.[53] The quota loan rate for peanuts in 1990/91 was 31.6 cents per pound (inshell basis), while average monthly prices for cleaned and shelled peanuts contracted for between August and December 1990 ranged from a low of 69.6 cents per pound to a high of 125.0 cents per pound.[54] Since most of the large processors of peanuts forward contract for delivery of peanuts at the beginning of the crop year, approximately 95 percent of the peanut crop for any given year is contracted for in the first three months of the crop year.[55] Thus, prices for later periods reflect smaller volume transactions on the spot market, which is highly sensitive to fluctuations in the available supply.

It is predominantly the smaller, independent processors who do not forward contract for peanuts that are experiencing difficulties in obtaining peanuts at prices that will allow them to remain in operation. Allowing the entry of additional imported peanuts will help alleviate this competitive disadvantage vis-a-vis the large integrated processors.[56] Moreover, given that almost all of the domestic 1990/91 peanut crop has already been contracted for, there will be no significant adverse effects on domestic peanut prices for the 1990/91 crop due to increased imports entered during the remainder of the current season.

---

[53] Report at A-36.

[54] Report at A-38, Table 13.

[55] Report at A-36.

[56] As is evidenced by the section 22(d) investigation in 1980 and the present investigation, in addition to the requests for section 22(d) investigations in 1984 and 1986, it appears that the buyback provision of the program does not provide sufficient supplies of noncontract additionals to the domestic edible market during periods of drought to compensate for the shortfall in the supplies of quota peanuts.

The CCC has taken virtually no deliveries of peanuts placed under loan in recent years.[57] The CCC net realized losses for the peanut program in 1991/92 are estimated at $6.3 million as the result of "disaster transfers." All these unreimbursed losses were the result of disaster losses due to crop failure or disease and would be unaffected by varying levels of imports. The USDA reported that, during the last five years, revenues from the peanut program were sufficient to reimburse the CCC for all expenditures subject to reimbursement. There have been no significant acquisitions by, or costs to, the CCC as a result of the peanut program in recent years.

The USDA testified at the hearing that importation of up to an additional 100 million pounds of edible grade peanuts on a shelled basis is not likely to materially interfere with USDA's price support program, but stated that it nevertheless does not recommend an increase in the import quota.[58] USDA estimates of the effect of raising the import quota on peanuts provided in their post-hearing submission, however, suggest that raising the quota by 300 million pounds (shelled basis) in 1990/91 will have no material adverse impact on the price support program for peanuts.[59]

The model from which the USDA derived its estimates indicated that, with no change in the import quota, the CCC would have net realized losses of $6.3 million in 1990/91 and a net surplus of $3.0 million in 1991/92. The model

---

[57] Report at A-9.

[58] Transcript of the Hearing (Tr.) at 22.

[59] See Post-hearing submission of the USDA, Attachment. It is important to note that potential CCC costs, separate from "disaster transfers," are affected primarily by the level of buybacks and CCC crushings of additional and quota pool peanuts. CCC costs occur when growers, in response to falling prices, become more reluctant to grow noncontract additionals for buyback purchases that provide revenue pool dividends, thereby offsetting pool losses from expenditures subject to reimbursement. Id. at 18.

then predicted the effect on the price support program of raising the import quota in 100 million pound (shelled basis) increments up to 400 million pounds. The estimated cost of the program remained unchanged in 1990/91 even if the quota were raised to 400 million pounds. Furthermore, the USDA estimates indicated that an increase in the quota by 300 million pounds in 1990/91 would result in carryover stocks of 765 million pounds, a level slightly below the necessary carryover level of 793 million pounds. Finally, the estimates of various measures of loan activity if the quota is raised by 300 million pounds in 1990/91 show virtually no change relative to the estimates based upon current quota levels. For 1991/92, the estimated cost to the program was unchanged up to a quota level of 300 million pounds. Under this scenario, the estimated carryover stocks would roughly equal the required level and certain indicators of loan activity would be affected only marginally.[60]

It is important to note that the USDA estimates are clearly a worst case scenario in that they are based upon certain assumptions of market behavior that tend to overestimate the actual impact on the price support program of raising the import quota. Primarily, the USDA estimates assume that imported and domestic peanuts are perfect substitutes for one another, while the evidence of record suggests that domestic peanuts are significantly better in terms of quality and are sold at significantly different prices in the world market.[61] Thus the assumption of perfect substitutability tends to exaggerate the potential impact on the price support program of raising the import quota on peanuts. Further, the USDA estimates assume the availability of imported

---

[60] See Post-hearing submission of the USDA, Attachment.

[61] See Report at A-42-A-43.

peanuts at prices that would be low enough to lead to fulfillment of the increased quota levels. Given current market conditions, however, it does not appear that there are imported supplies available at prices low enough to lead to purchases by domestic processors in the volumes approaching 400 million pounds. Any additional U.S. imports would increase demand for available world supplies and would bid up world prices from their current levels.[62]

Estimates of the effect of suspension of the quota beyond the current crop year incorporated USDA assumptions regarding domestic supply in crop year 1991/92. As the history of the peanut industry demonstrates, domestic supply fluctuates from year to year depending upon a number of factors, primarily weather conditions and disease. The impact of such variables on the 1991/92 crop cannot be predicted in this case with sufficient certainty. Given this uncertainty, and the indication of a possible adverse impact on the peanut program in the USDA model if the quota were raised or suspended for 1991/92, we do not recommend that the higher quota rate be permanent or extend beyond the current growing year.

In conclusion, we advise President Bush that changed circumstances require a modification of the existing quota on peanuts. We recommend that the President increase the quota to 300 million pounds, shelled basis, for peanuts to be entered on or before July 31, 1991. This temporary increase in the quota from its current level of 1.7 million pounds, resulting in an increase of the quota by 298.3 million pounds, will not render nor tend to render ineffective nor materially interfere with the domestic peanut program.

---

[62] In this regard, it should be noted that, when U.S. exports dropped by about 500 million pounds (inshell basis) from crop year 1989/90 to 1990/91, prices for peanuts from Argentina and China nearly doubled. Compare Report at A-17, Table 5 with Report at A-43, Table 15.

Indeed, we find that this temporary increase in the peanut quota will have no negative impact at all on the peanut program. Domestic prices for peanuts will remain above price support levels as imports fill a supply shortfall in the domestic market. The temporary increase in the quota that we recommend will further the other two stated objectives of the Agricultural Adjustment Act, namely, it will assist consumers in obtaining an adequate and steady supply of peanuts at fair prices and will provide an orderly, adequate, and balanced flow of peanuts that has been temporarily disrupted by the recent drought in the Southeast. To most effectually alleviate the shortage of edible peanuts caused by the drought and to provide predictability and stability in the domestic peanut markets, the quota increase should be implemented immediately.

RECOMMENDATIONS AND FINDINGS OF
ACTING CHAIRMAN ANNE E. BRUNSDALE
Peanuts, Inv. No. 22-52

In this investigation of the import quota on peanuts, the Commission has considered

> whether the quota on imports of peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter) . . . may be suspended or terminated by the President because the circumstances requiring the current quota no longer exist, or whether the quota may be modified by the President due to changed circumstances.[1]

The circumstances that may be used to impose a quota on imported peanuts under Section 22, and which must therefore be present if the existing quota is to be maintained, are that peanuts

> are being or are practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, any . . . loan, purchase, or other program or operation undertaken by the Department of Agriculture.[2]

---

[1] 55 Fed. Reg. 52104 (December 19, 1990). The standard for termination cited by the Commission is the language of the statute. See 7 U.S.C. 624(d) ("any proclamation or provision of such proclamation may be suspended or terminated by the President whenever he finds and proclaims that the circumstances requiring the proclamation or provision thereof no longer exist. . . ."). This investigation was instituted on December 3, 1990, following a request from the Peanut Butter and Nut Processors Association. (Staff Report at A-1)

[2] 7 U.S.C. 624(a). The statute also provides that quotas may be imposed if the effect of imports is to reduce the quantity of an agricultural product processed in the United States. As the Commission has previously noted, this "processing clause" no longer appears to be relevant to Section 22 investigations. See, e.g., Cotton Comber Waste, Inv. No. 22-51, USITC Pub. 2334 (November 1990) at 5, n.5. Furthermore, no interested party has

(continued...)

Based on these standards, I recommend that the current quota be suspended indefinitely. The circumstances that exist in the peanut market toady are substantially different from those that existed in 1953 when President Eisenhower imposed the current quota. Furthermore, my analysis of the effect of imports on the price of domestic peanuts convinces that me that, even if the import quota is suspended, imports are not "practically certain" to enter the U.S. at levels that will "materially interfere" with the ability of the U.S. Department of Agriculture (USDA) to maintain the price of peanuts at or above the support price.

Key Features of the Peanut Price Support Program

The operations of the peanut price support program are fully described in the Commission's report on this investigation.[3] Here, I briefly review the program's key features. This will serve two purposes. First, it will establish the circumstances under which permitting imports would result in the federal government's making substantial outlays to maintain the price of peanuts and thereby materially interfere with the price support

---

[2](...continued)
asserted that imports of peanuts would substantially reduce the amount of any product processed from peanuts. Indeed, the argument of supporters of ending the quota is that elimination of the quota would increase the quantity of products processed from peanuts because they cannot obtain sufficient peanuts at a reasonable price.

[3] Staff Report at A-5 - A-11.

program.[4] Second, this discussion will be useful in understanding the changes that have occurred in the program since the quota was first imposed in 1953.

The price a grower is guaranteed for a particular lot of peanuts depends on whether they are sold as "quota peanuts," i.e., peanuts that are applied against the national poundage quota, or as "additionals," i.e., peanuts in excess of a grower's allowable quota. While quota peanuts are used primarily for edible purposes such as the production of peanut butter, candy, salted shelled nuts, and nuts roasted in the shell, additionals may not be sold directly for use in the edible market. Instead, they must be sold for export, or crushed to produce peanut oil, or placed under loan to the Commodity Credit Corporation (CCC).[5] Quota peanuts are guaranteed a relatively high price, known as the quota loan rate, while additionals are only guaranteed a much lower price, the non-quota loan rate, which the Secretary of Agriculture sets to ensure that no losses will result even if all

---

[4] My definition of material interference as occurring if the government must make substantial outlays to support the price of peanuts is supported by the testimony of Congressman Charles Rose, Chairman of the Tobacco and Peanut Subcommittee of the House Agriculture Committee, Congressman Charles Hatcher, and USDA. (See Transcript at 14, 20, and 52.)

[5] Peanuts need not actually be delivered to the CCC. Rather they may be delivered to area grower associations that store them. (Staff Report at A-8) However, this detail does not alter the essential working of the program in any significant respect.

of these peanuts are crushed into peanut oil or are sold for export.[6]

While growers cannot sell additional peanuts to processors for domestic edible uses, a processor can buy such peanuts from the CCC after they have been placed under loan, provided the processor is willing to pay a price at least equal to the quota loan rate.[7] Clearly, the CCC earns profits on any peanuts that are bought back for use in the edible market since it sells them for a price equal to the quota loan rate or above and only paid the grower the non-quota rates; and it loses no money on those that are exported or crushed. Furthermore, the government will not lose any significant amount of money on quota peanuts provided the price of domestic edible peanuts is above the quota loan rate.[8]

Therefore, the peanut program as a whole will not lose significant amounts of money any time the price of quota peanuts is at or above the support price established by the quota loan

---

[6] The loan rates establish the relevant price floors because a grower can place his peanuts under loan to the CCC and receive the relevant loan rate. If the grower delivers the peanuts to the CCC, he has no further obligation for repayment of the loan.

[7] Whether the price that must be paid is equal to the quota loan rate or is greater than that rate depends on whether the peanuts are bought back when they are delivered or after delivery.

[8] Some losses can result if peanuts that cannot be used for edible purposes are placed under loan at the quota loan rate. This can occur when a farmer does not have sufficient disease-free peanuts to satisfy his quota. However, the quantity of such peanuts is likely to be small and the losses from such peanuts will not be affected by the presence or absence of a quota on imports. (See n.17, below.)

rate. As a result, there will be no significant cost to the government from maintaining peanut prices at the two-tiered price level.[9] The key question in analyzing the effects of imports on the ability to maintain the price support program, then, is whether the presence of imports will push the price of domestic edible peanuts below the quota loan rate.

Changed Circumstances in the Peanut Market

That conditions in the U.S. peanut market today differ from those that existed in 1953, when the current quota was first imposed, should be surprising to no one. To the contrary, it would be very surprising if circumstances had not changed over a period of almost 40 years. Changes have occurred in the programs under which the peanut price support programs operate, in the conditions of demand and supply in the U.S. peanut program, and in our understanding of the competition between domestic and imported peanuts.

Changes in the Operation of the Peanut Program. There have been several significant changes in the operation of the peanut price support program since the current quota was first imposed in 1953.[10] Until 1977, the government controlled the number of

---

[9] The profits earned on sales of additionals are returned to peanut growers unless they are needed to offset losses on the sale of quota peanuts.

[10] This discussion of the history of the peanut price support
(continued...)

acres on which peanuts could be grown, and all peanuts grown on the allotted acreage were guaranteed the quota loan rate. Since production on the allotted acreage frequently exceeded domestic demand, the CCC had to purchase peanuts at the quota rate, which it then resold at lower prices for export or crushing.

The Food and Agricultural Act of 1977 established the national poundage quota and limited the peanuts that would be guaranteed the quota loan rate and could be sold for domestic edible uses to those grown under the poundage quota. The 1977 Act also created the notion of additional peanuts that could be sold for export or crushing. However, the limitations on the quantity of land that could be used to grow peanuts remained and additionals could only be grown on acreage allocated for peanuts.

The 1981 farm bill suspended the limitations on the number of acres that could be used to grow peanuts. Since the passage of that bill, anyone can grow peanuts but only those grown under the national poundage quota can be sold in the domestic edible market. Finally, the Food Security Act of 1985 required that profits on sales of additional peanuts be used to offset any losses on the sale of quota peanuts in order to reduce the cost to taxpayers resulting from the operation of the peanut program.

---

[10](...continued)
program is drawn from *The Economic Effects of Significant U.S. Import Restraints, Phase II: Agricultural Products and Natural Resources*, Inv. No. 332-262, USITC Pub. 2314 (September 1990) at 4-1 - 4-2. See also, Rucker, Randal R., and Walter N. Thurman, "The Economic Effects of Supply Controls: The Simple Analytics of the U.S. Peanut Program," *The Journal of Law and Economics*, 33 (October 1990), pp. 483-515.

Changes in the Demand for and Supply of Peanuts. The relationship between the demand for and supply of domestic peanuts is substantially different today from what it was in 1953. In the early 1950s, more peanuts were being grown in this country than were being consumed.[11] Quotas were being reduced and significant amounts of government funds were being used to purchase peanuts in order to maintain prices at the support price levels.[12] Between 1950 and 1953, the U.S. Treasury lost $45.3 million on the operation of the peanut program.[13] Given inflation over the past 40 years, this amounts to about $240 million at 1990 price levels.[14]

Today, the situation in the peanut market is substantially different. Demand for domestic edible peanuts is at least as great as supply. During the 1980s, the CCC took possession of virtually no peanuts.[15] The only losses incurred by the Treasury in recent years stem from a provision of the law that requires the CCC, under certain circumstances, to pay the quota loan rate

---

[11] See "Statement of the Department of Agriculture on the Need for the Limitations of Peanut Imports Under Section 22 of the Agricultural Adjustment Act, as Amended, April 1953, at 1-2.

[12] Transcript of Commission Meeting, March 15, 1991, at 3-4 (Testimony of Mr. Burket).

[13] Rucker and Thurman at 488, Table 1.

[14] Based on the GNP price deflator series reported in the *Economic Report of the President, 1991*.

[15] Staff Report at A-9.

for diseased peanuts that can only be crushed to produce peanut oil. While the CCC loses money on these purchases, such losses have been small, averaging about $5 million per year.[16] Further, the losses are not the result of low prices for peanuts and would be unaffected by any increase or decrease in the price of peanuts.[17]

Changes in Our Understanding of Competition between Domestic and Imported Peanuts. Finally, our understanding today of the nature of competition between domestic and imported peanuts today differs from what the Commission concluded in 1953. Then, the Commission believed that imported peanuts "would be in all major respects similar to domestic varieties used in the edible market."[18] Now, however, as is discussed below, the available evidence strongly suggests that peanuts grown in the United

---

[16] Transcript at 65 (Testimony of Dallas Smith, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture).

[17] Id. When a peanut grower produces insufficient disease-free peanuts to fill his quota, he can apply diseased peanuts against his quota. In such circumstances, the CCC is required to pay the quota loan rate for the diseased peanuts. Furthermore, they are not permitted to offset the losses on such peanuts against the gains realized in selling additional peanuts. Since neither the quota loan rate nor the quantity of diseased peanuts depends on the current price of peanuts, the loss incurred from this provision of the program would be unaffected by any change in the import quota.

[18] United States Tariff Commission, *Peanuts and Peanut Oil, Extracts of the Sections on Peanuts and Peanut Oil from the June 1953 Report to the President under Section 22 of the Agricultural Adjustment Act, as amended and Proclamation of the President*, December 1954, at 56.

States are of substantially higher quality than those grown in other countries and that, as a result, competition between peanuts grown in different countries is limited.

Domestic and Imported Peanuts Are Not Close Substitutes

In seeking to understand the effects of increased imports on the government's cost of supporting the price of peanuts, a key consideration is the substitutability between domestic and imported peanuts. Any relaxation of the current restriction on peanut imports will result in a decline in the price that domestic processors pay for imported peanuts. If domestic and imported peanuts are good substitutes, the decline in imported peanut prices will be accompanied by a similar decline in the price of domestic peanuts.[19] However, if there are significant differences in the quality of domestic and imported peanuts, a relaxation of the import quota will have less of an effect on the price of domestic peanuts. As a result, if domestic and imported peanuts are only weak substitutes, there is less likelihood that eliminating the import quota will cause the domestic price to fall below the price support level, which would force the government to purchase peanuts and would thereby interfere with the price support program.

---

[19] If purchasers believed that imported peanuts were the same as domestic ones, there would be one price for peanuts and any decline in the price of imported peanuts would have to be matched by an equal decline in the price of domestic peanuts.

Substantial record evidence demonstrates that domestic and imported peanuts are not good substitutes. Several witnesses at the Commission hearing testified that U.S. peanuts were of higher quality than those grown abroad. For example, Norfleet Sugg, Executive Director of the North Carolina Peanut Growers and a strong opponent of any relaxation of the quota, testified: "United States peanuts throughout the world are perceived -- and rightly so -- as the best tasting, most wholesome peanut in the world."[20] Similarly Hal Burns, Vice President of the Virginia-Carolina Peanut Association, testified that "U.S. peanuts are the best quality peanuts in the world." He further noted that when significant peanut imports were permitted in 1980/81, the "[q]uality of the imported peanuts . . . turned out to be very poor.[21]

---

[20] Transcript at 180. The apparently inferior taste of foreign peanuts may help explain the absence of significant imports of peanut butter in spite of the absence of any quantitative restrictions. (Staff Report at A-27 - A-29) If domestic and foreign peanuts were good substitutes in the production of peanut butter and if the quota on peanut imports was seriously raising the price of peanuts in the U.S., one would expect to see significant imports of processed peanut products such as peanut butter. That we do not see such imports suggests that the quota is not highly restrictive, perhaps because of quality problems in use of the foreign product.

[21] Transcript at 198. Another aspects of peanut quality, in addition to taste, is the presence of diseases such as aflatoxin. If peanuts are infected with aflatoxin, they must either be diverted to the crushed market or subjected to extensive cleaning and sorting which results in a significant reduction in the quantity of usable peanuts. Because of the costs of cleaning and sorting and the lower value of peanuts that are crushed, peanuts that are more likely to be infected with aflatoxin will not be viewed as good substitutes for those less likely to be infected.

Further reducing the substitutability between domestic and imported peanuts is the requirement that peanuts imported from several countries -- including China, which is one of the primary potential sources of U.S. peanut imports -- be shelled and blanched prior to importation, because of disease concerns.[22] The witness representing the National Confectioners Association testified at the Commission hearing that confectioners generally preferred raw rather than blanched peanuts.[23]

A comparison of the prices of U.S. and foreign-grown peanuts in European markets demonstrates that there are significant differences between peanuts.[24] If different peanuts are close substitutes they will sell for approximately the same prices. However, this has not occurred. Between the 1983/84 crop year and the 1990/91 year, the average price of U.S. peanuts in European markets ranged from a low of $713 per metric ton (shelled basis) in 1984/85 to $2,126 per ton in the current year. During the same period, the price of Argentine peanuts ranged

---

[22] Transcript at 47-48 (Testimony of Mr. Griffin and Mr. Sumner, U.S. Department of Agriculture). Imports must also be blanched prior to import if they come from the following countries: India, Indonesia, the Ivory Coast, Japan, the Philippines, Senegal, Thailand, and Upper Volta.

[23] Transcript at 89 (Testimony of Richard T. O'Connell, President, National Confectioners Association).

[24] I focus on the prices in European markets rather than the prices in the U.S. because the various government restrictions on how many peanuts of different types may be marketed in the U.S., including the import quota and the national poundage quota, may affect the relationship between the prices of different peanuts. Prices in Europe, where there are fewer restrictions on the sale of peanuts, are more likely to reflect true quality differences.

from a low of $582 per ton to $1,472 in the current year, while the price of Chinese peanuts ranged from $603 to $1,376.[25] During this eight-year period, the price of U.S. peanuts exceeded those of Argentine peanuts in the same year by between 7.5 and 44 percent, and exceeded the price of Chinese peanuts by between 6 and 55 percent. Such price differences are not consistent with close substitutability between U.S. and foreign peanuts.

Further evidence of the limited substitutability between U.S. and foreign peanuts can be found in the pattern of year-to-year price changes. If peanuts from different countries are good substitutes, we should expect the prices of all peanuts to rise or fall simultaneously. However, the price data in the staff report suggest that this frequently does not occur. In seven year-to-year comparisons between the 1983/84 crop year and the 1990/91 year, the average price of Argentine peanuts in European markets moved in the opposite direction to the price of U.S. peanuts three times. During the same period, the price of Chinese peanuts moved in the opposite direction to the U.S. price in four of the seven cases. For example, between the 1984/85 crop year and the 1985/86 year, the average price of U.S. edible peanuts rose 20.2 percent, while the average price of Chinese peanuts fell 3.4 percent. Between 1987/88 and 1988/89, the average European price of U.S. peanuts fell 17.4 percent, while the price of Argentine and Chinese peanuts rose 20.4 percent and 10.2 percent respectively.

---

[25] Staff Report at A-43, Table 15.

Effect of Imports on the U.S. Peanut Program

The fact that domestic and imported peanuts are not close substitutes limits any effects that suspending the import quota would have on the price of domestic peanuts. This in turn reduces any likelihood that removing import restrictions will cause the price of domestic edible peanuts to fall below the support price and require the government to expend significant funds in purchasing peanuts to maintain the price at the support level. The role of buy-backs of additional peanuts further reduces the risk of significant government expenditures.

Empirical Analysis. As part of this investigation, the Research Division in the Commission's Office of Economics provided the Commission with estimates of the effects of removing the quota. The effects were analyzed for crop years 1989/90, 1990/91, and 1991/92.[26] Based on reasonable values for the elasticity of substitution between domestic and imported peanuts -- a quantitative measure of the substitutability between two products -- the staff of the Research Division estimates that, if the import quota had been suspended in 1989/90 or if it were to be suspended in 1991/92, the price of domestic peanuts would decline

[26] Actual estimates were furnished only for crop years 1990/91 and 1991/92. However, staff expressed the view that the effects in 1989/90 would have been virtually identical to those found in 1991/92. (See Memorandum of March 8, 1991, to the Director, Office of Investigations, from the Chief, Research Division, entitled Investigation 22-52: Peanuts (EC-O-035) at 3 ("Estimated Effects Memorandum").)

by less than 5 percent.[27] The price would have remained above the quota loan rate. As a result, there would have been no need for government outlays to support the price.

