



# 2014 FARM BILL


## Dairy Margin Protection Program

### August-September 2014 Workshops

Please note: this presentation was used for informational purposes at 12 workshops held throughout California. It is subject to change if USDA provides clarifications/changes. Members and allied industry are welcome to contact the office at 209-527-6453 or Annie at [aacmoody.wud@gmail.com](mailto:aacmoody.wud@gmail.com) for questions or clarifications



# 2014 Farm Bill: major provisions

- Creates:
  - Voluntary Dairy Producer Margin Protection Program 
  - Dairy production donation program
- Repeals:
  - MILC program after the margin protection program is operational
  - Dairy product price support program
  - Dairy export incentive program
- No supply management program or changes to Federal Order structure

# Margin Protection Program

- Voluntary program
- Annual coverage decision
  - But one time participation decision
- Intended to protect dairymen from downturns in the milk price and/or rising feed prices

Pays producers when the difference between the USDA national All-Milk price and a feed ration index falls below a user selected coverage level

# How is the margin calculated?

MPP Margin = U.S. **All-Milk Price** –

(NASS **Corn** x 1.0728 + AMS **SBM** x 0.00735 + NASS **Alfalfa** x 0.0137)

# How is the production history determined?

- Actual dairy production history experienced on your individual farm
  - Based on the highest production in calendar year 2011, 2012 or 2013
  - Revised annually based on growth in the U.S. milk production
    - **Cannot be revised lower**
- Can cover between 25% and 90% of historical milk production
  - 5% increments

# Premium costs

\$4 = FREE !!

Margin		Premiums/cwt	
		Under 4 m lbs	Over 4 m lbs
\$	4.50	\$ 0.01	\$ 0.02
\$	5.00	\$ 0.03	\$ 0.04
\$	5.50	\$ 0.04	\$ 0.10
\$	6.00	\$ 0.06	\$ 0.16
\$	6.50	\$ 0.09	\$ 0.29
\$	7.00	\$ 0.22	\$ 0.83
\$	7.50	\$ 0.30	\$ 1.06
\$	8.00	\$ 0.48	\$ 1.36

} 54 cents increase for 50 cents jump

**25% off first two years**

\$100 administrative fee/year



# When does it pay out?

Hypothetical example

		Coverage Level & Indemnities			
		Consecutive Two-Month Margin	Two-Month Average	\$4.00	\$6.00
First payout →	January	\$5.00			
	February	\$6.00	\$5.50	\$0.00	\$0.50
	March	\$6.00			
	April	\$4.00	\$5.00	\$0.00	\$1.00
	May	\$3.00			
	June	\$5.00	\$4.00	\$0.00	\$2.00

