Peanuts and the 2014 Farm Bill

Nathan Smith, PhD
Extension Economist
Agricultural and Applied Economics
University of Georgia

Commodity Programs and Peanuts

- The Peanut Program had it's 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- Peanuts became a covered commodity in the 2002 Farm Bill when the quota allotment program was repealed.
- Peanut is one of 21 covered commoditities included in the ARC-PLC 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

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

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

2009-2012 Acres Planted to Covered Commodities				
	Corn	Peanuts	Soybeans	Wheat
2009	0	100	0	0
2010	90	0	0	0
2011	170	0	0	0
2012	0	160	0	0
Average	**65**	**65**	**0**	**0**
	50%	**50%**		

130 Acres Planted (> 80 available bases)

65/130 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.

Generic Base Example

Use Previous Reallocated Base Farm Example

= 200 acres

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

50% acres assigned to peanuts
50% acres assigned to corn

(40 base + 50 generic) = 90 total peanut base acres
(40 base + 50 generic) = 90 total corn base acres

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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			
	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**

Opportunity to Update Yields

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

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	0	0	-
2012	1,120,000	224	5,000
Average Yield			4,225
90% of Average Yield			**3,803**

Peanut Example			
	Production	**Acres Planted**	**Yield Per Acre**
2008	0	0	-
2009	410,000	100	4,100
2010	0	0	-
2011	0	0	-
2012	1,120,000	224	5,000
Average Yield			4,550
90% of Average Yield			**4,095**

Yield Update Examples, Berrien County Substitute Yields

Example 1. Crop Not Planted Every Year

Crop	Existing CC Yield	Actual Yields per Planted Acre					2008-12 Average	90% of Average	Update?
		2008	2009	2010	2011	2012			
Corn	**98**	100	NP	NP	150	170	140.0	**126.0**	**Yes**
Substitute Yield		87	87	87	87	87			

Example 2. Substitute Yield Used When Farm Yield is Low

Crop	Existing CC Yield	Actual Yields per Planted Acre					2008-12 Average	90% of Average	Update?
		2008	2009	2010	2011	2012			
Peanuts	**2980**	3300	NP	~~2480~~	NP	4500	3435.3	**3091.8**	**Yes**
Substitute Yield		2506	2506	2506	2506	2506			

Example 3. Substitute Yield Used When No Records Available

Crop	Existing CC Yield	Actual Yields per Planted Acre					2008-12 Average	90% of Average	Update?
		2008	2009	2010	2011	2012			
Wheat	**40**	MR	MR	50	60	60	49.2	**44.3**	**Yes**
Substitute Yield		38	38	38	38	38			

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Form 859– Used to Record Yield History

TOTAL FARM YIELD WORKSHEET

Complete this section ONLY for covered commodities that the owner may wish to report. ***If a covered commodity was not planted fora particular year, then leave that year blank****. Enter the source of the data used to support the yield in Item 6C. Rec Type:* ***1*** *for "RMA data",* ***2*** *for "production sold/commercial storage",* ***3*** *for "on-farm storage",* ***4*** *for "livestock feed records",* ***5*** *for "FSA loan record",* ***6*** *for "FSA NAP record", or* ***7*** *for "other". Please enter the other record type in the remarks section on the form. This is ONLY a worksheet. It is NOT the yield update. This form may be used by any current owner of the farm if the current owner decides to update a yiel d using CCC-858 during the yield update period.*

6. Farm Yields

6A. Commodity	2008		2009		2010		2011		2012	
	6B. Yield	6C. Rec Type	6B. Yield	6C. Rec Type	6B. Yield	6C. Rec Type	6B. Yield	6C. Rec Type	6B. Yield	6C. Rec Type

7. Remarks

PLC vs ARC-C vs ARC-I

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

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%

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

Payment made after October 1 of the following year.

