Assessing the Farm Bill Provisions on Peanuts and Peanut Marketing

Texas Ag Forum

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Nathan Smith, PhD

Extension Economist

Agricultural and Applied Economics

Commodity Programs and Peanuts

- Prior to 2002, the Peanut Program was a subtitle in the Farm Bill. It operated as a supply control program commonly referred to as Peanut Quota. It had been in place going as far back as the 1942.
- The quota program was repealed in the 2002 Farm Bill and peanuts was added as a covered commodity.
- Peanuts is one of the 21 covered commodities included in the ARC-PLC programs of the 2014 Farm Bill.

Peanut Provisions in the 2014 Farm Bill

- Marketing Assistance Loan
- ARC-PLC Program
- Peanut Revenue Insurance: Mandated for 2015 crop year
- Supplemental Coverage Option (SCO) – 2016?
- Equal Separate Payment Limit

Marketing Assistance Loan

- The Loan Program provisions remain 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

National Loan Rate	2008	2014
Peanut	$355/ton	$355/ton

Peanut Commodity Loans

	Put Under Loan	US Production	% Put Under Loan
	Million tons		
2012	2.640	3.371	78.3%
2013	1.455	2.087	78.3%
2014	2.121	2.605	78.3%

Main Decisions for Peanuts?

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

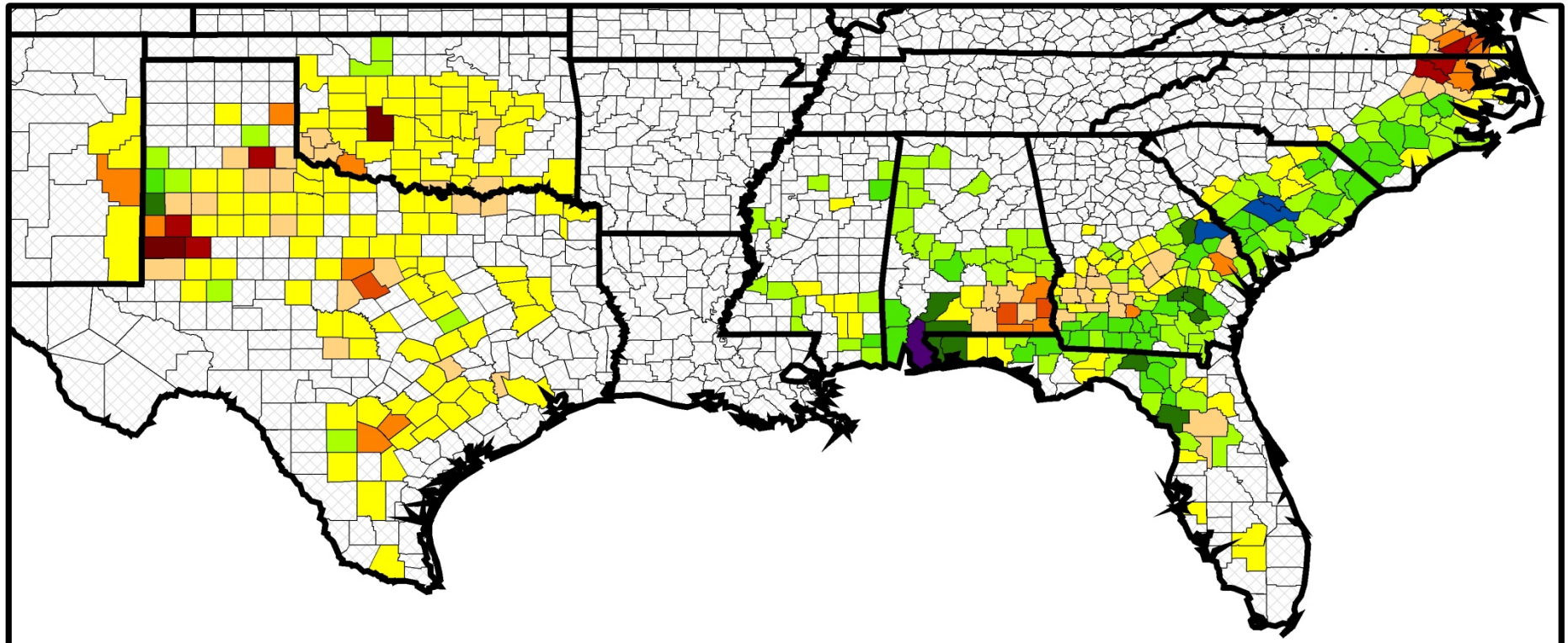
Opportunity to Update Yields

- 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			
	Production	**Acres Planted**	**Yield Per Acre**
2008	760,000	200	3,800
2009	410,000	100	4,100
2010	500,000	125	4,000
2011	352,500	75	4,700
2012	1,120,000	224	5,000
5-Yr Average Yield			4,320
90% of Average Yield			**3,888**

Yield History and Update

Planted Acre Avg	AL	FL	GA	MS	OK	TX	NM	VA	SC	NC
1998-2001 Avg	2118	2506	2848		1964	2177	2685	2910	2524	2798
2008-2012 Avg	3244	3256	3721	3647	3022	3189	3151	3363	3411	3560
90% of 2008-2012	2920	2931	3349	3283	2720	2870	2836	3027	3070	3204



Change in U.S. Planted Peanut Acreage 2010 vs. Avg. '98-'01

- Greater than 20,000 decrease
- 19,999 to 15,000 decrease
- 14,999 to 10,000 decrease
- 9,999 to 5,000 decrease
- 4,999 to 1,500 decrease
- 1,499 to 1 decrease
- 1 to 1,500 increase
- 1,501 to 5,000 increase
- 5,001 to 10,000 increase
- 10,001 to 15,000 increase
- 15,001 to 20,000 increase
- Greater than 20,000 increase

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Map Generated by the
University of Georgia
National Center for Peanut Competitiveness

