

# 2014 Farm Bill:

## Dairy Provisions

*Ag Decision Maker*

File B1-55

The Agricultural Act of 2014 will bring changes including a new program for dairy producers. The Agricultural Act has multiple programs that can benefit dairy producers, but the highlight is the Margin Protection Program (MPP). Like other government programs, there are new names and acronyms to learn. The common ones associated with the dairy portion of the farm bill are:

- Margin Protection Program (MPP)
- Actual Dairy Product Margin (ADPM)
- Actual Dairy Production History (ADPH)
- Dairy Product Donation Program (DPDP)

### Margin Protection Program (MPP)

The Margin Protection Program (MPP) is open to all producers although they must enroll for a fee of \$100 each time they register. Enrollment will occur on an annual basis, and producers can elect to participate or not each year. This program transitions payments from a set payment based on milk price under Milk Income Loss Contract (MILC) to a variable payment based on coverage purchased under MPP. MPP utilizes national milk and feed prices to determine an Actual Dairy Product Margin (ADPM). The ADPM is calculated by  $\text{National All Milk Price} - (1.0728 \times \text{corn price} + 0.00735 \times \text{soybean meal price} + 0.0137 \times \text{alfalfa hay price})$ . The corn and alfalfa hay prices are national average prices determined by USDA National Agricultural Statistics Service, while the soybean meal price is representative of Central Illinois and determined by USDA Agricultural Marketing Service.

A dairy producer can cover 25 to 90 percent of their Actual Dairy Production History (ADPH); coverage can be purchased in five percent increments. A producer's ADPH is determined by the highest annual marketings in the three previous years (2011, 2012, or 2013). New producers can

opt to extrapolate milk production to a yearly basis or use a calculated production from national average yield times herd size.

Producers can partake in the MPP by paying premiums to cover percentages of their ADPH at levels of ADPM from \$4 to \$8 in \$0.50 increments. Two different premium structures are offered based on total hundredweight covered above or below four million pounds. For ADPM protection under 4 million pounds, premiums range from \$0.00 for \$4.00 to \$0.475 for \$8.00 per hundredweight, and \$0.00 to \$1.36 premium for coverage above 4 million pounds. Payment is based on two consecutive months (January/February, March/April, etc.) of calculated ADPM below coverage level purchased.

The key for producers to understand with this program is how their Income Over Feed Cost (IOFC) correlates to the calculated ADPM. Therefore, understanding the actual cost of production and feed cost per hundredweight is important to determining if the program is a good fit for each producer.

### Production Coverage

September 1st will bring an end to the MILC Program that first came into effect with the 2002 Farm Bill. The programs differ in many ways specifically with the payment trigger and coverage levels.

Under MILC, producers could only cover up to 2.985 million pounds of milk. MPP allows coverage of milk for producers with annual production up to and over 4 million pounds. The new program offers margin protection based on a calculated Actual Dairy Product Margin (ADPM) at two different levels, production history (PH) below and above 4 million pounds. The premiums are structured at a lower level for coverage purchased below 4 million (M) pounds of Production History (PH). The lower PH premiums from \$4.50 to \$7.50 coverage will receive a discount of up to 25% for

2014 and 2015. The premium levels as outlined in USDA FSA Notice MPP-1 ([www.fsa.usda.gov/Internet/FSA\\_Notice/mpp\\_1.pdf](http://www.fsa.usda.gov/Internet/FSA_Notice/mpp_1.pdf)) are included below by coverage level and production history.

Premiums paid for MPP coverage will be based on coverage above and below 4 M pounds. If a producer has a 6 M pound Actual Dairy Production History (ADPH) and only purchases 3 M pounds of coverage (50%), premiums paid will be at the Tier 1 level. If the producer purchases 5 M pounds of ADPH coverage, then the producers pays Tier

1 premiums for the first 4 M pounds and Tier 2 premiums for the remaining 1 M pounds.

