

# The Dairy Farmer Margin Protection Program

***USDA's New Safety Net  
For Producers***



# 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## Repealed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 21<sup>st</sup> 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 2014-2015 opened September 2<sup>nd</sup> and continues through November 28<sup>th</sup>***

***Starting next year, sign-up will be between July 1<sup>st</sup> and September 30<sup>th</sup> for 2016, 2017 and 2018***

***Farms must be selling milk commercially to qualify***

***Producers pay \$100 registration fee and cannot opt out once they register***



# 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 existing 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

***USDA wants feedback on allowing family members to expand production history on the family operation***





# 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 National Agricultural Statistics Service*
- *Includes premiums*
- *Excludes hauling costs*
- *Best measure of average prices received by U.S. dairy farmers*



# What's the Margin?

## ***National Average Feed Cost calculation using ...***

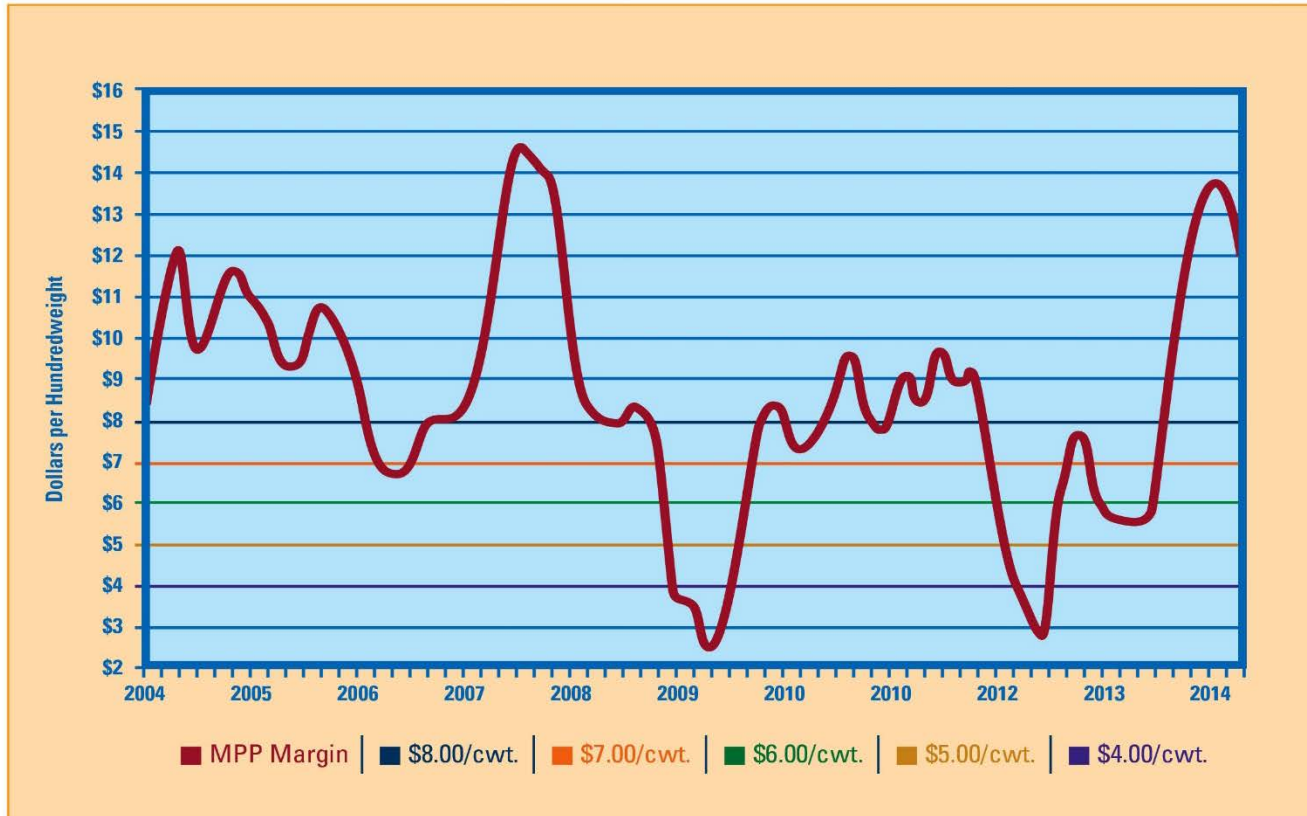
- ***USDA Ag Prices report for corn/bushel***
- ***USDA Ag Market News Central Illinois soybean meal/ton***
- ***USDA Ag Prices report for alfalfa hay/ton***