Source:FSA/USDA

PLC vs ARC-CO vs ARC-IC

Price Loss Coverage (PLC) Reference Price

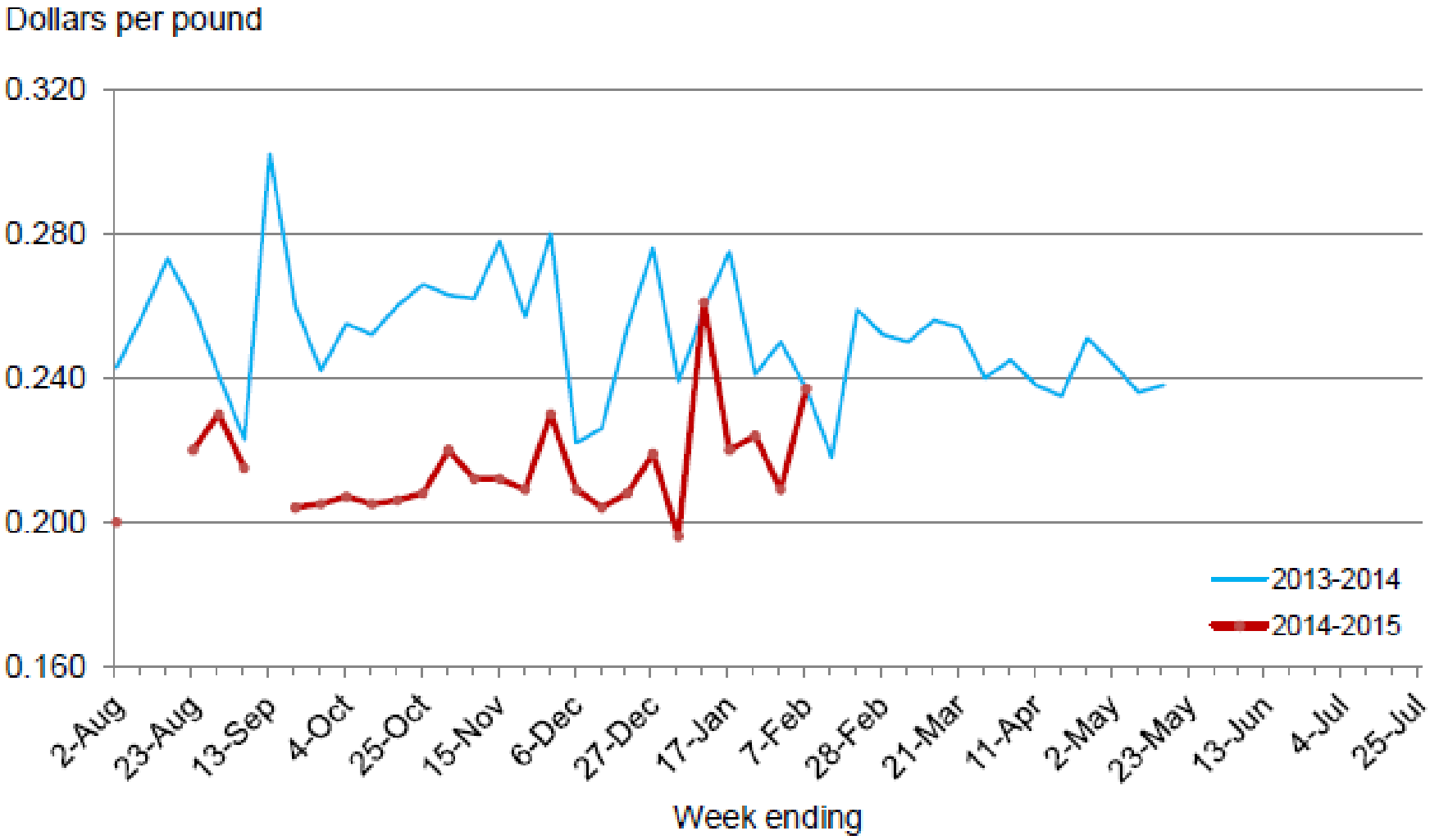
Crop	2008 Farm Bill		PLC
	Target Price	Effective Price	Reference Price
Corn	2.63/bu	2.35/bu	3.70/bu
Grain Sorghum	2.63/bu	2.28/bu	3.95/bu
Peanuts	495/ton	459/ton	535/ton
Oats	1.79/bu	1.766/bu	2.40/bu
Rice	10.50/cwt	8.15/cwt	14.00/cwt
Soybeans	6.00/bu	5.56/bu	8.40/bu
Wheat	4.17/bu	3.65/bu	5.50/bu

PLC Payment made on 85% of Base Acres

NASS Marketing Year Average Price for Peanuts

Year	$/Lb	$/Ton
2014		415-430?
2013	0.249	498
2012	0.301	602
2011	0.318	636
2010	0.225	450
2009	0.217	434
2008	0.23	460

All Peanut Prices – United States



2014 Peanut PLC Example

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

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

Peanut Example:

Average Market Price = $430
Payment Yield = 3,800 (1.9 tons)
Base Acres = 200 acres

Payment made after October 1 of the following year.

PLC Rate = $535 - higher of $430 or $355 = $105/ton

PLC Payment = $105/ton * 1.9 tons * 200 ac * 85% = $33,915
($169.58 per base acre)

2014 Federal sequestration rate = 7.2% $31,473 or $157.37/ac

ARC-County, Peanut Example

5-Year OA County Yield	3,872	
5-Year OA Market Price	$0.2675	$535 per ton
Benchmark County Revenue	**$1,036**	
86% of Benchmark Revenue	**$891**	**ARC Guarantee**
10% of Benchmark Revenue	$104	Maximum ARC Payment
Actual County Yield	4505	
Higher of MYA Price or Loan Rate	$0.1775	$355 per ton
Actual County Revenue	**$800**	
ARC Payment	**$91**	

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%.

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.
- Plant more acres 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 = 3,349 lbs per acre (90% of 2008-2012 avg)
  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 (1 base acre)
  92% x $153 = $141 per ton (8% sequester)

- $141 x 1.6745 tons (3,349 lbs) = $236.10 per base acre
- $355 x 2.2525 tons (4,505 lbs) = $799.64 per base acre

- Total per base acre = $1035.74 or $459.82 per ton

Don’t Overplant Peanuts

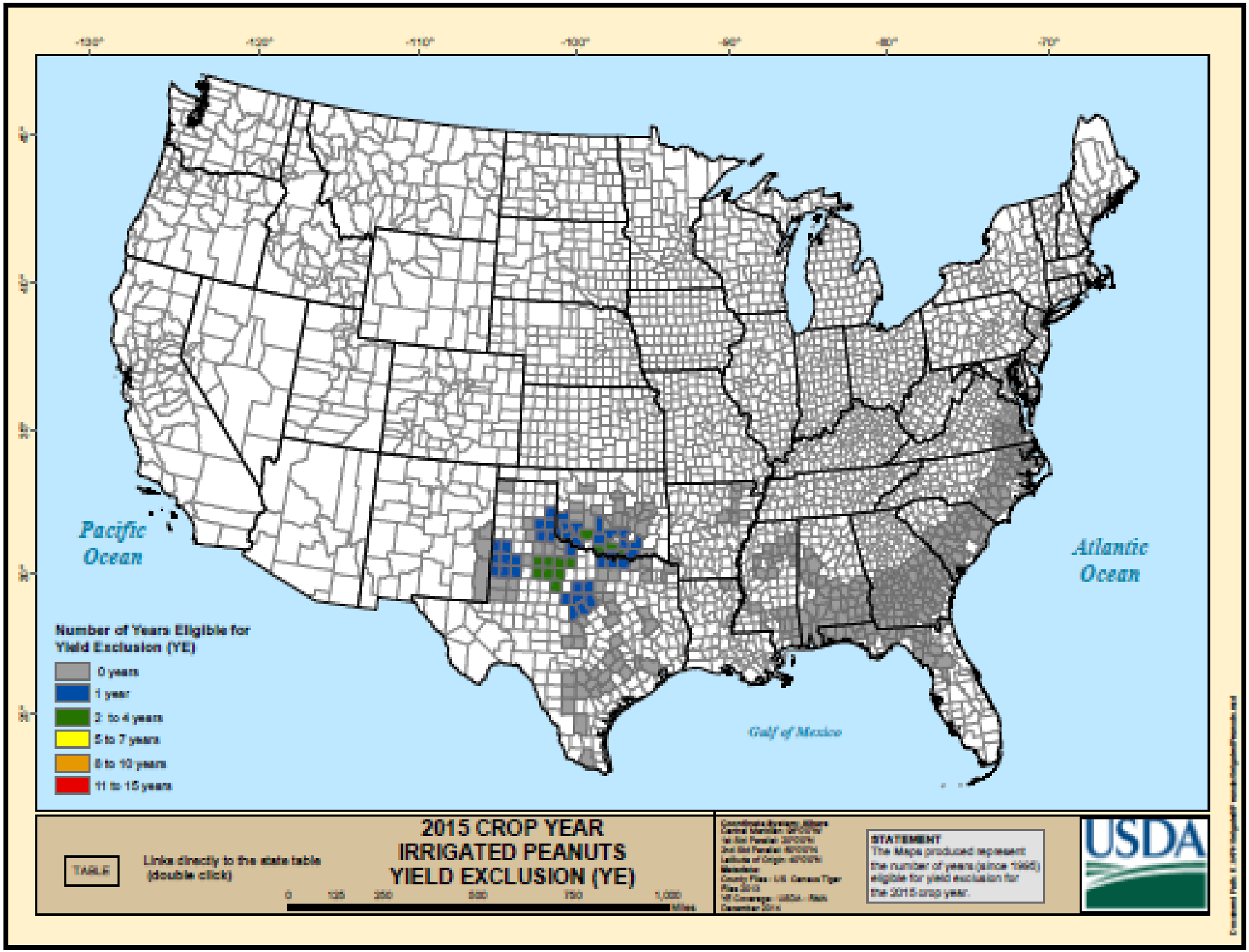
- Implications on rotation, hurt yield by shortening rotations.
- Overplant and drive price down leads to fewer acres to reach the payment limitation of $125,000.
- Risk of excessive program cost.

