The Dairy Farmer Margin Protection Program

USDA's Safety Net
For Producers:
2017 Enrollment Update

What the Farm Bill Did

Created
- *Margin Protection Program*
- *Dairy Product Donation Program*

Repealed
- *Dairy Product Price Support Program*
- *Dairy Export Incentive Program*
- *Federal Order Review Commission*
- *Milk Income Loss Contract Program*

Extended
- *Dairy Forward Pricing Program*
- *Dairy Indemnity Program*

Margin Protection Program

A voluntary risk management program for the 21st century

Protects producers' equity and margins, rather than supporting milk prices

Administered by USDA's Farm Service Agency

No payment limitations based on income or herd size

Margin Protection Program

Sign-up for 2017 opened July 1st and continues through September 30th. This enrollment window pattern will continue for the remainder of the Farm Bill

Farms must be selling milk commercially to qualify

Producers pay $100 Administrative fee and cannot opt out once they register; producers that signed up must continue to pay their annual $100 Administrative fee

Margin Protection Program

- *What's a farm?*

- *What's the margin?*

- *What's your production history?*

- *Annual decisions*

- *Fees and premiums*

- *Payments to producers*

What's a Farm?

A dairy operation producing milk commercially

Similar rules to those under MILC

- *Multiple producers involved with one operation are a single farm*

- *Multiple farms operated by a single producer register separately*

New Farm

A new dairy operation is separate and distinct from any other operation

- *USDA will use an 'affiliation' rule to determine whether new operations can be established by producers with ownership in other farms*

- *Farmers that collectively own more than 50% interest in the new operation are not considered separate if they also own 50+% interest in another operation already registered in MPP*

New Farmers on Farm

In 2016 USDA announced that the production history for a producer could be updated when an eligible family member joins the operation.

Any dairy operation already enrolled in the Margin Protection Program that had an intergenerational transfer occur will have an opportunity to increase the dairy operation's production history.

What's the Margin?

A national average margin, not your individual margin

The all-milk price minus average feed costs, computed from a formula using national benchmark prices of corn, soybean meal and alfalfa hay

Reflects costs of feeding all dairy animals on a farm on a hundredweight basis

What's the Margin?

All-Milk Price

- **Reported monthly by USDA's National Agricultural Statistics Service**

- **Includes premiums**

- **Excludes hauling costs and other deductions**

- **Designed to measure average prices paid by handlers for milk**

- **Includes FMMO pool payments and milk component levels**

What's the Margin?

National Average Feed Cost calculation using …

- *USDA Ag Prices report for corn $/bushel*
- *USDA Ag Market News Central Illinois soybean meal $/ton*
- *USDA Ag Prices report for alfalfa hay $/ton*

National Average Cost of Feed Calculation

= 1.0728 X U.S. average corn price $/bushel

+ 0.00735 X Central Illinois soybean meal price $/ton

+ 0.0137 X U.S. average alfalfa hay price $/ton

What's the Margin?

MPP Margin and Coverage Levels, 2004-2016

Legend:
- MPP Margin
- $8.00 / cwt.
- $7.00 / cwt.
- $6.00 / cwt.
- $5.00 / cwt.
- $4.00 / cwt.

