OSU

Current Report

PUBLISHED BY OKLAHOMA STATE UNIVERSITY
DISTRIBUTED THROUGH COUNTY EXTENSION OFFICES

THE 1978 PEANUT PROGRAM
Provided by the Food and Agricultural Act of 1977

James N. Trapp
Agricultural Economist

The first significant change in national peanut program regulations in over twenty years is contained in the Food and Agricultural Act of 1977. The legislation retains some elements of the old program such as acreage allotments and price supports but introduces several new concepts. The new concepts in the program will require peanut producers to make decisions never faced in the past and will reduce the revenues which peanut farmers can obtain through guaranteed government markets for peanuts. This report will outline the provision of the new peanut program, briefly contrast it to the past program and comment upon the economic decisions producers must make under the new program.

The 1978 Peanut Program

Table 1 summarizes and compares the old program as it existed in 1977 and the new program for 1978. The following comments highlight the material in the table.

Acreage Allotments: Allotments will remain a part of the new program. By December 1, the Secretary of Agriculture must announce the national allotment for the following year. The allotment must be at least 1.614 million acres and shall be apportioned among the states generally as in the past. Allotments probably will not exceed the minimum level in the near future.

Poundage Quotas: The national poundage quota must be announced by the Secretary before December 1. The minimum national quota will be 1.680 million tons for 1978 and decrease five percent annually thereafter. The Secretary may raise the national quota at any time he deems it necessary. The 1978 quota represents a volume of production about the same as the estimated 1977 production but 10 percent less than the 1976 production and 13 percent under 1975 (poor yields in the southeast reduced production in 1977).

The poundage quota for an individual farm will be determined as follows:

> Farm quota = Farm base production poundage multiplied by a national factor where:
>
> "Farm base production poundage" equals the acreage allotment for the farm multiplied by the farm yield.
>
> "Farm yield" equals the average yield on the farm for the best three out of the last five years. The farm yield on farms that did not produce peanuts for at least three years during the base period (1973-1977) and for those that have substantial changes in farm operation will be set through yield appraisals.
>
> "National factor" will be computed so that the sum of the farm quotas will equal the national quota.

Table 1. Comparison of the 1977 peanut program with the new 1978 program.

Item	1977 program	1978 program
National acreage allotment	1,614,000	1,614,000 acre minimum, announcement before December 1.
Transfer of allotments	Secretary of Agriculture allowed transfer within a county.	Legislation required that transfers within a county be allowed. An allotment transfer also shifts a proportionate share of the quota.
National poundage quota	None	Minimum of 1,680,000 tons. The minimum declines 5 percent per year thereafter.
Farm poundage quotas	A producer may market as many peanuts as can be produced within his allotment.	A producer's quota will be a percentage of his average yield for the best three years during 1973-77 multiplied by the allotment.
Low yield provisions	None, a low yield reduced the amount of peanuts marketed.	Undermarketings from quota may be added to the quota for the next year under current conditions.
Authority to produce "additional" peanuts	Not applicable	Peanuts in excess of a producer's poundage quota but grown within his allotment may be marketed as "additional" peanuts.
Average price support level	$430.50 per ton (75 percent of parity) minus a $20 per ton deduction for service charges.	$420 per ton on quota peanuts and $250 per ton on additional peanuts.
Allowable uses of "additional" peanuts	Not applicable	For crush or export. May also be used for domestic edible uses (food or seed) if marketed through the support program and purchased at a specified minimum price.
Production under contract	No provisions for contract production.	"Additional" peanuts may be produced by allotment holders under contract for crush or export if the contract is submitted for approval before June 15.
Export or CCC peanuts.	Minimum price of 100 percent of support level plus costs to CCC.	Secretary of Agriculture will announce pricing provisions for CCC peanuts at a later date.
Disposition of surplus peanuts	Sold for domestic crush through a bid procedure	Secretary of Agriculture will announce pricing provisions for CCC peanuts at a later date.

Beginning with the 1979 crop, the farm quota will be raised if the producer undermarkets his quota the previous year. A requirement for carrying over the undermarketings is that the producer must have planted sufficient acreage, based on his farm yield in the previous year, to have expected to market his quota. Also, the total of the undermarketing carryovers may not exceed 10 percent of the quota on a national basis, but an individual's carryover is not limited unless the national maximum is reached.

Quota Peanut Price Supports: Price supports will continue fo be offered for peanuts, but at two levels. The higher price support level will apply to quota quantities. The new program calls for support prices on quota peanuts to average at least $420/ton on a national basis for 1978-1981. No deductions will be made from this price for inspection, handling and storage, which in the past have amounted to about $20/ton. Hence, the new support price in real terms is about $10/ton higher than the 1977 support price of $430.50. However, since the parity concept has been abandoned, past year-to-year increases in support prices of $15-20/ton required to maintain parity will not continue.