# When does it pay out?

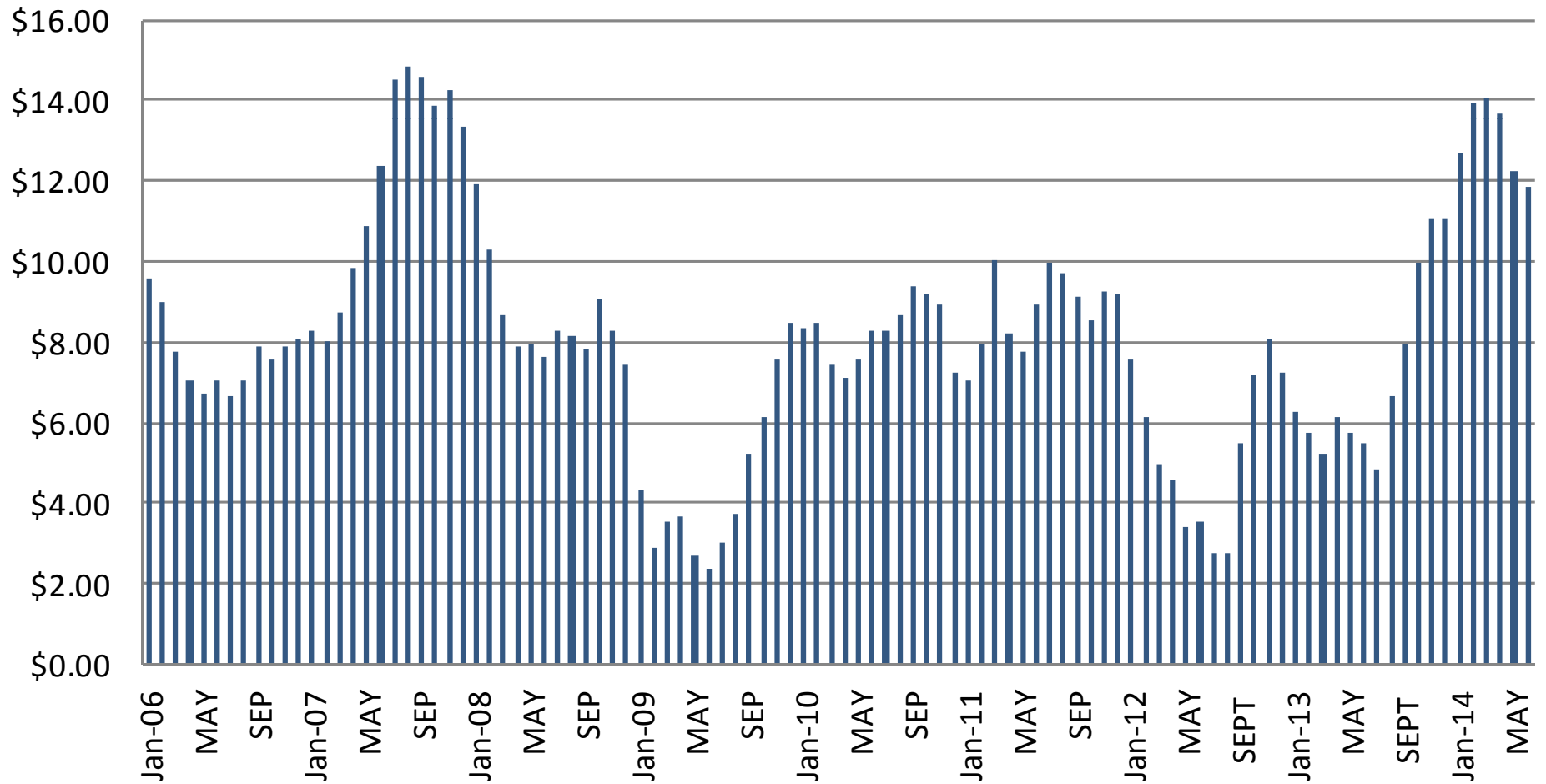
Hypothetical example

Consecutive Two-Month Margin	Two-Month Average	Coverage Level & Indemnities	
		\$4.00	\$6.00
July	\$3.00		
August	\$4.00	\$3.50	\$2.00
September	\$5.00		
October	\$6.00	\$5.50	\$0.50
November	\$8.00		
December	\$9.00	\$8.50	\$0.00



