

2014 Farm Bill: Peanuts – Does Wall-to-Wall Acreage Potential Exist?

National Center for Peanut Competitiveness

February 22, 2014

The National Center for Peanut Competitiveness started building peanut representative farms in 2002. The first set of representative farms covered the Southeast peanut production region. In 2006, the Peanut Center expanded the coverage area to the entire Peanut Belt. Presently, the Peanut Center has 22 representative peanut farms stretching from Virginia to New Mexico. These representative farms were updated from January to March, 2013. This ensured that the Peanut Center had the most accurate and representative peanut data base. With the passage of the 2014 Farm Bill, there have been concerns expressed about planted peanut acreage being wall-to-wall. This document addresses this issue and provides key points as to why this should not happen if peanut buying points, shellers and others provide the facts to farmers and that farmers look at their operations and when considering planting decisions.

1. Peanuts are a rotational crop. Extension Service scientists recommend at least a 3 or 4 year rotation.
2. Reduction in rotation time has significant impact on peanut yield and cost of production.
 - a. Peanut yield will decrease.
 - b. Cost of production will increase.
 - c. Effective control of pigweed would diminish without rotation leading to significantly higher cost of production due to additional chemical use.
3. Virginia peanut contracts for 2014 were in the \$525/ton contract range with little contracting done prior to the completion of the 2014 Farm Bill.
4. For the 2013 crop year, Virginia peanut contracts ranged from \$550 to \$650/ton in spite of the tremendous total peanut carryover. These contract prices were required to have farmers grow Virginia peanuts.
5. For the 2013 crop year, Spanish peanut contracts were approximately \$650/ton in spite of the tremendous total peanut carryover. These contract prices were required to have farmers grow Spanish peanuts.
6. For the 2013 crop year, the target price for peanuts was \$495/ton while the contract price for runner peanuts was approximately \$450/ton.
 - a. Georgia's 2013 peanut planted acreage was 430,000 acres. The lowest planted acreage since 1926.
 - b. Assuming a normal rotation, Georgia peanut planted acreage could range between 510,000 to 540,000 acres.
 - c. U.S. 2013 peanut planted acreage was 1,067,000 acres. The lowest planted acreage since 1926.
7. It took a runner peanut contract price of \$650/ton for Georgia to plant 735,000 peanut acres in 2012. This was significantly below the 1991 planted acreage of 900,000 acres.
8. A peanut reference price of \$495/ton had no impact on peanut planted acreage.

9. The peanut reference price of \$495/ton has been in effect since the 2002 Farm Bill, yet the variable cost of production for peanuts in the Southeast has increased by approximately 75%. (Data from the National Center for Peanut Competitiveness' Southeast peanut representative farms.)
10. The difference between a farm's payment yield and their expected/actual yield will significantly impact the Price Loss Coverage payment.
 - a. For example, looking at Georgia, the updated statewide payment yield would be 3,365 lbs/acre (90% of 2008-2012 statewide yield average) while the statewide expected/actual yield could be 4,505 lbs/acre (average of 2012 and 2013).
 - b. The difference in payment yield to expected/actual yield at the state level would be 1,140 lbs/acre which would not be covered by the Price Loss Coverage.
 - c. A farmer is only paid on 85% of his base acres.
 - d. Assume wall-to-wall peanut acres which could lead to an effective price being \$355/ton. Using the Georgia statewide payment yield and expected/actual peanut yield as discussed above, the "real" peanut price to a farmer for all of their production under the Price Loss Coverage would be \$469.29/ton.
11. The effective price used in the calculations of potential PLC payments is the higher of the national average market price during the 12 month marketing year or the national average loan rate (i.e., \$355/ton).
 - a. The national average market price is the average of all prices for runners, Virginias, Spanish, and Valencia peanuts as reported by USDA-NASS.
 - b. Historically, runner peanut prices have been lower than the prices for the other types of peanuts.
 - c. Historically, runner peanut market price to farmers is less than the national average market price which means a farmer looking to grow runner peanuts will need to further reduce the "real" price for their peanuts.
12. A farmer will NOT get paid on the Price Loss Coverage until after October 1 of the following year which would be during the harvest season of the next year's crop.
 - a. Payment for 2014 crop would not occur before October 1, 2015.
 - b. If a loan must be paid which would be extended another year, the additional interest charges should be considered in the "real" price of the peanuts.
13. Cotton understands the concept of bidding for land to plant a crop. In the 1990s cotton gins bid land away from peanuts at very high rents to ensure cotton acreage.
14. Corn and grain infrastructure has been built in the last couple of years throughout the peanut belt. There is a positive basis to the corn price in Georgia. Corn is the best rotational crop for peanuts. It fits well within the equipment and labor constraints facing a farmer. It is the best crop to aid in the control of pigweed problems.