Additional Peanut Price Supports: The methods provided for marketing any peanuts produced over the quota is the really new and unique part of the 1977 program. This aspect of the program creates major decision problems for producers. Most producers will be able to produce their quota on less than their total acreage allotments. Peanuts grown in excess of the quota, but within the acreage allotment, are referred to as "additional peanuts." Additional peanuts will also be price supported, but depending upon market conditions, at a price lower than quota peanuts. The support price for additional peanuts will be announced by February 15 and will reflect expected world market conditions for peanuts as well as the expected price of peanuts for crushing.

Producer Decisions Under the 1978 Program

The Secretary of Agriculture has announced that for the 1978 crop year 79.36 percent of each farm's production quota will be supported at $420 per ton. The remaining production grown within the farm allotment will be supported at $250 per ton. The mechanism for determining the value of different grades and qualities of peanuts has not been announced. Only peanuts which are eligible for the domestic edible market (i.e., meet quality standards) may be marketed against the quota.

Planting Decisions: Under the new two support price peanut program producers should carefully consider whether or not to produce peanuts in excess of their poundage quota. Producers can likely fill their quota with less than 100 percent of their allotted acres being planted to peanuts. Indeed, by 1981 if current improvements in yield are maintained and only minimum poundage quotas are granted, quotas can be filled with production from about two-thirds of the allotted acres. A producer does not risk losing or having his allotment reduced if he plants enough acreage, based on his farm yield, to produce at least 75 percent of his quota.

Each producer must decide for himself if the price he can obtain for "additional peanuts" will cover his cost of producing them. In the current case of "additional peanuts" being priced at $250 per ton this is a close decision according to cost of production estimates available at Oklahoma State University. Available budgets indicate that a peanut price of $250 per ton will likely cover "out of pocket" production cost but leave little or negative net residual returns to land and management when machinery depreciation, taxes and owner-operator labor are included in production cost (for additional information on production costs see the Oklahoma Enterprise Budget Book).

In addition to considering whether net profits or losses can be earned by producing "additional peanuts," the returns from utilizing land and other resources to produce an alternative crop should be considered in deciding whether to produce "additional peanuts."

A producer who does not plant for the "additional peanut" market may choose from several strategies for meeting his quota. He may plant enough acres to be relatively sure of meeting his quota, even if poor yields are encountered. Any production over the quota could be marketed through the "additional peanut" market. Alternatively the grower may limit his plantings in such a way that a low yield would result in an undermarketing of the quota. In the event that undermarketings occurred he could take advantage of the provision allowing for the carryover of at least 10 percent if not all of his undermarketings (provided as noted before he planted enough acreage, based on his normal farm yield, to produce his quota). Again, cost of production, market expectations, and the overall operation of the farm (rotational consideration, field size, etc.) are factors to be considered in electing which strategy to follow.

Method of Selling Additional Peanuts: The producer has a choice of two ways to market any "additional peanuts" he may produce. He can sell additional peanuts through his usual selling point for the "additional peanut" support price or he may elect to contract for direct sale to a handler. Contracts must be submitted for approval to designated representatives of the Department of Agriculture before June 15. A major purpose of requiring the contracts to be reported is to assure that "additional peanuts" do not enter the edible market but are either crushed or exported.

Potential Long-run Implications of the 1977 Food and Agricultural Act Peanut Program

The potential long-run impact of the new peanut program cannot be assessed with certainty since it is dependent upon future decisions of the Secretary of Agriculture. Each year the Secretary must determine the peanut acreage allotment, quotas, quota support price and "additional peanut" support price. It is anticipated that "additional peanut" support prices will fluctuate to reflect domestic oilseed and world peanut market prices. Potential demand to contract peanuts at a price above $250 per ton in 1978 and the next few years would appear to have to be for the purposes of export. Soybeans are a strong competitor to peanuts in the domestic crushing market and would have to rise to a price of over $6 per bushel before $250 per ton peanuts would be favored over soybeans for crushing purposes. Table 2 lists historically competitive crushing price ratios between peanuts and soybeans.

Table 2. Soybean Prices and Associated Competitive Peanut Crush Prices.

Soybean Price ($/bu.)	Competitive Peanut Crush Price ($/ton)
$5.00	$180
5.50	198
6.00	216
6.50	234
7.00	252

If the price of "additional peanuts" remains in the neighborhood of $250 per ton, the long-run profitability of producing any "additional peanuts" appears questionable for Oklahoma producers. If the Secretary continues the past precedent of setting allotments and quotas at the minimum level the price of "additional peanuts" will become increasingly important in determining potential total and net revenue from peanut production; i.e., the minimum poundage quota will be decreasing 5 percent per year while production potential remains constant or increases due to improved yields. Therefore, decisions concerning whether or not to produce "additional peanuts" will be more critical and will be subject to changing market conditions affecting open market prices for "additional peanuts."

Many persons believe that because of budgetary pressures the Secretary will be forced to continue to set poundage quotas, allotments and support prices at minimum levels. This would cause the poundage quota, rather than acreage allotments to be the most restrictive factor with respect to income that can be earned from peanut production. As poundage quotas are reduced net income from peanut production will decline (barring extremely favorable "additional peanut" prices). The restrictiveness of the poundage quota and the possibility of declining income from peanut production can be expected to dampen the demand for peanut allotments and thus reduce their value.

0478 9.4M 10