Up to 90 percent of ADPH can be covered utilizing MPP; if participating in MPP, at minimum a producer can enroll 25 percent of ADPH. Each farm will utilize MPP to different degrees based on their risk management plan and other tools utilized. Once a producer enrolls in MPP they are in the program for the life of the Farm Bill; however, the producer can enroll at different coverage levels each year during the related sign-up period.

Coverage Level	Tier 1 Premium per cwt in 2014 and 2015 for covered production history at 4 mil lbs or less	Tier 1 Premium per cwt for 2016-2018 for covered production history at 4 mil lbs or less	Tier 2 Premium per cwt, all years for covered production history over 4 mil lbs
\$4.00	None	None	None
\$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

Source: USDA FSA Notice MPP-1

### LGM Dairy and Margin Protection Program – Dairy

Livestock Gross Margin for Dairy Cattle (LGM-Dairy) is a livestock insurance product that protects against the loss of gross margin in milk production utilizing CME Group futures and options contracts. LGM-Dairy allows for milk production to be protected that does not match the specifications of the CME Group contracts, thus eliminating over or under coverage. However, a producer cannot participate in both LGM-Dairy and MPP-Dairy programs at the same time. If a producer is enrolled in LGM-Dairy, they can sign-up for MPP-Dairy, but cannot start coverage under

MPP-Dairy until after the LGM-Dairy marketings are complete. The MPP-Dairy program is split into bi-monthly time periods. A producer cannot enter during the mid-time period; they must wait until the next time frame starts to begin coverage in MPP-Dairy.

For example, if a producer purchases coverage under LGM Dairy from July 2014 to April 2015, the producer can enroll and receive coverage under MPP-Dairy starting in May 2015. They may register during the period they have LGM-Dairy coverage, but not receive coverage until after LGM-Dairy marketings are complete. However, if the producer's coverage ends in March they

cannot receive coverage until May due to April being mid-time frame for the bi-monthly structure of the MPP-Dairy program.

### **Dairy Product Donation Program (DPDP)**

The Dairy Product Donation Program (DPDP) is a program that helps to control dairy product supply on the market in times of low margins. When ADPM falls below the \$4 margin for two consecutive months, the Secretary of Agriculture will announce and implement the program which consists of buying and distributing dairy products.

### **Actions to Take Now**

MPP is based on national prices and IOFC. However, this is a voluntary program that each producer will determine their level of participation. MPP Dairy can be one of the tools in the toolbox used to manage price risk on a dairy operation. To prepare to evaluate an operation's involvement with this program a producer should:

1. Calculate/track actual Cost of Production and IOFC
2. Compare IOFC with calculated ADPM (current and historical correlation)
3. Review marketing tools used to manage price risk

A decision tool to help producers make the related decisions for enrollment and coverage will be available in the fall of 2014.

Rules and regulations have yet to be set for producers to enroll in the program; stay tuned to your local FSA office and extension resources for more information. As rules and regulations are set, information on the crop and livestock related programs will be available on Ag Decision Maker ([www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm)) or by contacting your local Farm Business Management Field Specialist. The program Dairy Markets and Dairy Policy through University of Wisconsin, [dairy.wisc.edu/](http://dairy.wisc.edu/), also offers a wide breadth of information on dairy programs and policy.

### **Resources**

**Program on Dairy Markets and Policy** (coming soon: MPP Decision Tool) - [dairymarkets.org/MPP](http://dairymarkets.org/MPP)

**University of Illinois - Introduction and Strategic Implementation of the Dairy Producer MPP**, John Newton – Handout: [www.farmdoc.illinois.edu/webinars/downloads/PDF/260314\\_dairy\\_program\\_Newton.pdf](http://www.farmdoc.illinois.edu/webinars/downloads/PDF/260314_dairy_program_Newton.pdf); Webinar: [www.farmdoc.illinois.edu/webinars/downloads.asp](http://www.farmdoc.illinois.edu/webinars/downloads.asp)

**University of Minnesota**, Marin Bozac – [www.marinbozac.info](http://www.marinbozac.info).

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