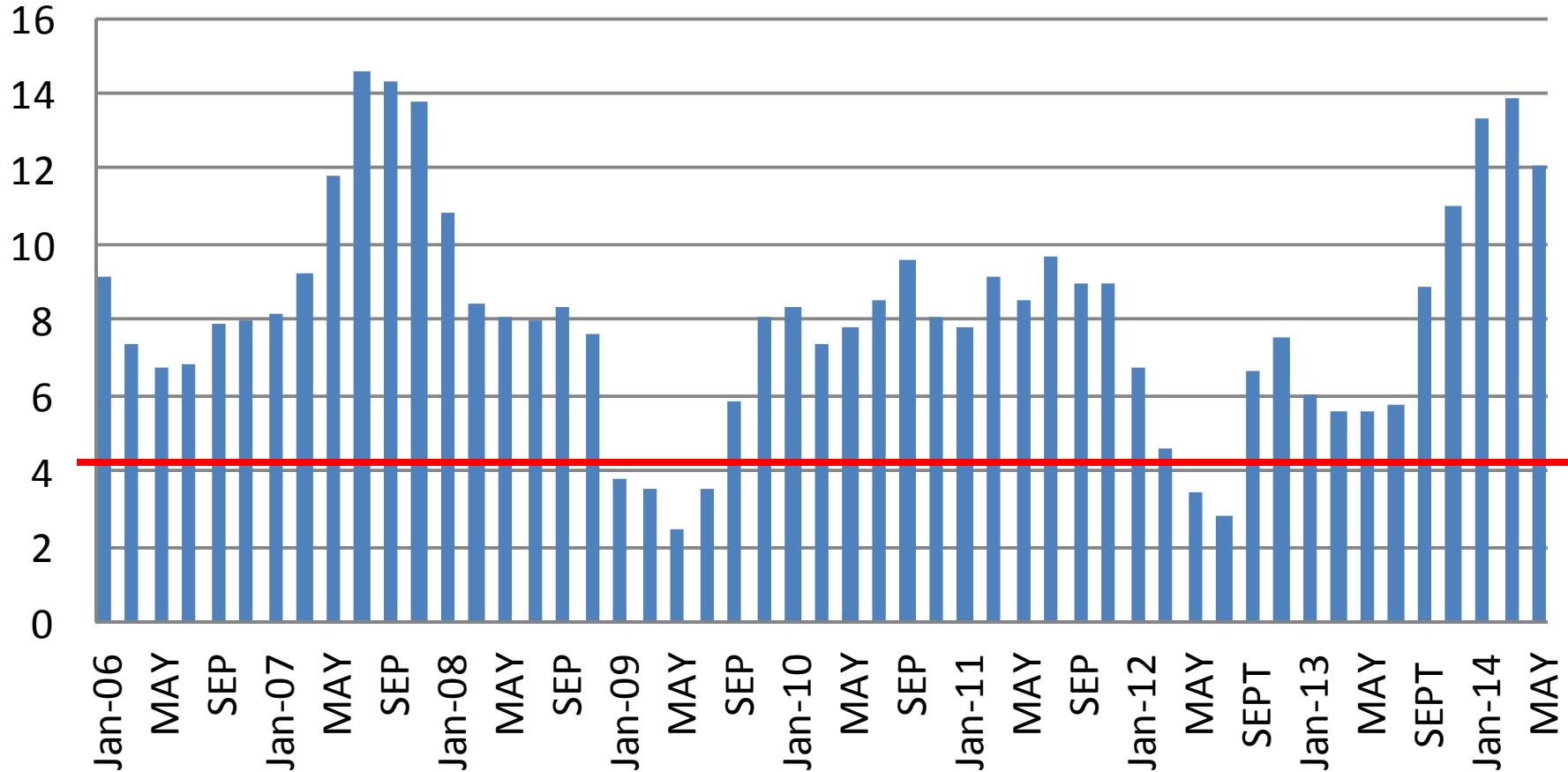
# When does it pay out?

## Margin



# When does it pay out?

## Two-month margin



# When does it pay out?

1,000 cow dairy; insured at \$6/cwt level; 50% of production

<b>Net benefit (payment - cost)</b>		<b>81,589</b>	<b>208,749</b>	<b>290,338</b>
2009		49,278	139,072	188,350
2010		(100)	(13,175)	(13,275)
2011		(100)	(14,027)	(14,127)
2012		32,211	92,464	124,675
2013		(100)	4,415	4,315



Catastrophic  
coverage

Supplemental  
coverage

Total benefit

Note: numbers for historical comparisons may vary slightly depending on when the NASS data was downloaded (subject to revisions)

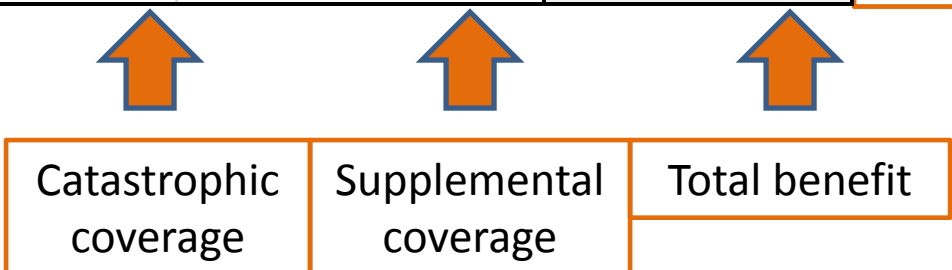


# When does it pay out?

1,000 cow dairy; 90% of production

Coverage selected

<b>Net benefit (payment - cost)</b>	<b>146,940</b>	<b>691,653</b>	<b>838,593</b>	
2009	88,780	370,798	459,578	\$8
2010	(100)	-	(100)	
2011	(100)	-	(100)	
2012	58,060	259,166	317,226	\$8
2013	(100)	61,689	61,589	\$8



