

Adjusting to a New Policy for Peanuts  
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The passage of a new peanut title for the new farm bill will lead to a couple of decisions for Georgia producers, potentially for the 2002 season. One decision is related to the establishment of a peanut base, and the other decision is concerned with what to grow.

The new farm bill will replace the quota system with a marketing loan system of production. In addition, peanut producers will receive an annual direct payment and a “counter-cyclical” payment in years of low prices. These two payments will be calculated from a newly established peanut base.

The seven major program crops, corn, cotton, barley, grain sorghum, oats, rice and wheat, currently have payment bases (base acreage times program yield) from which transition (AMTA) payments are calculated through production flexibility contracts. The AMTA payments are “decoupled” from current production meaning what a producer grows each year under the 1996 Farm Bill does not affect the amount of payment received by the producer. This provision is commonly known as planting flexibility. For example, the base acreage does not have to be grown in corn to receive the corn AMTA payment. In most cases, any commodity can be grown on base acreage with the exception fruits and vegetables in which there are special rules. Peanuts will have similar type of rules and payments with the establishment of a peanut base. Producers with a history of producing peanuts from 1998-2001 will be able to establish base acreage and a program yield for peanuts. Unique to peanuts, the producer with peanut base can assign it to a farm on his or another landowner’s land after which it becomes tied to the land.

The new farm bill will give producers the option to update base acreage on the major program crops according to 1998-2001 planting history or retain current AMTA bases. Producers will also have the choice to update program yields to be used in calculating counter-cyclical payments. Thus, one of the first major decisions for Georgia producers is whether to update base production for major program crops or retain their current AMTA base production.

Several farms have fewer base acres than acres farmed, thus updating to recent history is the likely choice for these operations. However, a farm cannot have more base acres than owned acres. With the establishment of a new peanut base, it is possible some Georgia producers could end up with more total base acres on their farm than tillable land they own. A decision will have to be made as to which crop base to keep and where to assign peanut base. Since peanut base has a one-time assignment, it can be moved to free up owned acreage.

Another choice is to decide which base to drop by examining which crop bases provide the larger payments. For example, if the corn direct payment is \$20 per acre, cotton \$37 per acre and peanuts \$38 per acre then you might give up corn base to meet owned land restriction (see Table 1). An added wrinkle to this decision is the counter-cyclical payment. In years of low prices, a

counter cyclical payment may be made on base acres for each crop. Assume that the maximum counter-cyclical payment for corn, cotton and peanuts is \$25, \$76 and \$111 per acre respectively. By adding the counter-cyclical payments to the direct payment the total *potential* payments for each crop base would be \$45, \$113 and \$149 per acre for corn, cotton and peanuts respectively. The only guaranteed payment is the direct payment. Remember that a low average season price triggers if and how much of a counter-cyclical payment is paid. So, what prices do over the life of the farm bill determines which base ends up paying more. To see this Table 2 shows what happens as peanut price changes from \$350 per ton to \$425 while holding the cotton price at loan rate.

Table 1: Example Direct and Counter-Cyclical Payments, \$ Per Base Acre\*

	Corn	Cotton	Peanuts
Direct Payment	20	37	38
Maximum (Potential) Counter-Cyclical Payment	25	76	111
Maximum Combined Payment	45	113	149

\*Direct and Counter-Cyclical Payments calculated using 85 bu., 650 lb. and 2500 lb. Program Yields respectively. Direct Payment Rate: Corn = \$0.28/bu., Cotton = \$0.0677/lb., Peanuts = \$36/ton. Target Price: Corn = \$2.60/bu., Cotton = \$0.724/lb., Peanuts = \$495/ton. Loan Rate: Corn = \$1.98/bu., Cotton = \$0.52/lb., Peanuts = \$355/ton.

Table 2. Difference Between Peanut and Cotton Payments for Direct, Counter-Cyclical and Combined Payments, \$ Per Base Acre.\*

Peanut Average Season Price	Peanut Payment minus Cotton Payment		
	Direct Payment	Counter-Cyclical Payment	Direct + Counter-Cyclical Payments
\$350	1	36	37
\$375	1	15	16
\$400	1	(12)	(11)

\*Assuming 2500 lb. and 650 lb. Program Yields; \$0.52 and \$350 ( up to \$400) Average Season Prices for Peanuts and Cotton Respectively. Direct Payment Rate: Peanuts = \$36/ton, Cotton = \$0.0667/lb. Target Price: Peanut = \$495/ton, Cotton = \$0.724/lb.

The Table 2 example assumes a program yield of 2500 pounds for peanuts and 650 pounds for cotton. The difference between the peanut direct payment and the cotton direct payment is \$1 per acre more for peanuts. The difference between the two maximum counter-cyclical payments is \$36 more for peanuts. The combined difference in the payments between crops is then \$37 per acre in favor of peanuts. As the price of peanuts go up, the counter-cyclical payment for peanuts is going down and thus the difference in peanut and cotton payments narrows and eventually favors cotton between \$375 and \$400 peanuts. Cotton and peanuts will both most likely have a

counter-cyclical payment in the first years of the farm bill.

The major adjustment for many Georgia peanut farmers will be making planting decisions and deciding what to grow from year to year. As a result of the new policy program, peanut prices will be more responsive to the market. Instead of quota determining supply, market prices (and loan rate) for peanuts and competing crops will be the major factor in how many peanuts are planted.