Crop Insurance

- Peanut Revenue Insurance:
  - Mandates availability for 2015 crop
  - New Combo Policy for Peanuts was approved and now available
- Supplemental Coverage Option (SCO):
  - To be available for commodities enrolled in PLC
  - 65% subsidy
  - Not be available in 2015 for Peanuts

2015 Peanut Crop Insurance Changes

- APH replaced by Yield Protection,
  - Contract Price Option retained,
- Revenue Protection & Revenue Protection with Harvest Price Exclusion.
- Revised Quality Adjustment provisions,
  - Returns to the FSA grading sheet at 90% of the CCC Loan Rate for Type.
- Simplified Replant provisions: $95 per acre.
- Addition of Enterprise Unit option,
  - 80% premium subsidy -> lower premium
- APH Yield Exclusion


-130°
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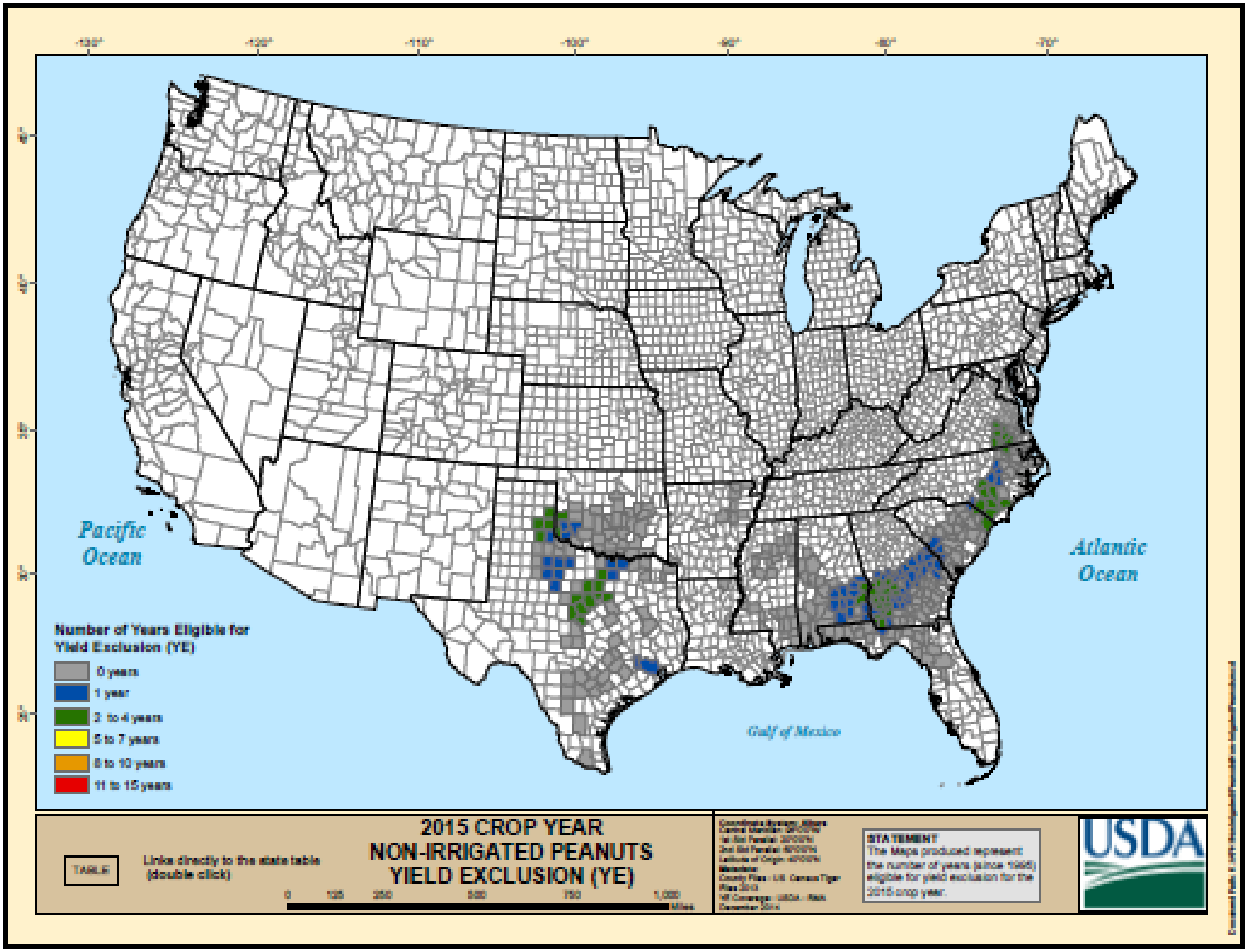
50°
40°
30°
20°
Pacific Ocean
Atlantic Ocean
Gulf of Mexico
Number of Years Eligible for Yield Exclusion (YE)
0 years
1 year
2 to 4 years
5 to 7 years
8 to 10 years
11 to 15 years
TABLE
Links directly to the state table (double click)
2015 CROP YEAR
IRRIGATED PEANUTS
YIELD EXCLUSION (YE)
0
125
250
500
750
1,000
Miles
STATEMENT
The Maps produced represent the number of years (since 1990) eligible for yield exclusion for the 2015 crop year.
USDA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0 years
1 year
2 to 4 years
5 to 7 years
8 to 10 years
11 to 15 years
TABLE
Links directly to the state table (double click)
2015 CROP YEAR
NON-IRRIGATED PEANUTS
YIELD EXCLUSION (YE)
0
125
250
500
750
1,000
Miles
STATEMENT
The Maps produced represent the number of years (since 1998) eligible for yield exclusion for the 2015 crop year.
USDA

New Projected Price Methodology

- Same rating process as existing commodities with Revenue Protection insurance options.
- Uses a formula and futures prices of 4 other commodities during discovery period.
- Coverage levels: 50% to 85% in 5% increments.