Given the drought in the southeastern growing region in 1990/91 and the resulting higher prices, the Research Division estimates that suspending the quota this year would cause the price to fall by up to 10 percent. However, the estimated

---

[27] These estimates are based on an elasticity of substitution of five. Based on the discussion of substitutability earlier in this document and on substitution elasticities used in other recent studies of peanuts, a value of less than five appears to be more reasonable. For example, in a recent Commission study, the elasticity of substitution between domestic and imported peanuts was assumed to lie between 3 and 4. (See *The Economic Effects of Significant U.S. Import Restraints, Phase II*, at E-4, Table E-4.) Because the actual elasticity of substitution is less than the value assumed in the analysis, the actual price effect will be smaller than what is reported here. For example, if the elasticity is really 3, the price would only fall by 2.1 percent. (Estimated Effects Memorandum at Table 5)

Other values needed to perform this analysis include the elasticity of demand for peanuts, the price of domestic edible peanuts if the current quota is maintained, and the tariff that would be equivalent to the current quota. The analysis assumes that the elasticity of demand for peanuts is around -0.2, which is consistent with the values reported in the literature. (See, e.g., Rucker and Thurman.) The price estimates assuming the current quota is maintained came from the USDA. While there is considerable uncertainty about the actual tariff that would be equivalent to the current quota, this analysis assumes a value of 50 percent in 1989/90 and 1991/92, with the tariff equivalent possibly rising to 100 percent given the shortage-induced high prices in 1990/91. There are also a variety of other assumptions that were made in performing the analysis that cause this estimate to be an upper bound of the effects of suspending the import quota. (See Estimated Effects Memorandum.)

domestic price would fall no lower than $815 per ton, well above the support price level of $631 per ton.[28]

Thus, the available empirical evidence shows that suspending the peanut import quota would have only limited effects because imported and domestic peanuts are not good substitutes. Even without a quota, the price of domestic peanuts would have been above the required support price in the immediately past year (1989/90) and would be above the support price both this year (1990/91) and next (1991/92). While the empirical evidence does not allow us to predict what would happen in years beyond 1991/92, it does not suggest that there will be problems in those years. Equally relevant, the fact that we cannot demonstrate that there is no possibility of problems two or more years in the future does not establish, as is statutorily required if the quota is to be maintained, that peanuts "are being or are practically certain to be imported into the United States under such conditions and in such quantities as to . . . materially interfere" with the peanut price support program.

The Role of Buy-backs of Additional Peanuts. Even in the unlikely event that suspension of the import quota were to cause

---

[28] It is also interesting to note that the Research Division estimates that peanut imports would be less than 50 million pounds, even with this year's drought. In a more normal year like 1989/90 or 1991/92, imports are estimated to be less than 15 million pounds. Because imported peanuts and domestic peanuts are not good substitutes, there would be no demand for the levels of imports being discussed by other parties in this investigation.

the U.S. price of edible peanuts to fall to the quota loan rate in some years, the government would not necessarily incur any substantial costs to maintain the price at the support level. This occurs because of the role of buy-backs of additional peanuts.

As discussed previously, additionals are peanuts that a farmer cannot sell directly into the domestic edible market because they are in excess of his allocation of the national poundage quota. These peanuts must either be exported under contract or sold to the CCC. However, additional peanuts can be bought back from the pools provided the purchaser is willing to pay a price at least equal to the quota loan rate. What this does, of course, is to allow the quantity of peanuts sold for domestic edible use to expand if demand in a year exceeds the quantity established by the national poundage quota. At the same time, it limits the amount by which prices will rise above the quota loan rate.

Moreover, as long as additionals are being bought back for domestic edible use, a slight decline in demand, such as would occur if the restriction on imports were lifted, will not cause the price to fall below the support price established by the quota loan rate. If the price is at the support level, a small decline in demand will merely mean that fewer additionals are bought back for domestic edible use. And, as long as additionals are bought back, the price will not fall below the support price established by the quota loan rate.

Data submitted by the USDA show that the lowest quantity of buy-backs in the last five years occurred in 1989/90 when 53,018 tons of peanuts were bought back. At the other extreme, buy-backs in 1987/88 amounted to 132,402 tons.[29] These figures are substantially greater than the level of imports the Research Division estimates would by sold in the U.S. if the quota were suspended. Thus, even if the imports replaced sales of U.S. peanuts pound for pound, a most unlikely occurrence given the limited substitutability between the various types of peanuts, the imports would not replace all of the additional peanuts currently being bought back into the edible market. As such, there should be very little risk that the government would actually have to buy quota peanuts in order to keep the price of these peanuts above the support price.[30]

Conclusion: There Is No Need to Maintain an Import Quota

In conclusion, I can find no reason for maintaining a quota on imports of peanuts. Imported peanuts are only weakly

---

[29] USDA Post-Hearing Brief, Investigation 22-52 Peanuts, January 29, 1991, at 2.

[30] Of course, the revenues received by growers will decline if fewer additional peanuts are bought back for domestic edible use. The prices received for the alternative uses of export or crushing are substantially below the quota loan rate. However, I do not believe that the purpose of the Section 22 quota is to maximize grower incomes. Rather, it is to ensure that growers receive the support prices established by law without the government having to expend funds to keep the prices at this level. To maintain the Section 22 quota to support prices above the specified levels would, in my view, be a subversion of the purpose of the program.

substitutable for those grown in this country. Because of this, suspending the quota would have only a small effect on the demand for domestic peanuts. Analysis shows that this effect would be sufficiently small so that if the quota had been suspended in crop year 1989/90, the price of edible peanuts in the U.S. would have been above the support price. The same would be true for crop years 1990/91 and 1991/92. Furthermore, even if suspension of the quota were to force the price down to the support price for some year in the future, the fact that additional peanuts are regularly bought back for domestic edible use provides additional protection against the government's having to purchase peanuts to support the price.

Because the import quota is not necessary to maintain the price of domestic peanuts at the legally guaranteed rates, I recommend to the President that the quota be suspended indefinitely.

Statement of Commissioner Don Newquist

Unlike my colleagues, I find the circumstances giving rise to the existing quotas on peanuts have not changed. Therefore, I find no action should be taken by the President to either modify or terminate the quota on imports of peanuts.

The Commission conducted this investigation pursuant to section 22(d) of the Agricultural Adjustment Act of 1933, as amended. Section 22(d) allows the President to suspend, terminate or modify actions previously taken under section 22(a). Following an investigation and hearing by the Commission, he may determine that "changed circumstances" require such action and that to do so would not materially interfere with the operation of the support program.

The traditional process in sec. 22(d) reviews, and I might add the more evident statutory means, is for petitioners to request such investigations of USDA and for the Secretary of Agriculture to refer what he believes to be meritorious cases to the President, who in turn requests the Commission to conduct an investigation.

Instead, a majority of the Commission instituted this sec. 22 investigation in response to a request by the Peanut Butter and

Nut Processors' Association.[1] I did not support the institution of this investigation by the Commission. I am unpersuaded now, as I was at the time of institution, that the present shortfall of peanuts constitutes a "changed circumstance."

The peanut program is not a new occurrence in the marketplace. The program has been in place in one form or another for decades, and U.S. imports have been controlled since the early 1940's. There can be few if any novel developments in the marketplace and the operation and effectiveness of this program.[2] Thus, a review of the issues in this and previous supplemental investigations dispels any need to second-guess the operation of the program.

First, unlike earlier situations, the drought which occurred in 1990 affected only one production area. There was no broad decline in production levels; in fact, the remaining major growing areas experienced increased production.

Likewise, production for this crop year does not appear nearly as low as production levels for 1980, the only other recent period

---

[1] A relatively long-standing Commission practice of conducting such "supplemental" investigations exists and has received some judicial and Congressional scrutiny and implicit approval. In particular, there have been four supplemental section 22(d) investigations under section 22(d) involving peanuts, of which three have been self-initiated. I do not question the legality of such supplemental investigations. However, they raise serious questions regarding the wisdom of expending resources to conduct investigations which are not sought by those charged by law with administering the program and which have no force.

[2] I cannot agree that there is an absence of competition from imported peanuts because they are of lesser quality than domestic peanuts. Even if this were so, this did not occur overnight as a changed circumstance and cannot support terminating quotas.

for which the Commission recommended a quota increase. Production figures for 1990/91 are projected at 3,601 million pounds compared with 2,301 million pounds for 1980/81. Also, the current production level is only 6 percent lower than the average for the preceding four crop years.

Unlike 1980/81, there is little if any current grower interest in modification of the quota. This strongly suggests the purpose of the program is not being frustrated at this time.

Finally, the 1989/90 crop year carry-over was adequate, and production levels during this crop year while diminished are not significantly reduced. Thus, any increase in imports will likely operate to adversely impact the program in the next crop year by disturbing the balance between domestic production and domestic consumption.

Congress has steadfastly exercised its oversight of this program since its inception decades ago. The Food, Agriculture, Conservation, and Trade Act of 1990 provides recent critical assurance the peanut program is operating as intended by Congress. As the Chairman of the Agriculture Subcommittee most familiar with the operation of this program observed at the Commission's hearing "...every argument contained in their petition was also argued previously in one form or another recently in Congress, and each time it was rejected."[3] And, it is not the Commission's role to

---

[3] Statement of Congressman Charles Rose, Chairman, Tobacco and Peanut Subcommittee, House Committee on Agriculture, in testimony before the Commission on January 22, 1991. Tr. at p. 10.

"assess the merits of the program or offer suggestions concerning its administration." [4] As the Subcommittee Chairman testified, the program "seeks to balance taxpayer exposure with adequate agricultural production and income support for our nation's farmers." [5] I am satisfied this is being accomplished.

Also key to my finding of no changed circumstances is the absence of USDA action. The USDA is charged by law with administering the program. Its guidance is essential on the operation of the program and the achievement of its goals. Here, the Department did not pursue the clear statutory route provided for emergency action on this quota, nor did it recommend any increase in the quota in submissions and testimony offered during the Commission's investigation. [6]

While I am aware that Congress did not intend the Commission to "rubber stamp" USDA proposals, information before me in this investigation clearly demonstrates that changed circumstances do not compel modification of the quota. In my view, the only changed circumstance evident in this investigation is that some peanut processors and consumers are paying higher prices for a relatively

---

[4] "Statement of Commissioner Alfred Eckes," Certain Tobacco, Inv. No. 22-47, (USITC Pub. No. 1644) Feb. 1985 at 58.

[5] Statement of Congressman Rose, Tr. at p. 9.

[6] I also agree with Comm. Eckes' views in Inv. No. 22-47 on Tobacco that "Other parties may rebut the assertions made by USDA, but unless they can do so persuasively, the Commission should give great weight to USDA's contentions and supporting information." citing also views of Commissioner Catherine Bedell. See "Statement of Catherine Bedell," Certain Tobacco Inv. No. 22-43, (USITC Pub. 1174), Aug. 1981, at 27.

small amount of production sold in the spot market.[7] The economic distribution which results from a price support program cannot be the sole criterion for modification of quotas -- if it is an appropriate factor at all. The program is operating as intended, reflecting a careful, deliberate balance of various economic interests -- those of growers, processors, consumers, as well as US taxpayers.

There are no changed circumstances of the nature contemplated by sec. 22(d) in this investigation.

---

[7] The vast bulk of the 1990/91 crop was sold under preharvest contracts at substantially lower prices than these spot prices. Thus, most of the crop sold at a level close to the support price. There was no windfall to most growers in this crop year.

I agree with the Chairman of the Agriculture Subcommittee on Tobacco and Peanuts, that the Commission "is not the President's board on wage and price control....and the misuse of the International Trade Commission as the appropriate forum for relief in this instance is also clear." Tr. at p. 13.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On October 12, 1990, the Commission received a request from the Peanut Butter and Nut Processors Association (PBNPA)[1] for an expedited hearing and investigation, under section 22(d) of the Agricultural Adjustment Act of 1933, to remove entirely the restriction in effect on the importation of peanuts.[2] In addition, an immediate suspension of the quota and an authorization of imports of 400 million pounds of peanuts (shelled basis)[3] was requested pending the outcome of the Commission's investigation. On October 29, 1990, the Commission published in the Federal Register (55 FR 43418) a notice requesting comments concerning the proposed institution of the investigation; comments were to be filed by November 12, 1990. After reviewing the comments, as well as the November crop report for peanuts, the Commission determined that there was sufficient basis for conducting a supplemental investigation.

On December 3, 1990, the Commission instituted investigation No. 22-52 to determine whether the quota on imports of peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter), as set forth in subheading 9904.20.20 of the Harmonized Tariff Schedule of the United States (HTS), may be suspended or terminated by the President because the circumstances requiring the quota no longer exist or whether the quota may be modified by the President as a result of changed circumstances (55 FR 52104, Dec. 19, 1990).[4] The Commission held a public hearing in Washington, DC, on January 22, 1991, at which time all interested parties were allowed to present information and data for consideration by the Commission.[5] A summary of the positions of the principal parties testifying at the hearing is presented below and shown more fully in appendix C.

The U.S. Department of Agriculture (USDA) recommended that the import quota on peanuts not be suspended or terminated because the circumstances upon which the quota was established still exist. USDA's assessment is that importation of an additional 100 million pounds of peanuts is not likely to materially interfere with its price support program for peanuts; however, USDA does not recommend an increase in the import quota, transcript of the hearing (TR), pp. 22 and 27-30.

---

[1] The PBNPA is a national trade association of manufacturers of peanut butter, roasted and salted peanuts, peanut butter cracker sandwiches, and peanut bakery products. Association members account for about 30 percent of domestic peanut use.

[2] A quantitative annual restriction of 1,709,000 pounds (shelled basis) has been imposed since 1953 on U.S. imports of peanuts.

[3] Imports of 400 million pounds of shelled peanuts would account for about 16 percent of projected 1990/91 apparent consumption (see table 5). See "U.S. Customs Treatment" section for the product categories reflected in the Harmonized Tariff Schedule of the United States.

[4] A copy of the Commission's notice is presented in app. A. The Commission transmitted its findings to the President on Mar. 22, 1991.

[5] A list of witnesses appearing at the hearing is presented in app. B.

The PBNPA, certain other peanut processing firms, and consumer group representatives maintained that additional imports are needed because there is a shortage of edible peanuts of up to 440,000 tons in the 1990/91 crop because of a drought in the Southeast and an increase in the quantity of peanuts infected with aflatoxin.[6] (The PBNPA estimated that there will be a 360 million pound shortfall due to quality deficiency alone.) Moreover, petitioner contends that "the Section 22 import restriction on peanuts should be terminated in its entirety . . . and it should not be reinstated unless and until such time as the USDA demonstrates to the Commission and to the President that imported peanuts either are actually interfering with or are practically certain to cause material interference" with the program.

Peanut growers and shellers generally believe that there is no, or only a minimal, shortage in the 1990/91 crop[7] and that increased imports would negatively impact the 1991/92 crop by creating a large carryover of peanuts,[8] which could result in substantial amounts of quota peanuts being crushed at a significant loss to the Commodity Credit Corporation (CCC). They also expressed concern that the peanuts that would be imported could be infected with peanut stripe virus.[9] This, they said, could allow the virus to become established in U.S. growing areas and become a problem for U.S. growers, with a potential to reduce yields by 15 to 20 percent.

Background

Section 22 (7 U.S.C. 624) authorizes the President to impose import fees or quantitative restrictions, within statutory maximum levels, on articles that he finds are being or are practically certain of being imported into the United States under such conditions and in such quantities as to render or

---

[6] In a normal year, peanut product manufacturers throw away 10 to 12 percent of the peanuts they buy due to poor quality. In 1990/91 they have thrown away a minimum of 18 to 20 percent of the peanuts they have purchased; TR, pp. 113-114. USDA estimated that in several Southeast States almost 20 percent of the peanut production contains aflatoxin and is not eligible for edible uses.

[7] Only the Southeast region suffered from a drought in 1990, with the Southwest and Virginia-North Carolina regions experiencing above average production. USDA believes that the 1990/91 peanut supply is tight but sufficient to meet the needs of U.S. manufacturers. Based on USDA estimates, the supply for domestic edible use is 138 million pounds short, or 6 percent short of USDA's quota estimate for 1990 of 2,388 million pounds needed for domestic edible use; Southwestern Peanut Shellers Association's posthearing brief, p. 1. The USDA estimate includes crushing peanuts which are the oilstock residual from the farmers' stock peanuts from which edible grade peanuts are selected.

[8] If substantial imports are entered shortly before the end of the 1990/91 crop year, carryover stocks are likely to be above the level needed to supply demand in August and September, resulting in depressed prices.

[9] See the prehearing briefs of the Georgia Agricultural Commodity Commission for Peanuts, p. 4 and Exhibits F and G, and the Virginia-Carolina Peanut Association, Inc., p. 4.

tend to render ineffective or to materially interfere with certain domestic commodity programs of the USDA. It also authorizes the President to suspend or terminate such fees or quotas "whenever he finds and proclaims that the circumstances requiring the proclamation or provision thereof no longer exist" or to modify the fees or quotas "whenever he finds and proclaims that changed circumstances require such modification...." (7 U.S.C. 624(d)).[10]

In order to protect the price-support program, U.S. imports of peanuts have been subject to quantitative restrictions since July 1, 1953, following an investigation under section 22 of the Agricultural Adjustment Act, as amended.[11] In that investigation, the U.S. Tariff Commission (now the U.S. International Trade Commission) determined that peanuts, whether shelled, not shelled, blanched, salted, prepared or preserved (including roasting peanuts, but not including peanut butter), were practically certain to be imported in such quantities as to interfere materially with the Government's price-support program for peanuts.[12] Under Presidential Proclamation 3019, issued on June 8, 1953, a 1,709,000-pound (aggregate quantity, shelled basis) limitation was established on the quantity of peanuts permitted to be entered or withdrawn from warehouse for consumption during any 12-month period, beginning on July 1 in any year.

Information obtained in the investigation in 1953 revealed that, in response to price-support operations,[13] the domestic price of peanuts had advanced relative to world prices and that substantial stocks of foreign peanuts were available for export to the United States.[14] The Commission found that, if imports were subject only to U.S. customs duties, peanuts regularly traded in international markets could undersell domestic peanuts and thereby depress the commercial market price for peanuts. Such imports would result in large Government expenditures in supporting prices of peanuts to

---

[10] The President has the authority to modify or terminate the quota at any time in an emergency situation without receiving a Commission report, although, if he were to take such action, he would be obligated to request a Commission report.

[11] U.S. imports of peanuts have been controlled since the early 1940s. Under the provisions of the Second War Powers Act of 1942, the USDA imposed controls on U.S. imports of peanuts (shelled, not shelled, and blanched, roasted, prepared, or preserved) and peanut oil. Under section 104 of the Defense Production Act of 1950, as amended, the USDA on Aug. 9, 1951, imposed similar restrictions on imports of peanuts and peanut oil. In most years, these controls resulted in a virtual embargo on commercial imports of peanuts and peanut oil.

[12] U.S. Tariff Commission, Specified Manufactured Dairy Products, Flaxseed and Linseed Oil, Peanuts and Peanut Oil, Tung Nuts and Tung Oil, inv. No. 22-6.

[13] The program for the 1952 crop provided for restriction of domestic production through acreage controls and for direct price support. The total acreage on which peanuts were authorized to be harvested by growers participating in the program was 1.7 million acres.

[14] The U.S. output in 1952 accounted for 7 percent of the world total.

growers.[15] Also, imports of peanuts would generally replace approximately equivalent quantities of domestic peanuts in consumption channels, which would result in the Government's acquisition of the displaced domestic stocks at support prices.[16]

In 1955 and 1956, as a result of three supplemental section 22 investigations,[17] a Presidential proclamation temporarily relaxed the import quota to allow for imports in excess of the quota in order to relieve shortages of certain types of peanuts in the United States.[18] Subsequent to the second supplemental investigation, the quota year for peanuts was changed to commence on August 1 of each year.

In October 1980, the Commission instituted a section 22 investigation on peanuts (No. 22-42) in response to a petition filed by the PBNPA. While that investigation was in progress, the U.S. Trade Representative (USTR)[19] issued Proclamation 4807 (Dec. 4, 1980) modifying the quota on an emergency basis to allow an additional 200,000,000 pounds (shelled basis) of edible peanuts to be entered through June 30, 1981. The temporary expansion of the quota was made in order to relieve a shortage in the U.S. supply of edible peanuts.[20] The Commission subsequently found in January 1981 that the annual import quota for the period August 1, 1980, to July 31, 1981, could be modified to permit the entry of additional quantities of peanuts without rendering or tending to render ineffective, or materially interfering with, any program or operation undertaken by the USDA with respect to peanuts, or reducing substantially the amount of any product processed in the United States from peanuts (USITC publication 1124). Following receipt of the Commission's report on investigation No. 22-42, the President issued Proclamation 4835 (Apr. 14, 1981) to allow 300,000,000 pounds (shelled basis) of peanuts to be entered into the United States through July 31, 1981.

---

[15] As a result of rigid acreage restrictions, the 1952 crop was approximately equal to annual consumption at support prices. Consequently, less than 10 percent of the crop came into ownership of the CCC through nonrecourse loans or purchases.

[16] Increased imports, by adding to total domestic supplies, would defeat the purpose of restrictions on domestic acreage.

[17] Peanuts, Supplemental Investigation. . ., 1955 (processed); Peanuts, Second Supplemental Investigation. . ., 1955 (processed); Peanuts, Third Supplemental Investigation. . ., 1956 (processed).

[18] On Mar. 9, 1955, the President permitted the entry of an additional 51 million pounds of certain shelled peanuts during the remainder of the quota year ending June 30, 1955. On Mar. 16, 1955, the President allowed the unlimited entry or withdrawal from warehouse of shelled peanuts of all sizes into the United States until July 31, 1955. On Aug. 29, 1956, the President permitted large variety Virginia-type peanuts to be brought into the United States until the close of business on Sept. 10, 1956.

[19] President Carter delegated his authority in this matter to USTR because of Carter family interests in the peanut business.

[20] The 1980/81 crop shortage occurred in all three producing regions and resulted in a drop in production from 1979 to 1980 of almost 42 percent.

In July 1984, the Commission denied a similar request[21] for a supplemental investigation by the PBNPA because early season forecasts by the USDA provided no basis for anticipating a shortfall in the U.S. peanut supply for the period August 1, 1984, to July 31, 1985.[22] The Commission considered another request from the PBNPA for a supplemental section 22 investigation in 1986. The Commission once again denied the request because of a slightly improved production forecast,[23] a relatively high volume harvest, a stable crop quality, and a USDA assessment that the peanut supply would be tight but adequate for the next marketing year.[24]

The USDA's Program for Peanuts

Price support and production adjustment program

The production of peanuts in the United States is regulated through a maximum national poundage quota, and the price is maintained through a two-tier price-support system. The program for crop years 1986-90[25] is based on the Food Security Act of 1985, which continued the two-tier price-support program established by the 1977 legislation. The program was mandatory for the 1986-90 marketing years after it was approved by a January 1986 referendum--meaning it was binding on all producers. The program for crop years 1991-95 is based on the Food, Agriculture, Conservation, and Trade Act of 1990. Quota support prices are limited to quota holders and apply to peanuts produced within the national poundage quota. However, since acreage restraints were removed by the 1985 legislation, anyone is allowed to produce peanuts. Peanuts produced in excess of the poundage quota are eligible for the lower of the two price-support levels. Such overquota peanuts are referred to as "additional peanuts" or simply "additionals." Additionals are also subject to marketing controls.

Even though quota and "additional" peanuts are often grown in the same field, there is a significant difference in the application of the program. Peanuts grown within a farm's poundage quota are mainly used in the domestic edible market and for seed for the next year's crop. Quota peanuts may be contracted for at any time prior to harvest or may be placed under loan at harvest with the CCC.

"Additional" peanuts may be marketed by growers in two ways: One way, growers may contract for sale (contract additionals) with a handler; the contract must have been signed prior to August 1 for crop year 1990 and by September 15 for crop years 1991-95. The peanuts may be used only for export or domestic crushing to obtain peanut oil and meal; they may not be used for domestic food or seed uses. The other way, additionals that have not been contracted for (noncontract additionals) by a grower must be delivered to buying points at harvest and placed under loan, with the growers receiving the

---

[21] Commission letter dated July 25, 1984.
[22] The 1985/86 crop declined 6 percent from the 1984/85 crop.
[23] The 1987/88 crop declined 2 percent from the 1986/87 crop.
[24] Commission Action Jacket No. Inv-86-199 (Nov. 13, 1986).
[25] The peanut crop year extends from Aug. 1 to the following July 31.

lower-tier price support.[26] Noncontract additionals received for loan may be sold for crushing, export, or the domestic edible market.[27] Buyers of such peanuts sold for use in the domestic market must pay no less than the higher-tier quota support price. No contract additional peanuts that have been exported or peanut products made from additionals that have been exported are allowed to be reentered in commercial quantities into the United States. If such peanuts are reentered they are subject to a penalty of 140 percent of the higher-tier quota support price.