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)

NASS Marketing Year Average Price for Peanuts

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

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%)
  2012-2014 = 4,505 lbs per acre
  Difference = 1,140 lbs per acre

- Overplant peanuts and drive prices to $355/ton
  $535 - $355 = $180 per ton
  $180 x 1 acre x 85% = $153 per base acre

- $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

5-Year OA County Yield	3,872	
5-Year OA Market Price	$0.2800	$560 per ton
Benchmark County Revenue	**$1,084**	
86% of Benchmark Revenue	**$932**	**ARC Guarantee**
10% of Benchmark Revenue	$108	Maximum ARC Payment
Actual County Yield	4000	
Higher of MYA Price or Loan Rate	$0.1775	$355 per ton
Actual County Revenue	**$710**	
ARC Guarantee - Actual County Revenu	$222	
ARC Payment	**$108**	

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.
- ARC Benchmark Revenue will likely decline thru the duration of the 2014 Farm Bill

FSA ARC/PLC Website
www.fsa.usda.gov/arc-plc

ARC/PLC Programs

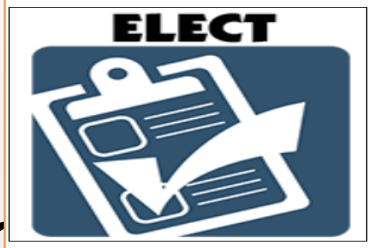
Base Reallocation, Yield Updates, Price Loss Coverage (PLC) & Agricultural Risk Coverage (ARC)

EXAMINE your paperwork to make sure it's in order

August 1, 2014 to Present

EVALUATE your safety-net options using webtools and upcoming educational opportunities

September 29, 2014 to February 27, 2015



ELECT your safety-net approach for 2014 through 2018

November 17, 2014 to March 31, 2015

ENROLL in your safety-net approach by signing a contract

Mid-April 2015 – Summer 2015

I Want To...

- View Program Schematic for CTP/ARC/PLC Programs
- Link to Base Reallocation Tool (.ZIP, 25 KB)
- Link to Yield Update Tool (.ZIP, 36 KB)
- View Substitute Yields for Updating PLC Payment Yields (XLS, 958 KB Oct 31, 2014)
- View Projected 2014 Crop Reference Prices, National Average Loan Rates, PLC Payment Rates, and PLC maximum payment rates (PDF, 76 KB Oct 2014), (XLS, 37 KB, Oct 2014)
- View County Yields For the ARC-CO Program (.ZIP, 1.3 MB Oct 2014)
- Projected 2014 crop prices for ARC County Coverage (ARC-CO, PDF, 84 KB Oct 2014) (XLS, 49 KB)
- Market Year Average Prices 2009 – 2014 (PDF, 84 KB Oct 2014), (XLS, 34 KB Oct 2014)
- Projected 2014 crop prices for ARC-Individual Coverage (ARC-IC, PDF, 80 KB Oct 2014) (XLS, 42 KB Oct 2014)

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To view PDF files you must have Adobe Acrobat Reader installed on your computer.