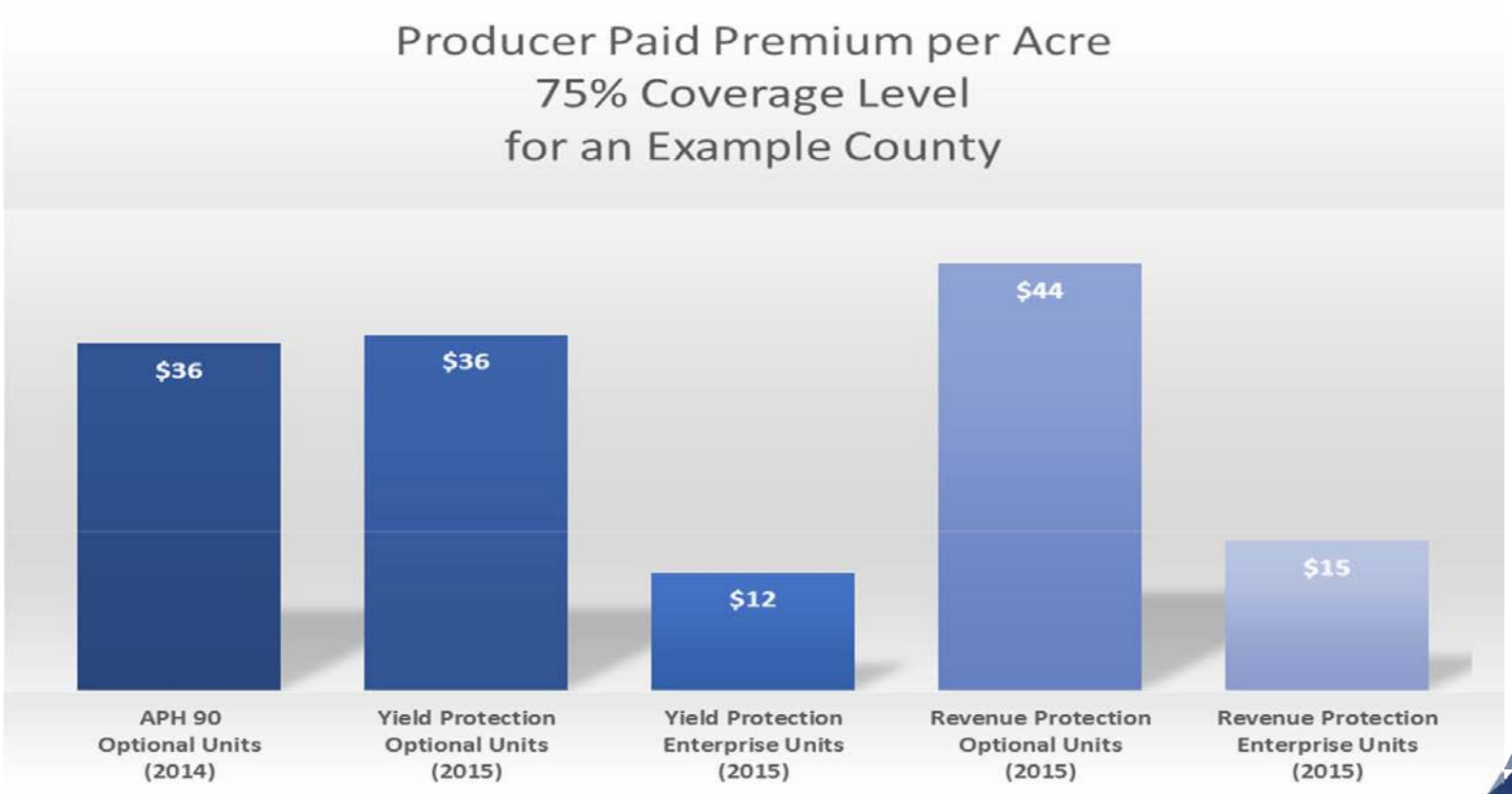
Projected Price Discovery	Harvest Price Discovery	Sales Closing Date
Jan 15 - Feb 14	Oct 1 - Oct 30	February 28

Crop Insurance Projected Prices

	2014 Projected Price	2014 Price Volatility	2015 Projected Price	2015 Price Volatility
Cotton	$0.78	0.15	$0.63	0.16
Corn	$4.49	0.17	$4.05	0.19
Grain Sorgh.	$4.38	0.16	$3.97	0.17
Peanuts	$532		$424.60	0.08
Soybeans	$11.19	0.13	$9.67	0.16

Pricing Example – Runners

Premium


Producer Paid Premium per Acre
75% Coverage Level
for an Example County
$36
$36
$12
$44
$15
APH 90 Optional Units (2014)
Yield Protection Optional Units (2015)
Yield Protection Enterprise Units (2015)
Revenue Protection Optional Units (2015)
Revenue Protection Enterprise Units (2015)