Acreage allotment and national poundage quota

The original price-support legislation requires the Secretary of Agriculture to establish annually a national acreage allotment and a national poundage quota (however, the 1981 Act suspended the peanut acreage allotments for crops years 1982-85, the Food Security Act of 1985 provided for suspending peanut acreage allotments for crop years 1986 through 1990, and the 1990 legislation continued the suspension). The national poundage quota was 1,355,500 tons (in-shell basis) in 1987, 1,402,200 tons in 1988, 1,440,000 tons in 1989, and 1,560,000 tons in 1990 (table 1). Those quantities equaled the estimated domestic edible, seed, and related uses for each of the years indicated.[28] The 1990 Act provides for a minimum national poundage quota of 1,350,000 tons for crop years 1991-95. The Secretary of Agriculture established the national poundage quota for the 1991 crop year at 1,550,000 tons.

Farmers who are not able to produce their farm's entire poundage quota in a given year are permitted to produce the difference (undermarketing) the following year, in addition to their usual poundage quota. Such undermarketings can be authorized up to 10 percent of the national poundage quota for the next peanut marketing year. USDA reported that, over the last 5 years, such carryforward of undermarketings ranged from a low of 82,264 tons in 1986 to a high of 144,220 tons in 1988, as shown in the following tabulation (in tons):

---

[26] The domestic food and seed requirements must be supplied by quota poundage or noncontract additional peanuts which have been acquired from the CCC under the buyback provisions. Peanuts purchased from the CCC after harvest for domestic edible usage cost a minimum of 5 to 7 percent more than the quota support price plus any applicable carrying charges in order to insure that the CCC will recover its cost of purchasing, handling, and storing the peanuts.

[27] Noncontract additionals under loan can be brought into the domestic edible market as buybacks. Significant numbers of additionals have gone into the domestic edible market in 1990-91 because the supply of quota peanuts was small due to the drought, TR, pp. 44 and 64.

[28] Such estimates were required of the Secretary of Agriculture by the 1985 Act.

Table 1
Principal provisions of U.S. peanut programs, crop years 1976/77 to 1990/91

Crop year	Parity price[1]	Quota loan rate	Nonquota loan rate	National marketing poundage quota	National allotment
	--------Cents per pound--------			1,000 tons	1,000 acres
1976/77.....	27.60	20.70	-	2,004	1,614
1977/78.....	28.70	21.525	-	2,069	1,614
1978/79.....	31.50	21.00	12.50	1,680	1,614
1979/80.....	35.80	21.00	15.00	1,596	1,614
1980/81.....	38.10	22.75	12.50	1,516	1,614
1981/82.....	41.50	22.75	12.50	1,440	1,734
1982/83.....	43.30	27.50	10.00	1,200	suspended
1983/84.....	44.00	27.50	9.25	1,167	suspended
1984/85.....	45.90	27.50	9.25	1,134	suspended
1985/86.....	45.50	27.95	7.40	1,100	suspended
1986/87.....	44.80	30.37	7.49	1,356	suspended
1987/88.....	46.70	30.37	7.49	1,356	suspended
1988/89.....	48.90	30.76	7.49	1,402	suspended
1989/90.....	50.60	30.79	7.49	1,440	suspended
1990/91.....	([2])	31.57	7.49	1,560	suspended

[1] Average parity price of peanuts for July.
[2] Not available.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Year	Applied to quotas	Unapplied
1986	82,264	0
1987	135,550	16,636
1988	144,220	32,017
1989	140,000	6,974
1990	129,646	0

Unapplied undermarketing can normally be carried over and considered with current marketing year undermarketings for application in the next marketing year.[29]

[29] USDA's posthearing brief, pp. 2-3.

Support levels and loans

The loan program has been the basic feature of peanut price-support legislation. Under the program, producers can place their harvested peanuts under loan from the CCC at specified values per ton. Producers may take out individual farmer-stored CCC loans, or they may utilize their grower association to obtain such loans and store the peanuts. Producers redeeming their loans are obligated to pay no less than 105 percent of the quota loan rate.

In each of the three producing areas, the Secretary of Agriculture has designated an area marketing association to act on its behalf and to administer the price support program. Each area marketing association establishes loan pools[30] by area and segregation[31] for quota peanuts handled under loan and for additional peanuts placed under loan. Any net gains for each pool for quota peanuts are distributed to producers in proportion to the value of such peanuts placed in the pool by each producer. Any net gains on additional peanuts are first used to reduce losses on quota peanuts to the extent of any such losses incurred by the CCC, and then distributed to producers.

The quota-support loan rate has acted as a floor for domestic market prices, which have seldom dropped appreciably below the quota-support rate. The national average support price for within-quota peanuts for a crop year is equal to the previous year's support price, adjusted for increases in the national average cost of production (excluding changes in land cost, beginning with the 1991 crop) not to exceed 6 percent per year. The 1990 Act provides that the quota-support loan rate cannot be adjusted by more than 5 percent over the previous year's rate. The additional support price is set by the Secretary of Agriculture at a level that will result in no loss to the CCC from sales or disposal of the additional peanuts after consideration of the demand for peanut meal and peanut oil, of expected prices of other vegetable oils and protein meals, and of the demand for peanuts in foreign markets.

The national average quota support level for the 1990 crop was $631.40 per short ton (in-shell basis); for the 1989 crop, $615.80 per short ton; for the 1988 crop, $615.27; and for the 1987 crop, $607.47 per short ton (table 1 (quota loan rates times 2000)). The national average additional support level was unchanged at $149.75 per ton for crop years 1987-90.

---

[30] A loan pool is a means of accounting established by the marketing association for quota peanuts and additional peanuts not under contract, for which records are maintained by area and by segregation.

[31] The peanut price support program and the peanut marketing agreement program require the separation of peanuts into three classes: Segregation 1, Segregation 2, and Segregation 3. These classifications are mainly concerned with the amount and type of damage in each lot of peanuts, with Segregation 1 being the highest quality. Segregation 3 peanuts are those containing a toxin-producing mold, such as aflatoxin.

CCC operations

Quantities placed under loan and deliveries to the CCC.--During crop years 1986-90, the annual quantity of peanuts used by producers as collateral for CCC loans ranged from a low of 200,517 tons in 1989 to a high of 383,838 tons in 1988 (table 2). From August 1 to November 30, 1990, 274,183 tons were used as collateral by producers for loans.[32] The CCC in recent years has taken virtually zero deliveries of peanuts placed under loan.

CCC stocks and sales of peanuts.--During the 1980s, virtually all U.S. peanut stocks were held by peanut processors. Almost all of the USDA stocks of peanuts are Segregation 2 and Segregation 3 peanuts produced under quota but not suitable for the domestic edible market.

Section 407 of the Agriculture Act of 1949 (63 Stat. 1051), as amended, sets forth the conditions for CCC sales of peanuts. Sales of peanuts for domestic edible use, including use as seed, must be made at no less than 105 percent of the quota loan value (with certain adjustments) plus all costs incurred, such as inspection, warehousing, and shrinkage. Export sales of quota peanuts must be made at no less than 100 percent of the quota loan value plus all costs incurred. Export sales of additional peanuts for edible uses in the 1990 marketing year must be made at no less than $400 per ton. Export sales of additional peanuts for crushing only must be made at 100 percent of the additional loan value plus all costs incurred, and such peanuts must be fragmented (or broken) prior to export. Sales of quota and additional peanuts for domestic crushing only must be sold at competitive prices. If such prices are less than the applicable loan rate for quota or for additional peanuts plus all costs incurred, the use of the oil produced from such peanuts will be restricted to domestic markets. Over the years, most of the peanuts sold by the CCC were generally channeled into the domestic market for crushing.

Federal peanut marketing agreements

The Federal peanut marketing agreement program has been in effect since 1965 to control the quality of domestically produced peanuts. It was initiated at the request of the industry to prevent peanuts with aspergillus flavus mold from being used in edible products.[33]

---

[32] Approximately 25,000 tons of Segregation 1 peanuts are currently under the price support loan. These are loan collateral peanuts, which the farmers still own and in which the government has a collateral interest. Farmer-owned co-ops have redeemed approximately 14,000 tons of quota peanuts and approximately 6,000 tons of additionals and sold them; TR, p. 60. The CCC's net realized loss for 1990/91 is estimated at $6.3 million. This loss results from "disaster transfers" of Segregation 2 and 3 peanuts to be counted against growers' quotas. This loss is not reimbursable from grower loan pool surpluses.

[33] Some strains of aspergillus flavus mold produce toxic metabolites that are referred to as "aflatoxin." Because aflatoxin is highly toxic and carcinogenic, its presence in peanuts is strictly limited if they are to be

(continued...)

Table 2
Peanuts: CCC loans, by quota type, crop years 1987/88 to 1989/90, and August 1, 1990, through November 30, 1990

(Tons)

Crop year and type	Quota	Additionals
1987/88:		
Segregation 1	86,854	205,609
Segregation 2	0	40,995
Segregation 3	0	16,420
Total	86,854	263,024
1988/89:		
Segregation 1	114,059	228,069
Segregation 2	0	31,999
Segregation 3	0	9,711
Total	114,059	269,779
1989/90:		
Segregation 1	46,520	127,095
Segregation 2	0	13,343
Segregation 3	0	13,559
Total	46,520	153,997
1990/91 (August 1-November 30):		
Segregation 1	32,334	74,803
Segregation 2	0	5,970
Segregation 3	0	161,076
Total	32,334	241,849

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Practically all U.S. peanut handlers (shellers) have signed a marketing agreement contract with the Secretary of Agriculture. The program provides incoming and outgoing quality regulations on all peanuts that handlers purchase for commercial uses. Incoming regulations allow the handlers to acquire only Segregation 1 peanuts for milling and ultimate use in edible outlets. The outgoing regulations, applied after peanuts are milled, require all milled peanuts to meet specific quality factors and be chemically analyzed. Peanuts that fail to meet the requirements are not allowed to be used in edible products.

The marketing agreement program also provides indemnification to handlers who suffer losses when chemical analysis determines a batch of peanuts to be unwholesome and not suitable for edible use. All indemnification costs are paid by assessments levied on the handlers and by an insurance policy. Beginning with the 1986/87 crop year, all of the assessment

[33] (...continued)
classified as edible peanuts. Although peanuts afflicted with aflatoxin are unusable as edible nuts, they may be used for seed or crushed into oil.

was placed into one indemnification fund, and the insurance portion of the program was dropped. Any excess in the fund at the end of the marketing year is reserved to cover potential future losses. Because of the large number of claims for indemnification this year, the fund has been depleted. The industry is currently discussing ways to replenish the fund. No government expenses are involved.

Government export assistance program

The Food Security Act of 1985 authorizes the use of CCC funds or commodities to counter or offset the adverse effects of unfair trade practices on U.S. agricultural exports. The Target Export Assistance (TEA) program has provided funds to the National Peanut Council to promote U.S. peanuts and peanut products in Europe; such funding amounted to $4.5 million in fiscal year 1987, $6.0 million in 1988, $7.4 million in 1989, and $4.5 million in 1990.

The Product

Description and uses

Peanuts (or groundnuts) are the seeds of an annual legume which grows close to the ground and bears nuts below the surface. The papery pods range from about 3/4 inch to 2 inches in length and usually contain two kernels, although three kernels predominate in some varieties.

Peanuts are grown throughout the world, with the greatest production in Asia and Africa. The products that enter commerce from these areas, however, are mostly in the form of oil and meal. About one-half of the U.S. peanut supply is used domestically for edible purposes, principally in the form of peanut butter, candy, salted shelled nuts, and nuts roasted in the shell. The remaining peanuts are crushed for oil and meal, exported, used for seed or feed, or disposed of on the farm.

There are three principal types of peanuts grown in the United States--Virginia, Spanish, and Runner (table 3). Certain of these three types are preferred for particular uses because of differences in flavor, oil content, size, and shape, but they are used interchangeably to some extent. Practically all peanuts marketed in the shell are of the Virginia type, together with some Valencias (a minor variety) selected for large size and attractive appearance of the shell. But the bulk of the Virginia peanuts are shelled, with the larger nuts generally used for salting and the smaller nuts generally used in making peanut butter or confectionery.

Almost all peanuts of the Spanish and Runner types that enter commercial channels are shelled before reaching consumers. Substantial quantities of Spanish peanuts are also salted, but their principal uses are in the manufacture of peanut butter and peanut candy. Runner-type peanuts are used primarily in the manufacture of peanut butter and confectionery.

Table 3
Peanuts: U.S. consumption by type of peanut, crop years 1987/88 to 1989/90

(In millions of pounds, shelled basis)[1]

Crop year	Runner	Virginia	Spanish
1987/88	1,152.8	217.0	114.6
1988/89	1,256.3	241.1	107.3
1989/90	1,306.8	263.0	87.1

[1] Excludes roasting stocks which are not broken down by type.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Salted peanuts are generally roasted in oil and packed in retail-size transparent plastic bags or hermetically sealed cans. Salters pack a small quantity of salted peanuts in bulk for repackaging or for reselling through vending machines. Dry-roasted salted peanuts are also marketed in significant quantities. The primary use of peanut butter is in the home, but large quantities are also used in the commercial manufacture of sandwiches, candy, and bakery products.

In the United States, low-grade or culled peanuts not suitable for the edible market are used for the production of peanut oil. Most of the "surplus" edible-grade peanuts acquired by the Government under the peanut price-support program administered by the U.S. Department of Agriculture are also used for producing peanut oil. Peanut oil is used primarily as a cooking or salad oil. Lesser quantities are used, after hydrogenation, in shortening and margarine. Peanut oil-cake and meal, obtained as byproducts from crushing peanuts for oil, are used as livestock food.

U.S. customs treatment

Imported peanuts are classifed for tariff purposes in subheading 1202.10.00 of the HTS if unshelled, not roasted or otherwise cooked; in subheading 1202.20.00 if shelled, whether or not broken, not roasted or otherwise cooked; or in subheading 2008.11.00 if prepared or preserved other than by vinegar or acetic acid or sugar, whether or not containing added sugar or other sweetening matter or spirit. Prior to adoption of the HTS, peanuts were provided for in the Tariff Schedules of the United States under these items:

Item No.	Article description
145.20	Peanuts, not shelled
145.21	If product of Cuba
145.48	Peanuts, shelled, blanched or otherwise prepared or preserved

The rates of duty currently applicable to imports are shown in appendix D. The most-favored-nation (column 1-general) rate of duty under subheading 1202.1000 is that originally provided for in the Tariff Act of 1930. The column 1-general rates of duty under subheadings 1202.2000 and 2008.1100 have been in effect since January 1, 1981, and reflect a concession granted by the United States in the Tokyo Round of trade negotiations under the General Agreement on Tariffs and Trade. As indicated previously, since 1953 imports of peanuts have also been subject to quantitative limitations (now set forth in subheading 9904.20.20 of the HTS).[34] The import quota on peanuts is administered by the U.S. Customs Service on a first-come-first-served basis. No special applications or licenses are required to import peanuts.

U.S. Producers

Peanut growers

Approximatley 45,000 farms,[35] with 1.8 million harvested acres, produce about 4 billion pounds of peanuts annually in the United States (table 4 and figure 1). Accounting for two-thirds of total output, most of these farms are located in the Southeast;[36] the remaining one-third of production takes place in the Southwest and the Virginia-North Carolina regions. The majority of the farms that grow peanuts specialize solely in that crop. Other farms that grow peanuts also raise livestock, poultry, cotton, tobacco, various grains, or soybeans. Peanuts can be produced in rotation with diversified grains. Agricultural production specialists generally recommend a 3-year rotation for peanuts, which restricts production to 1 out of 3 years on the same land. Such rotations improve disease control and nutrient balances in the soil. Significant changes in acreage depend on the level of the national poundage quota, price support levels, competition from other crops for the use of land, and the availability of land suitable for peanut production. Acreage will be up in crop year 1991/92 because growers will produce more additional peanuts for buybacks to rebuild stocks and will plant sufficent acreage to cover their undermarketings from the 1990/91 crop year.

---

[34] Subheading 9904.20.20 of chapter 99 of the HTS provides as follows: "Whenever, in any 12-month period beginning August 1 in any year, the aggregate quantity specified below of peanuts (ground nuts), shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter) provided for in subheadings 1202.10, 1202.20, and 2008.11, has been entered, no such products may be entered during the remainder of such period" with a quota quantity of 775,189 kilograms and a proviso to the effect that "Provided, that peanuts in the shell be charged against this quota on the basis of 75 kilograms for each 100 kilograms of peanuts in the shell."

[35] There were 43,510 farms with quota allotments and 970 nonquota producing farms in 1990.

[36] About 15,000 farmers in Georgia are allotted 1.3 billion pounds of the quota, or 41 percent of the national allotment; The Wall Street Journal, May 1, 1990.

Table 4
Peanuts: U.S. acreage planted and harvested, production, yield, and average selling price, crop years 1976/77 to 1990/91

Crop year	Area planted	Area harvested	Production	Yield	Season average farm price
	-----1,000 acres------		Million pounds (in-shell basis)	Pounds per acre	Cents per pound
1976/77.....	1,545	1,518	3,739	2,464	20.0
1977/78.....	1,541	1,512	3,715	2,456	21.0
1978/79.....	1,541	1,509	3,952	2,619	21.1
1979/80.....	1,546	1,520	3,968	2,611	20.6
1980/81.....	1,521	1,400	2,303	1,645	25.1
1981/82.....	1,514	1,489	3,982	2,675	26.9
1982/83.....	1,311	1,277	3,440	2,693	25.1
1983/84.....	1,411	1,374	3,295	2,399	24.7
1984/85.....	1,563	1,531	4,406	2,878	27.9
1985/86.....	1,490	1,467	4,123	2,810	24.4
1986/87.....	1,565	1,535	3,697	2,408	29.2
1987/88.....	1,567	1,547	3,616	2,337	28.0
1988/89.....	1,657	1,628	3,981	2,445	27.9
1989/90.....	1,665	1,645	3,990	2,426	27.9
1990/91.....	1,836	1,801	3,601[1]	2,000[1]	35.7[1]

[1] Projected.

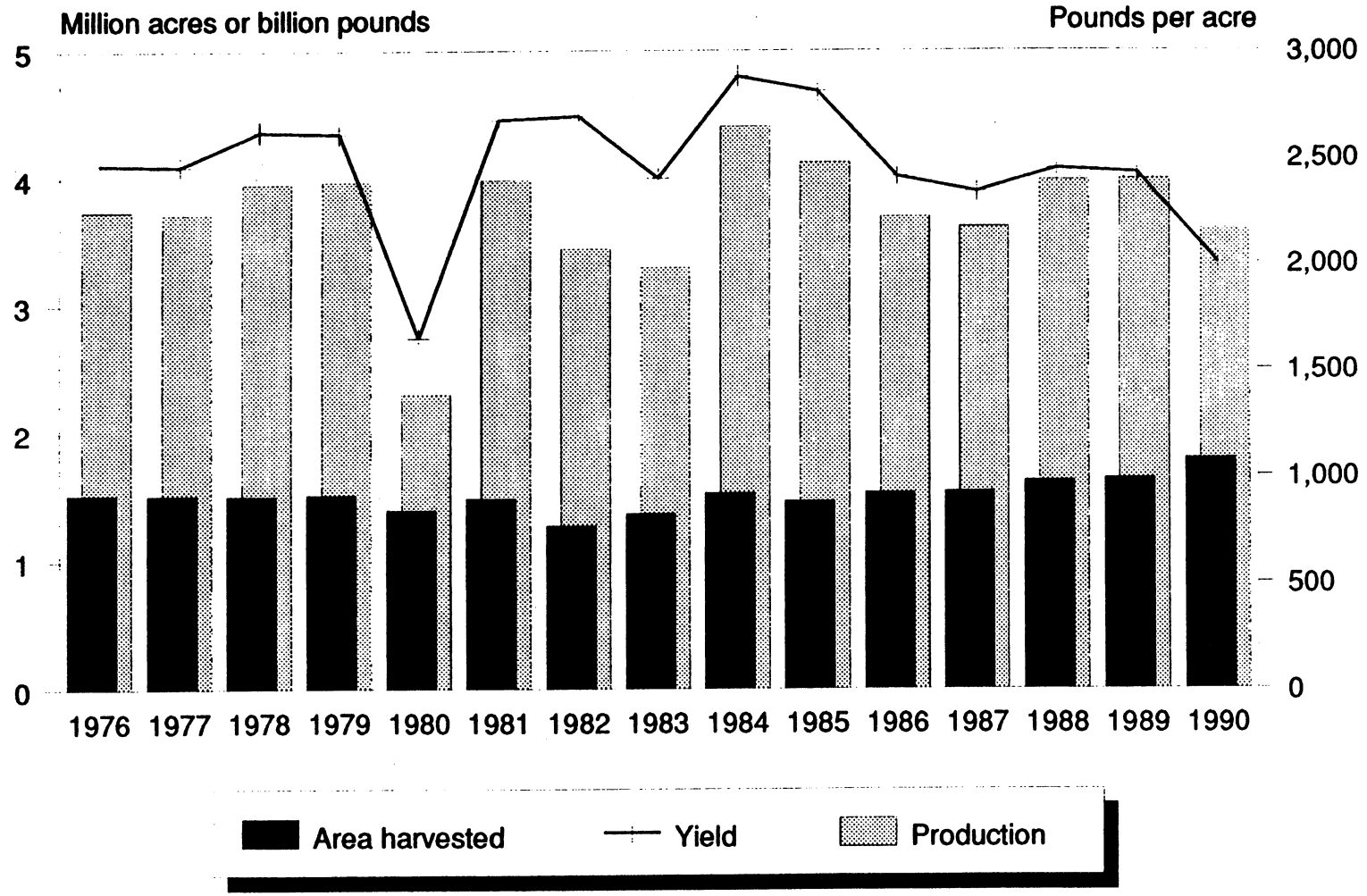
Source: Compiled from official statistics of the U.S. Department of Agriculture.

The volume of peanut production depends on harvested acreage and yield per harvested acre. U.S. harvested acreage increased by about 16 percent during crop years 1987-90, to 1.8 million acres in 1990/91. Peanut production varied during this period because of fluctuating yields per acre (figure 1).

Peanut shellers and processors

In 1990, 52 firms shelled peanuts in the major U.S. producing regions, down from the 66 firms shelling peanuts in the early 1980s. Many of these firms operate multiple shelling plants. In addition to cleaning, sorting, packaging, and storing peanuts, shellers perform commercial market and CCC functions by selling edible peanuts to processors and by bidding on CCC loan peanuts for crushing and export. Most sales between shellers and processors are arranged by brokers.

Figure 1.--Peanuts: U.S. production, acreage harvested, and yield, crop years 1976/77 to 1990/91



Source: U.S. Department of Agriculture.

In 1990, there were approximately 1,000 firms manufacturing peanut products in the United States.[37] About 650 firms manufacture candies, in which the principal nut used is peanuts. Peanut butter and salted peanuts take up much of the remaining supply of peanuts for manufacturing. The number of peanut butter processors has remained stable in recent years at about 40 firms. This is a highly concentrated industry that is dominated by a few firms such as Skippy, Jif, and Peter Pan, which typically forward contract much of their raw peanut needs.[38] In addition, approximately 300 firms use peanuts in bakery products,[39] and about 60 firms produce roasted, salted, or unsalted peanuts.

Peanut manufacturing firms range in size from small family-owned companies to large multinational food processing companies. Firms that process peanut products are typically not involved with the production of peanuts. They supply their raw material needs through brokers.

Apparent U.S. Consumption

Apparent U.S. consumption of peanuts reached a high of 3.7 billion pounds in crop year 1985/86 (table 5 and figure 2).[40] Apparent U.S. consumption declined to 2.9 billion pounds in crop year 1986/87 and then increased irregularly to an estimated 3.3 billion pounds in crop year 1990/91.

During crop years 1981/82 to 1990/91, the percentage of the peanut crop that was consumed domestically as food ranged from a low of 55 percent in crop years 1981/82 and 1985/86 to a high of 73 percent in crop year 1989/90 (figure 3). During the same period the percentage of the peanut crop that was crushed domestically for oil ranged from a low of 13 percent in crop year 1982/83 to a high of 25 percent in crop year 1988/89. U.S. consumption of peanuts for food increased by almost 9 percent from crop year 1986/87 to crop year 1990/91. More than 50 percent of the peanuts used in food products are used to make peanut butter (table 6). Salted peanuts and peanut candy account for most of the remaining uses of edible peanuts in food products.

---

[37] Many of these firms produce more than one peanut-containing product, e.g., they may roast peanuts and also manufacture peanut butter.

[38] The American Peanut Product Manufacturers, Inc., which represents the large firms that account for about one-half of domestic peanut use, has taken no position on the proceeding, Montgomery, Ala. Advertiser, Jan. 23, 1991.

[39] Approximately 1,500 firms use peanut butter in bakery goods.

