Marketing Oklahoma Peanuts[1]

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Peanut producers need to understand marketing alternatives and how to calculate cash price. Producers can then decide which marketing alternative is best.

The following is a description of the peanut marketing system that was used for the 2002 Oklahoma peanut crop. Since 2002 was the first year of a new government program and peanut marketing system, buyers may change some buying procedures and contract specifications. However, if producers understand the current system, understanding the impact of changes will be easier.

This fact sheet will highlight essential parts of the marketing system and review a producer's marketing alternatives. Some alternatives may not be discussed.

Before peanuts enter into the marketing system, they must be officially graded and a Farm Service Agency form FSA-1007 must be completed. Information on the FSA-1007 is used to issue a warehouse receipt. The warehouse receipt may then be used to transfer ownership of the peanuts, obtain a CCC (Commodity Credit Corporation/USDA) loan, and/or used as collateral for a loan.

Key Points to Remember

1. Official grade and weight is entered on form FV-95 (no change).
2. Weights and grades listed on FV-95; are used to issue warehouse receipts (no change).
3. Peanut grades listed on FSA-1007 or the warehouse receipts are used to calculate premiums and discounts for the CCC loan, loan deficiency payment and to determine the cash price (no change).
4. CCC loans require a warehouse receipt or
5. Peanut warehouses that handle CCC loan peanuts are licensed by CCC/USDA. The license includes a list of applicable tariffs or costs (tariffs include handling, storage and shrink). Producer, CCC or another entity pays the tariffs (no change).
6. Shrink (as approved in the tariff) is normally 3.5 to 4 percent and is taken when a warehouse receipt is issued (no change).
7. The price paid for peanuts is based on the loan repayment rate (LRR).
8. Price is now based on a $355 average loan rather than a $610 average.

Farm Bill Changes

Following is a list of changes in the peanut government program:

1. No peanut poundage quotas.
2. Marketing assessments are terminated.
3. Peanut Administration committee is replaced with Peanut Standards Board.
4. Quota holders paid for eligible quota owned.
5. Producers offered market assistance loans. And
6. Producers offered direct, counter-cyclical and loan deficiency payments.

CCC-Approved Peanut Warehouses and Tariffs

For peanuts to qualify for warehouse-stored CCC loans, the warehouse must have a peanut storage agreement with the CCC. The agreement includes tariffs that may be charged by peanut warehouses. These charges include handling, storage, and shrink. The tariffs vary among warehouses. CCC-approved monthly warehouse charges for Oklahoma warehouses are $23/ton for handling, inspection fees ($5 for Oklahoma), $2.71 per ton per month for storage ($0.089/ton/day), and load-out charges of $8. Most warehouses have CCC-approved shrink between 3.5 and 4 percent.

Producers are responsible for costs from delivery to the warehouse until the peanuts are in the CCC loan program. After peanuts are placed in the CCC loan program, CCC is responsible for handling and storage costs.

Shrink is applied to the warehouse receipt. For example if the FSA-1007 form lists the total weight of the loads at 10,000 pounds and the approved tariff shrink is 3.5 percent, a warehouse receipt would be issued for 9,650 pounds. Shrink accounts for weight loss (dirt, hull moisture) during storage.

1 This paper was reviewed by Larry Vance, The Clint Williams Company; Dan Hunter, Southwest Peanut Growers' Association; Harold Dick, FSA/USDA; David Gunter, Golden Peanut company; and Mike Kubicek, Oklahoma Peanut Commission. Their comments were insightful. All errors and inconsistencies are the author's.

Marketing Alternatives

Peanuts may be placed in a marketing pool, sold to commercial buyers, or placed in the CCC loan program with FSA. They are then sold to commercial buyers or forfeited to the CCC for the loan value.

The most important step in marketing is to make sure the Loan Deficiency Payment (LDP) is protected. Accomplish this by working with the county FSA office before the peanuts are sold. If the peanuts are contracted, care must be made that "beneficial interest" is maintained until the peanuts are sold. Placing peanuts in a cooperative marketing pool will protect the LDP.

If peanuts are to be sold at delivery during harvest, producers should fill out a CCC-709 at the county FSA office before harvest begins. The LDP will be calculated for the date the peanuts are delivered (date on FV-95). The CCC-709 may be canceled before harvest, but once harvest begins, the CCC-709 may not be canceled.

Marketing Pool

Currently there is one peanut cooperative marketing association (CMA) or "pool" available to Oklahoma peanut producers: Southwest Peanut Growers' Association (SWPGA). Information for the SWPGA may be found on their web site (www.swpga.com) or by calling 254-734-2222. Peanut producers may join the cooperative and enter into a CMA agreement. The agreement has specific reporting and production requirements. These requirements are listed in the agreement that may be viewed on SWPGA's web site.