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

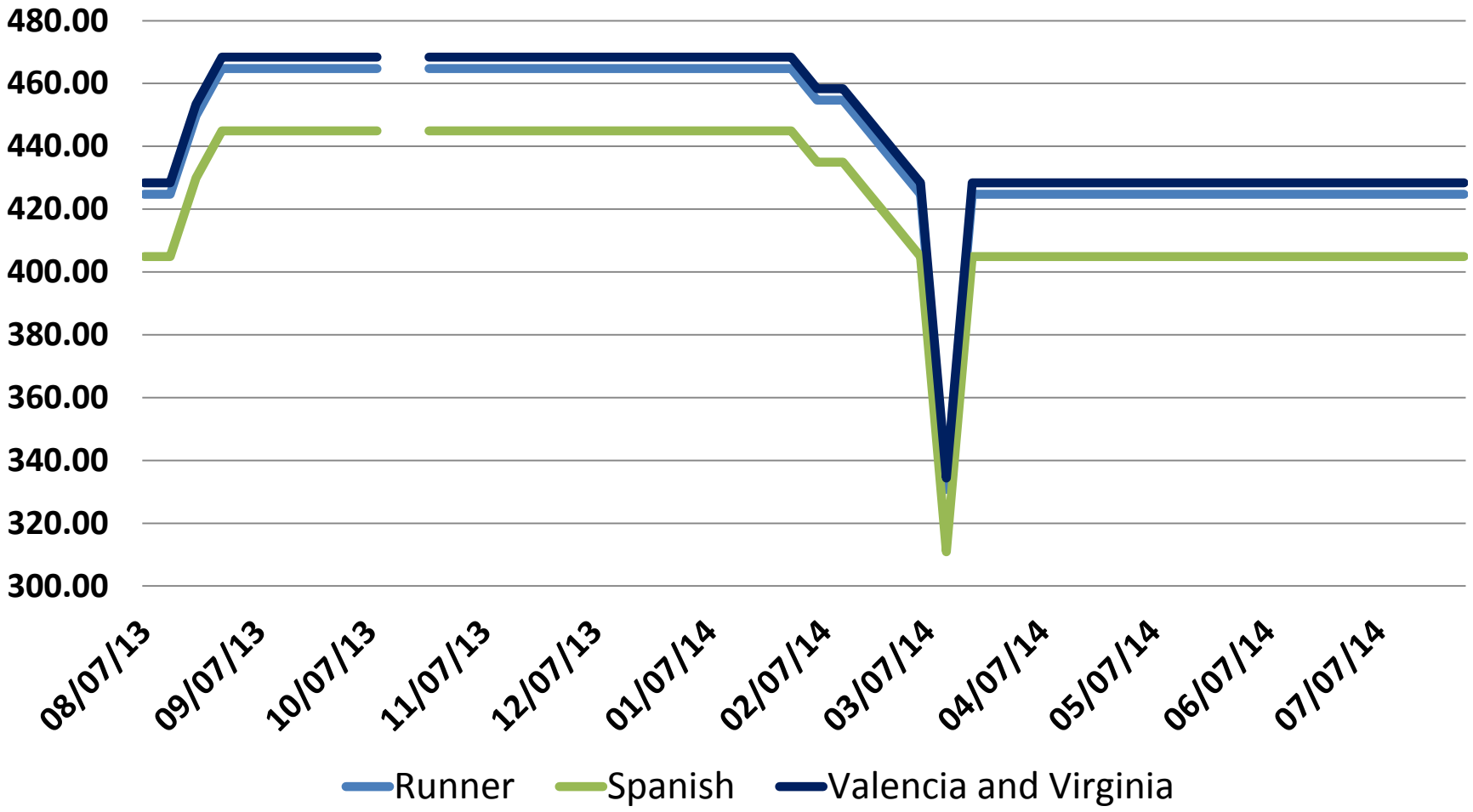
Don’t Overplant Peanuts

- Implications on rotation, hurt yield by shortening rotations.
- Overplant and drive price down leads to fewer acres to reach the payment limitation of $125,000.
- Risk of excessive program cost.

PLC Payment Rate	$100			
Payment Yield	3000	3500	4000	4500
Payment $/Acre	$150	$175	$200	$225
Acres to Reach Payment Limit	**980**	**840**	**735**	**654**

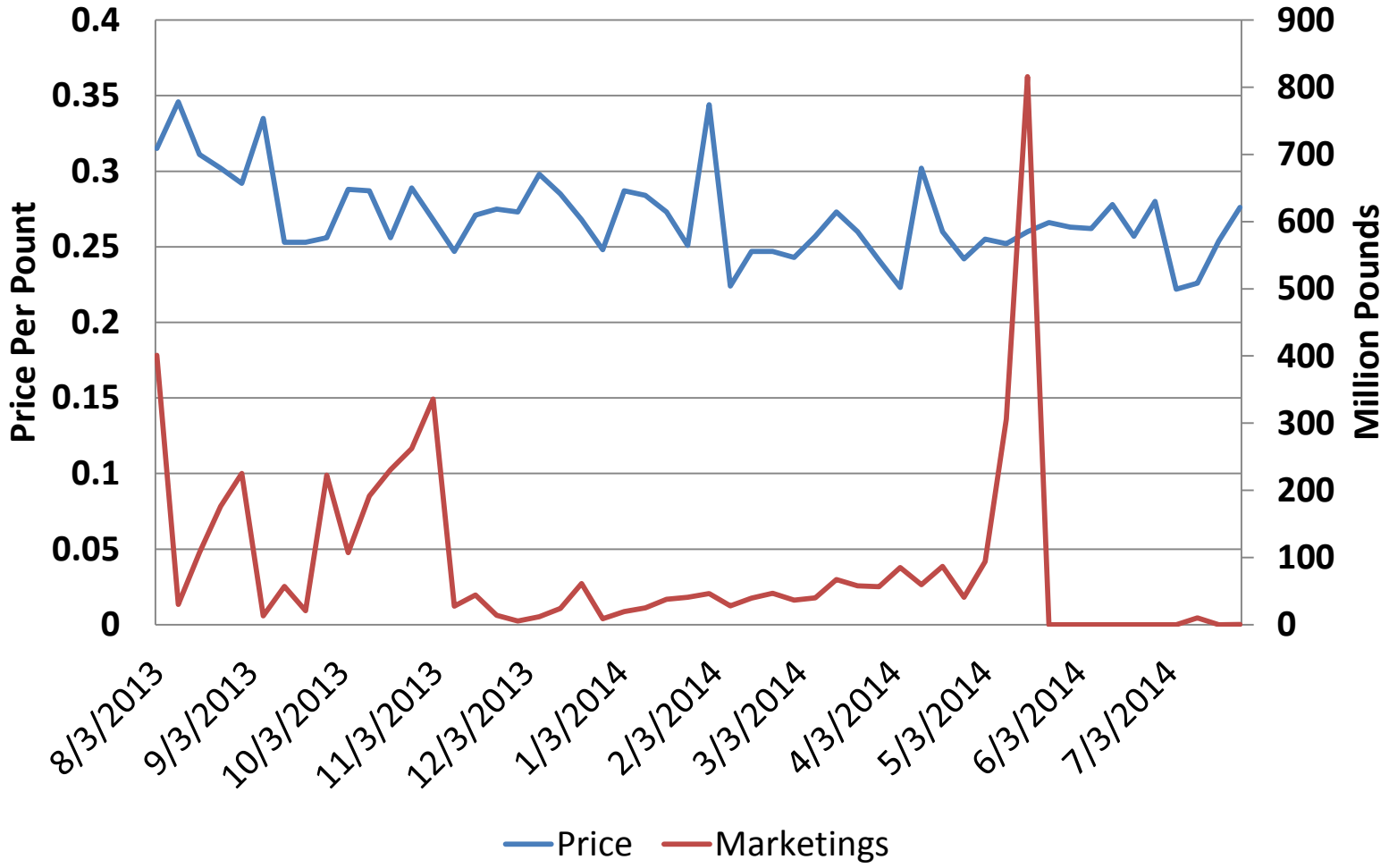
PLC Payment Rate	$150			
Payment Yield	3000	3500	4000	4500
Payment $/Acre	$225	$263	$300	$338
Acres to Reach Payment Limit	**654**	**560**	**490**	**436**

Peanut National Posted Price: 2013/14



Source: Farm Service Agency

US Peanut Price and Marketings: 2013/14



Source: NASS QuickStats

Market Loan Gains at Various Tons

	Market Loan Gain				PLC Yield		
Tons	**$24.00**	**$34.00**	**$44.00**		**3000**	**4000**	**5000**
200	$4,800	$6,800	$8,800	**Acres to Produce Tons**	133.3	100.0	80.0
400	$9,600	$13,600	$17,600		266.7	200.0	160.0
600	$14,400	$20,400	$26,400		400.0	300.0	240.0
800	$19,200	$27,200	$35,200		533.3	400.0	320.0
1000	$24,000	$34,000	$44,000		666.7	500.0	400.0
1200	$28,800	$40,800	$52,800		800.0	600.0	480.0
1400	$33,600	$47,600	$61,600		933.3	700.0	560.0
1600	$38,400	$54,400	$70,400		1066.7	800.0	640.0
1800	$43,200	$61,200	$79,200		1200.0	900.0	720.0
2000	$48,000	$68,000	$88,000		1333.3	1000.0	800.0
2200	$52,800	$74,800	$96,800		1466.7	1100.0	880.0

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 and some corn.
- Generic base will allow flexibility to manage price/revenue risk based on plantings to generic base.
- Rotation strategy will be recalculated
- Entity reorganition

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 the new safety net.