# When does it pay out?

1,000 cow dairy; 90% of production

Coverage selected

Net benefit (payment - cost)	57,760	(474,209)	(416,449)	
2009	-	-	-	
2010	(100)	(210,942)	(211,042)	\$8
2011	(100)	(244,208)	(244,308)	\$8
2012	58,060	-	58,060	
2013	(100)	(19,059)	(19,159)	\$5.5

Catastrophic coverage

Supplemental coverage

Total benefit

# What does this mean for California producers?

- Average difference in the all-milk price
- Average difference in feed cost
- Implications

# U.S. a very diverse country

Google autocomplete results:

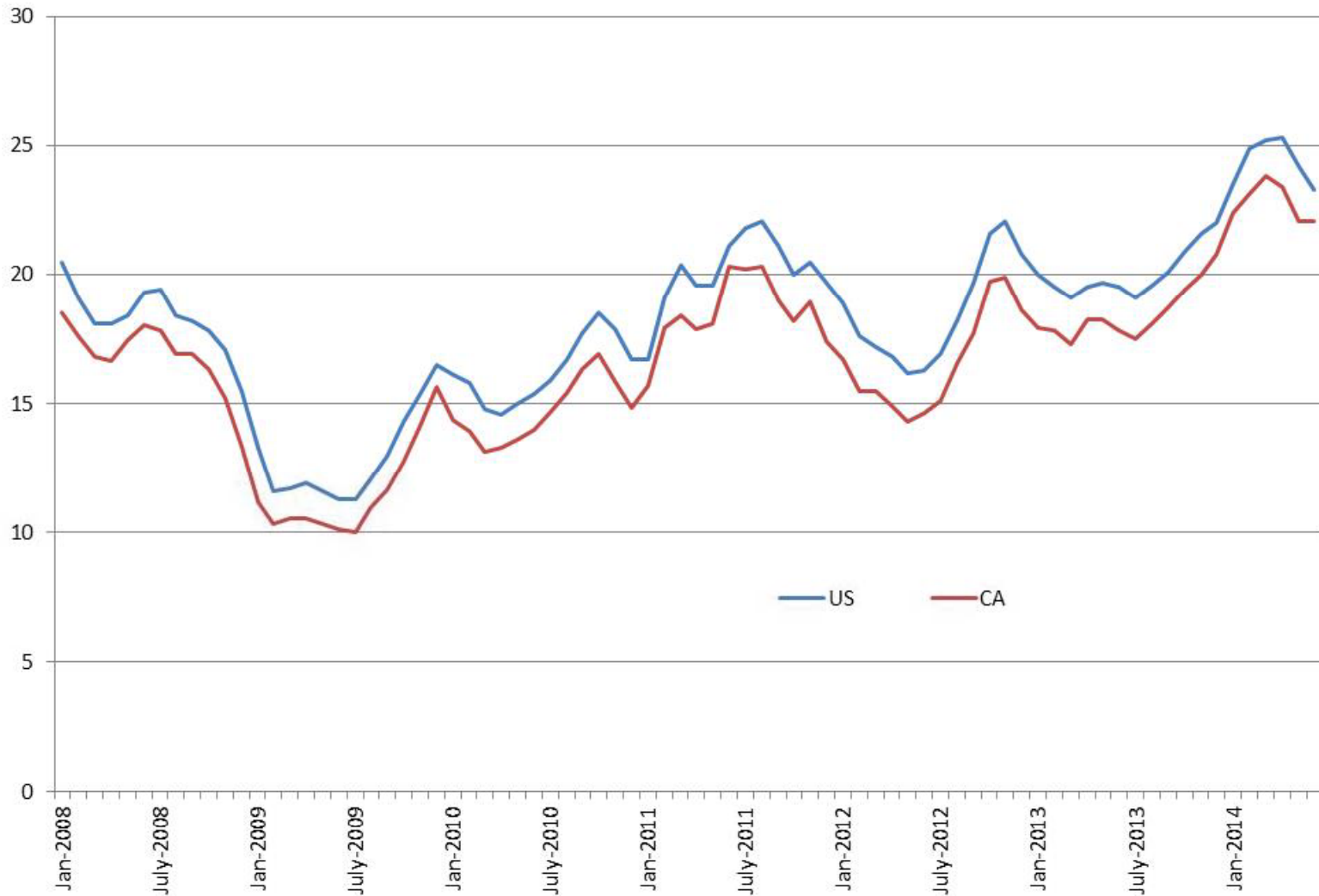
## “Why is [state] so...”



