Risk Management Tools for Peanuts

Hot Topics

Georgia Peanut Tour

September 17, 2013

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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

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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

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Irrigation – 2013 Peanuts

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

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

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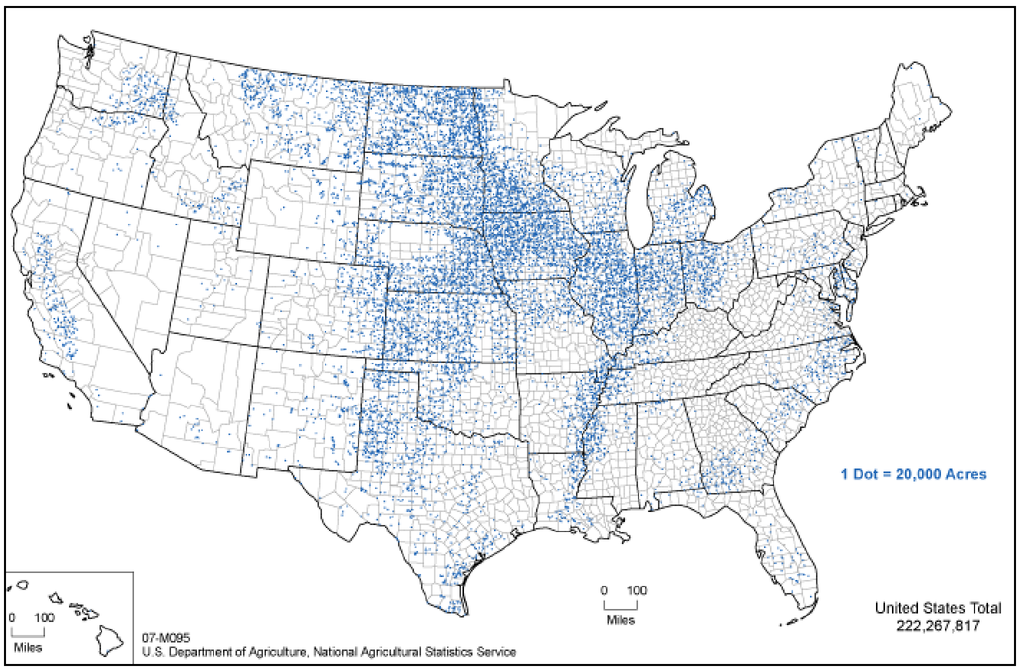
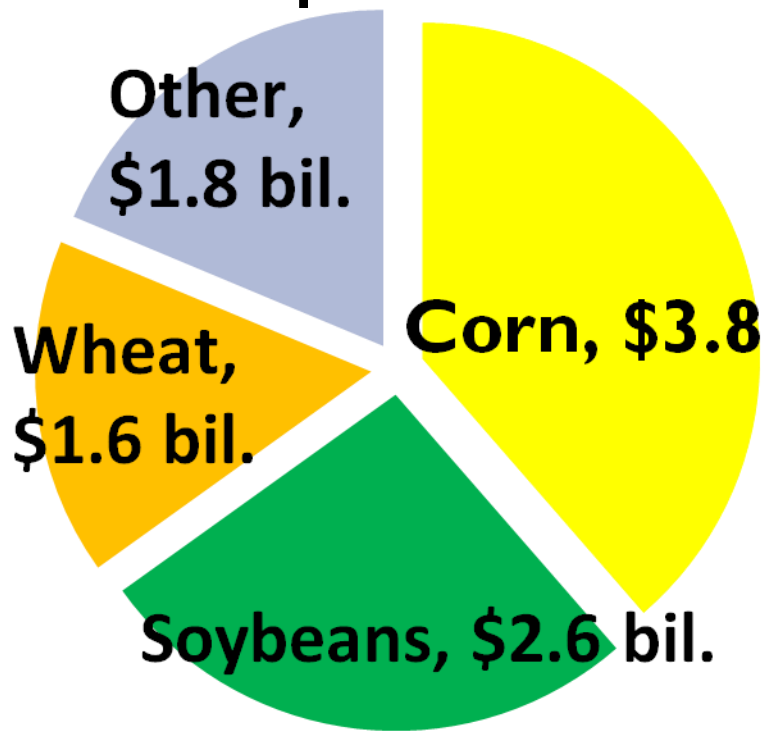
Who Participates in the U.S. Crop Insurance Partnership?

Acres enrolled, 1 dot-20,000



Premium by major crop: 2008-09



Source: Collins, K. 2009 Presentation: “Future of Crop Insurance in Volatile Markets”.

Crop Insurance Participation - GA

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

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

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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.