The SWPGA Cooperative Marketing Association performs all CCC loan and marketing tasks. Producers may market a portion or all of their peanuts through the pool.

In the pool agreement, producers relinquish all rights to market the peanuts and pass absolute title for all peanuts designated by the agreement to SWPGA. SWPGA advances to the producer applicable marketing loans and loan deficiency payments minus applicable deductions "for state fees, loan servicing fees, an administrative fee not to exceed $5 per ton, and capital retains of SWPGA" within 15 days after title transfer. For the 2002 peanut crop, the fee is expected to be about $1.50 per ton; thus, about $3.50 per ton is expected to be returned with the dividend payment.

Dividends from marketing (cooperative's net income) will be distributed to producers participating in the pool in proportion to their share of the pool's volume during the marketing year. Current SWPGA's board policy is to pay all dividends in cash.

Advantages

1. Potentially more marketing expertise as professionals market the peanuts,
2. CCC loan minus fees is paid within 15 days,
3. Pool completes FSA paperwork, and obtains loans and LDP's for producer,
4. Price risk may be spread over the marketing year,
5. Pool may market a large volume and possibly command a higher price, and
6. Storage and handling costs are paid by the pool and included in the administrative costs.

Disadvantages

1. Producer relinquishes all rights to the peanuts,
2. Producer pays pool administrative fees not to exceed $5 per ton,
3. Part of pool dividends may be retained as capital funds (current board policy has not authorized dividends to be retained as capital funds),
4. Responsible for income taxes for full value of cash and retained capital funds,
5. Does not receive market gains until peanut stocks are sold by pool, and
6. May lose 3.5 to 4 percent shrink when peanuts are placed in pool.

Selling to Commercial Buyers

Two differences between selling peanuts now and before the 2002 government program are that care must be taken to protect the LDP and the price of peanuts depends strictly on market type (Spanish, Runner, Valencia, or Virginia) and grade rather than market type and quota or non-quota.

Marketing alternatives through commercial buyers include:

1. Contracts,
2. Sell at or after harvest,
3. Placed in the CCC loan and sold later in the marketing year, and
4. Placed in the CCC loan and forfeited.

Contracts

Contracts, like the peanut marketing system, are subject to change. During the 2002 peanut marketing year there were two basic contracts: harvest delivery and optional delivery. The basic difference between the two contracts was the delivery option.

Harvest delivery contracts require peanuts be delivered at or near harvest. With the harvest delivery contract it is important that producers complete the FSA forms to guarantee receipt of the LDP.

Optional delivery contracts give the buyer the option of when to accept ownership of the peanuts. Producers deliver the peanuts to the delivery point and put the peanuts under the CCC loan program.

The contracted price is a fixed amount above the Loan Repayment Rate (LRR). Basing the payment on the LRR guarantees the producer a return (price plus LDP or market gain) equal to or above the CCC loan rate. The guarantee depends on producers obtaining the loan or LDP, whichever is applicable. The fact that the CCC loan and CCC loan repayment rate are adjusted for grade complicates calculating the total amount received. The total amount received is calculated in a later section.

The loan repayment rate is the national loan rate plus the grade adjustment amount. If NPP is equal to or below the national loan rate ($355.98 for Runner peanuts), there is no interest charged against the loan.

The contract price is normally stated as "the Loan Repayment Rate plus X dollars per ton." Payment depends on whether or not the peanuts are in the CCC loan. Producers whose peanuts are not under loan will collect the LDP from the FSA and the buyer will pay the producer the LRR (as if the peanuts were under loan) plus the buyer's premium (amount contracted above the LRR) both adjusted for grade. The buyer's payment plus the LDP will be equal to or greater than the CCC loan rate.

If peanuts are in the loan, producers may sign a form (FSA-605) giving the buyer "Power of Attorney" to repay the loan. The producer has the loan from FSA. The buyer pays the producer the contract buyer's premium adjusted for grade.

If the producer does not give the buyer "Power of Attorney" to repay the loan, the buyer pays the full amount (LRR + buyer's premium adjusted for grade) to the producer. The producer repays the CCC loan and gets the market gain from the CCC loan.

Advantages

1. Guaranteed market price—no downside price risk,
2. Receives CCC loan amount minus FSA fees at harvest,
3. Most contracts use weight from FSA-1007 rather than from the warehouse receipt that has 3.5 to 4 percent less weight due to shrink, and
4. Producers receive full market value in cash.

Disadvantages

1. Buyer may determine when peanuts are bought,
2. No upside price potential for producers,
3. Producer completes FSA forms for loan and LDP and pays FSA fees,
4. Producer will not receive full payment until buyer takes ownership of peanuts, and
5. Producer could lose beneficial interest if the contract does not meet FSA's requirements.

