Peanut Provisions in the Farm Bill

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Commodity Programs and Peanuts

• The Peanut Program had its own subtitle before 2002. A supply control program commonly referred to the Peanut Quota Program was in place going as far back as the 1942.

• Peanuts became a covered commodity in the 2002 Farm Bill when the quota program was repealed.

• Peanut is included in the commodities programs of the 2014 Farm Bill.
Marketing Assistance Loan

• The Loan Program provisions remains the same:
• 9 month loan period,
• Loan Deficiency Payment (LDP) or Marketing Loan Gain (MLG) if repayment rate below the loan rate,
• No Sequestration applied to MAL.
• Peanut Storage, Handling and Associated Cost
  – No change from 2008 Farm Bill

<table>
<thead>
<tr>
<th>National Loan Rate</th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peanut</td>
<td>$355/ton</td>
<td>$355/ton</td>
</tr>
</tbody>
</table>
Payment Limits

- Payment limit per person or legal entity $125,000 for PLC, ARC, and MLG/LDP
- Loan forfeitures do not apply to MLG
- Spousal rule applies doubling to $250,000
- Equal and separate limit for peanuts
Crop Insurance

• Peanut Revenue Insurance:
  – Mandates availability for 2015 crop
  – Recently approved by FCIC of RMA

• Supplemental Coverage Option (SCO):
  – To be available for commodities enrolled in PLC
  – 65% subsidy
  – Will not be available in 2015 for Peanuts
What Are the Main Decisions for Peanuts?

1. Covered Commodity Bases: Retain or Reallocate
2. Payment Yield (for PLC): Retain or Update
3. PLC vs ARC-C vs ARC-I (Known as Producer Election)
4. SCO crop insurance (if PLC is chosen)
Base Reallocation Example

= 200 acres total
 100 acres cotton/generic base
 80 acres other bases

<table>
<thead>
<tr>
<th>Corn</th>
<th>Peanuts</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>90</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>170</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>160</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Average</td>
<td>65</td>
<td>65</td>
<td>0</td>
</tr>
</tbody>
</table>

130 Acres Planted (> available bases)
80/130 x 65 = 40 acres allocated to corn
80/130 x 65 = 40 acres allocated to peanuts

Reallocated Bases Would Be

Original Example Courtesy of Dr. Stanley Fletcher, UGA
Generic Base

• Cotton Base becomes Generic Base.
• Generic Base does not change during the life of the Farm Bill.
• Can be used on a year-to-year basis to temporary allocate to a covered commodity (excluding cotton) planted.
• A covered commodity must be planted to be eligible for any generic base allocation.
• Many peanut farms have generic base.
In 2014, assume the producer plants:
- 65 peanut acres
- 65 corn acres
- 70 cotton acres
- 200 acres total

130 acres covered commodities > 100 Generic base acres

\[
\begin{align*}
65/130 \times 100 &= 50 \text{ acres assigned to peanuts} \\
65/130 \times 100 &= 50 \text{ acres assigned to corn}
\end{align*}
\]

\[
(40 \text{ base} + 50 \text{ generic}) = 90 \text{ total peanut base acres}
\]

\[
(40 \text{ base} + 50 \text{ generic}) = 90 \text{ total corn base acres}
\]

Can have more total base than planted in a year because Crop Base (non-generic) does not have to be planted.
Opportunity to Update Yields

- PLC Payment Yield (assumed to be the CCP Yield)
- Landowner has 1-time option to update yields on a crop-by-crop, farm by farm basis.
- May retain current yield or update.
- **90% of the 2008-2012 average yield per planted acre.**

### Peanut Example

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Acres Planted</th>
<th>Yield Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>760,000</td>
<td>200</td>
<td>3,800</td>
</tr>
<tr>
<td>2009</td>
<td>410,000</td>
<td>100</td>
<td>4,100</td>
</tr>
<tr>
<td>2010</td>
<td>500,000</td>
<td>125</td>
<td>4,000</td>
</tr>
<tr>
<td>2011</td>
<td>352,500</td>
<td>75</td>
<td>4,700</td>
</tr>
<tr>
<td>2012</td>
<td>1,120,000</td>
<td>224</td>
<td>5,000</td>
</tr>
</tbody>
</table>

5-Yr Average Yield: 4,320

90% of Average Yield: **3,888**
Opportunity to Update Yields

• What if did not plant covered commodity every year?
• Exclude any crop year acreage planted was zero.

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<td>100</td>
<td>4,100</td>
</tr>
<tr>
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<td>500,000</td>
<td>125</td>
<td>4,000</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>1,120,000</td>
<td>224</td>
<td>5,000</td>
</tr>
</tbody>
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Average Yield 4,225
90% of Average Yield 3,803

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<th>Yield Per Acre</th>
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<td>100</td>
<td>4,100</td>
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<td>2011</td>
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<td>0</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>1,120,000</td>
<td>224</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Average Yield 4,550
90% of Average Yield 4,095
PLC vs ARC-C vs ARC-I
# Price Loss Coverage (PLC) Reference Price

<table>
<thead>
<tr>
<th>Crop</th>
<th>2008 Farm Bill</th>
<th>PLC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target Price</td>
<td>Effective Price</td>
</tr>
<tr>
<td>Corn</td>
<td>2.63/bu</td>
<td>2.35/bu</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>2.63/bu</td>
<td>2.28/bu</td>
</tr>
<tr>
<td>Peanuts</td>
<td>495/ton</td>
<td>459/ton</td>
</tr>
<tr>
<td>Oats</td>
<td>1.79/bu</td>
<td>1.766/bu</td>
</tr>
<tr>
<td>Rice</td>
<td>10.50/cwt</td>
<td>8.15/cwt</td>
</tr>
<tr>
<td>Soybeans</td>
<td>6.00/bu</td>
<td>5.56/bu</td>
</tr>
<tr>
<td>Wheat</td>
<td>4.17/bu</td>
<td>3.65/bu</td>
</tr>
</tbody>
</table>