Y-axis: Dollars per Hundredweight ($2 – $17)
X-axis: 2004 – 2016
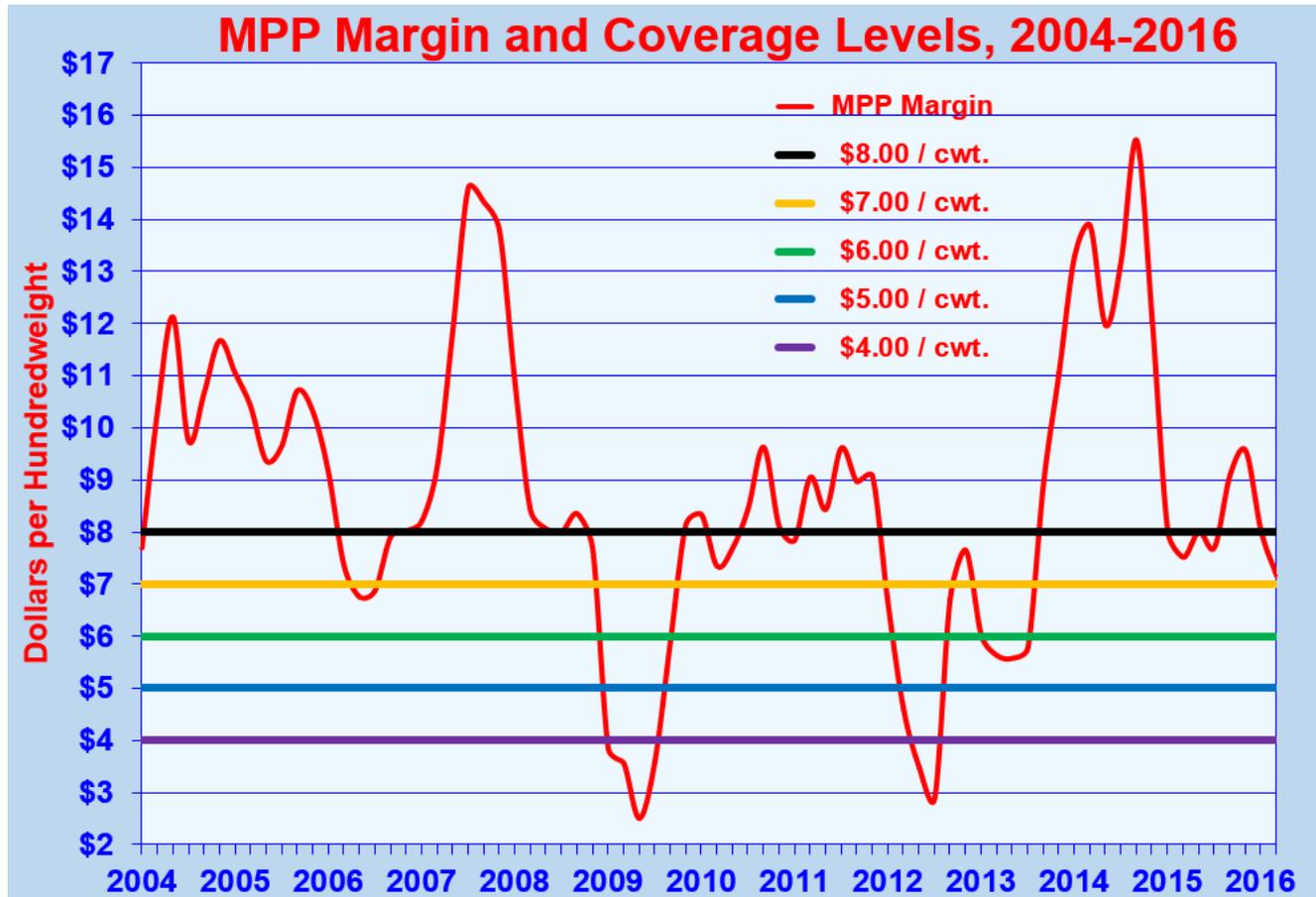
What's Your Production History?

Initially equals your farm's highest production in either 2011, 2012 or 2013

Yearly increases based on average growth in national production

- 2015 – USDA Bump of 0.86%
- 2016 – USDA Bump of 2.61%
- 2017 – USDA Bump of 1.34%

Expansion beyond national average is not insured

New producers extrapolate based on actual production or average milk per cow

What If You Sell or Move?