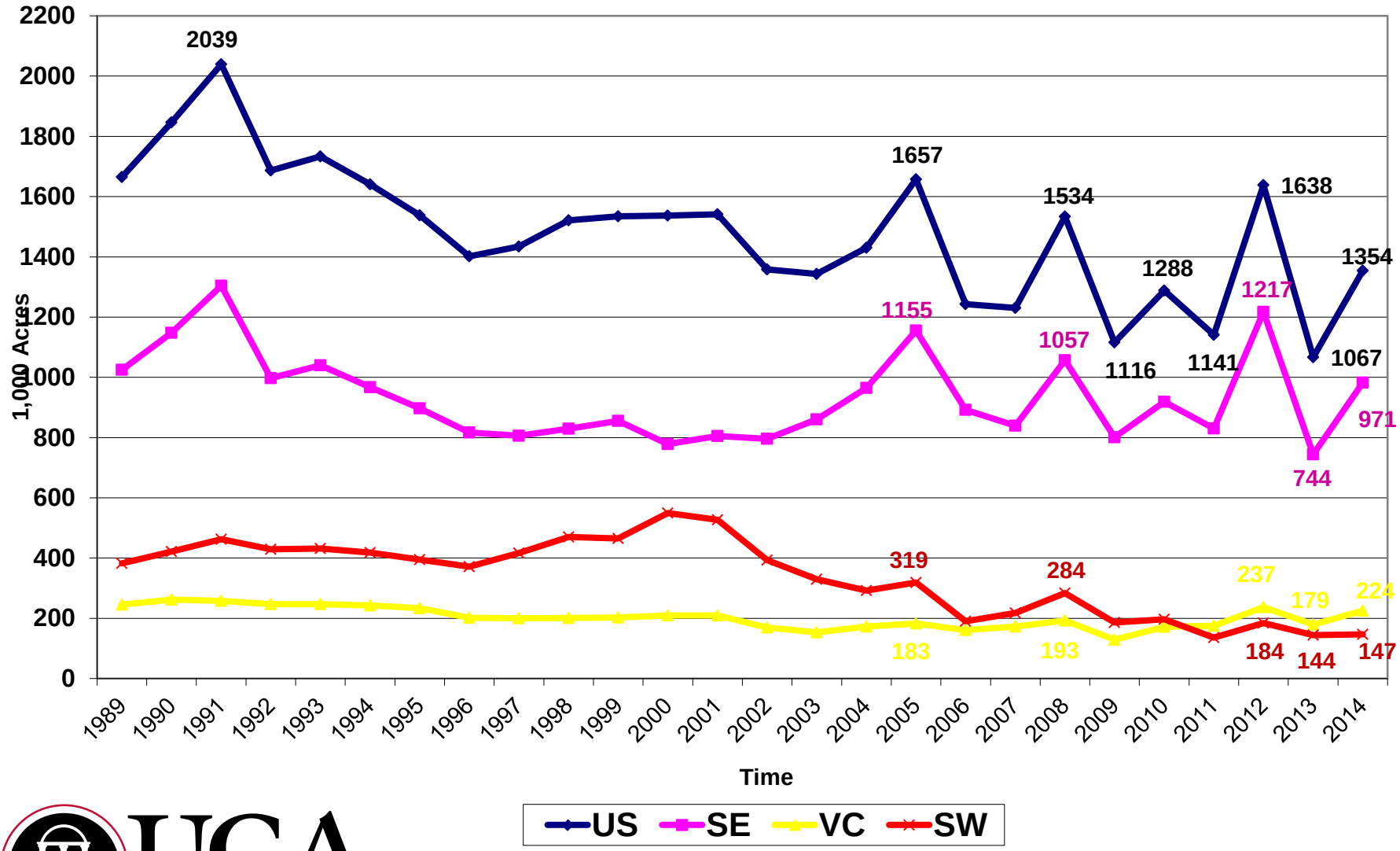
Another Wave of Peanuts in 2015?

Dr. Nathan B. Smith
Associate Professor & Extension Economist
University of Georgia

Peanut Situation

- Jan 12th USDA Final Estimates for 2014
  - Revised Planted Acreage: US up slightly to 1,354,000 acres
  - US Yield raised from 3,860 lb/ac to 3,932 lb/ac
- USDA projects overall peanut use to be level with 2013/14 marketing year.
  - Exports stay strong,
  - Peanut butter use shows big increase of 9.75% in first 4 months.