[40] Apparent consumption reached 3.4 billion pounds in crop year 1976/77, largely because of a change in USDA's policy concerning the disposal of peanuts acquired by the CCC. For this crop year, the CCC could not sell peanuts for less than the loan rate plus any handling and storage costs that were incurred. This resulted in the CCC being unable to sell peanuts to the export market, domestic edible market, or crushers because the resale price was higher than the prevailing market price. In order to avoid having to store them the CCC had the peanuts crushed for oil.

Table 5
Peanuts (farmers' stock):[1] U.S. production, imports, exports, beginning stocks, principal uses, and apparent consumption, crop years 1976/77 to 1990/91

(In millions of pounds, in-shell basis)

Crop year	Production	Imports	Exports	Beginning stocks	Principal uses			Apparent consumption[3]
					Food	Crushed for oil	Other[2]	
1976/77....	3,751	1	783	1,060	1,635	1,108	666	3,409
1977/78....	3,726	1	1,025	608	1,675	487	556	2,718
1978/79....	3,989	1	1,141	581	1,759	527	521	2,807
1979/80....	3,980	1	1,057	586	1,777	571	522	2,870
1980/81....	2,301	400	503	628	1,465	446	505	2,415
1981/82....	3,982	2	576	413	1,696	573	795	3,064
1982/83....	3,440	2	681	757	1,849	342	463	2,654
1983/84....	3,295	2	774	864	1,856	387	564	2,776
1984/85....	4,406	2	860	611	1,911	625	199	2,735
1985/86....	4,123	2	1,043	1,424	2,023	812	826	3,661
1986/87....	3,697	2	663	845	2,073	514	291	2,878
1987/88....	3,616	2	618	1,003	2,071	560	539	3,170
1988/89....	3,981	2	688	833	2,254	814	217	3,285
1989/90....	3,990	2	989	843	2,312	624	216	3,145
1990/91[4]...	3,601	2	475	701	2,250	680	399	3,329

[1] The term "farmers' stock peanuts" refers to picked and threshed peanuts that have not been shelled, crushed, cleaned, or otherwise changed (except for removal of foreign material, loose shelled kernels, and excess moisture) from the form in which they are customarily marketed by producers.

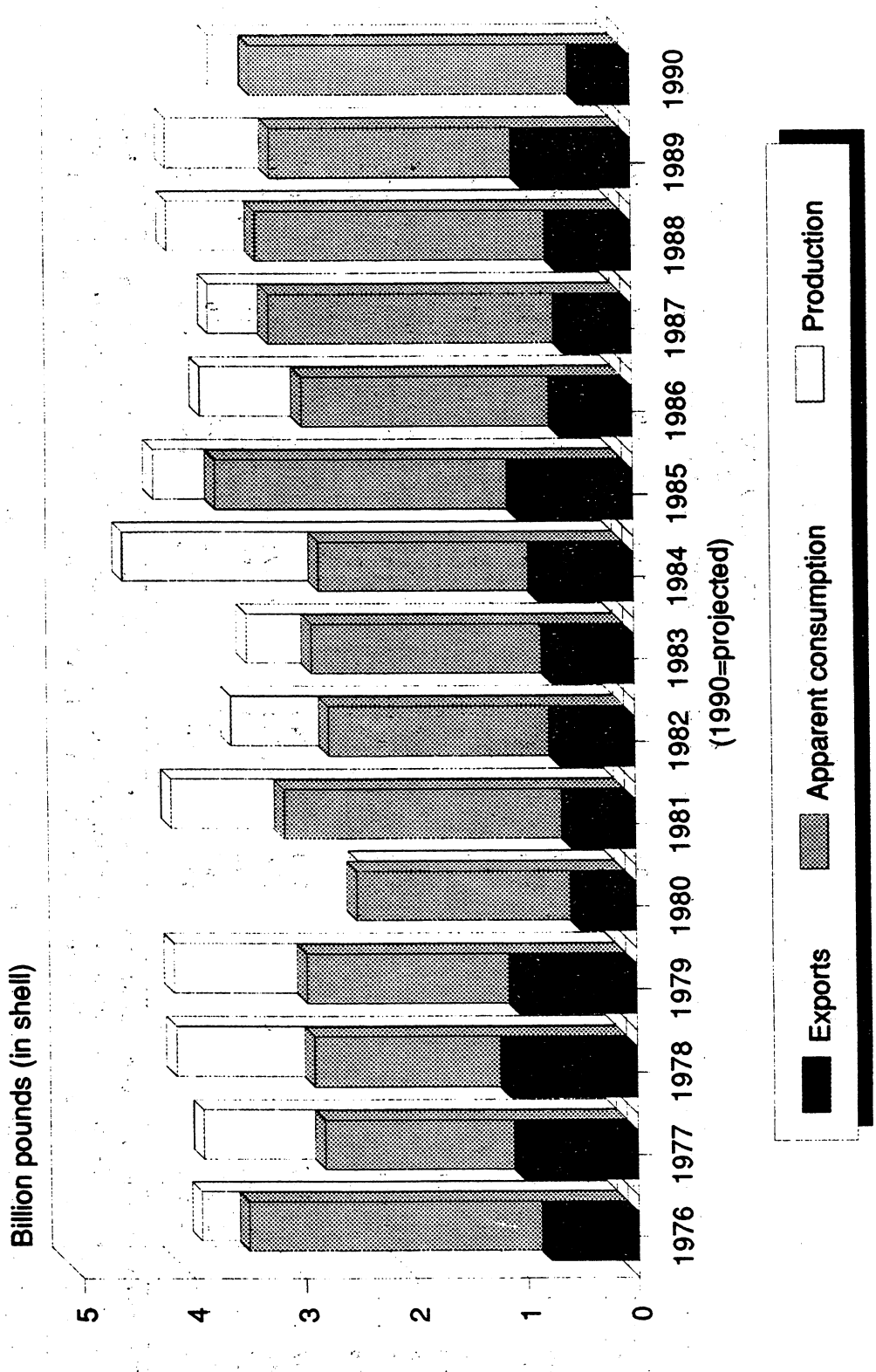
[2] Seed, loss, shrinkage, and residual (includes farm use and local sales).

[3] Computed as production + imports - exports, + change in stocks.

[4] Data are projected (ending stocks are projected at 500 million pounds).

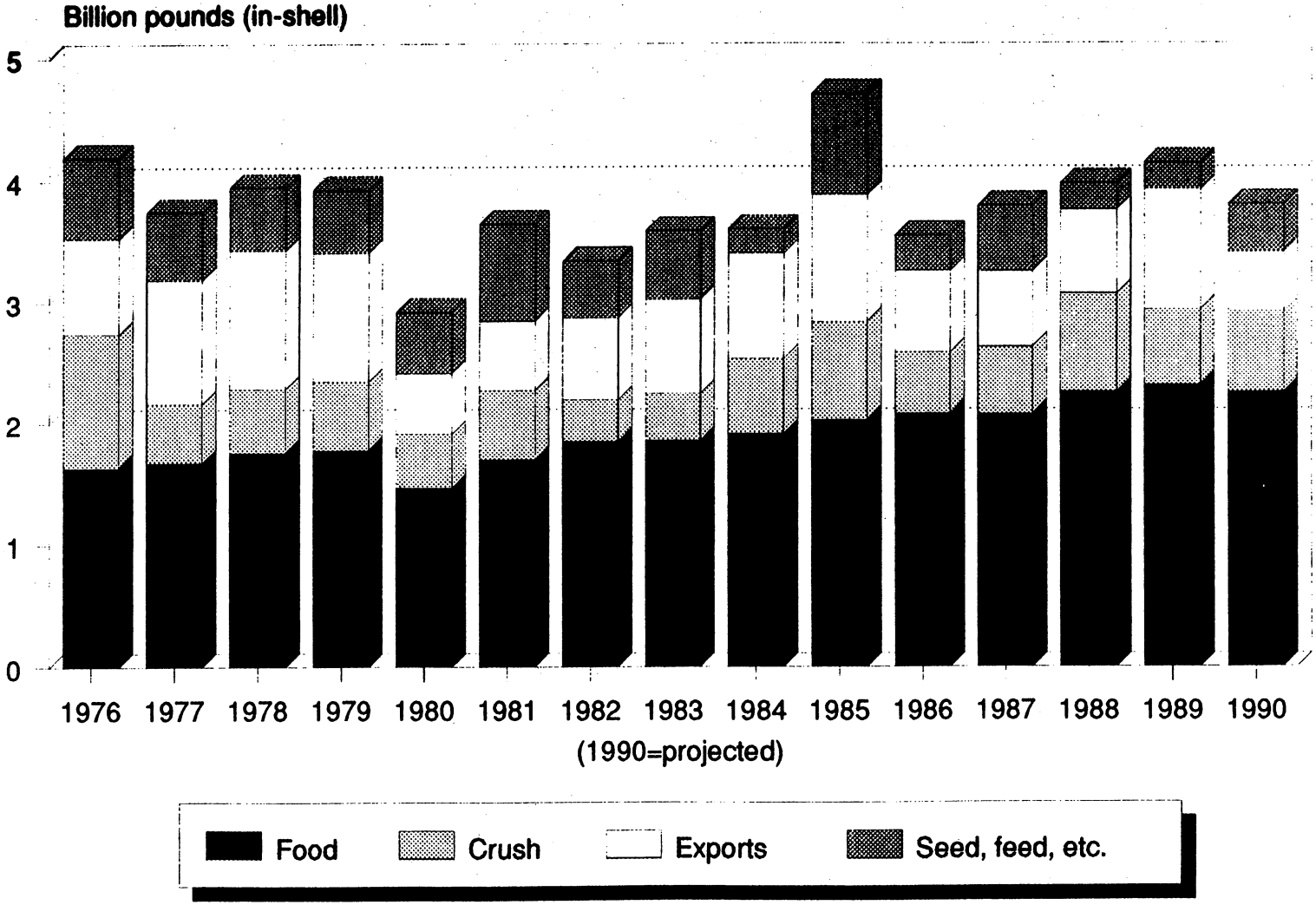
Source: Production, exports, beginning stocks, and apparent consumption compiled from official statistics of the U.S. Department of Agriculture; imports compiled from official statistics of the U.S. Department of Commerce.

Figure 2.--Peanuts: U.S. production, exports, and apparent consumption, crop years 1976/77 to 1990/91



Source: U.S. Department of Agriculture.

Figure 3.--Peanuts: U.S. use, crop years 1976/77 to 1990/91



Source: U.S. Department of Agriculture.

Table 6
Peanuts: Apparent U.S. consumption for food, by principal product types, crop years 1987/88 to 1989/90[1]

(In millions of pounds, shelled basis)

Crop year	Peanut butter[1]	Salted peanuts	Peanut candy	Other	Total
1987/88.....	747.2	373.8	325.6	37.8	1,484.4
1988/89.....	860.3	381.5	326.9	36.0	1,604.7
1989/90.....	897.3	392.8	330.2	36.7	1,657.0

[1] Includes peanut butter made by producers for use in cookies and peanut butter sandwiches but excludes peanut butter used in candy.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

The demand for edible peanuts depends primarily on food preferences, changes in population, the level of personal income, the quality of the peanuts, and the price of peanuts relative to substitute nuts, such as hazelnuts, walnuts, and almonds. Competition from other snack foods (such as pretzels) also affects demand for peanuts. Demand for peanut butter may have recently been negatively affected because the USDA has suspended its purchases of peanut butter for the school lunch program.[41] Contractors bidding to supply peanut butter to the USDA are typically smaller processors who purchase raw peanuts on an as-needed basis, i.e., they do not forward contract for peanuts. In recent months the price for prompt delivery of raw shelled edible grade peanuts almost doubled to $1.20 per pound.[42]

The quantity of peanuts going to the crush market reached 814 million pounds (approximately 219 million pounds of oil) in crop year 1988/89 because of increased demand resulting from a decline in the supply of domestically produced edible vegetable oils derived from other oilseed crops. The domestic supply of soybean oil, in particular, declined in the 1988/89 crop year owing to a drought in the Midwest, from 12,974 million pounds in 1987/88 to 11,768 million pounds in 1988/89. In addition, demand for high protein peanut meal, a co-product of peanut oil production, was high in that same year because of the reduced supply of soybean meal. The crush of peanuts in the 1989/90 crop year declined to levels that were prevalent in the 1984/85, 1986/87, and 1987/88 crop years. The decreased demand for peanuts for crushing in 1989/90 reflects the high premium received for peanut oil in that year compared to soybean oil.

[41] In December 1990, the Child Nutrition Programs, which include the National School Lunch Program and the Nutrition Program for the Elderly, accepted cheese as an alternative to peanut butter. In February 1991, the Emergency Food Assistance Program replaced peanut butter with an estimated 40 million pounds of cheese; USDA's posthearing brief, Attachment.

[42] As the price of peanuts rises, chicken and tuna salad and luncheon meats and cheese may be substituted for peanut butter. The drought increased the price of peanut butter while the average price of processed cheese dropped; TR, pp. 36-37, and USDA's posthearing brief, p. 17.

The demand for peanut oil will probably be negatively affected in the 1990/91 crop year because of high prices resulting from the reduced domestic output of peanuts. Although the quantity of nonedible peanuts will be greater in the 1990/91 crop, there will most likely be no diversion of edible grade peanuts to the crush market as has occurred in some years.

U.S. Production

U.S. production of peanuts decreased from 4.0 billion pounds in crop year 1981/82 to 3.3 billion pounds in crop year 1983/84 and then increased to 4.4 billion pounds in crop year 1984/85 (table 5 and figure 2). U.S. production then decreased gradually to 3.6 billion pounds in crop year 1987/88 before increasing to 4.0 billion pounds in crop years 1988/89 and 1989/90. U.S. production of peanuts fell to 3.6 billion pounds in crop year 1990/91, a decrease of 9.7 percent from the level of production in crop year 1989/90;[43] however, this is an increase of 56.5 percent compared with production in crop year 1980/81, when 300 million pounds (shelled basis) of imported peanuts were authorized by the President.

Production of peanuts in the Southeast region totaled 2.0 billion pounds in crop year 1990/91, a decrease of 24.7 percent from the level of production last year, despite an increase in the acreage harvested (table 7 and figure 4). The reduced yields in crop year 1990/91 resulted from a drought in the Southeast, which was most severe in Georgia,[44] Alabama, and Florida, three main producing States in the Southeast region (figure 5), and from an increase in the quantity of peanuts infected with aflatoxin, rendering them unusable as edible nuts.[45] During crop years 1988/89 and 1989/90, the Southeast accounted for 66 percent of U.S. production.

Weather conditions in the Southwest and the Virginia-Carolina regions were more favorable during crop year 1990/91, allowing production to increase by 12 percent and 27 percent, respectively, over the previous year. During crop year 1990/91, the Southwest and the Virginia-Carolina regions accounted for 23 percent and 22 percent, respectively, of U.S. output.

---

[43] Since carryover stocks were low, total peanut supplies are off 11.1 percent in 1990/91 compared with the 1989/90 level; TR, p. 80.

[44] Georgia is the largest peanut-producing State in the Southeast region. In 1989 Georgia produced 1.8 billion pounds of peanuts on 685,000 acres (2,700 pounds per acre). Because of the drought, Georgia's 1990 production was 1.3 billion pounds of peanuts on 765,000 acres (1,700 pounds per acre).

[45] Segregation 3 peanuts accounted for 9.9 percent of the 1990/91 crop because of aflatoxin contamination. Typically, only 0.5 percent of the crop is graded as Segregation 3; TR, p. 25. The Peanut Administrative Committee in Atlanta, GA, estimated that 36 percent of the Southeastern Segregation 1 peanut lots were testing positive for aflatoxin; TR, p. 114.

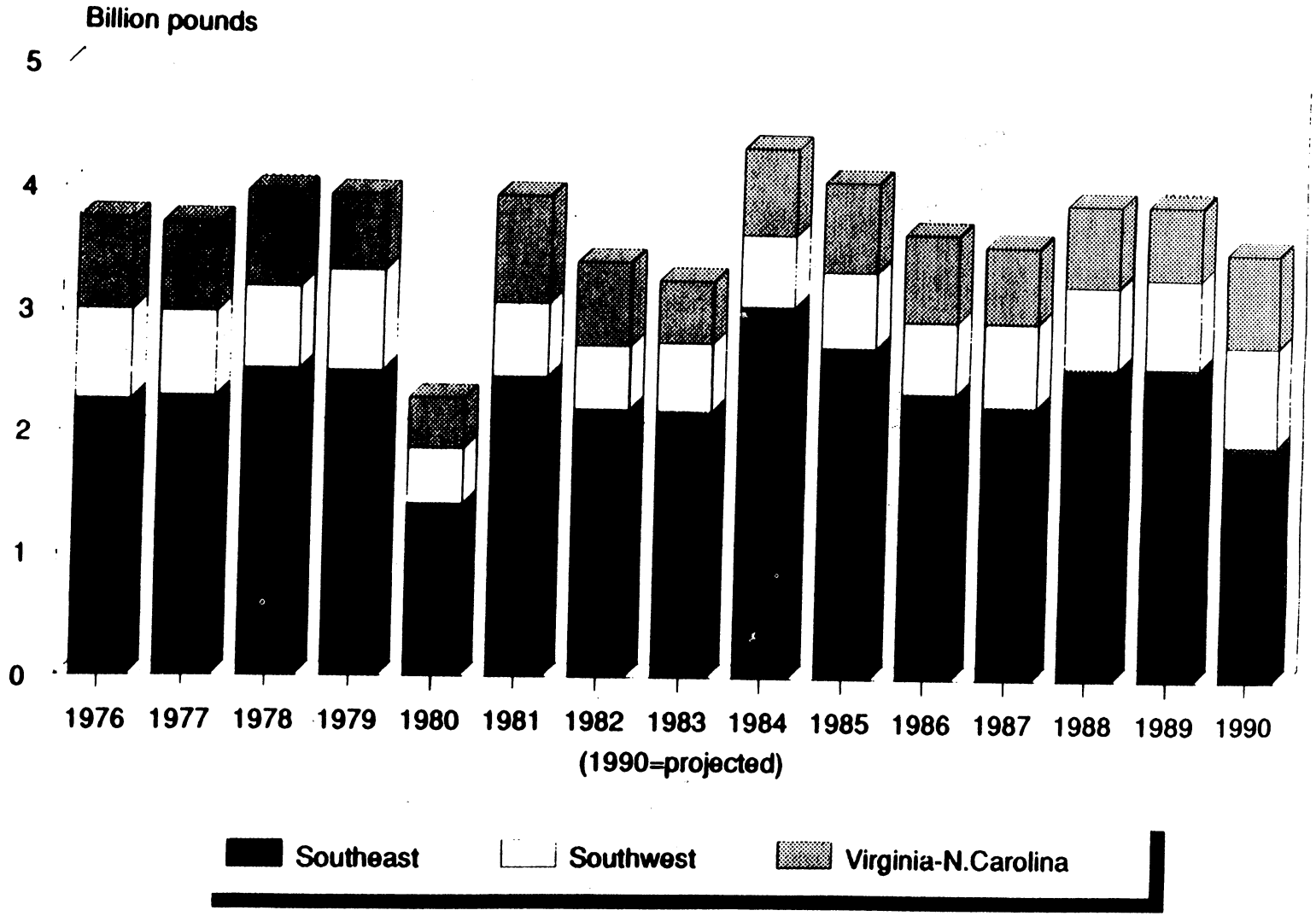
Table 7
Peanuts: U.S. production, harvested acreage, and yield, by regions,[1] crop years 1988/89 to 1990/91

Region	1988/89	1989/90	1990/91
	Production (million pounds, in-shell basis)		
Southeast	2,623.9	2,634.6	1,984.7
Southwest	673.1	739.1	832.2
Virginia-Carolina	683.9	616.3	784.5
Total	3,980.9	3,990.0	3,601.4
	Share of total production (percent)		
Southeast	65.9	66.0	55.1
Southwest	16.9	18.5	23.1
Virginia-Carolina	17.2	15.5	21.8
Total	100.0	100.0	100.0
	Harvested acreage (1,000 acres)		
Southeast	1,024.0	1,023.5	1,126.5
Southwest	360.4	378.2	413.0
Virginia-Carolina	244.0	243.0	261.0
Total	1,628.4	1,644.7	1,800.5
	Yield (pounds per acre)		
Southeast	2,562	2,574	1,762
Southwest	1,868	1,954	2,015
Virginia-Carolina	2,803	2,536	3,006
Total	2,445	2,426	2,000

[1] The Southeast region includes Alabama, Florida, Georgia, and South Carolina; the Southwest region includes New Mexico, Oklahoma, and Texas; and the Virginia-Carolina region includes Virginia and North Carolina.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

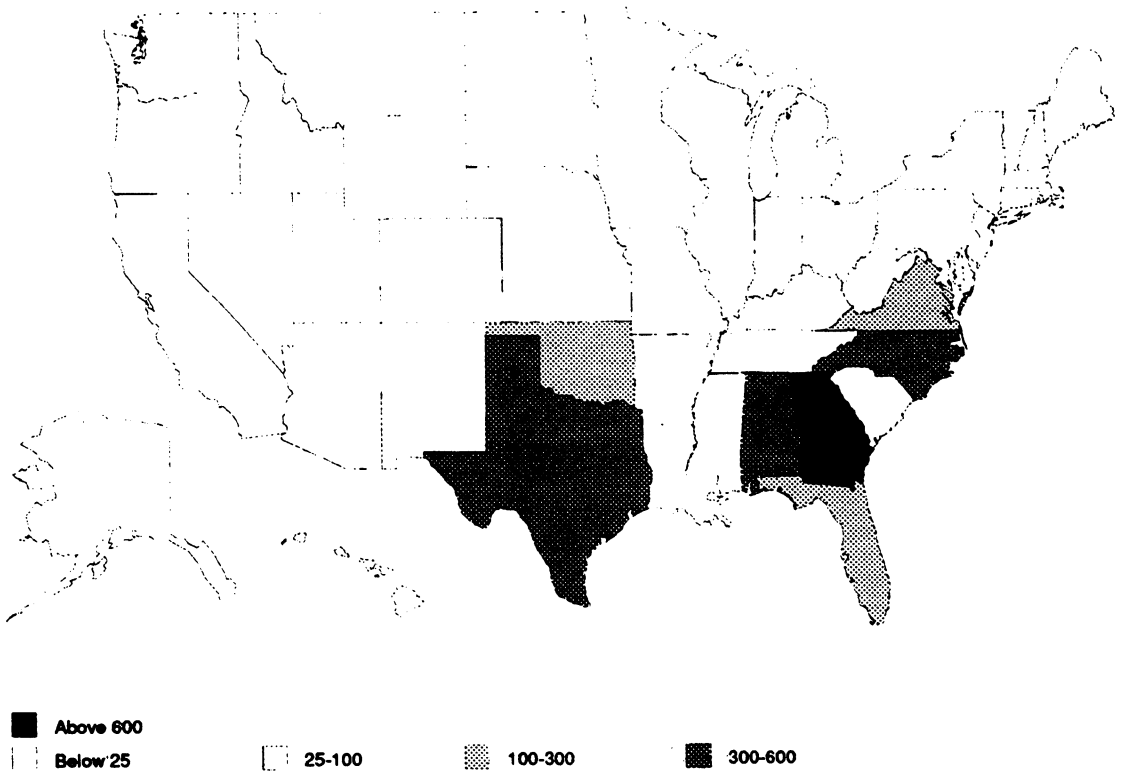
Figure 4.--Peanuts: U.S. production, by regions, crop years 1976-90



Source: U.S. Department of Agriculture.

Figure 5

Peanuts: U.S. production in 1989, by States
(In millions of pounds)



Source: U.S. Department of Agriculture

State	1989 production	
	Quantity (1,000 pounds)	Share of total (Percent)
Alabama	537,750	13.5
Florida	214,890	5.4
Georgia	1,849,500	46.3
New Mexico	43,680	1.1
North Carolina	370,120	9.3
Oklahoma	210,700	5.3
South Carolina	32,500	.8
Texas	484,700	12.1
Virginia	246,155	6.2
U.S. total	3,989,995	100.0

U.S. Stocks

U.S. beginning stocks (as of August 1) of peanuts decreased from 1.0 billion pounds in crop year 1987/88 to 833 million pounds in 1988/89 and decreased irregularly to 701 million pounds in 1990/91 (table 5). U.S. beginning stocks are projected to decline to 500 million pounds in 1991/92. Carryover stocks are stocks of peanuts the shellers and manufacturers need to allow manufacturing plants to operate from the beginning of the crop year (August 1) until the new crop becomes available. Since few peanuts are harvested until September, new crop peanuts are generally not available to processors until mid-to-late October. Therefore, carryover stocks equalling about 2.5 months of use are required to maintain operations. Applying the 2.5-month carryover standard to the forecast total use in 1990/91 shows that 793 million pounds of carryover stocks are necessary for crop year 1991/92.[46]

The carryover stocks from the 1990/91 crop may be in part infected with aflatoxin, which could require numerous cleanings resulting in shrinkage. The U.S. blanching industry is currently operating at full capacity to perform the legally permitted cleaning of the contaminated peanuts.[47] This cleanup may not be completed until 6 months after new crop peanuts have started to be available.

