



Introducing the Dairy Producer Margin Protection Program

The U.S. Department of Agriculture is launching a new and better dairy safety net in 2014, capping five years of work by the National Milk Producers Federation, its dairy cooperative members and individual dairy farmers across the country. The Dairy Producer Margin Protection Program, or MPP, is more flexible, more comprehensive and more equitable than any previous federal dairy safety net program. It will help protect against the catastrophic losses that many dairy farmers experienced in 2009 and again in 2012. It does this by protecting the margin between milk prices and feed costs.

NMPF developed the structure of the program, and views it as a valuable tool for helping to manage future financial risks. We strongly encourage farmers to use the program going forward. To help in the decision-making process, NMPF will soon put a simple, downloadable tool on its website that will allow producers to plug in their own numbers and quickly see the program's potential impact. The following pages explain how the program will work in detail. We encourage producers to familiarize themselves with the program's details as they sit down to make their coverage decisions.

The Basics

- The program will operate on a calendar-year basis, starting in 2015.
- All farms that produce milk commercially are eligible, and the program benefits all producers equally, regardless of size.
- Producers will insure their operations on a sliding scale, deciding both how much of their production to cover, and the level of margin to protect.
- A three-month sign-up period begins September 2 at local USDA Farm Service Agency offices. Producers have until November 28 to sign up for coverage for the last four months of 2014, for calendar year 2015, or both. Starting in 2015, the sign-up period for future years will be from July 1 to September 30.
- Initially, there will be two options for paying premiums: pay the full premium at sign-up, or pay 25 percent on February 1 and the remaining 75 percent on June 1.
- Producers are able to enroll in the program for any year between 2014 and 2017. Once a producer enrolls, however, he or she is committed to be in the program each subsequent year until the expiration of the 2014 farm bill. Producers can annually adjust their coverage – that is, both the milk volume they want to cover and the margin level.
- Each year producers will pay a \$100 registration fee. After payment of the registration fee, basic margin coverage of \$4 per hundredweight is free. Above the \$4 margin level, coverage is available in \$.50/cwt. increments for varying premiums.

How the Margin Protection Program Will Work

The program pays benefits to producers when the margin between the U.S. all-milk price and national average feed costs falls below the level of coverage chosen by the producer for any one of six consecutive two-month periods during the year. The two-month periods are January-February, March-April, May-June, July-August, September-October and November-December. Above the basic \$4 margin level, coverage is available in 50-cent increments, up to \$8 per hundredweight. The program pays on one-sixth – or two months' worth – of a producer's annual production history, multiplied by the percentage of coverage chosen, from 25 percent up to 90 percent. As was the case with the MILC program, producers must meet conservation requirements – that is, have their Form AD-1026 up to date – to be eligible to participate.

Sign-Up Begins September 2, 2014

Producers can sign up for coverage for both the last four months of 2014 and all of 2015 between September 2nd and November 28th of this year. In subsequent years, the producer sign-up period will be July 1st to September 30th. Producers can choose what year to begin sign-up for MPP, but once in the program, they are committed to it for the remainder of the farm bill. That means they must annually pay at least a \$100 registration fee for \$4 margin coverage.

What Constitutes a Farm?

Dairy operations that can document they are producing milk commercially are eligible to participate. Similar rules that defined a dairy operation under the expired MILC program will apply to the MPP. Multiple producers involved with a single operation are treated as a single farm, but USDA will need approval from all the owners for program enrollment. Multiple farms operated by a single producer will register separately.

Margins and Payment Schedule

The monthly margin will be calculated by the Agriculture Department using data from its National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS). The margin is defined as the U.S. all-milk price, minus national average feed costs, computed by a formula using the prices of corn, soybean meal, and alfalfa hay. Feed costs will reflect the costs associated with feeding all the dairy animals on a farm, including milking cows, heifers, and dry cows.

Final margins will be announced at the end of the month following each two-month period. For any two-month period in which margin payments are authorized, USDA will process producer payments quickly after the final margin numbers are announced. For example, if payments are authorized for January-February, final margins will be announced at the end of March, and program payments will be issued in early April.

Production History

Farms will be assigned a production history equal to their highest milk production in either 2011, 2012 or 2013. Participants will be required to document their production history at sign-up.

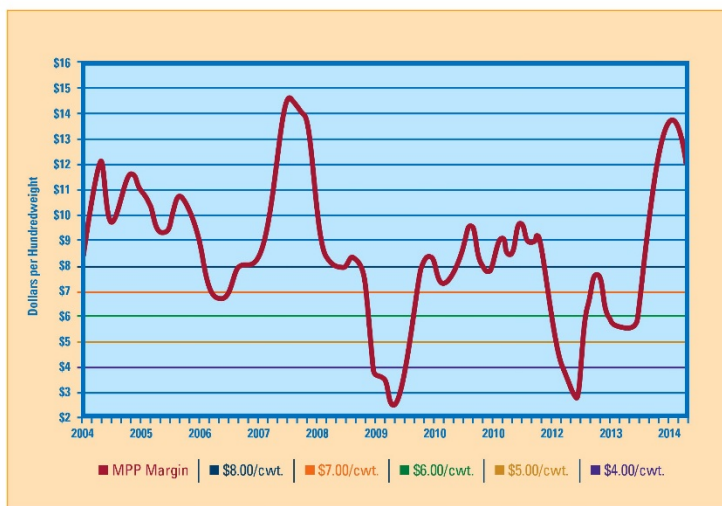
Production histories will increase yearly based on the average growth in national milk production, as determined by USDA. For example, if annual U.S. milk production were to increase by two percent, each producer's production history will increase by two percent for the coming year. Any production expansion above the national average cannot be insured. New producers who don't have a full year's production history will use either an extrapolation based on their actual production to establish a 12 month total, or the national average milk production per cow times their herd size.