Peanuts: Planted Acreage, 1989-2014



UGA extension

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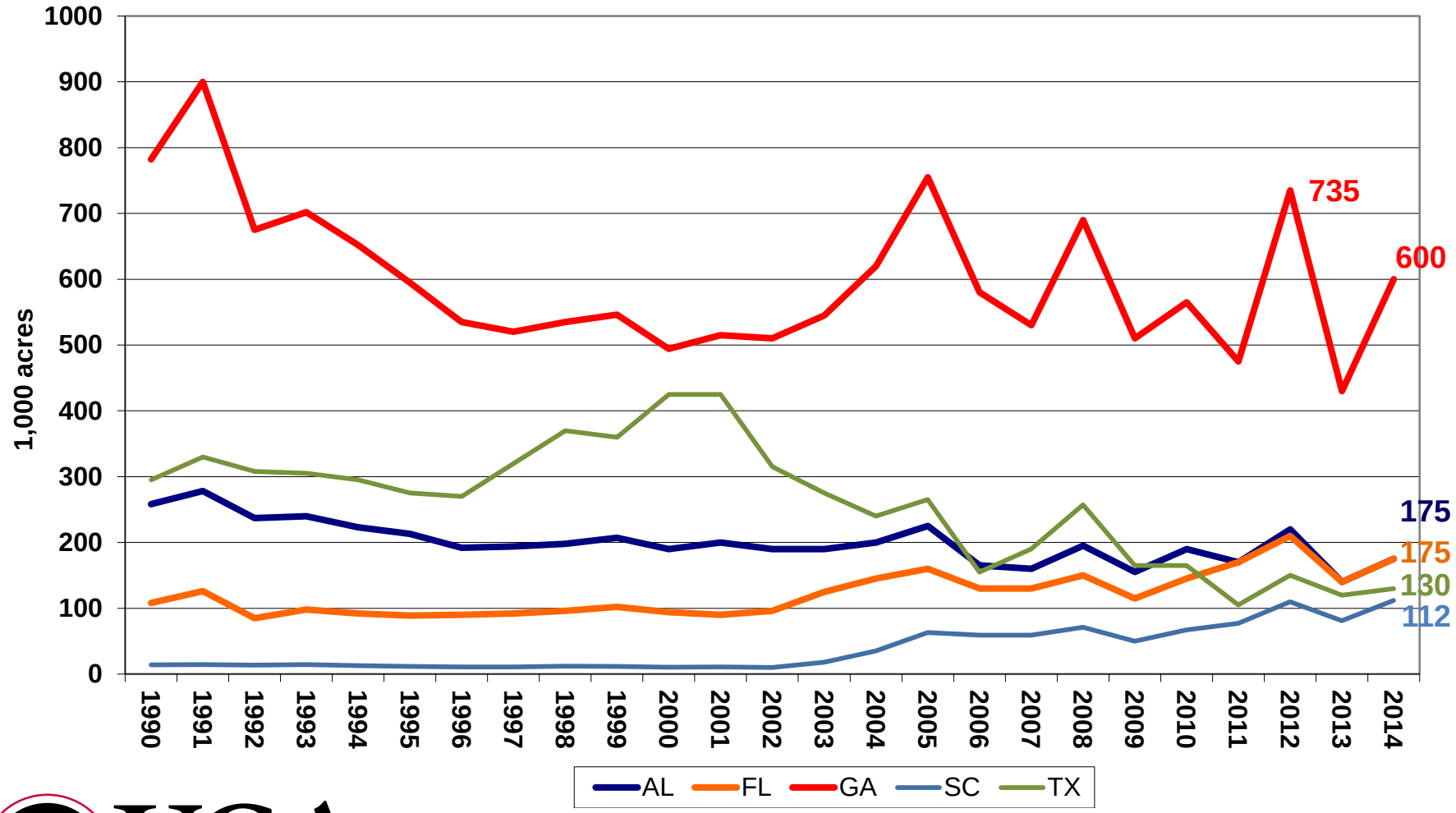
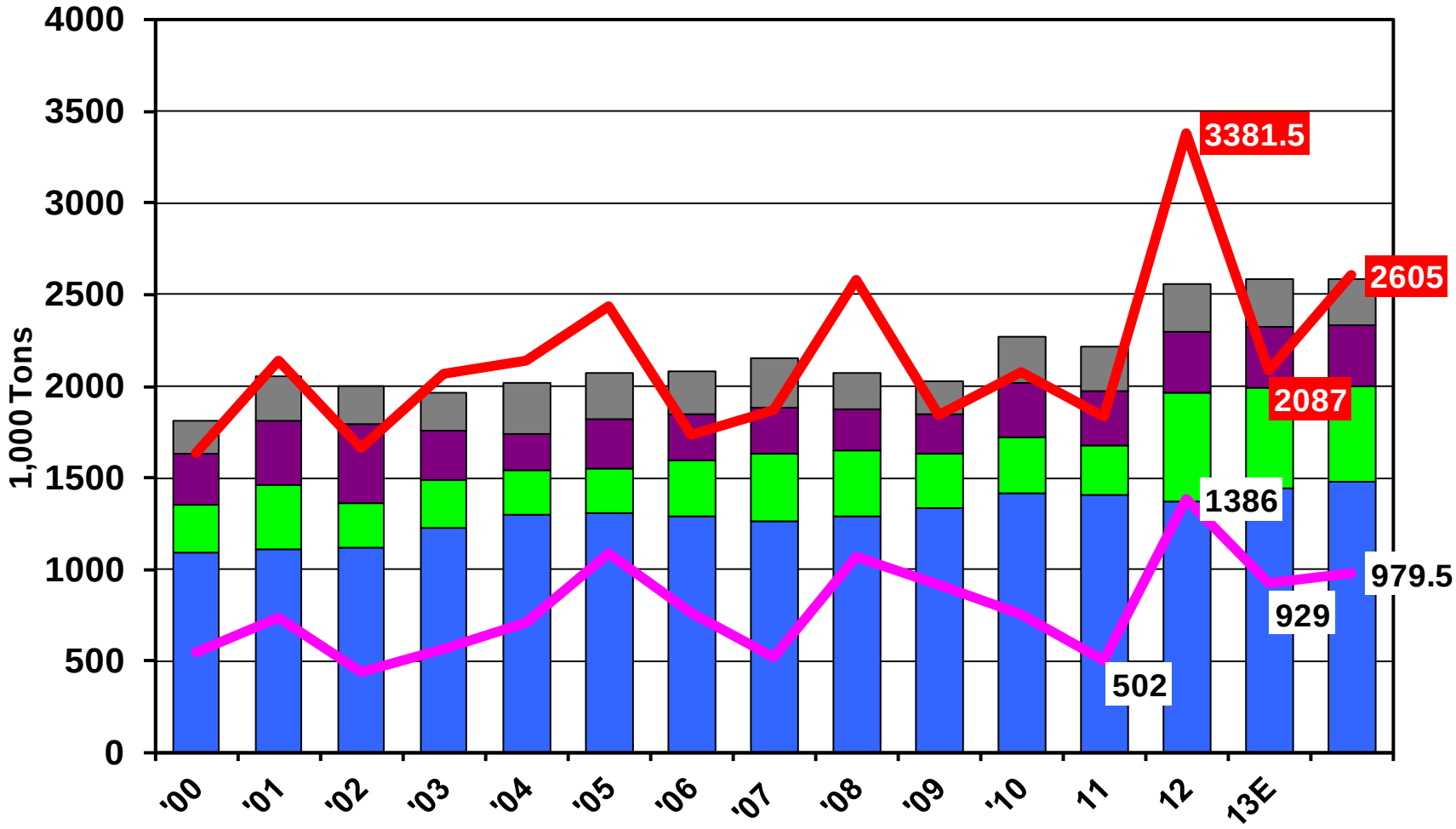
State Peanut Planted Acres: 1990-2014