U.S. Exports

According to official statistics of the Department of Commerce, the European Community (EC) and Canada were the largest export markets for U.S.-produced peanuts during crop years 1987/88 to 1989/90, accounting for 69 percent and 15 percent, respectively, of the total quantity of U.S. exports in those years (table 8).[48] U.S. exports of peanuts reached 371,411 tons in the 1989/90 marketing year. During the period 1987/88 to 1989/90, the U.S. share of annual world exports of peanuts increased from 22 percent in 1987/88 to 37 percent in 1989/90.

U.S. exports of shelled edible peanuts, neither blanched nor otherwise prepared or preserved, accounted for the majority of U.S. exports from 1987/88 to 1989/90 (table 9). Such exports totalled 284,126 tons, valued at $142 million in 1989/90, up by 51 percent from the 188,585 tons shipped in 1988/89. The majority of the shelled edible peanuts were shipped to the EC, followed by Canada and Japan, with relatively small amounts of unshelled peanuts also

---

[46] USDA's posthearing brief, p. 4. The Georgia Agricultural Commodity Commission estimates that a 6 week-supply, 300 million pounds of shelled peanuts, would be the necessary carryover, posthearing brief, p. 1.

[47] The blanching process normally results in a 5 to 8 percent loss of the gross weight of a lot of peanuts. Because of the high infection of the Southeast 1990 crop, the blanching process is losing from 15 to 30 percent of the lot of peanuts; TR, p. 222.

[48] According to USDA data, U.S. exports of peanuts have fluctuated substantially over the last 15 years (see table 5 and figure 2), reaching highs in crop years 1977/78 through 1979/80, 1985/86, and 1989/90.

Table 8
Peanuts: U.S. exports, by region or country of destination, crop years 1987/88 to 1989/90

(In tons, shelled basis)

Region or country	1987/88	1988/89	1989/90
European Community	162,821	173,654	259,820
Canada	33,884	39,825	54,437
Japan	18,552	21,987	22,751
Sweden	3,641	2,514	3,988
Norway	2,607	2,961	5,395
Mexico	2,448	4,562	7,841
New Zealand	2,590	3,154	2,301
Malaysia	1,447	1,519	1,781
Switzerland	639	377	991
Austria	722	262	615
Australia	656	4,432	6,271
Other	2,337	3,270	5,219
Total	232,343	258,517	371,411

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 9
Peanuts: U.S. exports by type, crop years 1987/88 to 1989/90

Crop year	Un-shelled (green)	Shelled		Prepared or preserved		Total
		For oil stock	Not for oil stock	Blanched	Not blanched	
	Tons (shelled basis)					
1987/88	28,622	7,606	168,792	21,826	5,497	232,343
1988/89	39,645	2,635	188,585	23,215	4,437	258,517
1989/90	47,493	4,696	284,126	32,560	2,536	371,411
	Value (1,000 dollars)					
1987/88	28,441	4,368	109,408	16,966	6,552	165,735
1988/89	39,419	1,697	116,747	21,423	6,826	186,113
1989/90	40,430	3,176	141,786	25,561	5,147	216,100

Source: Compiled from official statistics of the U.S. Department of Commerce.

being exported. Exports in most other major product categories also increased over the period.

The United States exported 8,427 metric tons of peanut butter in 1989/90, a 27-percent increase over 1988/89 exports of 6,613 metric tons.[49] Saudi Arabia was the destination for about 34 percent of these exports, followed by Japan (11 percent), the EC (9 percent), and Hong Kong (7 percent). The average quantity of peanut butter exported in crop years 1986/87 through 1989/90 was 6,690 metric tons. Asia, Saudi Arabia, the EC, the Caribbean, and Mexico are expected to remain as major markets for U.S. peanut butter.

U.S. Imports

Although they account for less than 0.5 percent of total U.S. consumption of edible peanuts, U.S. imports of peanuts and peanut products (including peanut butter,[50] which is not subject to quantitative import restrictions) have been increasing in recent years, from 3.5 million pounds in 1987/88 to 9.0 million pounds in 1989/90 (table 10).[51] The principal suppliers of shelled peanut imports are Singapore, China, and Malaysia.[52] U.S. imports of peanuts (excluding peanut butter but including other prepared or preserved peanuts) increased from 2.0 million pounds in 1987/88 to 3.2 million pounds in 1989/90.

Imports of peanut butter increased from 1.6 million pounds in 1987/88 to 5.9 million pounds in 1989/90. The principal suppliers of peanut butter to the United States are Argentina and Canada, with Canada more than doubling its exports between 1988/89 and 1989/90. Most of Canada's peanut butter is processed from Chinese peanuts. Imports of peanut butter from Argentina are generally in the form of a paste and must be further processed in the United States. Other minor suppliers include Malawi, China, India, and Singapore.

---

[49] USDA posthearing brief, p. 13.

[50] Imports of peanut butter are covered by item 2008.11.00.20 of the HTS. The col. 1-general rate of duty is 6.6 cents per kilogram. Imports of peanut butter from the Caribbean Basin and Israel are entered free, imports from Canada are subject to a duty rate of 4.6 cents per kilogram (Free Trade Agreement), and the col. 2 rate is 15 cents per kilogram.

[51] There are inexplicable, although minor, discrepancies between the official statistics of the U.S. Department of Commerce and the USDA regarding imports of peanuts.

[52] Because of disease concerns, U.S. imports of raw unshelled peanuts are currently prohibited from the People's Republic of China, India, Indonesia, the Ivory Coast, Japan, the Philippines, Senegal, Thailand, and Upper Volta; TR, p. 47.

Table 10
Peanuts: U.S. imports, by products and by principal sources, crop years 1987/88 to 1989/90

Item and source	1987/88	1988/89	1989/90
	Quantity (1,000 pounds)[1]		
Unshelled peanuts:			
Singapore	499	513	47
China	102	0	0
Mexico	9	0	0
All other	3	0	7
Total	613	513	54
Shelled peanuts, not roasted or otherwise prepared or preserved:			
China	559	273	1,151
Singapore	204	135	142
Malaysia	182	52	37
Argentina	0	294	79
All other	124	233	69
Total	1,070	986	1,478
Prepared or preserved peanuts:			
Peanut butter:			
Argentina	1,140	2,098	2,161
Canada	283	1,532	3,654
Singapore	0	35	21
China	0	154	37
All other	167	0	0
Total	1,590	3,819	5,873
Other:			
Singapore	163	127	185
China	46	173	424
Malaysia	31	41	722
All other	28	255	307
Total	268	596	1,639

See footnote at end of table--

Table 10--Continued
Peanuts: U.S. imports, by products and by principal sources, crop years 1987/88 to 1989/90

Item and source	1987/88	1988/89	1989/90
	Value (1,000 dollars)		
Unshelled peanuts:			
Singapore	92	81	41
China	16	0	0
Mexico	4	0	0
All other	3	0	11
Total	115	81	52
Shelled peanuts, not roasted or otherwise prepared or preserved:			
China	299	177	582
Singapore	207	156	139
Malaysia	91	21	37
Argentina	0	111	28
All other	63	137	111
Total	660	603	897
Prepared or preserved peanuts:			
Peanut butter:			
Argentina	474	908	1,011
Canada	153	888	2,121
Singapore	0	34	24
China	0	41	24
All other	101	0	0
Total	727	1,871	3,180
Other:			
Singapore	149	145	187
China	24	99	273
Malaysia	33	46	730
All other	20	90	155
Total	226	380	1,345

[1] Quantity data are actual product weight and have not been converted to a shelled basis.

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

The World Market

World production of peanuts increased from 23.0 million tons in crop year 1987/88 to 25.6 million tons in 1988/89 and then declined to about 23.8 million tons in crop years 1989/90 and 1990/91 (table 11 and figure 6). A large production increase in India in 1988/89 was partially offset by production declines in China, Senegal, Burma, and Argentina. India is normally the largest producer of peanuts, with a dramatic increase in production of 3.5 million tons in 1988/89. India's production declined in 1989/90 to 8.5 million tons and is projected to decline to 8.0 million tons in 1990/91. India accounted for about 34 percent of world production in 1990/91.

China is the world's second largest producer, with production decreasing from 6.8 million tons in 1987/88 to 5.9 million tons in 1989/90. Production in China is projected to be 6.4 million tons in 1990/91. China accounted for about 27 percent of world production in 1990/91. The United States is the third largest producer, with production increasing from 1.8 million tons in 1987/88 to 2.0 million tons in 1989/90. U.S. production is projected to decline to 1.8 million tons in 1990/91. The United States accounted for about 7 percent of world production in 1990/91.

World exports of peanuts decreased from 1.4 million tons in 1987/88 to 1.2 million tons in 1988/89 and then increased to 1.5 million tons in 1989/90 (table 12 and figures 7 and 8). The United States and China are the leading world exporters, accounting for about one-half of annual world exports in 1987/88 through 1989/90. The majority of the peanuts exported by these countries are edible peanuts. The EC and Japan are the principal markets for these exports.

World trade in edible peanuts is affected by perceptions of quality, reliability of delivery, the supply source, and the characteristics of the peanuts. Each of these factors is evaluated by the importing country to determine from which country to source its needs. The United States has a reputation as a supplier of high quality peanuts with minimal size variation between shipments.[53] U.S. exporters are able to ship peanuts that are free of aflatoxin. The United States, as a large producer of peanuts, is able to deliver its peanuts as contracted. Most processors prefer to contract in advance in order to reduce the risk of significant price increases resulting from a shortage in the spot market. Because of wide year-to-year variability of production in many smaller peanut producing countries, processors are hesitant to source all, or even part, of their requirements from those countries.

---

[53] World demand for U.S. peanuts is influenced by the price of the peanuts and the income of the consuming countries. The supply of U.S. peanuts for the world market is also sensitive to the world price and to the availability of peanuts in the United States after domestic demand has been satisfied.

Table 11
Peanuts: World production, by specified countries, crop years 1987/88 to 1990/91

(In thousands of tons, in-shell basis)

Country	1987/88	1988/89	1989/90[1]	1990/91[2]
India	6,451	9,918	8,485	8,045
China	6,799	6,274	5,907	6,392
United States	1,807	1,990	1,995	1,800
Senegal	1,027	760	813	738
Indonesia	866	926	964	970
Burma	572	483	452	496
Argentina	496	268	408	473
Other	4,972	4,995	4,816	4,949
Total	22,990	25,614	23,840	23,863

[1] Preliminary.
[2] Projected.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 12
Peanuts: Exports by specified countries or region, crop years 1987/88 to 1990/91

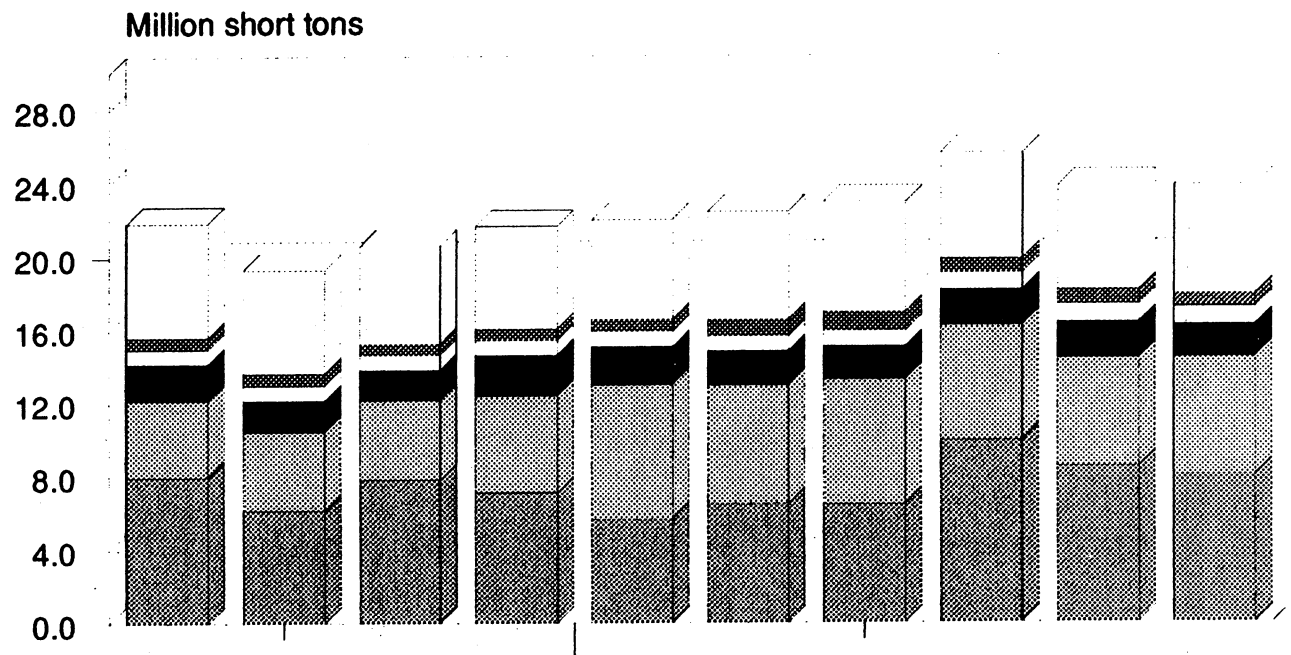
(In thousand of tons, in-shell basis)

Country or region	1987/88	1988/89	1989/90[1]	1990/91[2]
United States	309	344	495	237
China	396	272	363	413
Argentina	165	95	173	190
European Community	87	76	75	75
Other	471	456	360	406
Total	1,428	1,243	1,466	1,281

[1] Preliminary.
[2] Projected.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

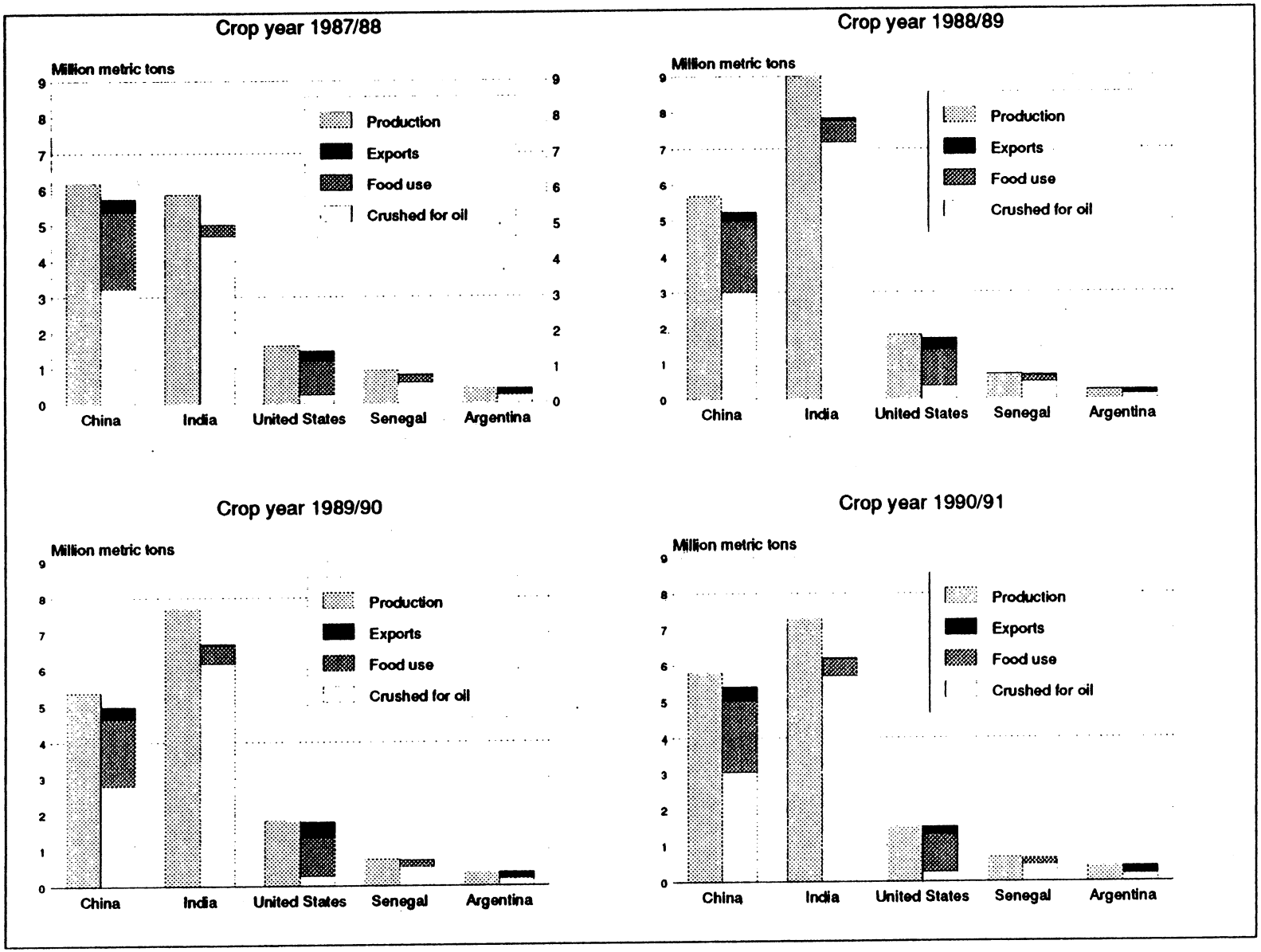
Figure 6.--Peanuts: World production, by principal countries, crop years 1981/82 to 1990/91



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	21.9	19.3	20.7	21.7	22.0	22.5	23.0	25.6	23.8	23.9
All others	6.3	5.7	5.4	5.6	5.5	5.9	6.0	5.7	5.7	5.9
Senegal	0.7	0.7	0.6	0.6	0.6	0.9	1.0	0.8	0.8	0.7
Indonesia	0.8	0.8	0.8	0.8	0.9	0.8	0.9	0.9	1.0	1.0
United States	2.0	1.7	1.6	2.2	2.1	1.8	1.8	2.0	2.0	1.8
China	4.2	4.3	4.4	5.3	7.3	6.5	6.8	6.3	5.9	6.4
India	8.0	6.1	7.8	7.1	5.6	6.5	6.5	9.9	8.5	8.0

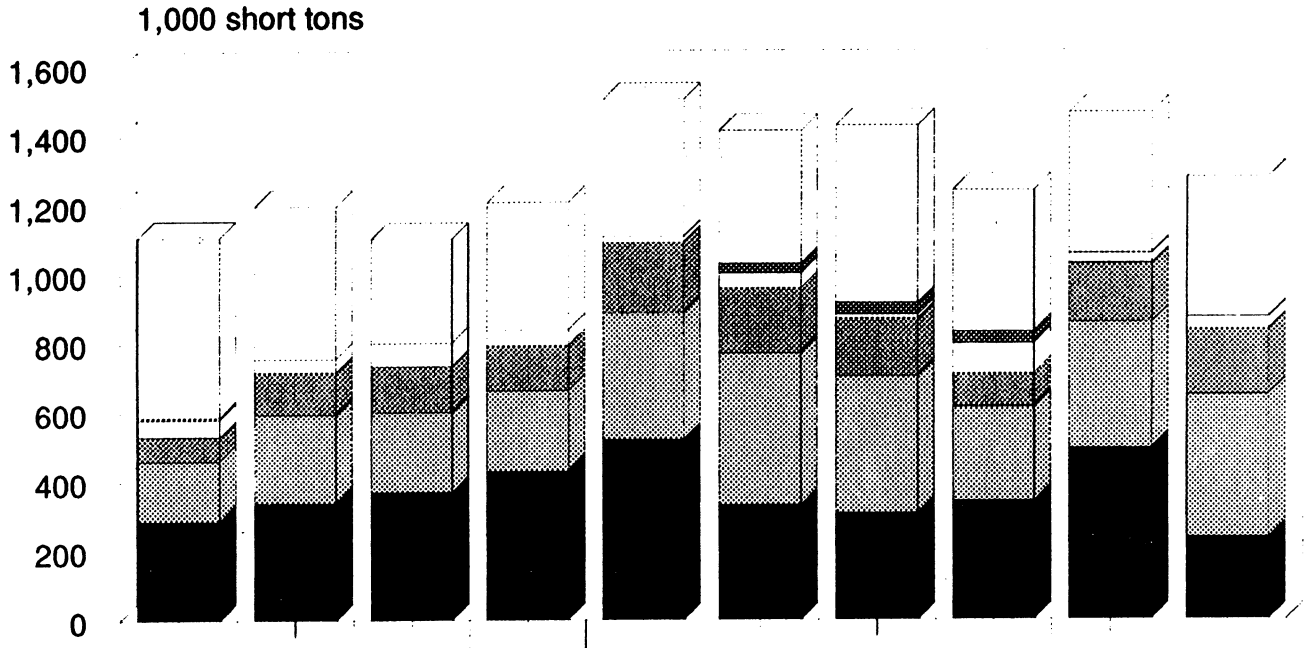
Source: U.S. Department of Agriculture.

Figure 7
Peanuts: Production and disappearance, by principal producing countries, crop years 1987/88 to 1990/91



Source: Compiled from official statistics of the U.S. Department of Agriculture.

Figure 8.--Peanuts: World exports, by principal countries, crop years 1981/82 to 1990/91



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	1,110	1,199	1,106	1,209	1,505	1,412	1,428	1,243	1,466	1,281
All others	521	442	304	371	396	382	513	411	404	405
Senegal	7	0	0	0	0	28	34	33	3	3
India	51	39	66	44	17	44	11	88	28	33
Argentina	71	122	133	129	205	187	165	95	173	190
China	173	256	230	235	366	439	396	272	363	413
United States	288	341	371	430	521	332	309	344	495	237

Source: U.S. Department of Agriculture.

Although China's production of peanuts declined from 1987/88 to 1989/90, China remained a substantial world exporter of peanuts. Peanuts are grown throughout China, although the northern Province of Shandong accounts for more than 35 percent of total production. China's production and exports declined during 1988-90, partly because of a drought in 1988; domestic consumption increased during this period.

Although India is the world's largest producer of peanuts, it accounts for a relatively small part of world trade since 90 percent or more of its peanuts are processed into peanut oil, with only a nominal amount of Hand Picked Select Grade peanuts being exported. India prohibits the importation of all oilseeds, including peanuts.

The European Community is the largest consuming region in the world that does not produce peanuts, with virtually all of its consumption supplied by imports. Consumption of peanuts in the EC is primarily as food, mostly as roasted in-shell peanuts and as shelled peanuts used in confectionery and bakery products. In the early 1980s, a drought in the United States caused a drop in its exports to the EC, resulting in significant price increases. The EC was able to fill the gap with imports of peanuts from Argentina and China.

Prices

Peanuts are sold through various channels of distribution. Farmers can place their peanuts under loan[54] to the Government through the area marketing association,[55] or they can sell directly to brokers or shellers.[56] Additional peanuts placed under loan with the Government are either exported or sold in the crush market.[57] Brokers then sell peanuts to either shellers or processors, whereas shellers sell only to processors.[58] Processors who purchase peanuts directly from brokers have to shell the peanuts themselves.

---

[54] Peanuts that are produced within a farmer's poundage quota are eligible to receive the quota support loan rate ($631.40 per ton). Any peanuts that are produced in excess of a farm's poundage quota are eligible for the lower additional loan rate ($149.75 per ton). The additional loan rate also applies to peanuts that are produced on farms that do not have a poundage quota.

[55] If the loan pool to which a farmer delivers his peanuts has a net gain after the peanuts are disposed of by the association, the farmer's share in the net gain (subject to certain offsets) is based on the proportion of the value of peanuts placed in the pool by each farmer.

[56] The USDA maintains data on the average price received by farmers. This price is an average of prices received by farmers for all types of peanuts, including quota and additional peanuts.

[57] Additional peanuts can enter the edible market through the buyback provision of the program.

[58] Because average prices received by farmers include prices for both quota and additional peanuts, prices received by shellers and processors are usually used as an indicator of market trends.