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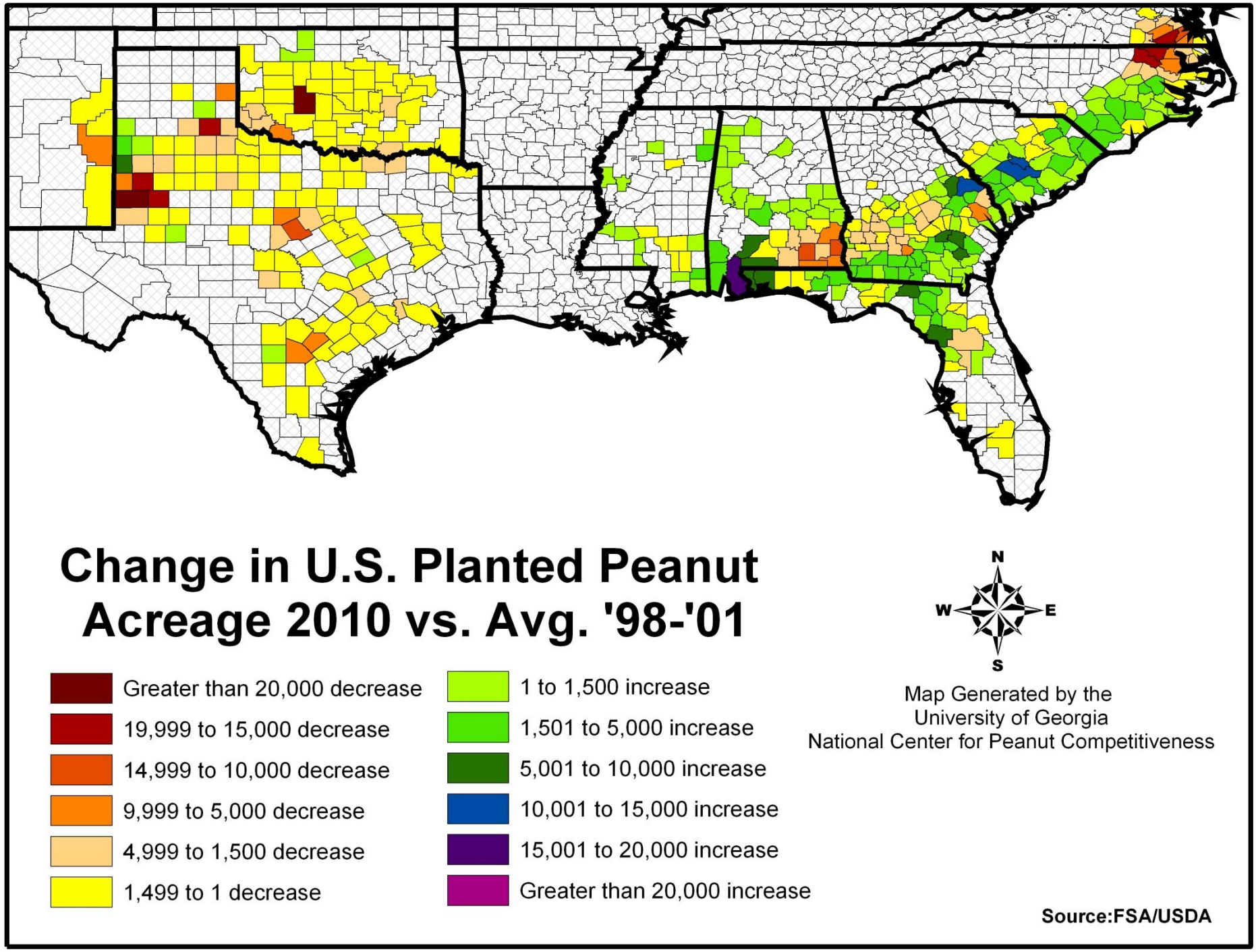
Peanut Implications

- 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.


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
N
W
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Map Generated by the
University of Georgia
National Center for Peanut Competitiveness
Source:FSA/USDA

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 straight forward, 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).