If a farm is sold, production history can move with the farmer or stay with the farm, but not both

Producers may combine production histories from different facilities, but those facilities will no longer have a production history

Individual cases will be reviewed by local FSA offices and FSA Washington, and can be appealed

Annual Decisions

Producers can protect between 25% to 90% of production history, in 5% increments

(New) Producers can choose a level of supplemental margin protection, from $4.50/cwt to $8/cwt, in 50¢ increments

(New) Base coverage of $4/90% Standard for all enrolled operations
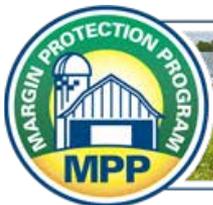
Fees and Premiums

$100 annual administrative fee provides catastrophic coverage for margins below $4/cwt

No premium at $4/cwt

Annual premiums paid by producers for protection at higher levels: $4.50 to $8.00/cwt

Fees and Premiums

For now, producers will either pay the full premium at sign-up, or:

- *Pay 25% by February 1, and …*
- *75% by September 1*
- *(New) Monthly milk check deduction*

NMPF worked with USDA to provide flexibility to pay premiums through milk check deductions

Premium Rates

Margin Level Coverage	First 4 Million Pounds	More Than 4 Million Pounds
$4.00	No cost	No cost
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

Dollar amounts are per hundredweight

Calculating Your Premium

If PH X Coverage % is under 40,000 cwt …

Premium = (PH X Cov%) X Lower Premium Rate

If PH X Coverage % is over 40,000 cwt …

Premium = 40,000 X Lower Premium Rate
+ [(PH X Cov%) – 40,000] X Higher Premium Rate

Examples of Premium Costs

Dairy Size		100 Head	500 Head	1,000 Head
Milk Production History (pounds)		1,967,397	11,304,071	24,641,052
90 Percent Covered (pounds)		1,770,657	10,173,664	22,176,947
Margin Protection Coverage	$4.00	No cost	No cost	No cost
	$4.50	$177	$1,635	$4,035
	$5.00	$443	$3,469	$8,271
	$5.50	$708	$7,774	$19,777
	$6.00	$974	$11,769	$30,374
	$6.50	$1,594	$21,504	$56,313
	$7.00	$3,842	$59,921	$159,549
	$7.50	$5,312	$77,441	$204,676
	$8.00	$8,411	$102,962	$266,206

Calculating Your Premium

Example 1

- *Production History (PH) = 5 million pounds*
    = 50,000 cwt
- *Coverage percentage (Cov%) = 75%*
- *Margin coverage threshold = $6.50 per cwt*

- *Premium = (50,000 X 75%) X $0.090*
    = 37,500 X $0.090
    = $3,375

Calculating Your Premium

Example 2

- *Production History (PH) = 10 million pounds*

  = 100,000 cwt

- *Coverage percentage (Cov%) = 75%*

- *Margin coverage threshold = $6.50 per cwt*

Calculating Your Premium

- *Example 2*

  - *Premium = 40,000 X $0.090*
    + [(100,000 X 75%) – 40,000] X $0.29

    = $3,600 + [75,000 – 40,000] X $0.29

    = $3,600 + 35,000 X $0.29

    = $3,600 + $10,150

    = $13,750

Calculating Your Premium

Margin Protection Program Calculator

| View | Edit | Revisions |

See instructions for using this online calculator. The calculator is also available for download as an Excel file (must enable macros). Please contact us if you experience any problems.

A three-month sign-up period for MPP-Dairy opened July 1. Producers have until September 30 to sign up for coverage during 2016. Producers can, however, annually adjust their coverage—that is, both the milk volume they want to cover and the margin level.

A producer's production history is the highest level of milk sold in calendar year 2011, 2012 or 2013. Production histories increase yearly based on the average growth in national milk production, as determined by USDA. For example, USDA determined milk production increased 2.61 percent during the most recent evaluation period and those already in the program will see their production history increase by 2.61 percent for the 2016 coverage year.