While peanuts are sold on both a contract and spot basis, most sales in the United States are made on a contract basis. Testimony at the hearing indicated that between 65 and 80 percent of quota peanuts sold in Georgia and the Virginia-North Carolina region were on a contract basis.[59] Contracts exist at two different levels in the peanut market--those between growers and shellers (or brokers) and those between shellers (or brokers) and processors. Preseason contracts are usually entered into early in the year, but this varies slightly depending on the area in which the growers are located. For example, in the Southeastern and Virginia-North Carolina regions of the United States, preseason contracts were entered into as early as January, but Southwestern region contracts did not begin until February for crop year 1990/91.[60] These preseason contracts continue on an irregular basis through the beginning of the harvest period. According to the USDA, approximately 75 percent of the peanuts for a given crop year are contracted for by the end of October and thus, are not available for spot sales. By the end of November, all but about 20 percent of the crop is under contract, and by the end of December, the percent further drops to about 5 percent.[61] Contracts usually specify the price and are usually legally binding.[62] [63] Because of this, farmers that enter preseason contracts risk receiving a lower return when prices rise during a crop year, while purchasers are at risk when they fall.

Prices for peanuts depend upon many factors. Estimates indicate that demand for peanuts tends to be price inelastic.[64] Because demand is inelastic, prices are highly sensitive to changes in supply. There are differing views on the current supply conditions in the peanut market. While USDA and peanut growers believe there are adequate supplies of peanuts for the 1990/91 crop year, processors claim that a shortage exists because of drought conditions in 1990 in the Southeastern region. An examination of average price trends and average production for crop years 1981/82 to 1990/91 indicates that prices and supply tend to move in opposite directions. Figure

---

[59] TR, p. 163.

[60] Trading of preseason contracts for crop year 1990/91 was most active in February in the Southeastern region and June in the Virginia-North Carolina region. In the Southwestern region, preseason contract trading for crop year 1990/91 began in February and continued until August.

[61] TR, p. 26.

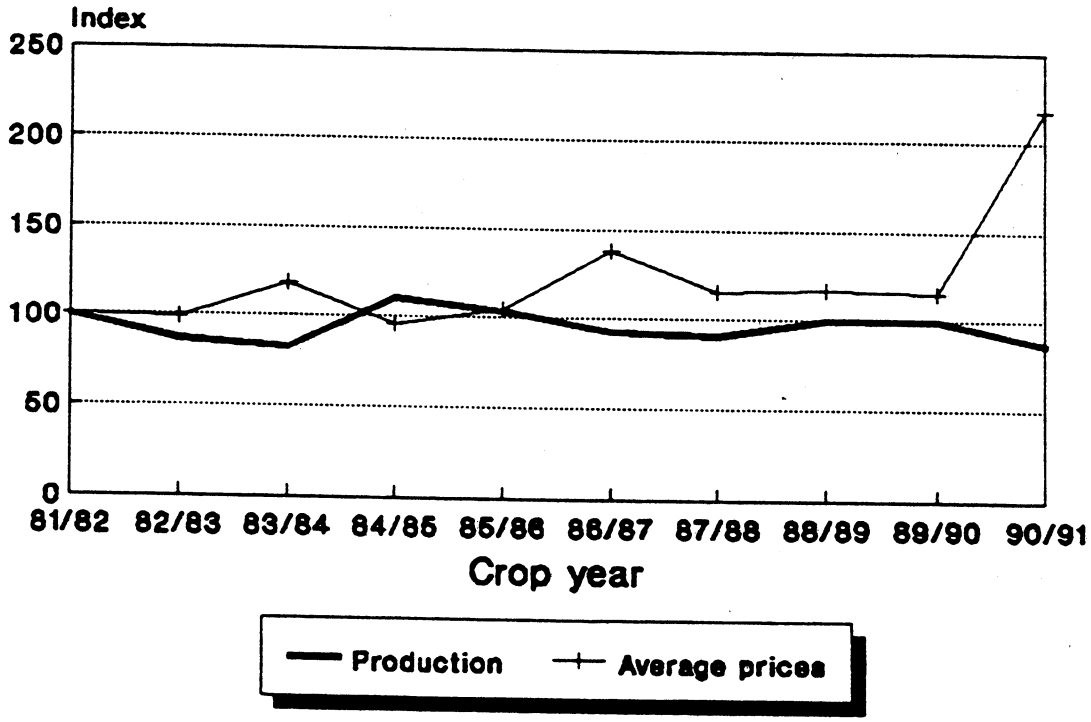
[62] The Southeastern Peanut Association reported that most of the Southeastern crop was subject to enforceable contracts, but most did not provide a firm price. These contracts provided that the sheller had the right of first refusal to buy the peanuts from the grower at the market price at the time of harvesting; posthearing brief, p. 6.

[63] In some cases, adjustments may be made to prices. For example, a witness at the hearing for McKee Baking Co. stated that it had entered into a contract for peanuts in May 1990. The prices in the contracts were 55.5 and 56 cents per pound. However, McKee ended up having to pay 90 cents per pound after its suppliers allegedly stated that if prices weren't renegotiated, they would be unable to deliver the peanuts; TR, pp. 117-18.

[64] Studies have estimated demand elasticities to be in the range of -0.12 to -0.74. See memorandum INV-O-011 (Jan. 18, 1991), for a summary of recent economic studies relating to peanuts.

9 displays an index of average U.S. peanut prices received by shellers and processors and an index of U.S. production of peanuts. When the U.S. supply of peanuts was at lower levels, prices were higher (for instance in crop years 1983/84, 1986/87, and 1990/91). The most recent crop year, 1990/91, shows a very sharp increase in prices with respect to the size of the decrease in supply, which is similar in size to the supply declines of 1983/84 and 1986/87.

Figure 9
Indexes of average peanut prices and U.S. peanut production, crop years 1981/82 to 1990/91



Index: 1981/1982 = 100.

Source: Compiled from statistics of the U.S. Department of Agriculture.

Prices for peanuts also depend upon factors such as variety, quality, and size. The several types of peanuts are distinguished by a price differential that depends upon the individual market for each. Each of the major types is also graded according to standards set by the USDA, and the price differential between grades is generally several cents per pound. Table 13 presents average f.o.b. prices received by shellers for different types of

Table 13
Peanuts: Simple average of monthly f.o.b. price per pound of cleaned and shelled peanuts, by types and by regions, crop years 1981/82 to 1990/91[1]

(Cents per pound)

Item	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91[2]
Southeastern area:[3]										
Shelled:										
Runner jumbo.....	51.2	47.6	55.9	49.5	55.7	70.1	62.1	60.3	58.0	98.7
Runner medium....	48.5	47.7	55.2	45.9	52.8	71.2	59.6	58.6	56.0	122.0
Runner No. 1.....	41.8	46.6	52.4	43.0	47.9	64.6	48.7	52.4	54.0	(4)
Runner US splits.	45.9	47.7	54.3	44.5	49.9	57.8	51.8	54.9	55.2	120.0
Virginia-North Carolina:										
Cleaned, unshelled Virginias:										
Fancy.....	43.7	42.8	63.3	36.3	41.4	54.9	58.3	47.1	45.9	69.6
Jumbo.....	46.1	44.4	63.2	42.5	42.5	59.0	58.3	52.5	50.7	72.8
Shelled Virginias:										
Extra large.....	51.3	49.2	66.2	49.3	55.7	76.8	74.1	63.7	62.1	102.6
Medium.....	49.6	44.2	58.9	47.1	53.4	74.3	65.0	58.8	60.6	102.8
No. 1.....	41.7	46.6	50.4	43.8	46.0	67.1	52.5	53.0	56.9	95.3
No. 2 with 70% splits.....	39.2	45.8	51.3	42.6	44.6	54.2	46.2	51.2	54.9	92.0
Southwestern area:[5]										
Shelled:										
Spanish jumbo....	58.6	54.5	59.8	56.2	54.7	73.8	58.5	61.4	59.2	102.3
Spanish No. 1....	54.1	52.8	58.8	55.7	52.6	76.0	57.6	59.4	56.8	101.9
Spanish US splits	52.2	48.2	54.3	46.2	47.6	65.7	51.7	56.0	55.0	125.0
Runner jumbo.....	51.7	48.7	59.2	47.4	59.3	77.3	64.0	59.8	57.7	109.8
Runner medium....	48.5	48.3	54.2	44.8	53.2	65.0	60.7	56.7	56.3	103.3
Runner US splits.	48.4	48.2	56.5	44.0	53.7	57.4	52.2	56.0	55.2	(4)

[1] These prices represent prices received by peanut shellers from peanut users and/or processors for contract and/or spot sales.
[2] These prices are a simple average of prices for the months of August-December 1990. Additional price data for peanuts sold in crop year 1990/91 are not available.
[3] Includes Georgia, Alabama, and Florida.
[4] Data not available.
[5] Includes Texas and Oklahoma.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

edible peanuts in different regions.[65] In general, prices for Spanish shelled peanuts tend to be lower than those for other shelled types, whereas shelled Virginias are generally priced slightly higher. Prices of Runner peanuts generally fall in between these two types. Although prices of all types vary on an almost daily basis, these relationships have held fairly constant for several years.

Because prices of different types of peanuts move in parallel, medium-grade Runners (in the Southeastern region) are used as a representative product.[66] Prices for medium Runner peanuts increased irregularly over the period 1981/82 to 1990/91. Prices declined slightly from 1981/82 to 1982/83 but increased significantly in the next crop year, rising 15.7 percent from 1982/83 to 1983/84. This price increase corresponds to the relatively tight supply of peanuts in crop year 1983/84.[67] Prices for medium Runners decreased 16.8 percent in 1984/85 as production of peanuts increased that year.[68] Medium Runner prices then increased over the next 2 crop years, rising 55.1 percent (from 45.9 cents per pound to 71.2 cents per pound) from 1984/85 to 1986/87.[69] Through the period 1987/88 to 1989/90, prices generally declined, reaching a level in 1989/90 that was 21.3 percent lower than in 1986/87. Available price information for crop year 1990/91 shows a dramatic increase in prices, with prices for medium Runners more than doubling from the previous crop year.

Figure 10 presents average monthly price data during 1990 for peanuts in each of the three growing regions of the United States--Southeast, Virginia-North Carolina, and Southwest.[70] Prices for all types of peanuts increased

---

[65] These prices are simple averages of monthly f.o.b. prices of peanuts. Within each crop year, prices vary from month to month. One reason for the differences in price is the fact that both spot and contract prices are included. Contract and spot prices usually vary, particularly in times of changing supply conditions. For example, in crop year 1990/91, forward contract prices agreed to before the drought were lower than spot prices that were available later in the year. Generally, in years where supplies are limited, preseason contract prices tend to be lower than spot prices. However, in years with large crops, preseason contract prices may be higher than spot prices later in the year.

[66] Runner peanuts (from all geographic regions) account for approximately 80 percent of U.S. production. Production in the Southeastern region accounted for approximately 55.5 percent of total U.S. production in crop year 1990/91.

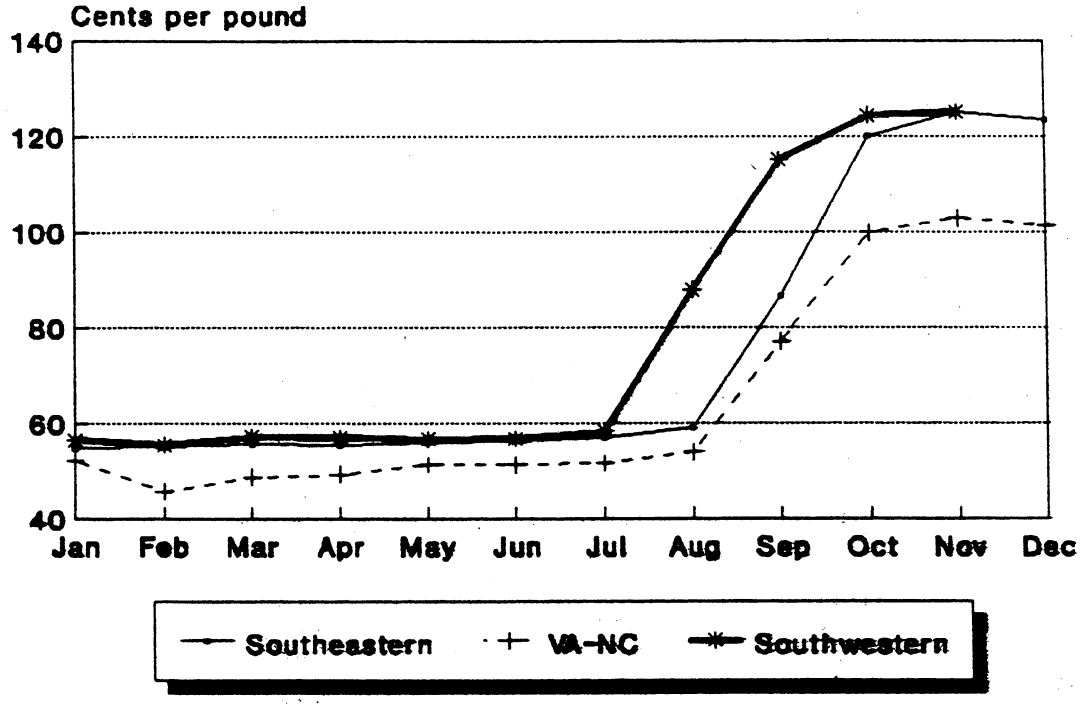
[67] U.S. peanut production was 3,295 million pounds in 1983/84 compared with 3,440 million pounds in 1982/83.

[68] U.S. peanut production increased to 4,406 million pounds in crop year 1984/85.

[69] Peanut production decreased to 3,697 million pounds in crop year 1986/87.

[70] These are simple averages of the weekly prices received by shellers for different types of peanuts within each geographic region. Prices in January-July are for 1989/90 crop year peanuts while those in August-December are for 1990/91 crop year peanuts.

Figure 10
Monthly average prices for peanuts, by geographic region, January-December 1990



Source: U.S. Department of Agriculture

dramatically from August to December 1990, rising over 100 percent. These increases coincide with the beginning of the harvesting of crop year 1990/91 peanuts; thus, the very sharp price increase was likely due to the anticipation of the shortage of peanuts caused by the drought.

Prices received by farmers

Average prices paid to farmers for peanuts have not generally deviated significantly from the price-support levels set by the USDA. Table 14 shows the relationship between the quota loan rate for edible peanuts, the non-quota rate for additionals, and the average price received by growers.[71] In general, there has been a close relationship between the quota support price and prices received by farmers. Because of this, prices received by millers and brokers have usually been used as the indicators of market trends. During the period 1982/83 to 1990/91, the quota loan rate was slightly higher than the average price received by farmers in all but 2 crop years (1984/85 and 1990/91). The largest differential between these two prices is estimated to

[71] This grower price is an average of prices received by growers for all types of peanuts, including quota and additional (nonquota) peanuts.

Table 14
Peanuts: Support prices and average prices received by growers, crop years 1982/83 to 1990/91

Crop Year	Quota loan rate	Nonquota loan rate	Average price
	(Cents per pound)		
1982/83.....	27.5	10.0	25.1
1983/84.....	27.5	9.2	24.7
1984/85.....	27.5	9.2	27.9
1985/86.....	28.0	7.4	24.4
1986/87.....	30.4	7.5	29.2
1987/88.....	30.4	7.5	28.0
1988/89.....	30.8	7.5	27.9
1989/90.....	30.8	7.5	27.9
1990/91.....	31.6	7.5	35.7[1]

[1] This number was estimated by USDA because average prices for crop year 1990/91 have not been published.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

have occurred in crop year 1990/91.[72] It appears that the shortfall in the peanut crop has enabled some farmers to obtain higher prices for the available peanuts.[73]

Prices for related products in the United States

The available data do not show a particularly strong relationship between prices of peanuts and prices of related products in the Southeastern region of the United States during January 1988-September 1990.[74] It is apparent from figure 11 that increases and decreases in prices of peanut oil and peanut meal generally occurred simultaneously until about September 1989; at that point, prices for peanut oil increased while those for peanut meal decreased.

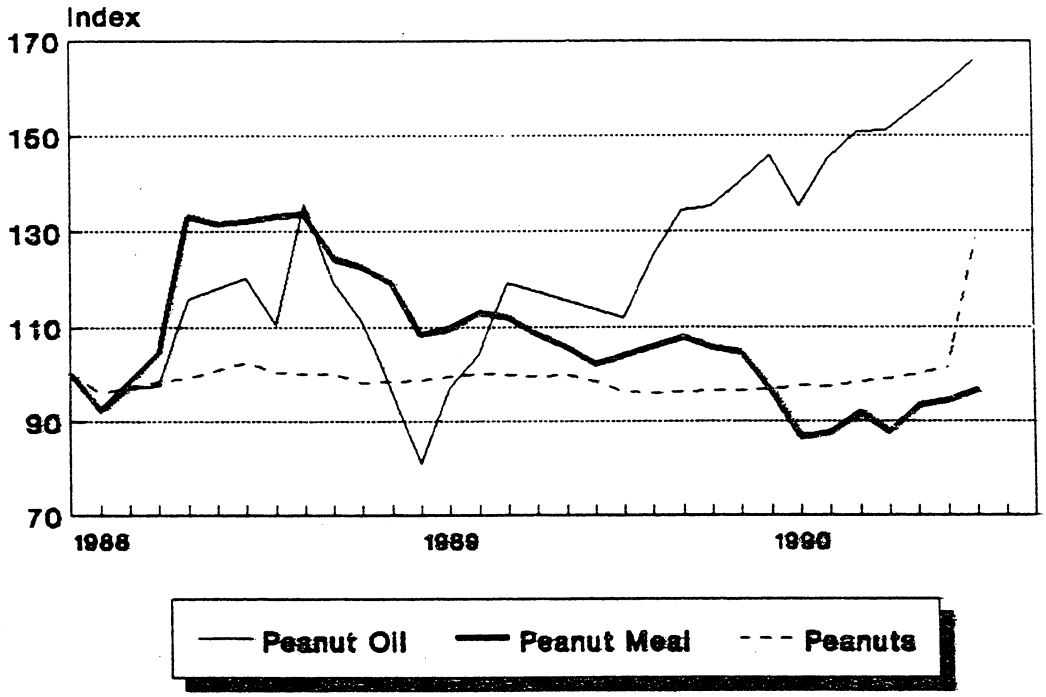
Fluctuations in the prices of peanut oil and peanut meal were generally much more volatile than movements in the price of peanuts. It is probable that peanut oil prices are influenced more by the market for competing oils, such as soybean oil, than by the price of the peanuts from which the oil is made. It is possible that when the price for peanuts to be crushed is so high that such processing is unprofitable, other oilseeds are substituted.

[72] Average prices received by farmers in 1990/91 are estimated at this time because the crop year is not complete.

[73] The average price received by farmers would include any additional money that the farmers received from the association pools for loan peanuts that the Government sold for a price higher than the applicable loan rate and any association costs.

[74] Data from the Southeastern region is presented because that area represents the largest portion of production of peanuts in the United States (i.e., 55.5 percent in crop year 1990/91).

Figure 11
Peanuts: Price indexes for peanuts, peanut oil, and peanut meal, by months, February 1988-September 1990



Index: February 1988 = 100.

Source: Compiled from statistics of the U.S. Department of Agriculture.

Prices of peanuts in the world market

Movements of foreign prices for U.S.-produced edible peanuts (c.i.f. Rotterdam) show some similarities to those for Argentine and Chinese edible peanuts (c.i.f. Rotterdam), the other major suppliers of edible peanuts to the world market. Prices for U.S. peanuts, however, have consistently been higher than those for peanuts grown in Argentina and China (see table 15 and figure 12). Prices for peanuts from all three countries declined from crop year 1983/84 to 1984/85; prices moved in somewhat different directions from 1984/85 to 1988/89 before increasing in 1989/90 and 1990/91. Prices for U.S. peanuts in Rotterdam increased irregularly until crop year 1987/88,[75] decreased in 1988/89, and then increased again in 1989/90. Prices for Argentine peanuts increased until 1986/87, declined in 1987/88 and then increased in the next 2 years. Prices for Chinese peanuts generally increased from 1985/86 to

[75] These price increases occurred during tight supply conditions in the United States. U.S. peanut production in 1986/87 was 10 percent lower than in 1985/86 and was 2 percent lower in 1987/88 than in 1986/87.

Table 15
Peanuts: Prices for U.S., Argentine, and Chinese edible peanuts (shelled basis) sold in European markets, crop years 1983/84 to 1990/91[1]

(Dollars per metric ton)

Crop year	U.S.	Argentina	China
1983/84.....	980	812	926
1984/85.....	713	582	624
1985/86.....	857	667	603
1986/87.....	836	777	669
1987/88.....	990	609	667
1988/89.....	818	733	735
1989/90.....	975	787	758
1990/91.....	2,126[2]	1,472[3]	1,376[3]

[1] Prices are c.i.f. Rotterdam.
[2] Average of prices for October-December 1990. The December value is a preliminary value.
[3] Average of prices for August-December 1990.

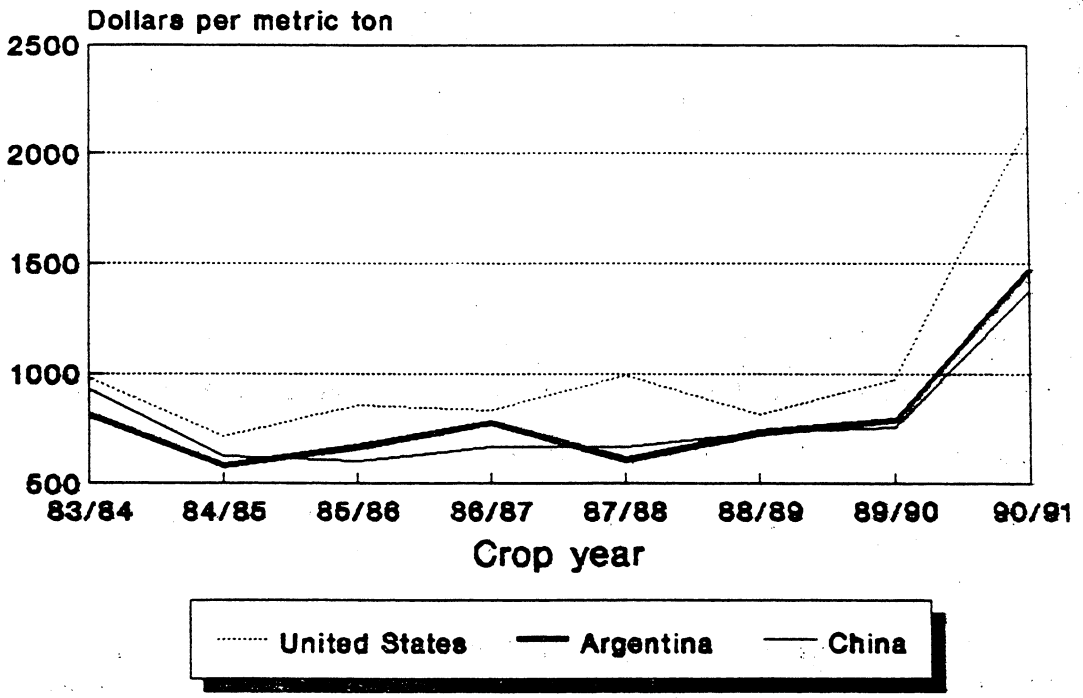
Source: Public Ledger, London, Foreign Agricultural Service, Oilseeds and Products Division

1989/90. Preliminary data for crop year 1990/91 indicate that prices for United States, Argentine, and Chinese peanuts all increased dramatically; prices for U.S. peanuts more than doubled whereas prices for Argentine and Chinese peanuts almost doubled. It appears that prices for U.S. peanuts in export markets tend to rise as U.S. supply falls and vice versa. This is because a tighter U.S. supply of peanuts leads to lower export levels.[76] The effect of U.S. supply on prices for peanuts grown in other parts of the world is less obvious; however, the supply and prices of U.S. peanuts do appear to have some effect on the prices of Argentine and Chinese peanuts, particularly in crop year 1990/91.[77]

Statements at the hearing indicate that U.S. peanuts often command a higher price in world markets because of their superior quality. Testimony and submissions by parties state that the quality of peanuts grown in other countries is lower than that of U.S peanuts. For example, testimony at the hearing also indicated that imports of raw peanuts from China and India into the United States are currently prohibited because peanuts from these countries carry the peanut stripe virus.[78]

[76] For example, U.S. exports of peanuts are projected to be 475 million pounds for crop year 1990/91, compared with 989 million pounds in 1989/90.
[77] Peanut production in both Argentina and China increased in crop year 1990/91. According to preliminary data, Argentina's production increased 15.9 percent, while China's increased 8.2 percent.
[78] These peanuts must be shelled and blanched before they can be imported; this reduces the shelf life of the peanuts; TR, p. 164.

