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Marketing Loans Induced Acreage Expansion in U.S. Dry Peas

The 2002 Farm Act signaled a new era within the U.S. dry edible pea and lentil industry by initiating a Federal loan program for producers. The program, known as the Marketing Loan Program, assures producers of an effective grower price not lower than the loan rate, thereby reducing market risk. Prior to the policy change, chronically low world prices, a limited domestic market, inconsistent commercial export markets, and a lack of processing and handling facilities outside of the Pacific Northwest limited dry edible pea and lentil production. The price protection offered by the marketing loan program, however, was expected to lead to rapid expansion in planted acreage for dry peas, which are a high-protein food for both humans and livestock. As anticipated, area planted to U.S. dry edible green and yellow peas soared from 206,800 acres in 2001 to a record-high 925,500 acres in 2006.

In 1997, Washington and Idaho were the top producing States, producing high-quality dry peas and lentils destined largely for food use. Dry peas were planted outside the Pacific Northwest mainly for agronomic benefits in crop rotations. By 2004, these two States were dwarfed by rapidly rising output in North Dakota and Montana. The lower cost of production (abundance of inexpensive land and ability to use standard machinery) in the upper Midwest favors production of dry peas (many of which are lower cost feed grade), while growers in Washington and Idaho enjoy consistently higher quality and easier and cheaper access to shipping channels.

To evaluate the impact of the Marketing Loan Program, ERS developed an acreage response model that operates as a system of acreage allocation decisions for dry peas and important alternative crops. Empirical analysis of data for 2003-05 indicates that marketing loans were key in the expansion of dry pea acreage in North Dakota and Montana beyond that induced by market forces.

Because the domestic dry pea food market is small (less than 1 pound per person per year) and the domestic dry pea feed market is both small and as yet undeveloped, the industry has turned to the highly competitive world market to sell much of the additional production induced by marketing loans. As a result, U.S. dry pea export volume quadrupled between 2002 and 2005. Commercial shipments to India, Spain, and Cuba have increased since the early 2000s.

Shipments to Canada from the upper Midwest have also increased due to the weaker dollar and the proximity of some U.S. growers to Canadian dry pea dealers and processors. Canada, as the leading exporter of dry peas, has expressed concern that U.S. dry pea marketing loans are trade distorting. However, ERS analysis indicates that marketing loans had negligible impacts on world dry pea prices and only minor impacts on U.S. export volume.

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This finding is drawn from . . .

The Impacts of Marketing Loans on Supply Response and World Trade for U.S. Dry Peas and Lentils, by William Lin and Gary Lucier, ERR-58, USDA, Economic Research Service, June 2008, available at: www.ers.usda.gov/publications/err58/