PLC Payment made on 85% of Base Acres
Price Loss Coverage (PLC)

PLC Rate = Reference Price - higher of Average Market Price or Loan Rate

PLC Payment = PLC Rate x Payment Yield x Base Acres x 85%

Peanut Example:
Average Market Price = $500
Payment Yield = 3,800 (1.9 tons)
Base Acres = 100 acres

PLC Rate = $535 - higher of $500 or $355 = $35/ton

PLC Payment = $35/ton x 1.9 tons x 100 ac x 85% = $5,652.60
($56.53 per base acre)

Payment made after October 1 of the following year.
<table>
<thead>
<tr>
<th>Year</th>
<th>$/Lb</th>
<th>$/Ton</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.249</td>
<td>498</td>
</tr>
<tr>
<td>2012</td>
<td>0.301</td>
<td>602</td>
</tr>
<tr>
<td>2011</td>
<td>0.318</td>
<td>636</td>
</tr>
<tr>
<td>2010</td>
<td>0.225</td>
<td>450</td>
</tr>
<tr>
<td>2009</td>
<td>0.217</td>
<td>434</td>
</tr>
<tr>
<td>2008</td>
<td>0.23</td>
<td>460</td>
</tr>
</tbody>
</table>
Price Considerations for PLC

- $535 Reference Price applies to 85% of Base acres.
- Payment Yield less than Expected/Actual Yield.
- National Marketing Year Average Price higher than contract/cash price for runners.
- The more acres planted than base acreage, the lower the average price per ton.
- Payments not received until October 1 or later of the next year. (i.e. Oct 2015 for 2014 crop).
Overplant/Low Price PLC Example

- Georgia State Average Yield
  2008-2012 = 3,365 lbs per acre (90%)
  2012-2013 = 4,505 lbs per acre
  Difference = 1,140 lbs per acre

- Overplant peanuts
  $535 - $355 = $180 per ton
  85% x $180 = $153 per ton

- $153 x 1.6825 tons (3,365 lbs) = $257.43 per base acre
- $355 x 2.2525 tons (4,505 lbs) = $799.64 per base acre

- Total per base acre = $1057.07 or $469.29 per ton
## ARC-County, Peanut Example

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5-Year OA County Yield</td>
<td>3,872</td>
<td></td>
</tr>
<tr>
<td>5-Year OA Market Price</td>
<td>$0.2675</td>
<td>$535 per ton</td>
</tr>
<tr>
<td>Benchmark County Revenue</td>
<td>$1,036</td>
<td></td>
</tr>
<tr>
<td>86% of Benchmark Revenue</td>
<td>$891</td>
<td>ARC Guarantee</td>
</tr>
<tr>
<td>10% of Benchmark Revenue</td>
<td>$104</td>
<td>Maximum ARC Payment</td>
</tr>
<tr>
<td>Actual County Yield</td>
<td>4505</td>
<td></td>
</tr>
<tr>
<td>Higher of MYA Price or Loan Rate</td>
<td>$0.1775</td>
<td>$355 per ton</td>
</tr>
<tr>
<td>Actual County Revenue</td>
<td>$800</td>
<td></td>
</tr>
<tr>
<td>ARC Payment</td>
<td>$91</td>
<td></td>
</tr>
</tbody>
</table>

Payment received on 85% of Base Acres, not before October 1 of the following year
ARC Individual Coverage

• Not going to be an option in most cases for peanut and rice farms due to diverse crop mixes and likelihood of PLC payments.
• Lower payment factor of 65%.
ARC Issues

• In calculating the Benchmark Revenue, if the market year average price is less than the Reference Price, the Reference Price will be used.

• If the county yield per planted acre is less than 70% of the T-yield, 70% of the T-yield will be used.

• As with PLC Payment Yield, farm yield for ARC Individual must be documented/proven.

• As with PLC Payment, ARC Payment will be received not before Oct 1 after the marketing year.
Peanut Implications

• Shifts in peanut acreage have occurred since 2002.
• Base acreage and planted acres don’t line up in some states.
• Peanuts are grown in rotation with cotton.
• Generic base will allow flexibility to manage price/revenue risk base on plantings.
  – Regions with generic base will be able to temporarily assign peanut base.
Peanut Implications

• Peanut market is oversupplied.
• Expect an increase in acres and production in 2015 because of relative cost and returns to other row crops, high yields, high crop insurance price election, potential base payments.
• Long run, the boom-bust cycle of planting may moderate due to sticking to rotations with the new safety net.
Conclusions

• Program decision for peanuts will be pretty straightforward, PLC with or without SCO. Other crops will be more complicated.

• PLC will provide protection against deeper losses.

• ARC protection will eventually decline with consecutive years of low prices.

• Options updating base and yield will vary greatly on farm by farm, case by case basis because of dynamics of landowner and tenant relationships and changes.

• Growers will be looking for help in making decisions that have long term impact (life of farm bill).
Thank You
Program Participation - Georgia

• Georgia had 2,983,213 Base acres in 2009
• Heavy in Cotton and Peanut Base.
  – Cotton Base acres = 1,416,566
  – Corn Base acres = 451,580
  – Peanut Base acres = 479,411
  – Soybean Base acres = 97,507
  – Wheat Base acres = 437,878
• 40% to 50% irrigated in cotton and peanuts
• 65% to 70% irrigated in corn
• Zero ACRE contracts vs 32,512 DCP contracts.