Figure 12
Peanuts: Prices for U.S., Argentine, and Chinese edible peanuts sold in Rotterdam, by crop year, 1983/84 to 1990/91



Source: U.S. Department of Agriculture.

Probable effect of modification or suspension of quota

Testimony before the Commission at the public hearing and written submissions are mixed regarding the question of modifying or suspending the quantitative restrictions on imports of edible peanuts into the United States. USDA stated at the hearing that imports of up to 100 million pounds of edible grade peanuts (on a shelled basis) are not likely to materially interfere with USDA's price-support program. However, USDA does not recommend any increase in the import quota on peanuts. Furthermore, it believes that imports of peanuts above 100 million pounds may add significant quantities of peanuts to carryover stocks, which would adversely affect the 1991/92 marketing year.[79] According to USDA, these additional imports would displace sales of

[79] USDA estimates that 1990/91 inventory carryover stocks will rise from 500 million pounds to between 570 million and 890 million pounds based on the various levels of additional imports. The 1991/92 inventory carryover levels are estimated to increase from 775 million pounds to 800 million pounds if additional imports (between the levels of 100-400 million) are allowed.

domestically-produced additional peanuts in the domestic edible market and, thus, could interfere with the price-support program in crop year 1991/92.[80]

USDA estimates.--USDA submitted estimates of the probable effects of allowing additional imports to enter into the U.S. market. It estimated the effects of increased imports at intervals of 100 million, 200 million, 300 million, and 400 million pounds. The critical measure, according to USDA, is the probable cost to the Government, as measured by the net realized losses to the CCC.[81] USDA reported that the loss will be approximately $6.3 million for the 1990/91 crop year if no additional peanut imports are allowed. These losses are a result of transfers of Segregation 2 and 3 peanuts against a grower's Segregation I quota level.[82] CCC operations show a $3 million surplus for crop year 1991/92 up to the level of 300 million pounds of additional imports.[83] If 400 million pounds of imports are allowed into the market, USDA estimated that the CCC will lose $4.7 million in crop year 1991/92.

In addition, USDA also estimated that the season average price for peanuts will decrease in crop year 1991/92 if additional imports are allowed. The estimated season average price in crop year 1991/92 is 31.1 cents per pound if the quota is not modified.[84] This price (for crop year 1991/92) is estimated to fall to 31.0 cents per pound with 100 million pounds of imported peanuts over the quota limit; 30.8 cents per pound with 200 million pounds of imports; 30.5 cents per pound with 300 million pounds of imports; and 30.3 cents per pound with 400 million pounds of imports. According to USDA, the season average price falls as imports increase because more peanuts will be diverted to lower value exports and crush markets, as opposed to the higher value edible market.

Other estimates.--In general, peanut growers are opposed to any modifications to the peanut program.[85] In both testimony at the hearing and in written submissions, growers stated that they believe that no shortage of

---

[80] Noncontract additional (nonquota) peanuts enter the domestic edible market through the buyback program. These noncontract additionals are put under loan, and, if a domestic buyer is willing to pay a price above the current quota loan rate for those peanuts, he brings them into the domestic edible market; TR, p. 44.

[81] CCC losses in recent years have occurred when it has had to pay the quota support price to farmers for their Segregation 2 and 3 additional peanuts that have been transferred to the quota pools. Such transfers cannot be offset by gains in the Segregation 1 quota pools.

[82] Transfers are large this year because drought conditions stress the peanut plant so that it is more susceptible to aflatoxin mold. Peanuts with visible aflatoxin mold result in peanuts being classified as Segregation 3.

[83] CCC operations show a surplus because grower association combined loan pool dividends remain positive until the 300 million pounds import level.

[84] The season average price is an average for all peanuts, quota and nonquota.

[85] See app. C for a summary of the positions of interested parties with respect to relaxation or elimination of the import quota.

peanuts exists and there is no need for additional imports. The National Peanut Growers Group estimated that the cost to USDA of allowing additional imports into the market would be $26.6 million for 100 million pounds of additional imports; $53.2 million for 200 million pounds of additional imports; $79.8 million for 300 million pounds of extra imports; and $106.4 million for 400 million pounds of added imports.[86]

On the other hand, PBNPA and two consumer advocate groups stated that a shortage does exist and that 400 million pounds of imported peanuts should be allowed into the market. The Consumer Alert Advocate Fund (CAAF) presented estimates of the effects on the peanut program of modifying or removing the quota. CAAF estimated that the price of peanuts would decrease from approximately $1,200 per ton to between $700 and $750 per ton if 400 million pounds of imports are allowed.[87] CAAF states that U.S. consumers would benefit if at least 400 million pounds of peanuts were immediately imported. In addition, CAAF states that 400 million pounds of peanuts would not cause material interference with the U.S. peanut program; however, no estimates are provided to show how the increased imports could affect the costs to USDA.

ITC staff estimates[88].--Commission staff developed a model to estimate the effects of relaxing the quota on imported peanuts in a given period. The model uses actual data for U.S. imports, consumption, and prices during crop year 1990/91 to estimate changes in the volume of imports and prices received for domestic edible peanuts that would have been observed during that period if the quota had been suspended. For the ranges of values believed to reflect likely market behavior, increased imports in 1990/91 do not result in the average domestic price for edible peanuts falling below the quota-loan rate. Because of shortages associated with a drought, prices of edible peanuts had reached relatively high levels and, although suspending the import quota in some cases resulted in decreases in domestic prices in excess of 25 percent, estimated prices of domestic edible peanuts remained above the quota-loan rate.

The implications for future years, particularly 1991/92, are also discussed, although the uncertainty of future levels of production and prices makes analysis difficult. The economic effects for 1990/91 cannot be used to predict the effects in future years of terminating the quota. In its current

---

[86] These figures were generated under the assumption that each ton of peanuts that is sold for crush instead of edible purposes results in a loss of $400 (per ton).

[87] These estimates are based on two economic studies that CAAF submitted with its prehearing and posthearing briefs. The first is entitled "The U.S. Peanut Industry, The World Market and U.S. Legislation" and was prepared by Merrill J. Bateman and Richard M. Oveson in October 1984, and the second, "The Economic Consequences of Ending the U.S. Import Quota on Peanuts" and was written by Merrill J. Bateman in May 1989.

[88] Information concerning possible alternate import-restraint programs for the peanut industry based on an auction or lottery is contained in app. E.

form, the model is not a dynamic one and thus cannot carry forward the effects of one crop year into the next.[89]

The model is a partial equilibrium model which characterizes equilibrium in the market for imported edible peanuts and domestic edible peanuts for a given crop year. It adopts the Armington assumption common to models of international trade. That is, imported peanuts are treated as imperfect substitutes for domestically produced peanuts. There is strong evidence that U.S. peanuts and those varieties produced in other countries are imperfect substitutes. Testimony at the hearing and submissions from interested parties indicate that U.S. peanuts are considered to be of higher quality than those grown in other parts of the world. Raw peanuts from certain countries, such as China and India, are not allowed to be imported into the United States. They must first be shelled and blanched. In the European market, where U.S. peanuts compete directly with those of other countries, they sell at a considerable premium above rest-of-the-world prices. This is apparent in table 15 (p. A-43), where prices of U.S. peanuts are significantly higher than peanuts from both China and Argentina, especially in 1990/91.

Within the context of the model, the binding quota in the import market initially separates the price U.S. consumers pay for imports from the world price. This initial price gap is referred to as the tariff equivalent of the import quota and represents the degree of restrictiveness of the import quota. When the quota is relaxed, the price U.S. consumers pay and the world price must converge; thus, world prices for peanuts will rise while the price consumers would pay for imports will fall.[90] As the consumption price of imports falls, consumers substitute the now relatively cheaper import good for the domestic good. In the market for domestically produced edible peanuts, this effect can be represented by a shift to the left of the demand curve for such peanuts (a reduction in demand for domestic peanuts), resulting in a reduction in the price of domestically produced edible peanuts. The extent of this price reduction depends crucially on the degree of substitution between imported and domestic peanuts.[91] If imported peanuts and domestic peanuts are close substitutes, then relaxing the import quota will reduce the price of domestic edible peanuts by more than it would if imports were less

---

[89] Inventory adjustment is one example.

[90] For modeling purposes, whether the world price changes is an important consideration referred to as the small country/large country assumption. If the United States is relatively "large" in world markets, the world price would rise, i.e., the United States influences world prices by how much it purchases. If the United States is "small" in world markets, its purchases would not affect world prices. While the United States possibly influences world peanut prices because of the volume of its purchases, we do not know the extent of this influence and cannot incorporate it in the model. Therefore, we have adopted the small country case and held the world price constant. Holding the world price constant results in larger increases in imports and decreases in U.S. prices than if world prices had increased. Thus, the results presented in tables 16-24 overstate the effects of suspending the quota.

[91] The elasticity of substitution is denoted by the symbol σ.

substitutable for domestic peanuts. A new equilibrium will be achieved when prices are established in both markets such that quantity demanded equals quantity supplied at those prices. In effect, the less substitutable imported peanuts are for domestic peanuts, the smaller the imports, and the less domestic prices will fall. The details of the model are presented in appendix F.[92]

In interpreting the results from this model, it is important to keep in mind some important features of the model. First, the model is an equilibrium model and, therefore, describes the behavior of markets which clear over a 1 year period of adjustment. Second, the model is a static one; it describes the effects on the peanut market based on the data of a particular crop year. However, the results presented here do provide a reasonable estimate of the relative effects of relaxing the quota. Third, the experiments performed with the model are comparative static experiments. The analysis begins with both the import market and the domestic market in equilibrium. From here, a parameter is altered, such as removing the import quota, and the new equilibrium is computed. The analysis then determines the answer to the question: How does the new equilibrium compare to the initial equilibrium?

Model parameterization.--The model requires a number of initial parameter values which measure the fundamental underlying characteristics of the market. Because these parameters cannot be known with certainty, ranges are specified. First, the model requires a value for the uncompensated own price elasticity of demand for peanuts. We use estimates ranging from -0.25 to -0.7. These estimates are in the range of those reported in the literature.[93] Second, the degree of substitution between imported and domestic peanuts is also specified as a range. We use values for the elasticity of substitution σ ranging from 3.0, which implies moderate substitutability, to 10.0, which implies high substitutability. Staff views

---

[92] The model is represented by simultaneous equations. Given values for the necessary parameters, this system is solved simultaneously to produce a "benchmark" equilibrium. Such an equilibrium will produce values for all the endogenous variables which replicate the initial data. Starting from this initial solution, a parameter is altered, namely the import quota is relaxed, and the system of equations is solved again. The resulting solution will give new values for all the endogenous variables, which can then be compared to the values for all the endogenous variables in the benchmark solution in order to determine the effect of the policy change.

[93] The elasticity value used by Rucker and Thurman in their paper: "The Economic Effects of Supply Controls: The Simple Analytics of the U.S. Peanut Program", North Carolina State University, May 1989, is -0.14, and the value used by Schaub is -0.20 (1987). In "Elasticities in the Trade Liberalization Database", U.S. Department of Agriculture, Economic Research Service, May 1989, Gardiner, Roningen, and Liu use an estimate of -0.74, but this is an estimate over 3-5 years, whereas the estimates by Rucker and Thurman and Schaub are estimates over 1 year. Adjusting the lowest value of -0.14 for current (crop year 1990/91) price levels results in a demand elasticity of -0.25, which is used as a lower bound. An elasticity of -0.7 is used as an upper bound.

an elasticity of substitution of 10 as an upper bound since imports are widely considered to be imperfect substitutes for domestic peanuts, as witnessed by the fact that the United States simultaneously imports and exports peanuts. Also, the model requires a value for the tariff equivalent, which indicates the degree of restrictiveness of the quota. We use an initial value of 50 percent, but provide sensitivity analysis on this parameter as well by analyzing a range between 25 percent and 100 percent.[94] With respect to our assumptions about the elasticity of foreign supply, we assume that the United States cannot influence the foreign price of peanuts by the amount it purchases. As a consequence, we treat the import supply curve as infinitely elastic. If the import supply elasticity is less than infinite, and, thus, the supply curve is positively sloped, then the price and quantity effects of removing the import quota would be smaller.

Results from suspending the quota on imported peanuts in crop year 1990/91.--Results are reported for the range of values discussed above in tables 16 to 24. The elasticity of substitution between imported and domestic peanuts is a crucial parameter since it determines the elasticity of demand for imports at the initial equilibrium point. As expected, suspending the import quota would increase imports and lower the price of domestic edible peanuts. The reduction in the price of domestic edible peanuts is much smaller than the reduction in the price of imported peanuts because imported peanuts are not perfect substitutes for domestic peanuts.[95]

Even though suspending the quota on imported peanuts reduced the price of domestic edible peanuts, the reduction was not so large that the price of domestic edible peanuts fell below the 1990/91 quota-loan rate of $631 per ton under any of the assumptions presented in the tables. This would have been the principal way that relaxing the quota on imported peanuts would have increased the government's costs of the support program. In that event, the growers' associations would have had to crush edible type peanuts and thus suffer a loss, since these peanuts were placed under loan at the quota-loan rate and would have been resold at the lower crush price. The results indicate that, given the ranges assumed in this analysis about the elasticities and the size of the tariff equivalent, suspending the quota on imported peanuts would not have increased the costs of the support program. The lowest price of unshelled peanuts in the U.S. market estimated in this analysis was $668 per ton, with imports of 112.8 million pounds.

---

[94] The information necessary to compute the tariff equivalent of the quota is contradictory and sketchy at best. Price information obtained from Dwight Dehne at Nut Co. Inc., an organization of peanut dealers and brokers in Toronto, suggests that over the last 6 months, a rough average of the U.S. price for peanuts for export to the United States was $0.33 per pound, while the average U.S. domestic price for these peanuts was $0.55 per pound. This information suggests that a reasonable range of values for the tariff equivalent lies between 25 percent and 100 percent, with an actual value of 67 percent for these prices.

[95] Results for the case of perfect substitutes are discussed at the end of this section.

Table 16
Peanuts: Results for crop year 1990/91 of suspending the quota on imported unshelled peanuts, low elasticity case where $\sigma = 3.00$ and $\eta = -.25$[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+91.40	+223.00	+623.00
Quantity of imports without the quota (in millions of pounds)	4.39	7.41	16.60
Price effects:			
Percentage change in domestic unshelled peanut prices	-0.66	-1.45	-3.32
Price for domestic unshelled peanuts without the quota in dollars per ton)	899.40	892.30	875.40

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 17
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, low elasticity case where $\sigma = 5.00$ and $\eta = -.25$[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+184.40	+534.00	+1,822.90
Quantity of imports without the quota (in millions of pounds)	6.53	14.55	44.11
Price effects:			
Percentage change in domestic peanut prices	-1.38	-3.53	-9.68
Prices for domestic unshelled peanuts, without the quota in dollars per ton)	892.90	873.40	817.70

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 18
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, low elasticity case where σ = 10.00 and η = -.25[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+521.30	+1,671.30	+4,816.10
Quantity of imports without the quota (in millions of pounds)	14.25	40.63	112.77
Price effects:			
Percentage change in domestic peanut prices	-3.97	-11.10	-26.20
Prices for domestic unshelled peanuts, without the quota (in dollars per ton)	869.50	804.60	668.30

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 19
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, central elasticity case where σ = 3.00 and η = -.50[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+93.50	+230.60	+662.30
Quantity of imports without the quota (in millions of pounds)	4.44	7.58	17.50
Price effects:			
Percentage change in domestic peanut prices	-0.31	-0.68	-1.60
Domestic price without the quota (in dollars per ton)	902.60	899.20	890.90

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 20
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, central elasticity case where σ = 5.00 and η = -.50[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+194.80	+591.90	+2,291.30
Quantity of imports without the quota (in millions of pounds)	6.76	15.90	54.90
Price effects:			
Percentage change in domestic peanut prices	-0.69	-1.80	-5.70
Price for domestic unshelled peanuts without the quota in dollars per ton)	899.10	888.70	854.20

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 21
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, central elasticity case where σ = 10.00 and η = -.50[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+634.90	+2,456.10	+8,655.10
Quantity of imports without the quota (in millions of pounds)	16.90	58.60	200.80
Price effects:			
Percentage change in domestic peanut prices	-2.30	-7.80	-21.80
Prices for domestic unshelled peanuts without the quota in dollars per ton)	884.20	834.70	708.00

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 22
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, high elasticity case where $\sigma = 3.00$ and $\eta = -.70$[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+94.10	+232.90	+674.70
Quantity of imports without the quota (in millions of pounds)	4.50	7.64	17.80
Price effects:			
Percentage change in domestic peanut prices	-0.20	-0.45	-1.10
Prices for domestic unshelled peanuts without the quota (in dollars per ton)	903.50	901.30	895.70

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 23
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, high elasticity case where $\sigma = 5.00$ and $\eta = -.70$[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity effects:			
Percent change in quantity of imports	+197.90	+611.30	+2,487.00
Quantity of imports without the quota (in millions of pounds)	6.83	16.32	59.35
Price effects:			
Percentage change in domestic peanut prices	-0.48	-1.30	-4.16
Prices for domestic unshelled peanuts without the quota (in dollars per ton)	901.10	893.60	867.70

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

Table 24
Peanuts: Results for crop year 1990/91 of suspending the quota on imported peanuts, high elasticity case where σ = 10.00 and η = -.70[1]

Item	Tariff Equivalent (in percent) 25	50	100
Quantity Effects:			
Percent change in quantity of imports	+680.60	+2,887.70	+11,457.40
Quantity of imports without the quota (in millions of pounds)	17.90	68.50	265.10
Price Effects:			
Percentage change in domestic peanut prices	-1.80	-6.40	-19.60
Domestic price without the quota (in dollars per ton)	889.60	847.80	727.90

[1] These estimates are based on the initial 1990/91 crop year data: U.S. edible consumption = 2,252 million pounds (unshelled basis), average U.S. price = $905.40 per ton, import quota = 2.28 million pounds (unshelled basis), and quantity of buybacks = 137 million pounds (unshelled basis).

Source: Estimates prepared by the staff of the U.S. International Trade Commission. Data supplied by U.S. Department of Agriculture.

The posthearing submission from the USDA examined the economic effects of modifying the quota under very different assumptions about the market. It examined the effects of exogenously increasing the supply of imports to the domestic market in increments of 100 million pounds, up to a total of an additional 400 million pounds. The USDA analysis differs from the USITC staff analysis with respect to its assumptions concerning the restrictiveness of the import quota, the substitutability between imported and domestic peanuts, and the period in question.[96] The USDA analysis did not estimate the amount of imports that would enter the market in the absence of the quota since its analysis did not employ a price-gap approach. Rather, its analysis simply provides an estimate of the effects of exogenously increasing domestic supply by increasing imports in increments of 100 million pounds, and assumes that these will be sold as perfect substitutes for domestic peanuts.

The ITC staff analysis indicates that the effects of suspending the quota would be much larger if there was perfect substitutability. For

[96] Because the 1990/91 marketing year is almost complete, especially in how quota loans could be affected by falling prices, USDA allowed imports to increase in 1990/91 and in 1991/92 return to the original quota level. In its analysis, the effects of increased imports largely take place in 1991/92.

example, for perfect substitutes, a demand elasticity of -0.5, and a tariff equivalent of 50 percent, 377 million pounds of peanuts would be imported and domestic prices would have fallen by 33 percent. The maximum level of imports with perfect substitution is 790 million pounds for the upper bounds of the ranges, i.e., an elasticity of demand of -0.7 and a tariff equivalent of 100 percent.[97]

Results from suspending the quota in crop year 1991/92.--Because of the uncertainty of future market conditions, estimates of the economic effects of the entire scenario of assumptions have not been attempted for crop year 1991/92. However, estimates were prepared taking into account such key potential differences between 1990/91 and 1991/92, i.e., increased production in 1991/92 if there is no drought or other production problem and dramatically lower domestic prices.

For initial levels of domestic consumption for food use of 2,400 million pounds, a domestic price level of $700 per ton for edible peanuts,[98] substitution elasticities ranging from 3 to 5,[99] demand elasticities between -0.2 and -0.7, and tariff equivalents between 25 and 100 percent, the price of domestic peanuts would fall below the price-support level of $642 per ton to a level of $615 per ton in 1991/92 in only one instance (elasticity of substitution of 5, demand elasticity of -0.2, and a tariff equivalent of 100 percent). Staff believes that a tariff equivalent of 100 percent is larger than what would reasonably occur in 1991/92. Because the domestic price of $700 per ton in 1991/92 is much lower than the price of $905 per ton in 1990/91, the tariff equivalent would not be in the range of 100 percent but much closer to 50 percent. For a tariff equivalent of 50 percent and all other assumptions unchanged, domestic prices would fall to $667 per ton.[100]

---

[97] In addition to the fact that peanuts are not perfect substitutes, the latter example would also be impossible because imports of 790 million pounds would not be available on world markets at the approximately $350 per ton necessary to clear the U.S. market. Annual inshell prices on the world market do not appear to have fallen below $400 per ton in the last decade. Furthermore, the law does not permit the U.S. price for edible peanuts to fall below the quota-loan rate.

[98] The estimated 1991/92 crop-year data are from USDA's 1991/92 baseline data in the attachment to their posthearing submission or directly from USDA staff.

[99] Because the preferred domestic peanut is much more widely available in 1991/92 at substantially lower prices, the upper bound of the range of elasticity of substitution was lowered from 10 to 5.

[100] Under conditions of perfect substitutability and the above ranges in demand elasticities and tariff equivalents, imports would have ranged from 115 to 565 million pounds in 1991/92, and domestic prices would have ranged from $350 to $560 per ton.

APPENDIX A

THE COMMISSION'S FEDERAL REGISTER NOTICE

[Investigation No. 22-52]

Peanuts; Supplemental Investigation and Hearing

AGENCY: International Trade Commission.

ACTION: Institution of a supplemental investigation and scheduling of a hearing.

SUMMARY: The Commission instituted this supplemental investigation under section 22(d) of the Agricultural Adjustment Act, as amended (7 U.S.C. 624(d)), to determine whether the quota on imports of peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter), as set forth in subheading 9904.20.20 [1] of the Harmonized Tariff Schedule of the United States (HTS), may be suspended or terminated by the President because the circumstances requiring the current quota no longer exist, or whether the quota may be modified by the President due to changed circumstances. The current quota was imposed after it was determined that imports of peanuts were being or were practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, a program or operation of the U.S. Department of Agriculture with respect to peanuts, or to reduce substantially the amount of any product processed in the United States from peanuts. The Commission expects to transmit its report to the President together with its findings and recommendations, not later than March 22, 1991.

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 201, subparts A through E, and part 204 (19 CFR parts 201, 204).

EFFECTIVE DATE: December 3, 1990.

FOR FURTHER INFORMATION CONTACT: Valerie Newkirk (202-252-1190), Office of Investigations, or Stephen Burket (202-252-1318), Agriculture Division, Office of Industries, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired individuals can obtain information on this matter by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

SUPPLEMENTARY INFORMATION:

Background.—On October 12, 1990, the Commission received a request for an expedited hearing and investigation under section 22(d) of the Agricultural Adjustment Act of 1933 to remove entirely the restriction currently in effect on the importation of peanuts. In addition, an immediate suspension of the quota and an authorization of imports of 400 million pounds of peanuts (shelled basis) was requested pending the outcome of the investigation by the Commission. The request was filed by the Peanut Butter and Nut Processors Association, Potomac, MD, a national trade association of manufacturers of peanut butter, roasted and salted peanuts, peanut butter cracker sandwiches, and peanut bakery products.

On October 29, 1990, the Commission published in the Federal Register (55 FR 43418) a notice requesting comments concerning the Association's request for a supplemental investigation. Comments were to be filed by November 12, 1990. After reviewing the comments as well as the November 1990 crop report for peanuts, the Commission determined that there was sufficient basis for conducting a supplemental investigation.

Participation in the investigation.—Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's rules (19 CFR 201.11), not later than twenty-one (21) days after the publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Service list.—Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) of the rules (19 CFR 201.16(c)), each documen filed by a party to the investigation mu be served on all other parties to the investigation (as identified by the

[1] Subheading 9904.20.20 provides that whenever, in any 12-month period beginning August 1 in any year, an aggregate quantity of 775,189 kilograms (shelled basis) of peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter) provided for in HTS subheadings 1202.10, 1202.20, and 2008.11, has been entered, no such products may be entered during the remainder of such period. Peanuts in the shell are charged against the quota on the basis of 75 kilograms for each 100 kilograms of peanuts in the shell.

service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Hearing.—The Commission will hold a hearing in connection with this investigation beginning at 9:30 a.m. on January 22, 1991, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on January 7, 1991. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 9:30 a.m. on January 14, 1991, at the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is January 15, 1991.