as of January 2014

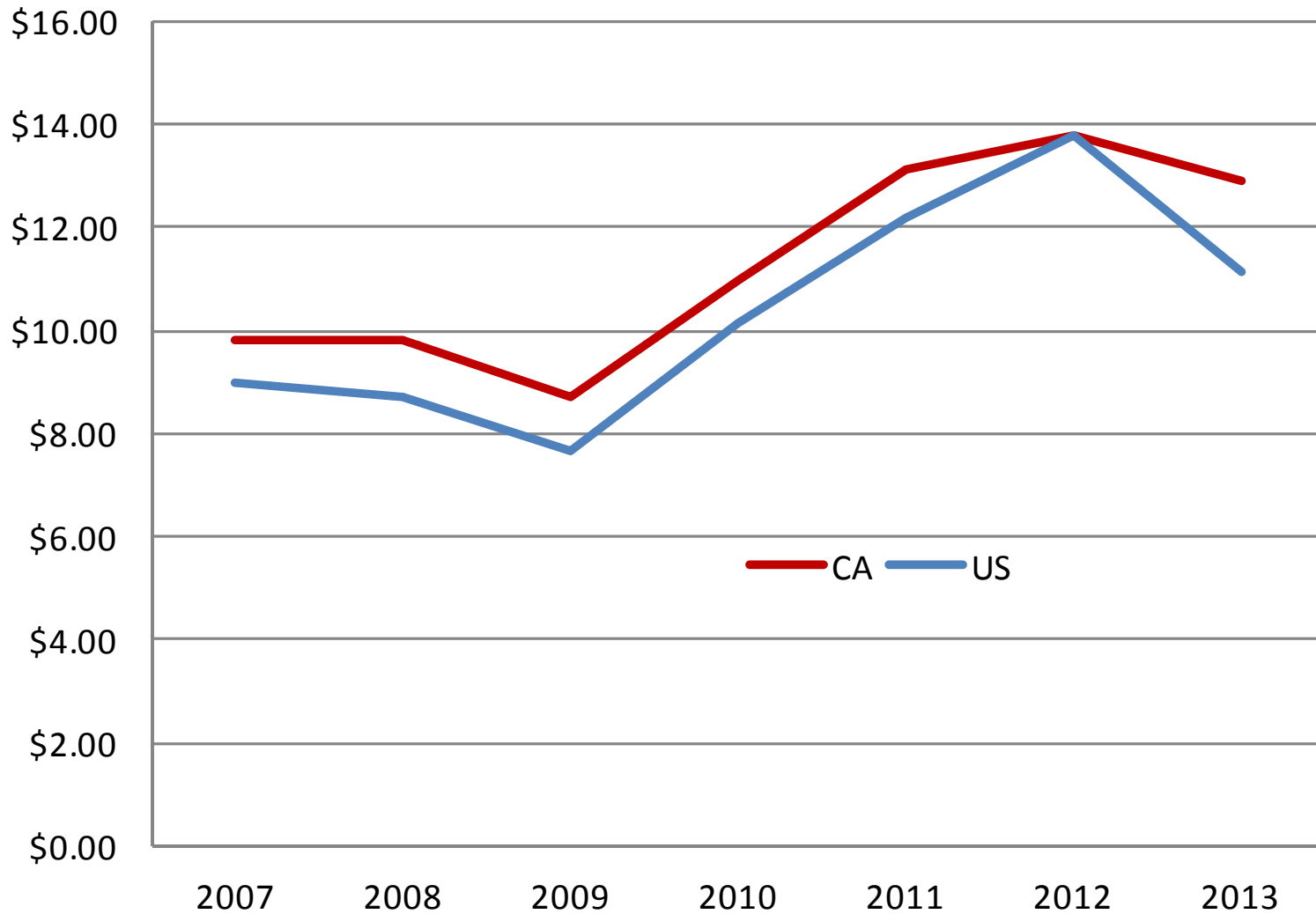


# All milk price – US vs CA





# Feed costs – US vs CA



Note: Feed costs compiled based on corn marketing year (starting Sept 1), using the same formula for US and CA feed costs



# MPP Margin US vs CA



# What does this mean for California producers?

Hypothetical example

Consecutive Two-Month Margin	Two-Month Average	Actual CA margin?	Coverage Level & Indemnities	
			\$4.00	\$6.00
July	\$3.00			
August	\$4.00	\$3.50	\$1.03	\$2.00
September	\$5.00			
October	\$6.00	\$5.50	\$3.03	\$0.50
November	\$8.00			
December	\$9.00	\$8.50	\$6.03	\$0.00

# What does this mean for California producers?

Hypothetical example

Consecutive Two-Month Margin	Two-Month Average	Your own margin	Coverage Level & Indemnities	
			\$4.00	\$6.00
July	\$3.00			
August	\$4.00	\$3.50	?	\$0.50
September	\$5.00			
October	\$6.00	\$5.50	?	\$0.00
November	\$8.00			
December	\$9.00	\$8.50	?	\$0.00

# What does this mean for California producers?

- Determine how you want to use the program
  - Catastrophic coverage?
  - Sole risk management tool?
  - Supplemental insurance with other risk management tools?
- Determine basis (difference between your margin and the USDA calculation)

# Which risk management tool to choose?

## DMPP

Protection from \$4-  
\$8/cwt margins

Fixed premiums

Available only once  
per year

## CME

Protection at market  
prices (feed and milk  
separately)

Cost varies with  
market conditions

Available at any time

# Which risk management tool to choose?

## DMPP

Protection from \$4-\$8/cwt margins

Fixed premiums

Available only once per year

Can not change the feed ration

## LGM-Dairy

Margin protection at market prices

Cost varies with market conditions

Available at the end of the month

Can adjust feed ration

\* Production history is the limit

\* Limited contracts available



# DMPP Pros and Cons

## PROS

- No payment limitations
- Premiums may be cheaper
- Coverage may be greater than futures market



# DMPP Pros and Cons

## CONS

- Program assumes national prices
- Feed ration is fixed
- Protection up to 90% of production history
- May not participate in LGM-Dairy at the same time
- Cannot lock margins above \$8

# DMPP Pros and Cons

- Indemnities calculated every 2 months
- Is not actuarially fair (fixed premiums)
- Available only once per calendar year
  - But once you're in, you're in

# Decision making process

- Web based decision tool
- <http://dairymarkets.org/MPP/>
- [www.fsa.usda.gov/mpptool](http://www.fsa.usda.gov/mpptool)