Selling Peanuts at Harvest

Selling peanuts at harvest has not changed. Peanuts are delivered to the buying point where they are graded and sold. The price is based on the LRR plus a buyer's premium. The weight has been based on the FV-95 rather than the warehouse receipt. To collect the LDP, the producer must complete FSA forms before the peanuts are sold. The buyer will pay the producer the loan repayment rate plus the buyer's premium both adjusted for grade. Total return for the peanuts will include the payment from the buyer plus any LDP obtained from FSA.

Calculating Dollars/Ton Received

Because of the complexity of the government program, most buyers use computer programs to calculate the value and the amount paid to producers. The FSA uses computer programs to calculate the loan rate and the loan repayment rate. The following is a brief description of how the value of peanuts may be determined, the dollar amount received from the buyer, and how much producers receive from FSA.

Grades and standard factors that are used to determine the value of peanuts are sound mature kernels (SMK), sound splits (SS), damage, and foreign material (FM). Other factors such as market type and the presences of molds and/or aflatoxins will impact the grade and value.

Government Peanut Program

The government peanut program is new, marginally understood, and subject to change. The program includes the establishment of a base acreage and yield, a fixed payment, a counter-cyclical payment, and a loan deficiency payment. Both the fixed and the counter-cyclical payments are based on the established base and are received even if peanuts are not raised.

While the fixed and counter-cyclical payments are important to total income, they do not impact the market price or net price received. The LDP is an important part of the marketing decision thus, needs to be included in the net price received equations.

Aspects of the government peanut program important to marketing and other terms are:

National Loan Rate (NLR): Price set by USDA that producers receive if peanuts are placed in the CCC loan program. The loan rate is based on "average grade." The loan rates are \$355.98/ton for Runner and \$338.67/ton for Spanish.

Loan Rate (LR): National Loan Rate plus or minus grade premiums and discounts.

Average Grade: percentage sound mature kernels plus sound splits (TSMK) for which the premium and discount is zero. The average grade for Runner is 72.93 percent and 69.73 percent for Spanish. Each point TSMK is valued at \$4.881 for Runner, \$4.857 for Spanish, \$4.979 for Virginia, and \$5.140 for Valencia peanuts.

Loan Repayment Rate (LRR): Price, adjusted for grade, at which producer may repay the CCC loan. The LRR is the National Posted Price (NPP) adjusted for grade or the loan rate, whichever is less.

National Posted Price (NPP): Price that is set each Tuesday at 1 p.m. CST by the USDA and becomes effective at 12:01 a.m. each Wednesday. The NPP is used to calculate the LDP and is the basis for the LRR.

Loan Deficiency Payment (LDP): The difference between the NLR and the NPP. Producers may only receive the LDP if they have "beneficial interest" in the peanuts. Forms for the LDP must be completed before "beneficial interest" is transferred to the buyer.

Market Gain: The difference between the LR and the LRR.

Beneficial Interest: A producer retains beneficial interest in the commodity if all of the following remain with the producer: control of the commodity, risk of loss, and title to the commodity.

For LDPs, the producer must retain beneficial interest in the commodity from the time of harvest through the date the LDP is requested. Producers that lose beneficial interest at harvest or who want to receive LDP based on the date of delivery to a buying point, buyer, warehouse, or cooperative must request the LDP on CCC-709 prior to delivery (harvest). Contact the county FSA office on use of CCC-709.

For CCC loans, the producer must retain beneficial interest in the commodity from harvest through the date the CCC loan is redeemed or CCC takes title.

Once beneficial interest in the commodity is lost, the commodity remains ineligible for a loan or a LDP even if the producer regains control, risk of loss, and title.

Control: A producer is considered to have control of the commodity if the producer retains the ability to make all decisions affecting the commodity, including movement, sale, and the request for a loan or a LDP.

Risk of Loss: A producer is considered to have the risk of loss in the commodity if the producer is responsible for loss of or damage to the commodity. If the commodity is insured, any indemnity must be payable to the producer.

Title: A producer is considered to have transferred title to the commodity if the producer has sold or delivered the commodity to the buyer or delivered warehouse receipts to the buyer. Title must be transferred before the producer receives payment for the commodity.

Buyer Premium (BP): Amount buyers offer above the NPP.