Testimony at the public hearing should be limited to a nonconfidential summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs. Posthearing briefs must not exceed ten (10) pages of textual material, double spaced, on stationary measuring 8½ x 11 inches, and must be submitted not later than the close of business on January 29, 1991. In addition, the presiding official may permit persons to file answers to requests made by the Commission at the hearing within a specified time. The Secretary will not accept for filing posthearing briefs or answers which do not comply with the provisions contained in this notice.

Written submissions.—As mentioned, parties to this investigation may file prehearing and posthearing briefs by the dates shown above. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before January 29, 1991.

A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for confidential business information will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any information for which confidential treatment is desired shall be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6).

This supplemental investigation is being conducted pursuant to § 204.4 of the Commission's rules (19 CFR 204.4).

Issued: December 12, 1990.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-29700 Filed 12-18-90; 8:45 am]

BILLING CODE 7020-02-M

APPENDIX B

LIST OF WITNESSES

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject	:	PEANUTS
Inv. No.	:	22-52
Date and Time	:	January 22, 1991 - 9:30 a.m.

Sessions were held in Hearing Room 101 of the United States International Trade Commission, 500 E Street, S.W., Washington, D.C.

Congressional Appearances:

Honorable Charles Rose, U.S. Congressman, Seventh District, State of North Carolina

Honorable Charles Hatcher, U.S. Congressman, Second District, State of Georgia

Government Appearances:

U.S Department of Agriculture:

Daniel Sumner, Deputy Assistant Secretary for Economics

Leon Mears, Foreign Agricultural Service

Dallas Smith, Agricultural Stabilization and Conservation Service

Diana Wanamaker, Foreign Agricultural Service

James Schaub, Economic Research Service

Larry Lace, Agricultural Marketing Service

Jim L. Matthews, World Agriculture Outlook Board

Robert Griffin, Foreign Agricultural Service

Jeffrey Kahn, General Counsel

- more -

WITNESS AND ORGANIZATION:

Those in Support of the Request for Modification:

Peanut Butter and Nut Processors Association
Potomac, MD

James T. Hintlian, The Leavitt Corporation

John T. Ratliffe, Executive Vice President
Azar Nut Company

Jason C. Becker, Barcelona Nut Company

James E. Mack, Managing Director and General Counsel

Independent Bakers Association
Washington, D.C.

David Brooks, McKee Baking Company

Robert N. Pyle, President

National Confectioners Association
McLean, Virginia

Richard T. O'Connell, President

Consumer Alert Advocate Fund
Peoria, Illinois

Scott Pattison, Washington Representative

Consumers for World Trade
Washington, D.C.

Doreen Brown, President

- more -

WITNESS AND ORGANIZATION:

Those in Opposition to the Request for Modification:

Panel of Growers

Meyers & Associates
Washington, D.C.
On behalf of

National Peanut Growers

Thomas R. "Dell" Cotton, Jr.

Lennie P. Hinton, Jr.

Jerry L. Hamill, North Carolina Peanut Farmer

Norfleet Sugg, Executive Director,
North Carolina Peanut Growers

Larry D. Meyers--Washington Representative

Winston & Strawn
Washington, D.C.
On behalf of

The Western Peanut Grower's Association
(Peanut Producers of West Texas)

Robert M. Bor)--OF COUNSEL

Georgia Agricultural Commodity Commission
for Peanuts
Tifton, Georgia

Don Koehler, Executive Director
Georgia Peanut Commission

- more -

WITNESS AND ORGANIZATION:

Panel of Shellers

Virginia-Carolina Peanut Association
Suffolk, Virginia

Hal Burns, Vice President

Watson, Spence, Lowe and Chambless
Albany, Georgia
On behalf of

Southeastern Peanut Association
Albany, Georgia

John T. Powell, Executive Director

Evans J. Plowden, Jr.)--OF COUNSEL

Southwestern Peanut Shellers Association
Dallas, Texas

Max Grice, Birdsong Peanuts, and
Board of Directors

Syd Reagan, General Counsel

- end -

APPENDIX C

SUMMARY OF THE POSITIONS TAKEN BY THE PRINCIPAL INTERESTED PARTIES

USDA recommends that the import quota on peanuts not be suspended or modified as the supply of peanuts in crop year 1990/91 is tight but sufficient to meet the needs of the U.S. market. In its posthearing brief (pp. 18-20 and attachment) USDA attempted to quantify the probable effects of increasing imports of peanuts at increments of 100 million pounds (from 100 million to 400 million pounds). USDA determined that importation of an additional 100 million pounds of edible peanuts would not materially interfere with USDA's price support program for peanuts but did not recommend such a modification.

Honorable Charles Rose, U.S. Congressman, Seventh District, North Carolina opposes any termination, suspension, or modification of the quota on imports of peanuts because the domestic supply is adequate and any modification of the quota would materially interfere with the operation of the peanut program.

Honorable Charles Hatcher, U.S. Congressman, Second District, Georgia opposes any action to increase imports of peanuts because "the domestic supply is adequate, the quality of foreign peanuts is inferior to the U.S. grown peanut, and the potential cost to the government by disrupting the current marketing system."

The Peanut Butter and Nut Processors Association (the petitioner) contends that "the Section 22 import restriction on peanuts should be terminated in its entirety inasmuch as imports would not be practically certain to cause material interference with the peanut program and it should not be reinstated unless and until such time as the USDA demonstrates to the Commission and to the President that imported peanuts either are actually interfering with (the program) or are practically certain to cause material interference." If the Commission recommends either unrestricted importation or a specified quantitative amount, the cutoff date should be July 31, 1991.

National Confectioners Association recommends an increase to the quota of 300 million pounds on a shelled basis because of a shortage in this year's crop. "Even if 300 million pounds are imported over the next six months, total U.S. supplies would be off by about 7 percent." They also support a total suspension of the quota restriction.

The Leavitt Corporation (a manufacturer of peanut butter) contends that "there is a 280,000 ton (farmer stock basis) shortage in the 1990/91 crop because over 183,000 tons have been taken away from the edible supply due to Segregation II and III classification and because 300,000 tons are committed for export deliveries. In addition, because of the severe aflatoxin problem this year over 20 percent of the edible stock is being lost in the cleaning process which compounds the crisis. There is no doubt that we need desperately the opportunity to import peanuts during this crop year."

Azar Nut Company testified that the 1990/91 crop is 440,000 tons short of the total domestic quantity set by USDA. The USDA figures and stocks and processing figures do not reveal the amount of export peanuts that are contained within the reported or projected stocks. They recommend that the Commission "take immediate action to cause the import restrictions on peanuts to be lifted until

the imports are actually interfering with or practically certain to cause material interference with the peanut program."

Barcelona Nut Company stated "I cannot understand why a 10 percent shortfall in peanut output is what the USDA is claiming as a shortfall would result in prices doubling." The company believes that the facts "will clearly indicate that no one will be hurt by allowing 300 million pounds of imports."

Independent Bakers Association and McKee Baking Company testified that because of quality problems with this year's crop "the gross tonnage of farmer stock does not accurately reflect the quantity of usable peanuts. We are throwing away an average of 20 percent of the peanuts that we pay for . . . I urge you to eliminate all of the quantitative restrictions on the importation of peanuts at least through July 31 of 1991."

Consumers for World Trade is in support of the petition of PBNPA requesting removal of the restrictions currently in effect on imported peanuts. "It is also our view that prices well in excess of the support level are overwhelming evidence that imports can be allowed to enter without damaging the program or the welfare of the growers . . . We recommend an immediate authorization of imports of 400 million pounds of shelled peanuts."

Consumer Alert Advocate Fund "strongly urges the Commission to recommend that the U.S. peanut quota of 1.7 million pounds be immediately terminated, because the circumstances requiring the current quota no longer exist. Given current prices, peanut imports will not cause material interference with the U.S. peanut program, since peanuts now are either not available in meaningful quantities or they are exorbitantly priced. There should be no doubt that drought conditions in the Southeast along with seriously lowered quality of the U.S. peanut crop are obviously changed circumstances . . ."

National Peanut Growers Group appeared in opposition to the petition by the PBNPA to suspend Section 22(d) of the Agricultural Adjustment Act. "Our opposition is based on three factors: supplies are adequate this year; additional imports will materially interfere with the operation of the peanut program; and the inaccuracies contained in the PBNPA petition to the Commission."

Western Peanut Growers' Association "opposes the request for a suspension, termination, or modification of the import quota . . . the circumstance requiring the current quota continue to exist and any modification of the quota to permit increased quantities of peanuts to be imported will materially interfere with the peanut program of the Department of Agriculture."

Georgia Peanut Commission (representing the Georgia Agricultural Commodity Commission for Peanuts) testified that there is an adequate supply of peanuts this year with estimated carryover stocks of 206,846 tons which is an adequate supply for two months when the 1991 crop should be available in the marketplace. Demand for peanut butter and peanut products will be less this year because USDA has

drastically reduced its purchases of peanut products. For these and other reasons "we ask you to continue the import quota under Section 22 at the present level."

Virginia-Carolina Peanut Association opposes the petition filed by the PBNPA and any changes in the importing of peanuts into the United States.

Southeastern Peanut Association "strongly opposes an exemption from the Section 22 import restriction as requested by the Peanut Butter and Nut Processors Association. The end result of the 1990 crop for domestic consumption is that supplies are tight but adequate. The Southeastern growing area did suffer drought during the 1990 growing season which reduced the harvest from its normal years. The Virginia-Carolina area and the Southwestern area both enjoyed very good growing conditions which resulted in an excellent harvest."

Southwestern Peanut Shellers Association. "We strongly believe that there is no need whatsoever to increase the import quota of peanuts . . . The supply is tight but it's adequate. Based on past experience, over 95 percent of the peanuts that show up with aflatoxin and then are reprocessed, qualify and move right on into the edible market."

APPENDIX D

THE RATES OF DUTY CURRENTLY IN EFFECT FOR IMPORTS OF PEANUTS PROVIDED FOR IN THE HTS

HARMONIZED TARIFF SCHEDULE of the United States (1991)

Annotated for Statistical Reporting Purposes

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
1201.00.00		Soybeans, whether or not broken	.....	Free		4.4¢/kg
	20 1	Seeds of a kind used for sowing	kg			
	30 9	Seeds of a kind used as oil stock	kg			
	90 6	Other	kg			
1202		Peanuts (ground-nuts), not roasted or otherwise cooked, whether or not shelled or broken:				
1202.10.00	00 2	In shell 1/	kg.....	9.35¢/kg	Free (CA,E,IL)	9.35¢/kg
1202.20.00		Shelled, whether or not broken 1/	.....	6.6¢/kg	Free (CA,E,IL)	15.4¢/kg
	20 6	For use as oil stock	kg			
	40 2	Other	kg			
1203.00.00	00 3	Copra	kg.....	Free		Free
1204.00.00		Flaxseed (linseed), whether or not broken	.....	0.86¢/kg	Free (E,IL) 0.6¢/kg (CA)	2.55¢/kg
	10 0	For sowing	kg			
	20 8	For use as oil stock	kg			
	90 3	Other	kg			
1205.00.00		Rape or colza seeds, whether or not broken	.....	0.9¢/kg	Free (E,IL) 0.6¢/kg (CA)	4.4¢/kg
	10 9	For sowing	kg			
	20 7	For use as oil stock	kg			
	90 2	Other	kg			
1206.00.00		Sunflower seeds, whether or not broken	.....	Free		4.4¢/kg
	20 6	For use as oil stock	kg			
	30 4	For sowing	kg			
		Other:				
		For human use:				
	61 6	In-shell	kg			
	69 8	Other	kg			
	90 1	Other	kg			
1207		Other oil seeds and oleaginous fruits, whether or not broken:				
1207.10.00	00 7	Palm nuts and kernels	kg.....	Free		Free
1207.20.00	00 5	Cotton seeds	kg.....	0.73¢/kg	Free (CA,E,IL)	0.73¢/kg
1207.30.00	00 3	Castor beans	kg.....	Free		1.1¢/kg
1207.40.00	00 1	Sesame seeds	kg.....	Free		2.6¢/kg
1207.50.00	00 8	Mustard seeds	kg.....	Free		4.4¢/kg
1207.60.00	00 6	Safflower seeds	kg.....	Free		Free
		Other:				
1207.91.00	00 9	Poppy seeds	kg.....	0.13¢/kg	Free (A,CA,E,IL)	0.7¢/kg
1207.92.00	00 8	Shea nuts (karite nuts)	kg.....	Free		Free
1207.99.00	00 1	Other	kg.....	Free		Free
1208		Flours and meals of oil seeds or oleaginous fruits, other than those of mustard:				
1208.10.00	00 6	Of soybeans	kg.....	3%	Free (CA,E,IL)	20%
1208.90.00	00 9	Other	kg.....	3%	Free (CA,E,IL)	20%

1/ See heading 9904.20.20.

HARMONIZED TARIFF SCHEDULE of the United States (1991)

Annotated for Statistical Reporting Purposes

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
2008		Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included 1/:				
		Nuts, peanuts (ground-nuts) and other seeds, whether or not mixed together:				
2008.11.00		Peanuts (ground-nuts) 2/	.....	6.6¢/kg	Free (E,IL) 4.6¢/kg (CA)	15¢/kg
	20 1	Peanut butter	kg			
	40 7	Blanched peanuts	kg			
	60 2	Other	kg			
2008.19		Other, including mixtures:				
2008.19.10		Brazil nuts and cashews	.....	Free		10¢/kg
	20 1	Brazil nuts	kg			
	40 7	Cashews	kg			
2008.19.15	00 0	Coconuts	kg.....	4% 3/	Free (A,E,IL) 2.8% (CA)	20%
2008.19.20	00 3	Filberts	kg.....	17.6¢/kg	Free (E,IL) 12.3¢/kg (CA)	22¢/kg
2008.19.25	00 8	Pecans	kg.....	22¢/kg	Free (A,E,IL) 15.4¢/kg (CA)	22¢/kg
2008.19.30		Pignolia and pistachios	.....	2.2¢/kg	Free (A,E,IL) 1.4¢/kg (CA)	11¢/kg
	10 9	Pignolia	kg			
	20 7	Pistachios	kg			
2008.19.40	00 9	Almonds	kg.....	40.8¢/kg	Free (E,IL) 28.5¢/kg (CA)	40.8¢/kg
2008.19.50	00 6	Watermelon seeds	kg.....	10%	Free (E,IL) 7% (CA)	20%
		Other, including mixtures:				
2008.19.85	00 5	Mixtures	kg.....	28%	Free (E,IL) 19.6% (CA)	35%
2008.19.90		Other	.....	28%	Free (A,E,IL) 19.6% (CA)	35%
	10 6	Macadamia nuts	kg			
	90 9	Other	kg			
2008.20.00		Pineapples	.....	0.55¢/kg	Free (E,IL) 0.3¢/kg (CA)	4.4¢/kg
	10 2	Containing cane and/or beet sugar	kg			
	90 5	Other	kg			

1/ Imports under this heading may be subject to Federal Excise Tax (26 U.S.C. 5001 and 5041) as follows:

A) If containing distilled spirits, a tax of $12.50 per proof gallon and a proportionate tax at the like rate on all fractional parts of a proof gallon.

B) If containing wine, a tax of:

(1) 17¢ per wine gallon on still wines containing not more than 14 percent of alcohol by volume;

(2) 67¢ per wine gallon on still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume;

(3) $2.25 per wine gallon on still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume;

(4) $3.40 per wine gallon on champagne and other sparkling wines; and

(5) $2.40 per wine gallon on artificially carbonated wines.

2/ For peanuts (except peanut butter), see heading 9904.20.20.

3/ See subheading 9903.10.27.

APPENDIX E

ALTERNATIVE PROGRAMS FOR THE PEANUT INDUSTRY

Alternative programs

Because of uncertainty regarding the magnitudes of some of the economic variables used, such as the elasticity of substitution and the tariff equivalent, it is difficult to specify an exact quota level that would allow imports into the country without materially interfering with the support program. In view of this difficulty, we discuss two alternative approaches that allow the market itself to determine the appropriate level of peanut imports, taking into account the program costs. The two alternative programs, discussed below, are based on an auction for import quotas and a lottery for import quotas. Both methods for allocating import quota rights share two important features. These two features are (a) that the USDA (CCC) incur no losses from additional peanut imports, and consequently no material interference with the peanut program will exist and (b) that the question of how many tons of imported peanuts allowed into the United States be answered by the market rather than by Government decree. The main economic difference between the two methods is that the Government can earn rents under the auction system but not under the lottery method.

Auction.--The possibility of auctioning import quotas was discussed at the hearing on peanuts.[1] Commissioner Newquist asked Mr. O'Connell, the President of the National Confectioner's Association, his opinion on auctioning import quotas for 300 million pounds of peanuts and giving the proceeds to either the U.S. Treasury or the peanut program itself. Under the auction system discussed in this section, import quotas would be put up for auction, but there would be no predetermined quantity limits. Instead, it would be left to the market to establish the amount of additional imports. The operational rule for this system would be that imports are permitted as long as the marginal benefits to the Government (USDA) equal or exceed the marginal cost to the USDA.[2] The marginal benefits are the revenues earned by the Government on each import quota bid. These bids could be for units of 1, 10, 20, or 50 million pounds of peanuts. The cost from allowing additional imports is the loss to the peanut program and consists of two components. The first is the loss to the USDA resulting from the decline in domestic prices to a level below the support price or only slightly above the support price. The second is the cost of administering the auction system.[3]

The key advantage of the auction system is that it solves two problems: first, there should be no losses to the USDA; second, the amount of imported peanuts entering the country will be determined by the marketplace rather than

---

[1] TR, pp. 84-85.

[2] The economic principle of selling up to the point where marginal revenue equals marginal cost is in this case equivalent to the rule of price equaling marginal cost, since in this situation, "price = marginal revenue" if each unit auctioned is sold to a single buyer (or to several buyers at the same price).

[3] The USDA could also add any additional costs that it has not yet quantified.

by Government decree. The auction system minimizes the possibility of loss to the USDA resulting from a miscalculation regarding the appropriate amount of imported peanuts to allow into the country. The USDA would still have to estimate the potential loss to the peanut program resulting from different quantities of imported peanuts, but the issue of how many peanuts to let in would be settled in the market for import quotas. An additional outcome of this program is that the Government can earn surplus funds if the marginal revenue from the first units auctioned exceeds the marginal cost, assuming that more than one unit is put up for auction.[4] In economic terms, if the Government were to adopt the auction,[5] it would be, essentially, following a second-degree price-discrimination plan.[6]

Lottery.--Under this system, the Government would announce the price of an import quota for a particular unit of peanuts and would ask interested parties to submit their names for a lottery to determine the winner. The price for the import quota would be set equal to the cost to the USDA resulting from the additional unit of imports.[7] The USDA could continue to allocate import quotas under a lottery system as long as the additional costs to the USDA are below the price that lottery participants are willing to pay (as determined by the demand curve for import quotas). Once again, there should be no losses to the peanut program. The major difference between this method and the auction, aside from any legal issues, is that under the lottery there are no rents to the Government and accordingly, peanut importers would probably prefer it.

The above discussion is far from an exhaustive coverage of the various issues involved in auctions and lottery systems. However, the noteworthy features for the present case are that under both systems there should be no losses to the USDA and that the market will determine the amount of additional imports that enter the country. Under the current system of setting import

---

[4] This also assumes competitive conditions on the demand side in the market for import quotas.

[5] There are, of course, different types of auctions such as English, Dutch, first-price sealed-bid, and second-price sealed bid. Which of these types of auctions is optimal would depend on several factors, including the degree of risk aversion of both the seller and the bidders.

[6] Under second-degree price discrimination the seller divides output into successive batches and sells each batch for the highest price that buyers are willing to pay for that batch. (See S. Martin, Industrial Economics, 1988, p.375).

[7] The economic principle of price equaling marginal cost can be followed as long as marginal cost is not below average total cost. If ATC > MC then the Government might want to consider imposing some type of entry fee to cover average total costs. This entry fee could be for participation in the lottery or, alternatively, be based on the amount of peanuts actually imported. (The same issue also arises in the case of an auction; however, because of the possibility of the Government earning rents, it may not be as important).

limits by Government decree, additional imports are prohibited when they cause the peanut program to lose money. Under the auction and lottery methods, imports are not stopped when there is a loss, but only when the additional revenues from the auction or lottery cannot compensate for the additional loss. Additionally, in light of the uncertainty regarding the amount of peanuts that would actually be imported if import quotas were relaxed, a market solution to determine that amount may be advantageous.

APPENDIX F
ASSUMPTIONS AND METHODOLOGY USED TO ESTIMATE THE EFFECTS ON THE USDA PEANUTS PROGRAM OF A TERMINATION OR MODIFICATION OF THE EXISTING QUOTAS

This appendix describes the equations used in the staff's model to determine the effects of suspending the quota on imported peanuts. The model is partial equilibrium in nature and adopts the Armington assumption, namely, that imported peanuts are treated as imperfect substitutes for domestic peanuts. The equations are described below.

In this model, imported peanuts are imperfect substitutes for domestic edible type peanuts. The total composite consumption of peanuts for edible use Q, can be represented by equation (1):

(1) $Q = K[\delta M^{-} + (1 - \delta)D^{-}]^{-1/}$,

where M is imported peanuts, D is domestic edible peanuts, K is a constant, δ is the share of M in Q, and $= (1 - \sigma)/\sigma$, where σ is the elasticity of substitution in demand between M and D. The total composite amount of peanuts available for consumption is not just the simple addition of imports and domestic consumption, since imports and domestic edible peanuts are not perfect substitutes. Rather, it depends on both shares and the elasticity of substitution.

Total consumer expenditure on Q is given by:

(2) $P_Q Q = P_D D + P_M M$,

where P_Q is the price of the composite good Q, P_D is the price of domestic edible peanuts, and P_M is the price of imported peanuts. Consumers will choose the combination of M and D that minimizes their total expenditure for consuming a given level of Q. Specifically, minimizing equation (2) subject to equation (1) gives consumer demand for imports and domestic peanuts in ratio form:

(3) $M/D = (P_D/P_M)^{\sigma}[\delta/(1 - \delta)]^{\sigma}$

The demand for edible peanuts for all uses is specified as a constant elasticity of demand function:

(4) $Q = Q_0 (P_Q)^{n}$

where Q_0 is the initial quantity of the composite good, and n is the elasticity of demand for the composite good Q. The elasticity of demand for the composite good Q, together with the elasticity of substitution between imported and domestic peanuts σ, determines the elasticity of demand for domestic edible peanuts and imported peanuts at the initial points. As the equilibrium changes, so will the elasticity of demand for domestic peanuts.

In this study, staff assumed that the quantitative restriction on imported peanuts can be represented by an equivalent ad-valorem tariff. Accordingly, the price of imports to domestic consumers is related to the world price by the equation:

(5) $P_M = (1 + TE)P_F$

where P_F is the price of peanuts in the foreign country (world price), and TE is the tariff equivalent of the import quota. The supply of imports to the domestic market is represented by a constant elasticity of supply function:

(6) $M_S = M_{S0}(PF)^{\mu}$

where M_S is the supply of imports, M_{S0} is the initial supply of imports, and μ is the import supply elasticity. Implicit in equation (5) is the assumption that U.S. purchases of foreign peanuts will influence the foreign price, but this degree of influence can be controlled by the parameter μ. For the case where the United States can be considered "small" in the market for peanuts, μ would be infinite, implying that P_F is fixed.

The quantity of peanuts which can be imported is subject to quota restriction, therefore:

(7) $M = QUOTA$

where QUOTA is the amount of imports restricted by law. Even though the import market is restricted, the restricted demand must equal the supply of imports:

(8) $M = M_S$

In the market for domestically produced edible peanuts, we assume that the amount of edible peanuts sold on the domestic market is fixed by the domestic production quota. Therefore, we can represent supply to the domestic edible market by :

(9) $S_E = PRODQ + BB$

where PRODQ is the domestic production quota for edible peanuts, and BB is the quantity of buybacks. These buybacks comprise part of the total supply of edible peanuts to the domestic market, because they are edible-type peanuts produced in excess of an individual farmer's production quota which can be brought back into the domestic edible market.

Finally, in order for the domestic edible market to be in equilibrium, quantity demanded must equal quantity supplied:

(10) $D + INV = S_E$

where D is domestic demand for edible type peanuts and is derived in equation (3) above. Inventory demand for edible type peanuts is represented by INV and is treated as a constant.

Staff views a substitutability of 10 as an upper bound since imports are widely considered to be imperfect substitutes for domestic peanuts, as witnessed by the fact that the United States simultaneously imports and exports peanuts.