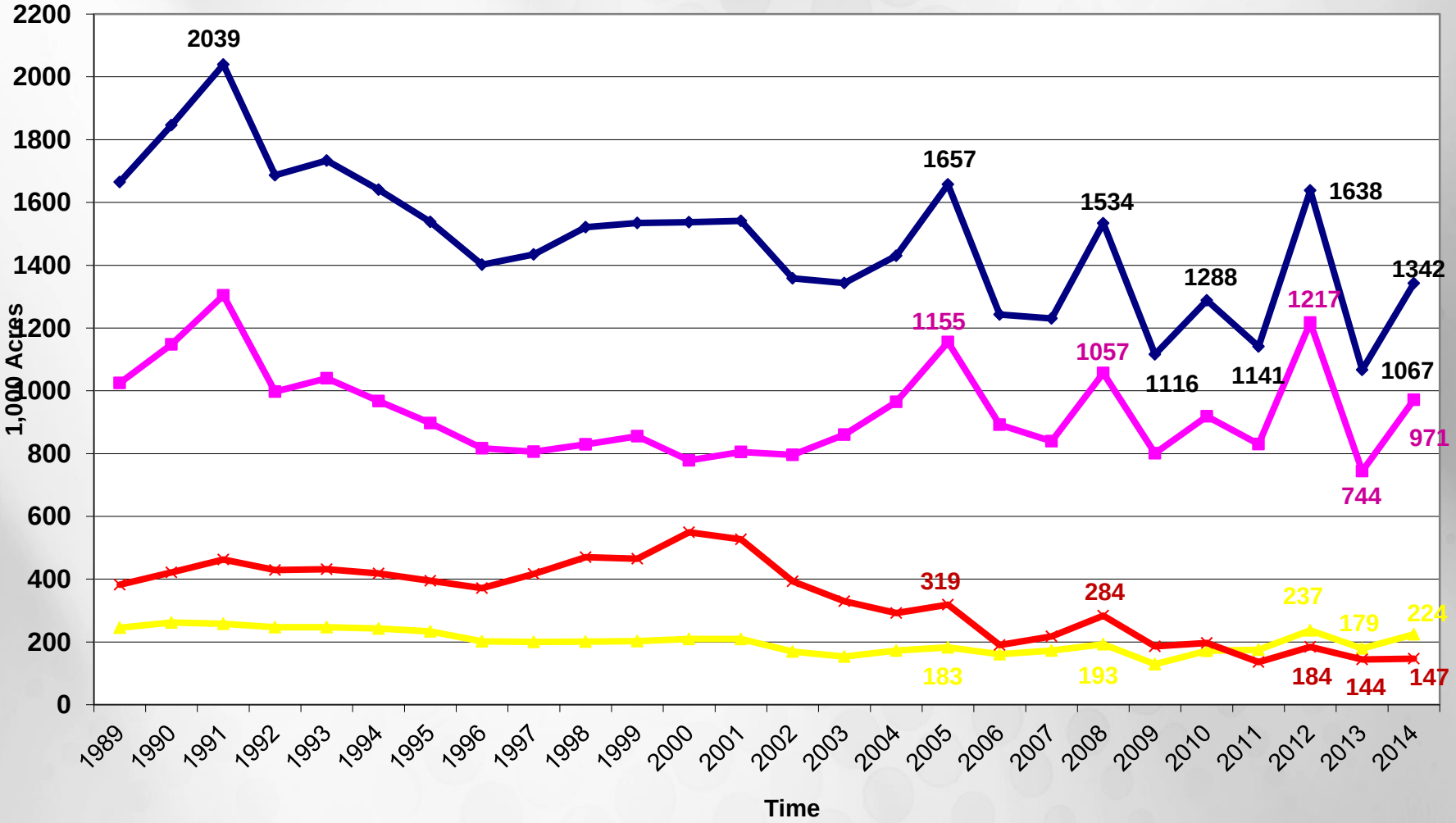
Another Wave of Peanuts in 2015?