Steps that may be used to estimate the dollars per ton received for peanuts are as follows:

1. Calculate Loan Rate: National Loan Rate + TSMK Premium\Discount.
2. Calculate Loan Rate + Others: Loan Rate + Others
3. Add Buyer Premium to National Posted Price: National Posted Price + Buyer's Premium.
4. Calculate the Price Adjustment Factor: (National Posted Price + Buyer's Premium) divided by National Loan Rate.
5. Calculate Price Paid: Loan Rate + Others + LSK times Price Adjustment Factor.
6. Calculate Loan Deficiency Payment: National Loan Rate – National Posted Price.
7. Calculate amount received for the peanuts: Price Paid +Loan Deficiency Payment.

Following is an example for calculating peanut prices.

Example 1:
Runner
NLR = $355.98
NPP= $320.98
BP = $20
TSMK = SMK (72) + SS (4) = 76 percent (Table 1)
Damage 1 percent ⟶ $0 discount (Table 2)
FM 4 percent ⟶ $0 discount (Table 3)
SS 4 percent ⟶ $0 discount (Table 4)
2 percent Others @ 7¢/ton ⟶ $2.80
1 percent LSK

Steps:

1. $355.98 + $14.98 = $370.96
2. Loan + $2.80 = $373.76
3. $320.98 + $20 = $340.98
4. $340.98 ÷ $355.98 = 0.9579
5. $373.76 x 0.9579 = $358.03
6. $355.98 - $320.98 = $35
7. $358.03 + $35 = $393.03

Peanut buyers use the National Posted Price (NPP: $320.72) as the starting point to establish the cash price of peanuts. In example 1, Runner peanuts with 76 percent TSMK resulted in a Loan Rate (LR) of $370.96 ($355.98 + $14.98). Since there were no discounts for damage, FM and SS, the LR was $370.76. Adding the payment for "Others" ($2.80) increases the potential payment to $373.76. The Price Adjustment Factor (PAF) is calculated by adding the buyer's premium ($20) to the NPP and then dividing the total by the National Loan Rate (NLR) $320.98 + $20 = $340.98 and $340.98 ÷ $355.98 = 0.9579). The dollars per ton paid by the buyer is calculated by multiplying the Loan Rate plus "Others" by the price adjustment factor (PAF) ($373.76 x 0.957 = $358.03). Total dollars received is calculated by adding the Loan Deficiency Payment ($35) to the dollars paid ($358.03 + $35 + $393.03).

Table 1. SMK and SS Premiums and Discounts for Peanuts

% SMK + SS	Virginia	Runner	Spanish	Valencia
84		54.28	70.79	78.10
83		49.40	65.93	72.96
82		44.52	61.07	67.82
81	49.64	39.64	56.22	62.68
80	44.66	34.76	51.36	57.54
79	39.68	29.88	46.50	52.40
78	34.70	25.00	41.65	47.26
77	29.72	20.12	36.79	42.12
76	24.74	15.24	31.93	36.98
75	19.77	10.36	27.08	31.84
74	14.79	5.47	22.22	26.70
73	9.81	0.59	17.36	21.56
72	4.83	-4.29	12.50	16.42
71	-0.15	-9.17	7.65	11.28
70	-5.13	-14.05	2.79	6.14
69	-10.11	-18.93	-2.07	1.00
68	-15.09	-23.81	-6.92	-4.14
67	-20.07	-28.69	-11.78	-9.28
66	-25.05	-33.57	-16.64	-14.42
65	-30.03	-38.46	-21.49	-19.56
64	-35.00	-43.34	-26.35	-24.70
63	-39.98	-48.22	-31.21	-29.84
62	-44.96	-53.10	-36.07	-34.98
61	-49.94	-57.98	-40.92	-40.12
60	-54.92	-62.86	-45.78	-45.26
59	-59.90	-67.74	-50.64	-50.40
58	-64.88	72.62	-55.49	-55.54
57	-69.86	-77.50	-60.35	-60.68
56	-74.84	-82.38	-65.21	-65.82
55	-79.82	-87.27	-70.07	-70.96
54	-84.79	-92.15	-74.92	-76.10
53	-89.77	-97.03	-79.78	-81.24
52	-94.75	-101.91	-84.64	-86.38

Table 2. Peanut Damage

%	Deduction
1	None
2	$3.40
3	$7.00
4	$11.00
5	$25.00
6	$40.00
7	$60.00
8	$80.00
9	$80.00
10 & Over	$100.00

Table 3. Foreign Material

%	Deduction
1	None
2	None
3	None
4	None
5	$1.00
6	$2.00
7	$3.00
8	$4.00
9	$5.00
10	$6.00
11	$7.00
12	$8.50
13	$10.00
14	$11.50
15	$13.00
Above 15%	$13.00 + $2.00 for each % over 15%

Table 4. Sound Splits

%	Deduction
1	None
2	None
3	None
4	None
each % over 4	$0.80

The Oklahoma Cooperative Extension Service
Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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