## ***National Average Cost of Feed Calculation***

$$\begin{aligned} &= 1.0728 \times \text{U.S. average corn price/bushel} \\ &+ 0.00735 \times \text{Central Illinois soybean meal price/ton} \\ &+ 0.0137 \times \text{U.S. average alfalfa hay price/ton} \end{aligned}$$



# What's the Margin?



# Margin Forecast

MPP Margin	All-Milk Price	MPP Feed Cost	MPP Margin
Jan-Feb 2014	\$24.20	\$10.89	\$13.31
Mar-Apr 2014	\$25.25	\$11.38	\$13.87
May-Jun 2014	\$23.70	\$11.74	\$11.96
<b>Jul-Aug 2014</b>	<b>\$23.90</b>	<b>\$10.17</b>	<b>\$13.73</b>
<b>Sep-Oct 2014</b>	<b>\$24.90</b>	<b>\$9.36</b>	<b>\$15.54</b>
<b>Nov-Dec 2014</b>	<b>\$22.35</b>	<b>\$9.27</b>	<b>\$13.08</b>
<b>Jan-Feb 2015</b>	<b>\$20.15</b>	<b>\$9.21</b>	<b>\$10.94</b>
<b>Mar-Apr 2015</b>	<b>\$19.35</b>	<b>\$9.28</b>	<b>\$10.07</b>
<b>May-Jun 2015</b>	<b>\$19.10</b>	<b>\$9.66</b>	<b>\$9.44</b>
<b>Jul-Aug 2015</b>	<b>\$19.00</b>	<b>\$9.70</b>	<b>\$9.30</b>
<b>Sep-Oct 2015</b>	<b>\$19.50</b>	<b>\$9.55</b>	<b>\$9.95</b>
<b>Nov-Dec 2015</b>	<b>\$19.55</b>	<b>\$9.65</b>	<b>\$9.90</b>

Forecast, based on CME futures as of August 25, 2014





# What's Your Production History?

*Initially equals the highest production in either 2011, 2012 or 2013*

*Yearly increases based on average growth in national production*

*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 DC. Appeals process available***



# LGM & MPP

***Producers cannot be in both at the same time***

***Producers in LGM for 2015 can sign up for MPP, if they do so by November 28<sup>th</sup>***

***Transition will occur after all target marketings under LGM are completed***

***Depending on month, there may be a coverage gap***



# Annual Decisions

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

***Producers can choose a level of margin protection, from \$4/cwt to \$8/cwt, in 50¢ increments***





# Fees and Premiums

***\$100 annual administrative fee***

***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 June 1***

***USDA is likely to provide additional methods and flexibility to pay premiums through milk check deductions***



# Premium Rates

Margin Level Coverage	First 4 Million Pounds 2014-2015	First 4 Million Pounds After 2015	More Than 4 Million Pounds
\$4.00	No cost	No cost	No cost
\$4.50	\$0.008	\$0.010	\$0.020
\$5.00	\$0.019	\$0.025	\$0.040
\$5.50	\$0.030	\$0.040	\$0.100
\$6.00	\$0.041	\$0.055	\$0.155
\$6.50	\$0.068	\$0.090	\$0.290
\$7.00	\$0.163	\$0.217	\$0.830
\$7.50	\$0.225	\$0.300	\$1.060
\$8.00	\$0.475	\$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	\$142	\$1,555	\$3,955
	\$5.00	\$336	\$3,229	\$8,031
	\$5.50	\$531	\$7,374	\$19,377
	\$6.00	\$726	\$11,209	\$29,814
	\$6.50	\$1,204	\$20,624	\$55,433
	\$7.00	\$2,886	\$57,761	\$157,389
	\$7.50	\$3,984	\$74,441	\$201,676
	\$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 \$0.068  
= 37,500 X \$0.068  
= \$2,550*





# 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 =  $40,000 \times \$0.068$   
+  $[(100,000 \times 75\%) - 40,000] \times \$0.29$   
=  $\$2,720 + [75,000 - 40,000] \times \$0.29$   
=  $\$2,720 + 35,000 \times \$0.29$   
=  $\$2,720 + \$10,150$   
=  $\$12,870$**