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



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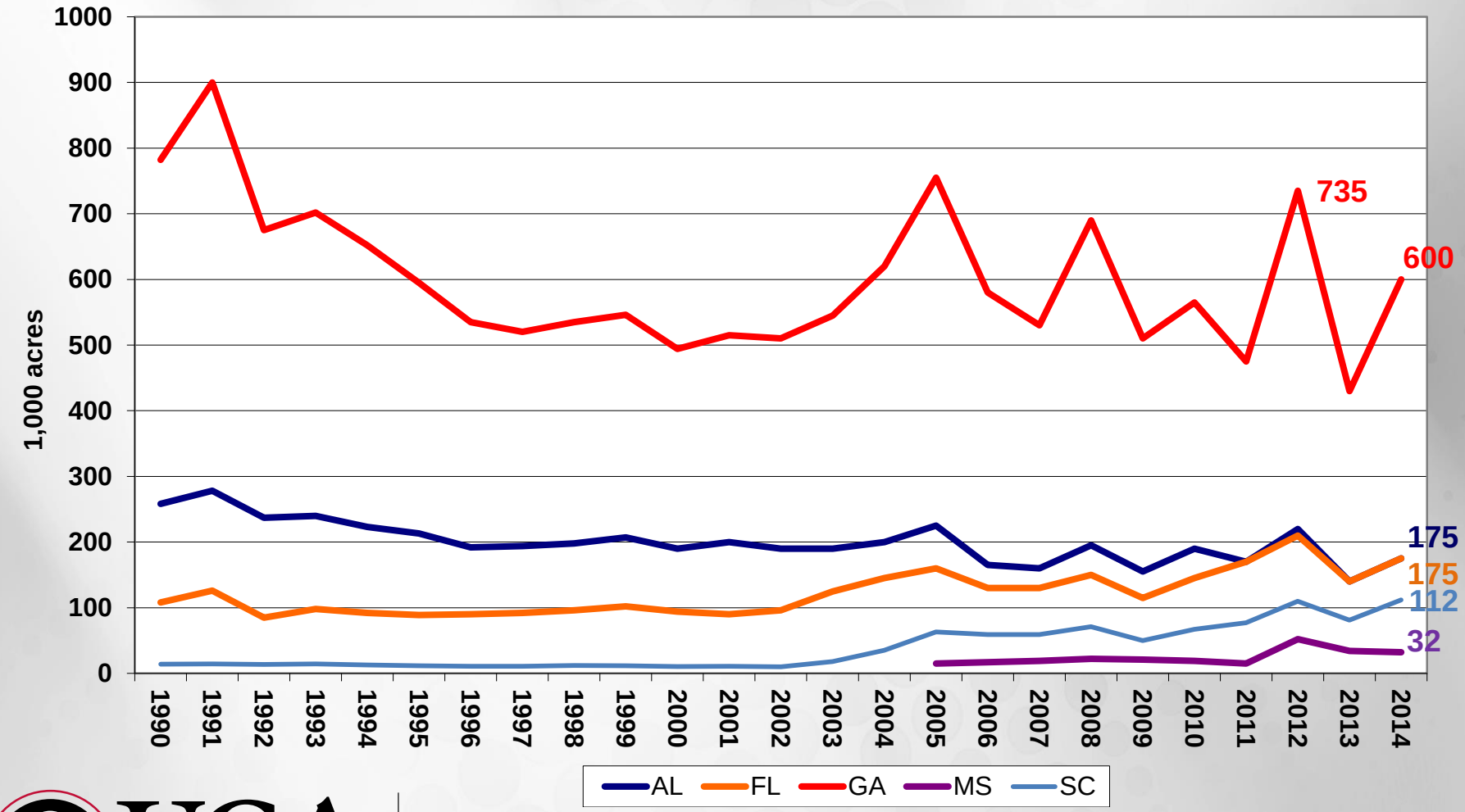
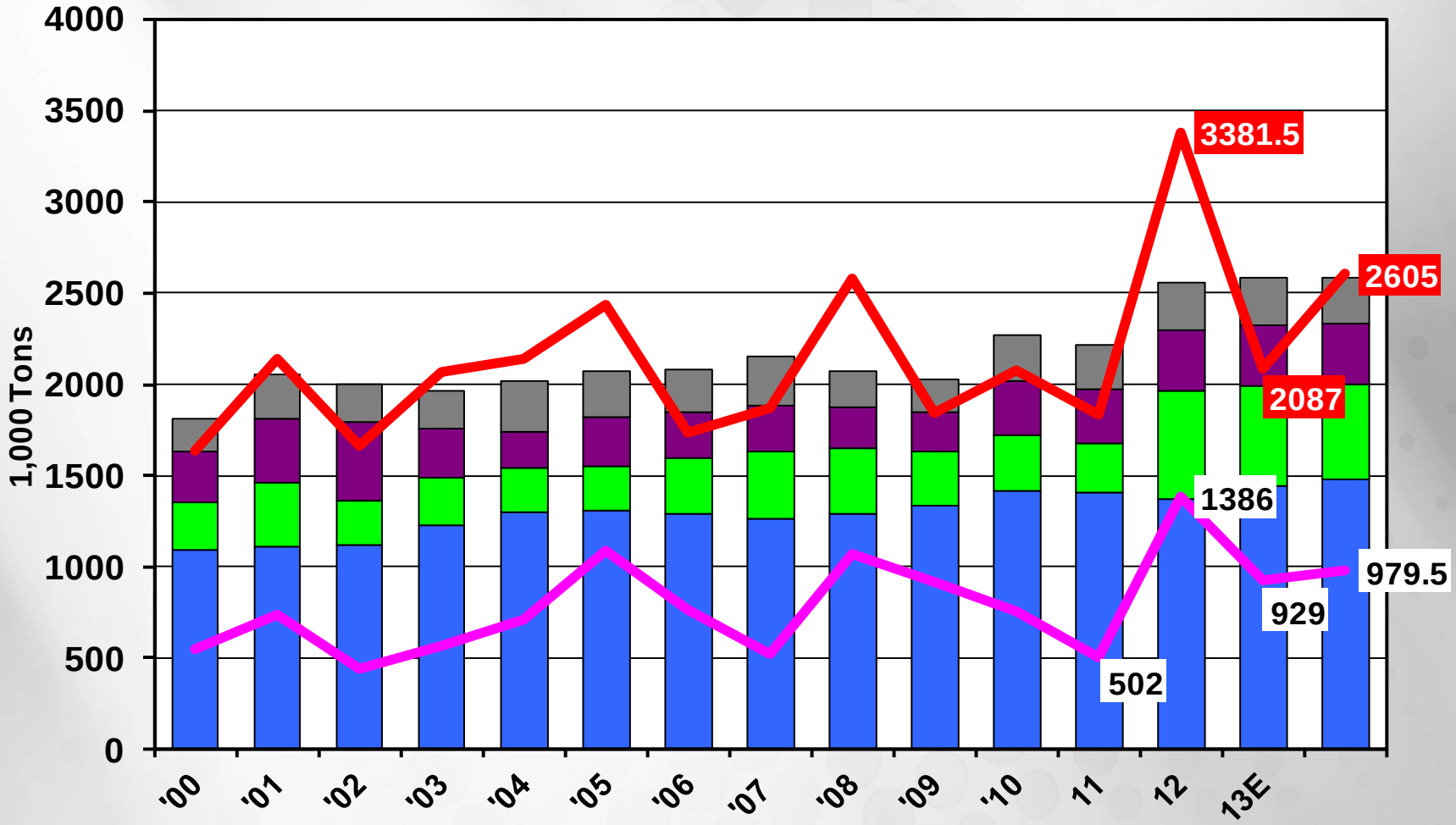
Southeast Peanut Planted Acres: 1990-2014