Peanut Production, Use, Carryover



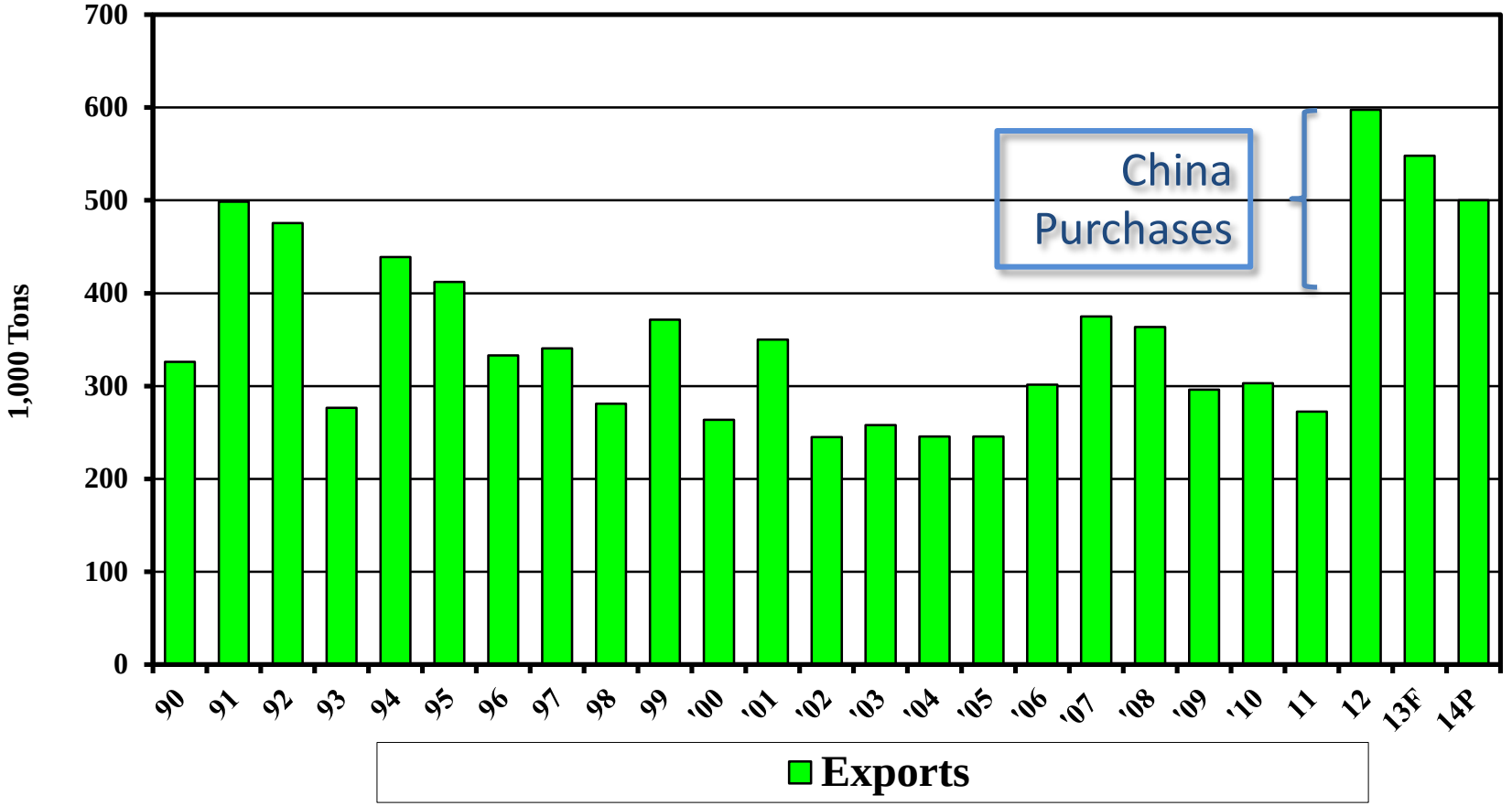
Shelled Edible Use in Primary Products, Total Shelled & In-Shell Use

1,000 lbs	**Aug 14' to Dec 14'**	**% Diff from Prev. Year**
Candy	156,097	NR
Peanut Butter	552,962	9.6%
Snacks	178,409	-0.3%
Total*	**1,115,506**	**+ 3.7%**
In-Shell	58,432	-4.3%

Source: Peanut Stocks and Processing, NASS, USDA

* Includes all shelled peanuts crushed regardless of grade

Peanut Exports



Source: Oil Crops Outlook, ERS, USDA

Peanut Outlook

- Early runner contracts were offered for $400 per ton. Not likely to go up much if at all.
- High Oleic premium? SC and limited in GA
- Peanut prices will be influenced by 2014 Farm Bill (generic base plantings).
- US acreage expected up about 15%, GA > 20%.

Comparison of 2015 Estimated Net Returns, Georgia, Irrigated

	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
Expected Yield	200	1,200	100	4,700	60
Expected Average Price[1]	$4.25	$0.70	$4.04	$386	$9.75
Crop Income	$850	$840	$404	$906	$585
Variable Costs[2]	$662	$524	$349	$653	$294
Net Return Per Acre Above VC	**$188**	**$316**	**$54**	**$253**	**$291**
Net Return per Acre Above VC & $185 Land Rent	**$3**	**$131**	**($131)**	**$68**	**$106**

1/ Expected average price.

2/ Assumes Jan 2015 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, UGA

Comparison of 2015 Estimated Net Returns, Georgia, Non-Irrigated

	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
Expected Yield	85	750	65	3,400	30
Expected Average Price[1]	$4.25	$0.70	$4.04	$386	$9.75
Crop Income	$361	$525	$262	$656	$293
Variable Costs[2]	$313	$423	$349	$653	$294
Net Return Per Acre Above VC	**$48**	**$102**	**($87)**	**$3**	**($1)**
Net Return Per Acre Above VC + $75 Land Rent	**($27)**	**$27**	**($162)**	**($72)**	**($76)**

1/ Expected average price.

2/ Assumes Jan 2015 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, University of Georgia

Covered Commodities Planted on Farms with Generic Base

- PLC for peanuts likely to trigger in 2015, resulting in roughly $100 per ton payment.
- ARC-County likely to trigger for corn, grain sorghum, soybeans and wheat.
- Estimated Average Maximum ARC-County payment in GA (using state yields):
  - Corn $0.50, Soybeans $0.75, Wheat $0.40.

Comparison of 2015 Estimated Net Returns, Georgia, Irrigated, Generic Base

	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
Expected Yield	200	1,200	100	4,700	60
Expected Average Price[1]	$4.75	$0.70	$4.54	$475	$10.50
Crop Income	$950	$840	$454	$1,116	$630
Variable Costs[2]	$662	$524	$349	$653	$294
Net Return Per Acre Above VC	**$288**	**$316**	**$105**	**$463**	**$336**
Net Return per Acre Above VC & $185 Land Rent	**$103**	**$131**	**($80)**	**$278**	**$151**

1/ Expected average price.

2/ Assumes Jan 2015 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, UGA

Comparison of 2015 Estimated Net Returns, Georgia, Non-Irrigated, Generic Base

	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
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Expected Average Price[1]	$4.75	$0.70	$4.54	$475	$10.50
Crop Income	$404	$525	$295	$808	$315
Variable Costs[2]	$313	$423	$349	$653	$294
Net Return Per Acre Above VC	**$91**	**$102**	**($54)**	**$155**	**$21**
Net Return Per Acre Above VC + $75 Land Rent	**$16**	**$27**	**($129)**	**$80**	**($54)**

1/ Expected average price.

2/ Assumes Jan 2015 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, University of Georgia

Peanut Projections

				2015/16		
				2015, +10% acres, +2.3% use	2015, +15% acres, +2.3% use	2015, +25% acres, +5.4% use
	USDA			3850 lb Yld	3950 lb Yld	4050 lb Yld
	2012/13	2013/14	2014/15	1.44 M Ac	1.5 M Ac	1.63 M Ac
	1,000 Tons					
Beg. Stocks	502	1,386	929	979	979	979
Production	3,382	2,087	2,605	2,806	3,009	3,354
Total Supply	3,943	3,517	3,566	3,818	4,021	4,366
Total Use	2,557	2,588	2,587	2,646	2,646	2,728
End Stocks	1,386	929	979	1,172	1,376	1,638
2014 Yield	3932	lb/ac				
2014 Planted Acres	1,354	mil				
2014 Harvested Acres	1,325	mil				

Thank You

Nathan Smith

nathans@uga.edu

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