



Dairy Security Act Basics



What is the Dairy Security Act (DSA)?

- Replaces Price Support Program, MILC, DEIP
- It is **voluntary**, dairy farmers choose to participate
- Dairy farmers signup at their FSA office
- Protects participating dairy farmers' margin
 - $\text{Margin} = \text{All-Milk Price} - \text{feed cost}$
- Contains mechanism to adjust milk marketings if necessary
- No payment limits



What is DSA? *(continued)*

- Has modest annual administrative fee based on production:
 - Less than 1 million pounds = \$100
 - 1 million to 5 million pounds = \$250
 - 5 million to 10 million pounds = \$350
 - 10 to 40 million pounds = \$1,000
 - Over 40 million pounds = \$2,500



How does margin protection work?

- Two levels of coverage:
 - Basic – Covers all participating dairy farmers
 - Supplemental – Optional program available to dairy farmers seeking additional/affordable coverage
- Basic protection level and production history fixed for Farm Bill duration
- Supplemental protection covers growth, premiums fixed for duration of Farm Bill



How Basic Protection Works

- Pays when average margin below \$4.00 for specified two month periods (January-February, March-April, etc.)
- Production history is highest annual production of the three years prior to program going into effect.
- Payment on lower of actual milk production or 80% of production history



How Supplemental Coverage Works

- An annual option for all participating producers
- Covers 25% to 90% of previous year's production (minimum participation is 25%)
- Annual premium payment when selected
- Allows producer to protect growth
- Pays when average margin below selected level of protection for specified two month periods (January-February, March-April, etc.)
- Net cost depends on milk volume covered, \$ of protection



Supplemental Premiums

Supplemental Coverage	First 4 million pounds	Over 4 million pounds
\$4.50	\$0.010	\$0.020
\$5.00	\$0.020	\$0.040
\$5.50	\$0.035	\$0.100
\$6.00	\$0.045	\$0.150
\$6.50	\$0.090	\$0.290
\$7.00	\$0.400	\$0.620
\$7.50	\$0.600	\$0.830
\$8.00	\$0.950	\$1.060

Margin Protection in 2012

	DSA Margin	Average Specific Two-Month Margin	\$4.00 Basic Payout per cwt.	\$6.50 Supp. Payout per cwt.
Jan-12	\$7.56			
Feb-12	\$5.88	\$6.72	\$0.00	\$0.00
Mar-12	\$4.96			
Apr-12	\$4.22	\$4.59	\$0.00	\$1.91
May-12	\$3.37			
Jun-12	\$3.51	\$3.44	\$0.56	\$2.50
Jul-12	\$2.74			
Aug-12	\$2.98	\$2.86	\$1.14	\$2.50
Sep-12	\$5.51			
Oct-12	\$7.74	\$6.63	\$0.00	\$0.00
Nov-12	\$8.10			
Dec-12	\$7.18	\$7.64	\$0.00	\$0.00



How Market Stabilization Works

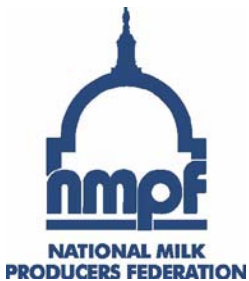
- Only producers choosing margin protection are also in the stabilization program
- Acts swiftly, but infrequently
- Alerts producers when margins are declining
- Helps to adjust milk production/product availability to improve margins



How Market Stabilization Works

(continued)

- Uses same margin as DPMPP
- Activates if:
 - Actual margin below \$6 or \$5 level for 2 consecutive months.
 - Actual margin below \$4 for one month
- Producer chooses:
 - Reduce production as specified
 - Don't reduce production, be paid for percentage base milk production



How Market Stabilization Works

(continued)

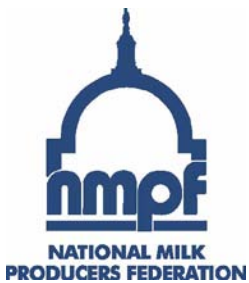
- Temporary production base chosen annually:
 - Average of three months prior to announcement, or
 - Same month in previous year



