Risk Management Tools for Peanuts

Hot Topics

Georgia Peanut Tour

September 17, 2013
What is Risk in Agriculture?

- Agricultural producers profit when the revenue generated from production exceeds the costs of production. Uncertainty of revenue can be defined as risk.
- Born out of this uncertainty is the possibility of injury or loss.
- Risk can be defined as the possibility of adverse outcomes due to uncertainty and imperfect knowledge in decision making.
Agricultural Risk Categories

• Production
• Marketing
• Financial
• Legal
• Human Resources
Risk Categories

- Production
- Marketing
- Financial
- Legal
- Human Resources
Production Risk

• Weather - drought, excessive heat, hail, excess moisture, wind, frost, freeze.
• Pests – insects, parasites, wildlife
• Diseases
• New Technology
• Machinery Efficiency
• Availability, Quality and Efficacy of Inputs
Risk Management Tools

- Irrigation
- Crop Insurance
- Enterprise Diversification and Rotations
- Government Programs
- Hiring Custom Operators
- Excess Capacity
- Contract production (vertical integration)
- Precision Ag
- Transgenic Seed
- GMOs
- Lease Arrangements
- Applied Research and Extension
Risk Management Tools for Peanuts

- Irrigation
- Crop Insurance
- Enterprise Diversification and Rotations
- Government Programs
- Hiring Custom Operators
- Excess Capacity
- Contract production (vertical integration)
- Precision Ag
- Transgenic Seed
- GMOs
- Lease Arrangements
- Applied Research and Extension
## Irrigation – 2013 Peanuts

<table>
<thead>
<tr>
<th>State</th>
<th>% Peanuts Irrigated</th>
<th>Acres Irrigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALABAMA</td>
<td>4%</td>
<td>5,744</td>
</tr>
<tr>
<td>ARKANSAS</td>
<td>99%</td>
<td>11,621</td>
</tr>
<tr>
<td>FLORIDA</td>
<td>29%</td>
<td>38,662</td>
</tr>
<tr>
<td>GEORGIA</td>
<td>51%</td>
<td>217,520</td>
</tr>
<tr>
<td>MISSISSIPPI</td>
<td>8%</td>
<td>2,731</td>
</tr>
<tr>
<td>NEW MEXICO</td>
<td>100%</td>
<td>7,185</td>
</tr>
<tr>
<td>N CAROLINA</td>
<td>1%</td>
<td>440</td>
</tr>
<tr>
<td>OKLAHOMA</td>
<td>96%</td>
<td>15,861</td>
</tr>
<tr>
<td>S CAROLINA</td>
<td>15%</td>
<td>12,040</td>
</tr>
<tr>
<td>TEXAS</td>
<td>96%</td>
<td>110,452</td>
</tr>
<tr>
<td>VIRGINIA</td>
<td>1%</td>
<td>121</td>
</tr>
</tbody>
</table>

Source: FSA Crop Acreage, September 17, 2013
Crop Insurance

• Individual Multi-peril Crop Insurance (MPCI)
  – Yield
  – Revenue (introduced in 1996)

• Area MPCI
  – Yield Index based on NASS county yields
  – Revenue Index

• Private Supplemental Coverage
  – Hail, Wind, Fire
Combo Policy

• Crops with futures contracts have the choice of Combo Policy in which producer can choose between:
  – Yield Protection
  – Revenue Protection
  – Revenue Protection with Harvest Price Exclusion

• Commodity exchanges determine the projected price used to establish the insurance guarantee and premium
Peanuts

• Yield Protection – Actual Production History (APH) policy that triggers when actual yield falls below APH guarantee yield. (old MPCI)
  – Varying coverage levels of price and yield ranging from 50% to 85%
  – Units
    • Basic
    • Optional
    • Enterprise
    • Whole Farm
Who Participates in the U.S. Crop Insurance Partnership?

