Meeting with Southern Peanut Farmers

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December 14, 2010

Discussion Agenda

- How is the program working?
- Peanut Exports
- Loan Timing
- Price Discovery
- Program changes worth exploring

How is the peanut program working?

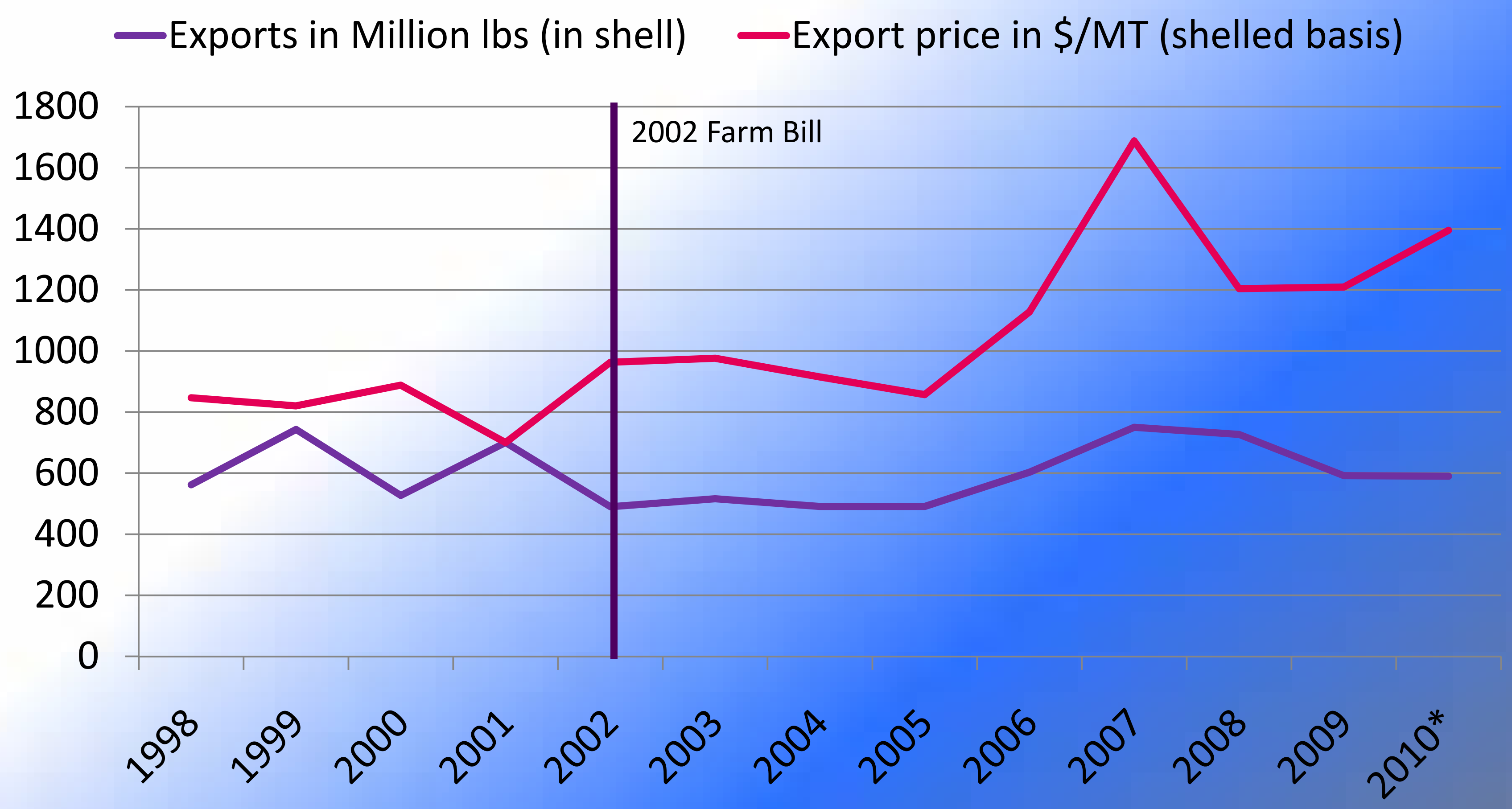
- Better. Price discovery is still a hindrance, but NASS appears to be capturing more accurate price data, and EPAS informally polls industry contacts for shelled prices.
- Although the program has managed to minimize peanut forfeitures, large swings in peanut stocks continue to result in significant price fluctuations for peanut farmers.

