



# ERS *Report Summary*

Economic Research Service

November 2009

U.S. Department of Agriculture



This is a summary  
of an ERS report.

Find the full report at  
[www.ers.usda.gov/  
publications/eib60](http://www.ers.usda.gov/publications/eib60)

## The Post-Buyout Experience: Peanut and Tobacco Sectors Adapt to Policy Reform

Erik Dohlman, Linda Foreman, and Michelle Da Pra

When longstanding marketing quota systems were eliminated (“bought out”) in 2002 for peanuts and 2004 for tobacco, producers lost price supports and other quota system protections and were exposed more directly to a market-oriented system. Their response to new economic challenges has markedly altered industry characteristics, including farm size, crop regions, and use of risk-management tools. The study identifies the market forces that have affected the post-buyout peanut and tobacco industries and the adjustments that have ensued at the farm, regional, and domestic and foreign market levels.

### What Is the Issue?

Until the buyouts, peanuts and tobacco had been among a small group of U.S. commodities regulated through quotas that limited supply and provided price supports. These programs fostered price stability, but caused market inflexibilities that undermined the long-term viability of the quota system. The peanut and tobacco quota programs also stood in contrast to evolving U.S. farm policy, which had moved toward planting flexibility and reduced most government support tied to production of individual commodities. A central issue was how peanut and tobacco producers would adapt following the elimination of the quotas. In particular, how would the number of farms and farm scale, location, and risk management strategies be affected by lower prices and greater exposure to market risk?

### What Did the Study Find?

After the buyouts, tobacco producers no longer received financial support from Federal programs. Peanut producers became eligible for other federally funded commodity programs, but these programs provided a lower price guarantee than the quota system. Although not all ensuing changes to the peanut and tobacco sectors can be attributed to the buyouts, the quota terminations were clearly landmark events that shaped many of the structural changes that followed. Key findings of the study were:

- **Market forces guided structural changes.** Adjustments to the buyouts—largely in response to market forces—occurred rapidly, including changes in domestic and foreign demand, a movement toward larger operations in regions best adapted to production, and greater use of marketing contracts as a hedge against financial risk.

ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

[www.ers.usda.gov](http://www.ers.usda.gov)

- **Farms became fewer, but larger.** The buyouts initiated a contraction in the number of peanut and tobacco farms, with smaller operators most likely to exit. The decline in farm numbers was especially large and swift for tobacco farmers, falling by more than half in the year after the buyout, while the number of peanut farms declined by a third after several years. The remaining producers farmed more peanut and tobacco acres, operated larger farms, and are generally in as good financial condition today as the average farmer preceding the buyout. By 2007, the average peanut farm planted two-thirds more peanuts (90 additional acres) than before the 2002 buyout. The average burley tobacco farm had twice the burley acreage in 2007 that it had at the 2004 tobacco buyout (10.5 vs. 5 acres), and average flue-cured tobacco acreage increased by more than 150 percent over the same period (from 32 to 84 acres).
- **Lower prices revived demand, particularly in export markets.** Peanut prices fell by about 30 percent and tobacco prices by 20 percent shortly after the buyouts. Although peanut acreage and production initially declined in response, reduced prices stimulated domestic demand and contributed, along with a weaker dollar, to a rebound in U.S. exports and production and a sharp drop in imports. Tobacco production also fell substantially immediately after the buyout, and domestic use of U.S. tobacco leaf has remained weak. As with peanuts, however, lower prices and improved net exports have supported overall demand for U.S. tobacco leaf, particularly flue-cured tobacco.
- **Planting flexibility spurred regional shifts in production areas.** Without the geographic restrictions that the quotas placed on production, growers could farm in areas best suited to their crops, and the buyouts were followed by interstate and intrastate shifts in production regions. Peanut acreage became more concentrated in the Southeast, and every State experienced notable changes in peanut-farming areas. Flue-cured and burley tobacco became more concentrated in the two major tobacco-producing States, flue-cured in North Carolina and burley in Kentucky. For peanuts, the shifts in area have been accompanied by steady growth in national average yields, whereas tobacco yields have remained steady.
- **Effects of buyouts on quota owners' and producers' decisions were mixed.** The termination of the quota programs and the associated government support prices affected active producers differently, depending on the extent to which they owned or leased quota rights. Producers of peanuts and tobacco who owned most of their quota faced reduced cash revenues due to lower prices, and a number of them may have ceased farming those crops. Although producers who primarily leased quota rights from others also faced lower prices, their net returns—and production incentives—may have increased because they were free of the expense of renting quota. For the many quota owners who were not actively producing peanuts or tobacco, the primary impact was seeing their quota rental income replaced by a one-time cash infusion from the buyout.
- **Farmers increased their use of marketing contracts.** After the buyouts, peanut and tobacco growers faced price risks from which they had been protected by price supports and other provisions of the quota programs. As a hedge against market uncertainties, more farmers turned to marketing contracts. In 2004, 2 years after the peanut quota buyout, 79 percent of peanut farmers had entered into contracts compared with 40 percent in 2002. Similarly, in 2006, 2 years after the tobacco buyout, 71 percent of burley producers and 76 percent of flue-cured producers marketed their tobacco under contract, compared with 31 and 47 percent in 2004.

## How Was the Study Conducted?

This report draws on recent ERS reports and other literature on the peanut and tobacco buyouts, and on data drawn from the National Agricultural Statistics Service, the Agricultural Resource Management Survey (ARMS), and other data sources. The ARMS collects data on the financial conditions and production practices of farm businesses for specific years, and contains survey data on field-level production practices, farm business accounts, and farm households.