	NASS			AMS		
Paste Values	All Milk $/cwt	Corn $/bu	Hay $/ton	SBM $/ton	Ration $/cwt	Margin $/cwt
Jan-2015	$17.60	$3.81	$174	$380	$9.26	$8.34
Feb-2015	$16.80	$3.79	$172	$370	$9.14	$7.66
Mar-2015	$16.60	$3.81	$172	$358	$9.07	$7.53
Apr-2015	$16.50	$3.75	$184	$337	$9.02	$7.48
May-2015	$16.70	$3.62	$192	$320	$8.87	$7.83
Jun-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Jul-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Aug-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Sep-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Oct-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Nov-2015	$0.00	$0.00	$0	$0	$0.00	$0.00
Dec-2015	$0.00	$0.00	$0	$0	$0.00	$0.00

2015 Dairy Production Margin
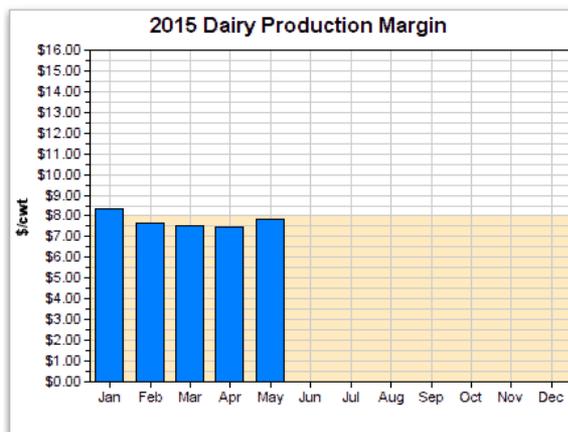
Select Coverage Year: 2015 ▼   Production History: 1,000,000   Show Coverage Page

Payments to Producers

Program pays when average margin for 2-month period is below the margin selected by the producer

- *2-month periods are: January-February, March-April, May-June, July-August, September-October, November-December*

- *Program pays on one-sixth (or two months' worth) of production history, multiplied by percent coverage selected*

Example

Margin Protection Payment Calculation

- **Annual Production History** — 10,000,000 lbs.
- **% Coverage** — 75%
- **Annual Volume Covered** — 75,000 cwt
- **Volume Covered per 2 month period** — 12,500 cwt (one-sixth of total)
- **Coverage Threshold for year** — $6.50 per cwt
- **Actual Margin for 2 month period** — $5.90 per cwt
- **Margin Difference for 2 month period** — $0.60 per cwt

Example

Margin Protection Payment Calculation

- *Annual premium paid to USDA*   *$13,750*
- *Premium paid per period*   *$2,292*
  Premium per cwt   *$0.183*

- *Margin Protection Payment for period*   *$7,500*
  (12,500 cwt X $.60/cwt)

Timeline for Payments

Producers will receive payments shortly after the margin cost calculations are made final

Example: If a payment is triggered for January-February, the margin will be announced at the end of March and payment will be sent out in early April
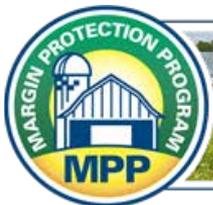
Dairy Product Donation Program

Addresses critically low margins

Stimulates demand, and helps both producers and those in need

How it works…

- *Triggered by margins below $4/cwt for 2 months*
- *Buys consumer-ready dairy products at prevailing prices*
- *Must not displace commercial sales*

Final Thoughts

MPP capped 5 years of work by NMPF, dairy co-ops and individual producers

MPP is more flexible, comprehensive and equitable than any previous federal dairy safety net

MPP is designed to protect against 2009-type catastrophic losses and bad margins like those seen in 2012

MPP Remains a Work in Progress and NMPF Will Work With Congress and USDA to improve program

Final Thoughts

NMPF encourages farmers to use MPP going forward

To help make decisions, NMPF website
www.futurefordairy.com has …
- **Detailed summaries of the program**
- **A copy of this presentation**
- **A tool showing MPP's potential impact on individual farms**