Peanut Production, Use, Carryover



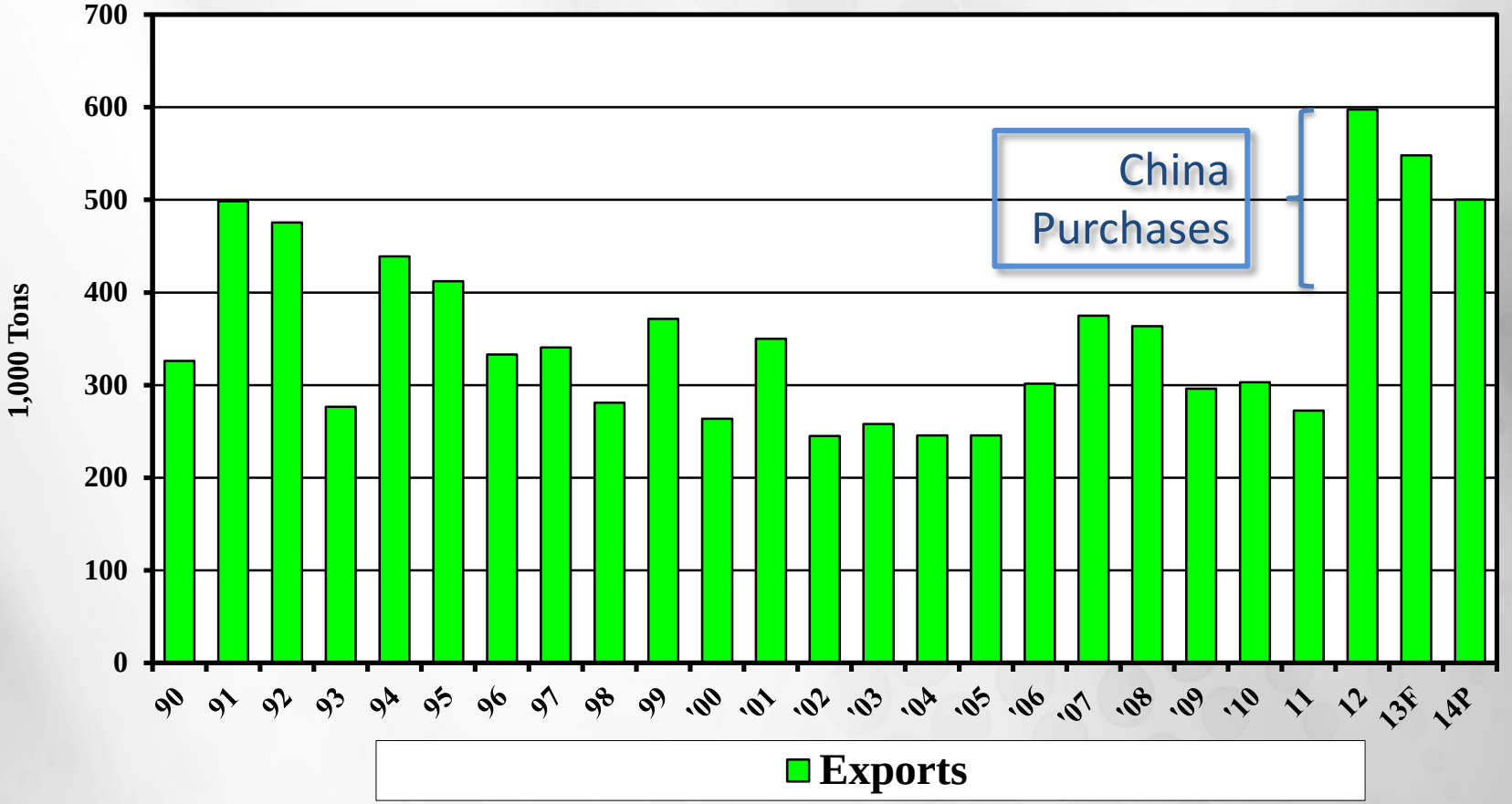
Shelled Edible Use in Primary Products, Total Shelled & In-Shell Use

1,000 lbs	**Aug 14' to Nov 14'**	**% Diff from Prev. Year**
Candy	131,697	NR
Peanut Butter	450,074	9.8%
Snacks	145,533	-1.3%
Total*	**740,718**	**+ 5.4%**
In-Shell	47,696	0%

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 contracts offered for $400 per ton. Not likely to go up much if at all.
- High Oleic premium?
- Peanut prices will be influenced by 2014 Farm Bill (generic base plantings).
- US acreage expected up at least 15%, GA 20%.
- 2014 PLC payment rate of $105 per ton.

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

Example with $400 Option Contract

Payment Yield	3,800	lb	
Base Acres	200	acres	
Market Year Average Pri	$415	per ton	
PLC Rate	$120		($535 - Higher of MYA Price or $355 Loan Rate)
PLC Payment	$38,760.00		(PLC Rate x Payment Yield x Base Acres x 85%)
$ per base acre	$193.80		
$ per ton	$102.00		
Option Contract	$400	per ton	
Yield	4000	lb	
Crop Revenue	$800	per acre	(Yield x Option Price)
Base Payment	$193.80	per acre	
Total Revenue	$993.80	per acre	
Total Price per Ton	$496.90		

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
Expected Yield	85	750	65	3,400	30
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

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.