Acres enrolled, 1 dot-20,000


College of Agricultural and Environmental Sciences
College of Family and Consumer Sciences
## Crop Insurance Participation - GA

<table>
<thead>
<tr>
<th>Crop</th>
<th>State</th>
<th>Cov Lvl</th>
<th>Ins Plan</th>
<th>Delivery</th>
<th>Pol Sold</th>
<th>Pol Earn Prem</th>
<th>Pol Indem</th>
<th>Units Earn Prem</th>
<th>Units Indem</th>
<th>Net Acres</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>50</td>
<td>APH</td>
<td>RBUP</td>
<td>492</td>
<td>172</td>
<td>1</td>
<td>360</td>
<td>2</td>
<td>19,365</td>
<td>9,029,275</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>50</td>
<td>APH</td>
<td>RCAT</td>
<td>1,145</td>
<td>405</td>
<td>0</td>
<td>622</td>
<td>0</td>
<td>77,352</td>
<td>21,547,520</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>55</td>
<td>APH</td>
<td>RBUP</td>
<td>72</td>
<td>27</td>
<td>1</td>
<td>70</td>
<td>2</td>
<td>4,047</td>
<td>2,072,114</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>60</td>
<td>APH</td>
<td>RBUP</td>
<td>530</td>
<td>183</td>
<td>4</td>
<td>539</td>
<td>6</td>
<td>23,486</td>
<td>12,289,685</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>65</td>
<td>APH</td>
<td>RBUP</td>
<td>2,303</td>
<td>804</td>
<td>13</td>
<td>2,208</td>
<td>26</td>
<td>89,891</td>
<td>48,806,170</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>70</td>
<td>APH</td>
<td>RBUP</td>
<td>3,013</td>
<td>996</td>
<td>24</td>
<td>2,696</td>
<td>32</td>
<td>123,676</td>
<td>71,780,945</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>75</td>
<td>APH</td>
<td>RBUP</td>
<td>1,398</td>
<td>402</td>
<td>9</td>
<td>1,048</td>
<td>10</td>
<td>51,454</td>
<td>33,159,913</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>80</td>
<td>APH</td>
<td>RBUP</td>
<td>196</td>
<td>65</td>
<td>3</td>
<td>208</td>
<td>7</td>
<td>16,096</td>
<td>13,295,959</td>
</tr>
<tr>
<td>PEANUTS</td>
<td>GEORGIA</td>
<td>85</td>
<td>APH</td>
<td>RBUP</td>
<td>11</td>
<td>6</td>
<td>0</td>
<td>9</td>
<td>0</td>
<td>310</td>
<td>187,322</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9,160</td>
<td>3,060</td>
<td>55</td>
<td>7,760</td>
<td>85</td>
<td>405,677</td>
<td>212,168,903</td>
</tr>
</tbody>
</table>

College of Agricultural and Environmental Sciences
College of Family and Consumer Sciences
Crop Insurance Shortcomings for Peanut Growers

- No Revenue Policy
- Not a good safety net for low price periods
- Heterogeneous fields and soil types
- Combination of irrigated and non-irrigated acres
- Increase use and popularity in Midwest among corn and soybean farmers is due to:
  - Revenue Insurance
  - Lower premiums due to discounts for trend adjustments, enterprise units, good yield histories until last year.
  - Historically high prices
Peanut Marketing Tools

• Marketing Contracts
• Marketing Assistance Loan
• Marketing Cooperative
• Cooperative or Growing Owned Processing
Marketing Contracts

• Option Contract
  – Sheller pays the grower an option premium above the loan rate of $355 per ton in order to have the right to purchase the growers peanuts.
  – $145 option premium plus $355 loan rate gives the grower $500 per ton base grade for peanuts.
  – Contracts can have clauses and specifications such as delivery, when payment is received, tonnage or volume contracted, right to buy additional production, shrink, storage, option expiration, etc..
Marketing Contracts

• Flex Price Contract
  – Base price per ton tied to shelled price.
  – Like a minimum price contract with grain or cotton.
  – Grower has a period of time to price peanuts after delivery.
  – Limit on price.

• Pool Contract
  – Share in the profits of the similar to a marketing pool. Can have a range of low and high price.
Marketing Assistance Loan

- 9 Month Loan
- $355 per ton
- Handling and storage costs are paid by CCC up front and reimbursed when peanuts are redeemed from the loan.
- Can be forfeited and CCC eats the handling and storage costs and markets the peanuts after expiration.
Cooperative & Grower-Owned Processing

- Cooperative pools peanuts and sells to sheller, sharing the profits with members.
  - Receive $355 up front and patronage is paid later in the year.
- Grower-owned shellers - members obligated to deliver peanuts equal to stock shares and price received depends on profits of the sheller.
- These strategies don’t necessarily bring the grower the best price, or lowest price.
Summary

• Peanut growers have tools at their disposal to help manage risk but they are limited compared to grains and cotton due to lack of a futures exchange for peanuts.
• Working with limited information on price.
• Irrigation and adoption of technology are strategies being used to reduce risk.
• Crop insurance is heavily utilized but not really a safety net.