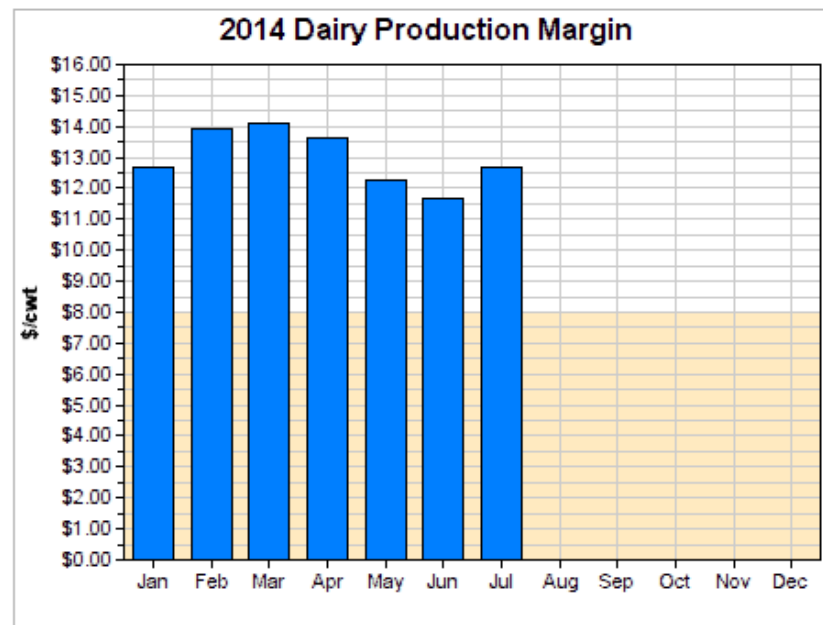
# Calculating Your Premium

## Margin Protection Program Calculator

Initial signup for MPP-Dairy will take place from September through November, 2014. During this first signup period, producers can retroactively enroll for the 2014 months. This first signup period is also your chance to enroll for 2015 coverage. Note that the 2014 and 2015 coverage elections can be different. Coverage election in subsequent years will take place from July through September.

A producer's annual production history is the highest level of milk sold in calendar year 2011, 2012 or 2013. This production will grow by the national average percentage increase in milk production.

Paste Values	NASS			AMS		Margin \$/cwt
	All Milk \$/cwt	Corn \$/bu	Hay \$/ton	SBM \$/ton	Ration \$/cwt	
Jan-2014	\$23.50	\$4.42	\$185	\$480	\$10.80	\$12.70
Feb-2014	\$24.90	\$4.35	\$188	\$509	\$10.99	\$13.91
Mar-2014	\$25.20	\$4.51	\$191	\$498	\$11.11	\$14.09
Apr-2014	\$25.30	\$4.71	\$206	\$514	\$11.65	\$13.65
May-2014	\$24.20	\$4.71	\$224	\$519	\$11.94	\$12.26
Jun-2014	\$23.20	\$4.49	\$222	\$502	\$11.55	\$11.65
Jul-2014	\$23.30	\$4.05	\$216	\$451	\$10.62	\$12.68
Aug-2014	\$0.00	\$0.00	\$0	\$0	\$0.00	\$0.00
Sep-2014	\$0.00	\$0.00	\$0	\$0	\$0.00	\$0.00
Oct-2014	\$0.00	\$0.00	\$0	\$0	\$0.00	\$0.00
Nov-2014	\$0.00	\$0.00	\$0	\$0	\$0.00	\$0.00
Dec-2014	\$0.00	\$0.00	\$0	\$0	\$0.00	\$0.00



Select Coverage Year: 2014 ▼

Production History: 1,000,000

Show Coverage Page

Note: In the 2014 and 2015 coverage years, a 25% discount is applied to the first 4 million pounds of milk covered for premiums below the \$8.00 level. 26 There are only 4 months of premiums and coverage in 2014.

# 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* **\$12,870**
- *Premium paid per period* **\$2,145**
- *Premium per cwt* **\$0.172**
  
- *Margin Protection Payment for period* **\$7,500**  
*(12,500 cwt X \$.60/cwt)*



# What If There Was MPP in 2012?

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
Premium (\$6.50 Margin Protection)	\$1,594	\$21,504	\$56,313
March-April Margin: \$4.59	\$5,635	\$32,376	\$70,573
May-June Margin: \$3.48	\$8,922	\$51,266	\$111,751
July-August Margin: \$2.88	\$10,697	\$61,460	\$133,972
Net 2012 Return	\$23,660	\$123,598	\$259,984



# 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 caps 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 will help protect against 2009-type catastrophic losses***





# Final Thoughts

***NMPF strongly encourages farmers to use MPP going forward***

***To help make decisions, NMPF website [www.futurefordairy.com](http://www.futurefordairy.com) has ...***

- ***Detailed summaries of the program***
- ***A copy of this presentation***
- ***A tool showing MPP's potential impact on individual farms***