Excess peanut supply in a market-oriented program

- Peanut quota program was a supply management program. The marketing loan program is expected to use price changes to signal increased production and to move excess supply.
- Old program relied on
  - Peanut exports
  - Peanut crush

  to relieve supply pressure.
- Is there an alternative to these?

Peanut export trend since 1998



Source: Foreign Agricultural Service, USDA

Peanut Exports

- Trend since 2002 shows increasing world price, while peanut exports remain relatively stable.
- World market prices (after adjustment to US farmer stock basis) have been above loan rate in recent years, so the marketing loan does not appear be a limiting factor.
- We asked shellers whether the NPP was a limiting factor in peanut exports in recent years, and they emphatically stated that it is a non-issue.

What did shellers say?

"The export market is a secondary market for US peanuts."

"US shellers would rather sell to US manufacturers, with Canada as a second choice."

Why?

- The US market is a vibrant, growing market.
  - Domestic manufacturers paying to promote US peanuts and working to grow consumption. They will only continue to do so if they have a good supply of quality edible peanuts.
- Less headache, cost, and risk when selling in the US
  - Sell on FOB basis, US manufacturers handle logistics.
  - To compete with Argentine peanuts, shellers must risk being either long or short on peanuts due to different harvest periods.
  - Documentation, credit issues, expensive aflatoxin testing, ocean freight risk.
- The export market is the primary market in Argentina.
  - Argentine shellers don't have the luxury of selling to a domestic market. They are forced to compete on price and take on the risks of exporting. This makes them a better fit for selling to the EU

What about crushing excess peanuts?

Unlikely to have intended result.

- What if we had crushed 2009-crop peanuts rather than allowing the market to work? Shellers would not have enough edible peanuts right now, similar to the situation in 2002, when 2001-crop peanuts were forfeited and crushed. This could create an incentive to import peanuts and a disincentive for manufacturers to advertise peanut products.

Alternatives?

- Allow the market to work.
- In a market-oriented program, the price must adjust to bring supply and demand back into balance. This is how it works for other commodities, but it occurs in a more measured way because sales are negotiated throughout the year. Because peanuts are contracted ahead of planting/harvest, the only time the price can decrease (or increase) is with next season’s contract price.
- In many cases, peanut growers must contract in order to secure financing for the crop. Addressing this issue rather than managing peanut supply is a more market-oriented solution.

Increasing Market Flexibility

- How to reduce the need for early contracting?

Risk Management

Producers of other commodities have futures markets and/or revenue insurance with which to hedge price changes. This reduces the need to contract early and allows producers to benefit from advantageous price movements.

Risk Management

- A futures market is unlikely for peanuts, but peanut crop revenue coverage (CRC) has been proposed to the FCIC board.
- Lack of price transparency presents a challenge to obtaining a peanut CRC.
- The issues include how to project a peanut futures price and how to measure peanut price volatility.

Improving Price Transparency

- USDA will soon propose mandatory reporting of both farmer stock and shelled peanut prices to Congress.
- Shelled peanut prices were recently added to the proposal due to their potential use in estimating a peanut futures price.
- Farmer stock peanut prices remain important to raising coverage levels for the existing disaster insurance program, in addition to SURE, ACRE, etc.
- Estimating price volatility in the absence of a futures market may be the largest hurdle to obtaining CRC.

Impact of price reporting on CCP

- Assuming that reported farmer stock peanut price increase under mandatory reporting, the likely impact will be to decrease counter-cyclical payments.
- The CCP is intended to work this way; it is a safety net, not a guaranteed payment like the direct payment.
- The CCP is also limited and lacks flexibility because it guarantees a fixed value ($495). In a high-priced baseline market, producers have more to gain from a CRC than the CCP. At present, prices above $459 ($495-$36) mean that no CCP will be made.

How to make the 2012 Farm Bill work better for peanut producers?

Let's discuss!