2015 Peanut Crop Insurance Changes

- Farm Bill mandated Peanut Revenue Insurance.
- 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

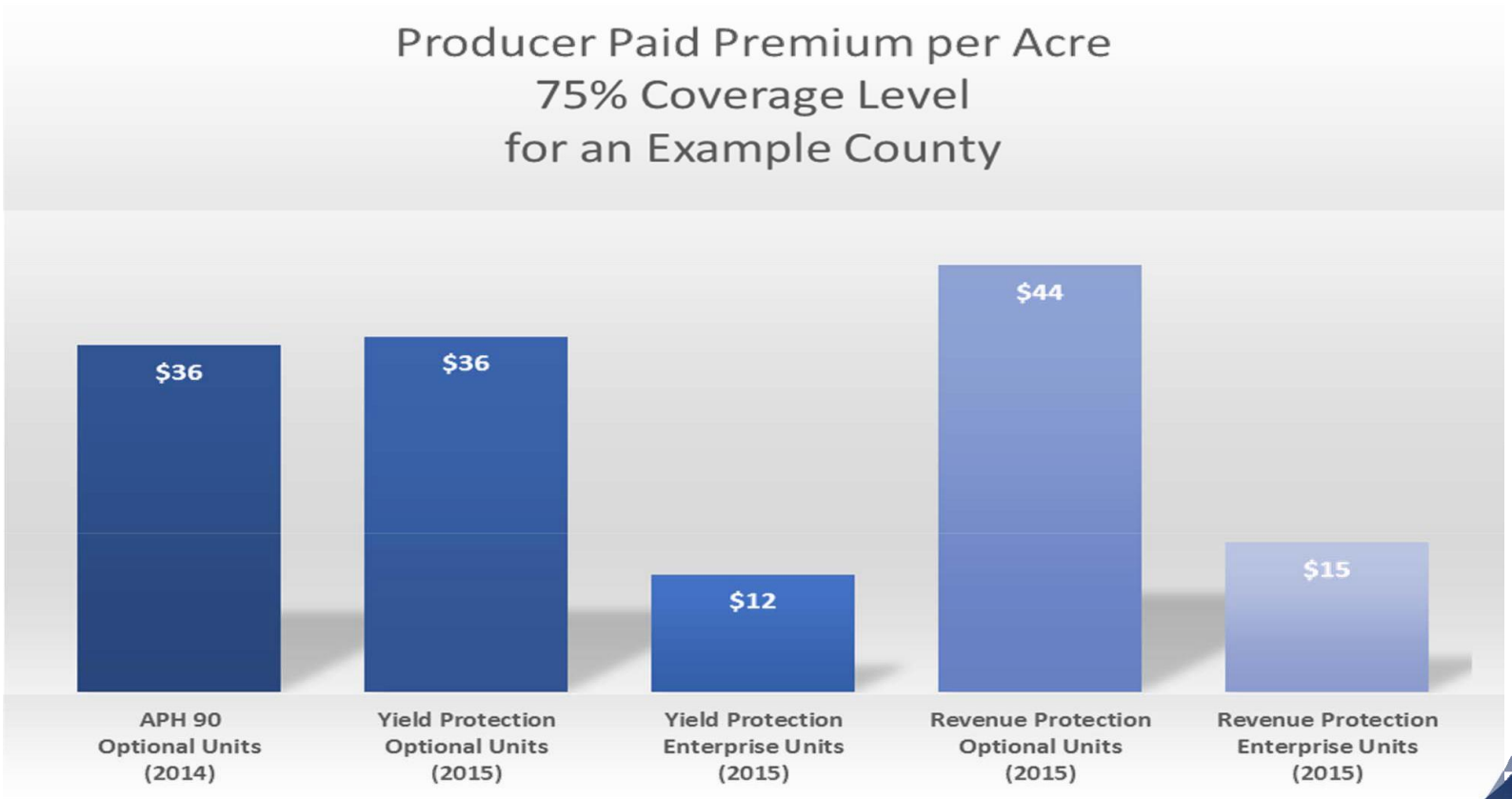
New Projected Price Methodology

- 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

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)

Thank You

Partial support provided by growers for
economics education and research

Nathan Smith

nathans@uga.edu

http://agecon.uga.edu/extension/

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