If a dairy farm is sold, its production history can either move with the farmer to a new facility, or stay with the farm, but not both. The USDA will handle unique ownership situations and changes on a case-by-case basis.

Margin Payments

Any margin protection payments will be made based on the portion of production history producers choose to protect – that is, 25 percent to 90 percent – and the level of margin coverage they select between \$4 and \$8 per hundredweight. Payments will be triggered when average margins fall below the coverage level selected by the producer during any of the established two-month periods.

MPP Margin and Coverage Levels – 2004-2014



Using the MPP's formula, the margin between milk prices and feed costs has averaged around \$8.50/cwt. since 2004, reaching as high as \$14 in 2007, and dropping to just \$3 in 2009 and again in 2012. This chart shows that even free coverage would have provided a backstop at the \$4 level. Higher levels of coverage, purchased at \$4.50 and above, would have generated more frequent payouts.

As shown in the line graph on the left, using USDA's formula, the margin between milk prices and feed costs has varied widely from year to year. Overall, the margin has averaged around \$8.50 per hundredweight since 2004. It reached \$14 in 2007 and dropped to \$3 in 2009 and again in 2012. Under the Margin Protection Program, even free coverage would have provided a backstop at the \$4 margin level. Higher levels of coverage would have generated more frequent and larger support. Information on historical margin patterns can be found at

www.futurefordairy.com

Fees and Premiums

There is an annual fee of \$100 to enroll in the program. Premiums are fixed for five years at the amounts shown in Table 1 on the next page, but will be discounted 25 percent in 2014 and 2015 on covered annual farm production volumes up to 4 million pounds. In a decision helpful to farmers, USDA agreed with NMPF that the lower premiums will apply to each farm's first 4

million pounds of annual milk production actually enrolled in the program, even though that farm may be insuring more than 4 million pounds of total production.

Initially, there will be two options for paying premiums: 1) pay the full premium at sign-up, or 2) pay 25 percent at by February 1 and the remaining 75 percent by June 1. Those who have not paid their premiums by the deadlines

will be in default, and will not receive benefits for any subsequent two-month periods until their situation is corrected. NMPF has urged USDA to provide alternatives including quarterly payments or paying premiums through a milk check deduction on a monthly basis.

Table 2 below illustrates how much three different dairy operations would pay in premiums for varying levels of margin coverage. The table's estimates use the discounted, 2014-15 premium costs for annual farm production volumes up to 4 million pounds. Shown are examples of premium rates for various margins, and the overall cost of obtaining the maximum 90 percentage coverage.

Table 1: Margin Protection Program Premiums

Margin Level Covered	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

Table 2: 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

Premiums shown were calculated as follows: If Production History multiplied by the Coverage Percentage is less than 40,000 cwt., the premium equals History x Coverage Percentage x Lower Premium Rate. If Production History multiplied by the Coverage Percentage is more than 40,000 cwt., the premium equals 40,000 x Lower Premium Rate + [(History x Coverage Rate) - 40,000] x Higher Premium Rate

MPP and Participation in the Livestock Gross Margin Program

Producers can't simultaneously participate in both the MPP and the Livestock Gross Margin Program. However, those already in LGM for 2015 will be allowed to sign up for the Margin Protection Program for the first year. An individual farm's transition to the MPP will occur in the next available month after all target marketings under LGM-Dairy are

completed. In some cases, that could result in a coverage gap, since the next available month will be the first month of one of MPP's consecutive two-month periods. For example, a producer whose LGM-Dairy coverage ends in May 2015 will not be covered under MPP until July, since June is the second month in the May-June period. Also, to be eligible for this transition from LGM-Dairy to MPP a producer in LGM-Dairy must sign up for MPP no later than November 28, 2014.

Donation Program

A Dairy Product Donation Program will be triggered in times of extremely low margins. If margins fall below \$4 per hundredweight for any two consecutive months, the Agriculture Department will publish a list of consumer-ready dairy products to be purchased at market prices. Purchased items will be donated to food banks and other low-income feeding programs. USDA will purchase dairy products for up to three months, unless margins rebound above \$4 sooner. Each instance of margins below \$4 will trigger the purchase program. Products will include those that will help increase farmers' margins, as well as those needed by food banks. To protect exports, the donation program will end if U.S. prices exceed international prices by more than five percent or seven percent, depending on margin levels. For example, purchases will be suspended if the producer margin is between \$3 and \$4 per hundredweight and U.S. cheddar cheese or non-fat dry milk prices are more than five percent above world prices. Likewise, purchases will be suspended if the margin is \$3 per hundredweight or less and U.S. cheese or NDM prices are more than seven percent above world prices. Also, USDA cannot store the dairy products it purchases, and organizations receiving the products are prohibited from selling them back into commercial markets. USDA cannot store the products it purchases and organizations are prohibited from selling products back into commercial markets.

Looking Ahead

In the coming months, NMPF will continue to work with USDA and our member cooperatives to make sure the Margin Protection Program provides the effective safety net it was designed for. As more information develops, we will share that with our members and post it on our Future for Dairy website, which is now a hub for information on MPP and its implementation. Check www.futurefordairy.com for updates.