College of Agricultural and Environmental Sciences

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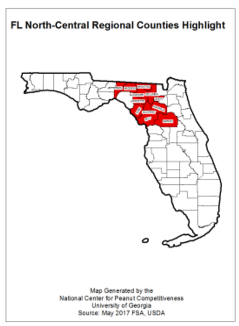
June 12, 2017

Comments on Florida Peanut Federation's Document to the U.S. House Agriculture Subcommittee on General Farm Commodities and Risk Management Public Hearing: The Next Farm Bill: Commodity Policy Part II

One needs to understand the region of Florida that the Florida Peanut Federation (FPF) represents. The map below shows approximately the area. This region has over 154,000 acres of crop base of which 8,466 acres is generic base and over 68,000 acres is peanut base. Since 2009 based on USDA-FSA certified acres, the region planted between 100,000 to 157,000 acres of covered commodities (i.e., corn, cotton, millet/grain sorghum, soybeans, wheat and peanuts). In fact, under the 2008 Farm Bill the Olympic average of planted peanut acreage was approximately 71,175 acres. Yet, under the 2014 Farm Bill the planted peanut acreage increased to about 80,748 acres. This represents a 13.4% increase in average planted peanut acreage.



U.S. government did not start as the document stated "starting in 1996, to unravel the agriculture commodity supply control mechanism." The 2002 Farm Bill shifted the peanut program from a supply management program to a market oriented program. The document incorrectly stated that peanut base was determined on the 1997-2001 production records. The truth is that peanut base was determined based on the 1998-2001 production records. While the base for all covered commodities except for peanuts was tied to the current farm land, peanut base was allocated to the actual peanut producers on record for the period of 1998-2001. The actual peanut producers had 1 year to place the peanut base on land and/or sell the peanut base.

Most of the land referenced in the FPF document was new production land that had no history of production and thus no base. The value of land without base is significantly lower than land with base which implies a lower cost of production.

FPF states that after the 2014 Farm Bill was implemented the peanut market was immediately distorted. What do they mean by distorted? Supply exceeding demand? If so, one would expect significant peanut forfeitures to the government. That has not happened. The 2014 peanut forfeitures were due to the bankruptcy of a sheller and how USDA decided to handle those peanuts. The 2015 crop had only approximately 62 tons forfeited but were sold by the government above the loan rate, thus no cost to the government. The peanut industry predicts that there will be no forfeitures from the 2016 crop. The implications are that the market is working. There is no distortion.

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Based on USDA-FSA data, less than 10% of the attributed generic acres have been attributed to peanuts. FPF alludes to record carry-out levels. However, FPF must have been using old USDA data since USDA discovered during the summer of 2016 that they overestimated the carry-out of the 2015 crop by over 800,000 tons and corrected their data. This error led to a significant increase in peanut price for unsold peanuts in the loan to over $450/ton. The peanut industry began offering 2017 forward option contracts in the range of $475-$550/ton. With prices at this level, any potential peanut PLC payment will be negligible after one takes into account the sequestration and payment on only 85% of the peanut base. Thus, any potential PLC payment will not influence the 2017 peanut planting decisions. Peanut farmers are planting for the market. This implies demand exceeds supply.

Interesting, the FPF document urges the committee to "restore the market based provisions of the 2002 Farm Bill." In fact, the 2002 and the 2008 Farm Bills peanut provisions are identical. The 2014 Farm Bill's peanut provision is identical to those earlier ones except the reference price was increased from $495 to $535, an 8% increase. Yet variable cost of production from 2002 to 2012 in the Southeast increased more than 75%.

FPF document recommends a reference price of $410/acre based on the UGA extension irrigated peanut production budget. If that number was accurate, the implications would be given the UGA yield estimate of 2.35 tons/acre for that budget a reference price of about $175/ton which is more than a 300% reduction in the current reference price in the 2014 Farm Bill. Furthermore, the FPF recommended reference price is over 200% below the loan rate recommendation of $355/ton by FPF. However, the number is really $410/ton in the UGA extension budget. However, that budget was developed in late fall 2016 and published around December 2016. Upon close examination of the budget, one will note that it has an old seed price of $0.75/lb based on 2016 cost when in reality the 2017 peanut seed cost is approximately $0.85/lb. FPF recognized that the UGA budget did not include land rent which is critical in determining the cost of production. A low estimate for irrigated land rent is $200/acre. UGA extension had the 2013 yield estimate at 4500 lbs/acre. They increased the yield to 4700 lbs/acre from 2014 and on. However, NASS data indicates that Georgia peanut yield has declined by 14% since 2012. If one incorporates the seed and land rent plus reduce the peanut yield by only 4% to 4500 lbs/acre into the UGA extension budget, the cost per ton increases from $410/ton to $536/ton. This corrected cost per ton is slightly higher than the reference price of $535/ton.

The peanut provision in a Farm Bill is not written for a particular region of the peanut belt but for the entire peanut belt from Virginia to New Mexico. One needs to look at national numbers and not sub regional numbers for irrigated peanuts. The National Center for Peanut Competitiveness maintains 22 peanut representative farms spanning the entire peanut belt. Taking the peanut cost of production that includes irrigated and non-irrigated peanuts cost from the 22 representative farms and utilizing the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri inflation factors for agriculture inputs, one obtains the estimated 2017 U.S. peanut cost of production to be $611.70/ton. Significantly higher than the current reference price of $535/ton.