February 7, 2014

2014 FARM BILL – SUMMARY OF DAIRY TITLE PROVISIONS

Margin Protection Program

The main feature of the new Farm Bill Dairy Title is the Dairy Producer Margin Protection Program. The Margin Protection Program is a new and unique safety net program that will provide dairy producers with indemnity payments when actual dairy margins are below the margin coverage levels the producer chooses on an annual basis. Its focus is to protect farm equity by guarding against destructively low margins, not to guarantee a profit to individual producers. The Farm Bill requires the Margin Protection Program to be established no later than September 1, 2014.

The program supports producer *margins*, not prices and is designed to address both catastrophic conditions as well as prolonged periods of low margins. Under this program, the “margin” will be calculated monthly by USDA and is simply defined as the all-milk price minus the average feed cost. Average feed cost is determined using a feed ration that has been developed to more realistically reflect those costs associated with feeding the entire dairy farm enterprise consisting of milking cows, heifers, and other related cost elements.

Margin Protection Program details are as follows:

1. All dairy operations will be eligible to participate in the program. If one or more dairy producers participate in the production and marketing of milk on a single operation, all producers will be treated as a single dairy operation. If a dairy producer operates two or more operations, each operation will be required to register separately to participate in the program.

2. In the first year of the Margin Protection Program, coverage will be limited solely to the volume of milk equivalent to the producer’s <u>production history</u>. Production history is defined as the highest level of annual milk production during 2011, 2012 or 2013. In subsequent years, annual adjustments to the producer’s production history will be made based on the national average growth in overall US milk production as estimated by USDA. Any growth beyond the national average increase will <u>not</u> be protected by the program.

3. In 5 percent increments, producers will be able to protect from 25 percent up to 90 percent of their production history.

4. Producers will be able to select margin protection coverage at 50 cent increments beginning at $4 per cwt. through $8 per cwt. Premiums will be fixed for 5 years (through 2018) and are as follows:

Marketings Under 4 Million Pounds		Marketings Over 4 Million Pounds	
Coverage Level	**Premiums***	**Coverage Level**	**Premiums**
$4.00	None	$4.00	None
$4.50	$.01	$4.50	$.02
$5.00	$.025	$5.00	$.04
$5.50	$.04	$5.50	$.10
$6.00	$.055	$6.00	$.155
$6.50	$.09	$6.50	$.29
$7.00	$.217	$7.00	$.83
$7.50	$.30	$7.50	$1.06
$8.00	$.475	$8.00	$1.36

*Except for the premium at the $8.00 level, these premiums will be reduced by 25 percent for each of calendar years 2014 and 2015 and only for marketings under 4 million pounds.

5. Payments will be made to producers based on the percentage of their production history they have chosen to protect (25-90 percent) and the level of margin coverage they have selected ($4.50 to $8 per cwt). Payments will be distributed when margins fall below $4 (or below the selected level of coverage if a producer has selected a level above $4), averaged over any of these consecutive two-month periods: Jan-Feb, Mar-Apr, May-Jun, Jul- Aug, Sep-Oct, Nov-Dec.

6. Farmers will pay an annual administrative fee of $100 in order to access the new Margin Protection Program.

7. Should conditions warrant, the MILC payments will be temporarily available for dairy producers until the implementation of the Margin Protection Program or September 1, 2014 – whichever occurs first.

Dairy Product Donation Program

The new Farm Bill also creates a new Dairy Product Donation Program that would be triggered in the event of extremely low operating margins for dairy farmers and would also provide nutrition assistance to individuals in low income groups by requiring USDA to purchase dairy products for donation to food banks and other feeding programs.

The new program would only activate if margins fall below $4.00 for two consecutive months and would require USDA to purchase dairy products for three consecutive months, or until margins rebound above $4.00. The program would trigger out if US prices exceed international prices by more than 5%. Under this provision USDA would purchase a variety of dairy products to distribute to food banks or related non-profit organizations. USDA is required to distribute, not store, these products.

Organizations receiving USDA purchased dairy products would be prohibited from selling the products back into commercial markets.

Programs That Were Eliminated

In addition to the creation of the Margin Protection Program and the Dairy Product Donation Program, the new Farm Bill eliminates the outmoded and ineffective Dairy Product Price Support Program and the Dairy Export Incentive Program. The Federal Milk Marketing Order Review Commission established in the previous Farm Bill is also eliminated. As noted earlier, once the Margin Protection Program is up and running, the Milk Income Loss Coverage (MILC) program will also be eliminated.

Programs That Were Renewed

Three existing dairy programs will be renewed under provisions of the new Farm Bill: the Dairy Promotion and Research Program ("checkoff"), the Dairy Indemnity Program, and the Dairy Forward Pricing Program. The authority for all three programs is extended through 2018.