How Market Stabilization Works

(continued)

- Margin \$6 or less for 2 consecutive months
 - Producers paid the **higher of** 98% of their milk base or 94% of current milk marketings
- Margin \$5 or less for 2 consecutive months
 - Producers paid the **higher of** 97% of their milk base or 93% of current milk marketings
- Margin \$4 or less for 1 month
 - Producers paid the **higher of** 96% of their base milk marketings or 92% of current milk marketings
- Monies collected stimulates demand/consumption with product purchases for donations to food banks



How Market Stabilization Works

(continued)

- Stabilization Program suspended if margin:
 - Above \$6.00 for two consecutive months, or
 - US cheddar or NFDM price is equal to or higher than the World price for 2 consecutive months even when margin less than \$6.00
 - When margin \$5.00 or less and US cheddar or NFDM price is 5% or higher than the World price
 - When \$4.00 or less and US cheddar or NFDM price is 7% or higher than the World price for 2 consecutive months



Stabilization Program 2012

		DMSP: Dairy Farmer Paid the Higher of		U.S.-World Price Ratios	
	DSA Margin	Price Times % of Base	Price Times % of Actual Production	Cheddar Cheese	NDM/SMP
Jan-12	\$7.56	0%	0%	86%	90%
Feb-12	\$5.88	0%	0%	83%	90%
Mar-12	\$4.96	0%	0%	85%	91%
Apr-12	\$4.22	0%	0%	92%	91%
May-12	\$3.37	98%	94%	93%	91%



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Jul-12	\$2.74	96%	92%	103%	91%



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Nov-12	\$8.10	0%	0%	112%	99%
Dec-12	\$7.18	0%	0%	99%	100%



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Examples: DSA in 2012

- Two dairies – 200 and 500 cows
- 21,000 pound herd average
- Uses 2011 for production history for margin protection
- \$6.50 Supplement Coverage, 90% of production
- Three month (Jan, Feb, Mar) average for DMSP base



200 Cow Dairy

2012 Milk Production 4.2 million pounds	No Production Reduction	Reduces Production
Gross Milk Check Revenue	\$775,669.62	\$772,567.28
DSA Administration Fee Paid	-\$250.00	-\$250.00
Basic Protection Payments Received	\$9,322.30	\$9,322.30
DMSP Milk Check Deductions	-\$3,102.01	\$0.00
Feed Costs Savings	\$0.00	\$2,446.35
Supplemental Protection Payments Received	\$42,628.98	\$42,628.98
Supplemental Protection Premium Paid	-\$3,927.06	-\$3,927.06
Net Dairy Farm Revenue	\$820,341.83	\$822,787.85
Net Increase in Revenue	\$44,672.21	\$50,220.57
Increase per hundredweight for year	\$1.06	\$1.20



500 Cow Dairy

2012 Milk Production 10.5 million pounds	No Production Reduction	Reduces Production
Gross Milk Check Revenue	\$1,939,173.21	\$1,931,418.20
DSA Administration Fee Paid	-\$1,000.00	-\$1,000.00
Basic Protection Payments Received	\$23,305.76	\$23,305.75
DMSP Milk Check Deductions	-\$7,755.01	\$0.00
Feed Costs Savings		\$6,115.87
Supplemental Protection Payments Received	\$106,572.44	\$106,572.44
Supplemental Protection Premium Paid	-\$21,817.66	-\$21,817.66
Net Dairy Farm Revenue	\$2,038,478.74	\$2,044,594.60
Net Increase in Revenue	\$99,305.53	\$113,176.40
Increase per hundredweight for year	\$0.95	\$1.08



Other Provisions

- Extends Forward Contracting (II/III/IV) 5 years
- Extends Dairy Indemnity Program 5 years



Thank You!

Questions?