Looking at an individual decision, knowing one's cost of production is very important to be able to accurately project and make enterprise decisions. Using UGA Cooperative Extension Budgets as an example, 2002 variable cost for irrigated and non-irrigated peanuts are budgeted at \$461 and \$404 per acre respectively. Total economic costs are budgeted at \$703 and \$556 per acre excluding land and management. Using a 3500 pound yield for irrigated peanuts and 2500 pound yield for non-irrigated peanuts, the price required to cover total costs, or the breakeven price, is \$402 per ton and \$445 per ton respectively. When the market is not offering prices to cover total costs, producers need to at least cover their variable production costs. In this case, the breakeven price above variable costs is \$263 and \$332 per ton respectively. The price received from a contract or the market loan needs to be above these prices at a minimum.

To compare with other crops such as cotton, look at the returns above variable and total costs for each crop. Table 3 shows returns above variable costs using a net price (including LDP) of \$0.56 for cotton and \$350 for peanuts. Estimated returns are \$152 for irrigated peanuts, \$34 for non-irrigated peanuts, \$163 per acre for irrigated cotton, and \$34 non-irrigated cotton. These returns are what is left to pay for your direct costs of overhead and equipment, land and management. Plug in your own numbers to determine whether cotton or peanuts gives you the better return.

Table 3: Estimated Returns Above Variable Cost for Peanuts and Cotton, \$ Per Acre.

Enterprise	Expected Price (including LDP)	Expected Yield	Variable Cost	Return Above Variable Cost
Irrigated Peanuts	350	3500	461	152
Non-Irr. Peanuts	350	2500	404	34
Irrigated Cotton	0.56	1000	397	163
Non-Irr. Cotton	0.56	650	330	34

Notice that base payments are not included in the table. That is because the direct and counter-cyclical payments in the new farm bill are not tied to production. These payments will be received whether you plant peanuts or cotton. This is the new wrinkle of farm programs, planting flexibility. So your planting decisions should be based on the market and your cost of production, not program base payments.

To sum up the changes in the new farm bill, the safety net has been increased for program crops and peanuts now fit under that same policy. Though change is sometimes stressful, it also brings

new opportunities. By utilizing the marketing loan, producers can have more control over marketing their peanuts. This can be done collectively through cooperatives for example. Access to storage will be important in maintaining beneficial interest for marketing loan purposes. The Georgia is agronomically competitive in growing peanuts, so we expect peanuts along with cotton to still be grown predominantly. An opportunity to emphasize quality is possible under the new program. Given current trade policy and future direction, the new peanut program will make US peanuts much more competitive and greatly reduce the threat of imports taking large portions of US market share. Recent increases in domestic demand have gone to imports. Georgia producers and the US has the opportunity to recapture this market share.

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Three sources of payment income under the new peanut program:

**Direct (decoupled) Payments (DP)**- These are “upfront payments” that are direct each year of the farm bill. The payment rate is \$36 per ton on 85% of the peanut payment base. The direct payment is not tied to production so that producers with peanut base receive the direct payment regardless of what is planted.

$$DP = \text{Base Acreage} \times 85\% \times \text{Program Yield} \times \$36$$

Example:

$$100 \text{ acres} \times 85\% \times 1.25 \text{ tons (i.e. 2500 lbs)} \times \$36 = \$3,825 \text{ or } \$38.25/\text{base acre}$$

**Loan Deficiency Payments (LDPs) and Market Loan Gain (MLG)** - The non-recourse marketing loan allows for a marketing loan gain or LDP when the average market price for peanuts is below the market loan rate. Producers can choose whether to place peanuts in the marketing loan or take an LDP and sell the peanuts in the market. LDPs and MLGs are based on the pounds of peanuts produced.

$$LDP/MLG = \text{Loan Rate} - \text{“Loan Repayment Price”}^*$$

\*No specifics are available on what how the Loan Repayment Price will be calculated for peanuts. This price would be similar to “posted county price” for corn or the “adjusted world price” in cotton.

Examples:	<u>Loan Rate</u>	-	<u>LRP</u>	=	<u>DP/MLG</u>
	\$355	-	\$300	=	\$55
	\$355	-	\$350	=	\$5
	\$355	-	\$400	=	\$0

**Counter-Cyclical Payments (CCP)** - These payments are triggered when the average season

price falls below a target level. The concept is similar to the old target price deficiency payments except for a couple of major differences. Counter-cyclical payments are not tied to production but calculated on historical production or the peanut base. Payments are made on 85% of the historical production base. The calculation of the Counter-Cyclical Payment is given in the farm bill proposals as follows:

$$\text{CCP} = \text{TP} - \text{FDP} - (\text{ASP or NLR, whichever is higher}) \times \text{Base Acreage} \times 85\% \times \text{Payment Yield}$$

CCP = Counter-cyclical payment

TP = Target price

ASP = Average season price

NLR = National loan rate

Example:

$$\$495 - \$36 - \$355 * 100 \text{ ac.} \times 85\% \times 1.25 \text{ tons (or 2500 lb)} = \$11,050 \text{ or } \$110.50/\text{base acre}$$