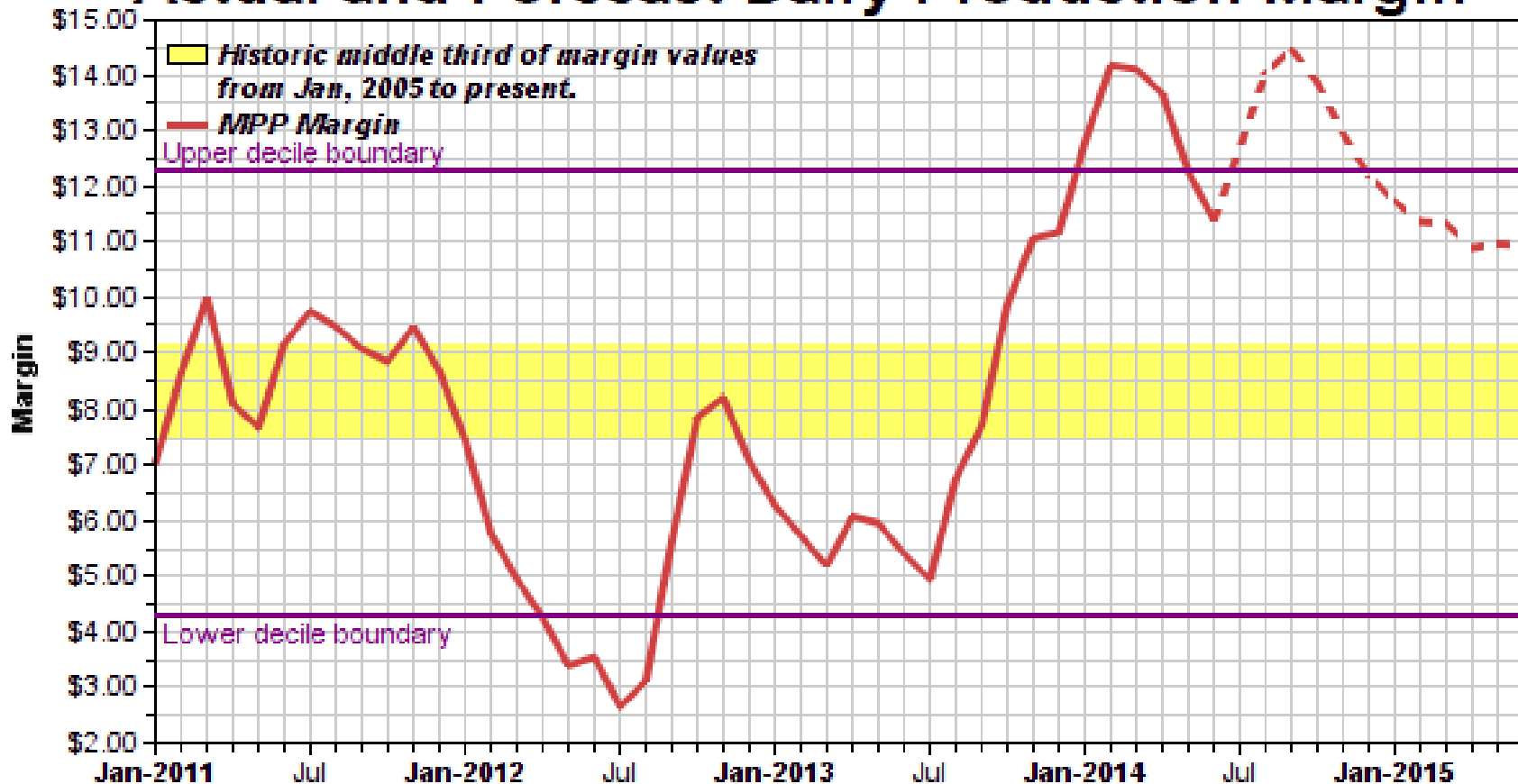
# Decision making process

- Allows Users to upload production information and choose between MPP and LGM-D

The screenshot shows the 'Dairy Program Decision Tool' interface. At the top, there are radio buttons for 'MPP' (selected) and 'LGM'. Below this is a navigation bar with tabs: 'Get Started' (active), 'Production History', 'Forecast Margin', 'Select Coverage', and '"What if" Game'. A sub-header reads 'Dairy Program Decision Tool' with a note 'Designed by the program on Dairy Markets and Policy.' Below the navigation bar, a text block explains that users can enter monthly milk production using Method #1 (recommended) or production history using Method #2. A button labeled 'Play Overview Video of Dairy Decision Tool' is provided. The 'Method #1' section is expanded, showing a 'Method #1 video explanation' button. Under 'Step 1', there is a 'Download Template File' button and a text instruction: 'First download the Excel template file and enter your monthly milk production. You may save this file on your computer and update with new production data over time. When this is done, proceed to Step 2.' 'Step 2' features a file upload area with '+' and '-' buttons and the instruction: 'Click the "+" to select the spreadsheet with your data.' A final paragraph states: 'When you have entered your monthly milk production into the Excel template and saved the file, you can upload that file by clicking on the "+" and selecting your Excel file. Once selected, click on the green Upload button to enter your data into the program.'

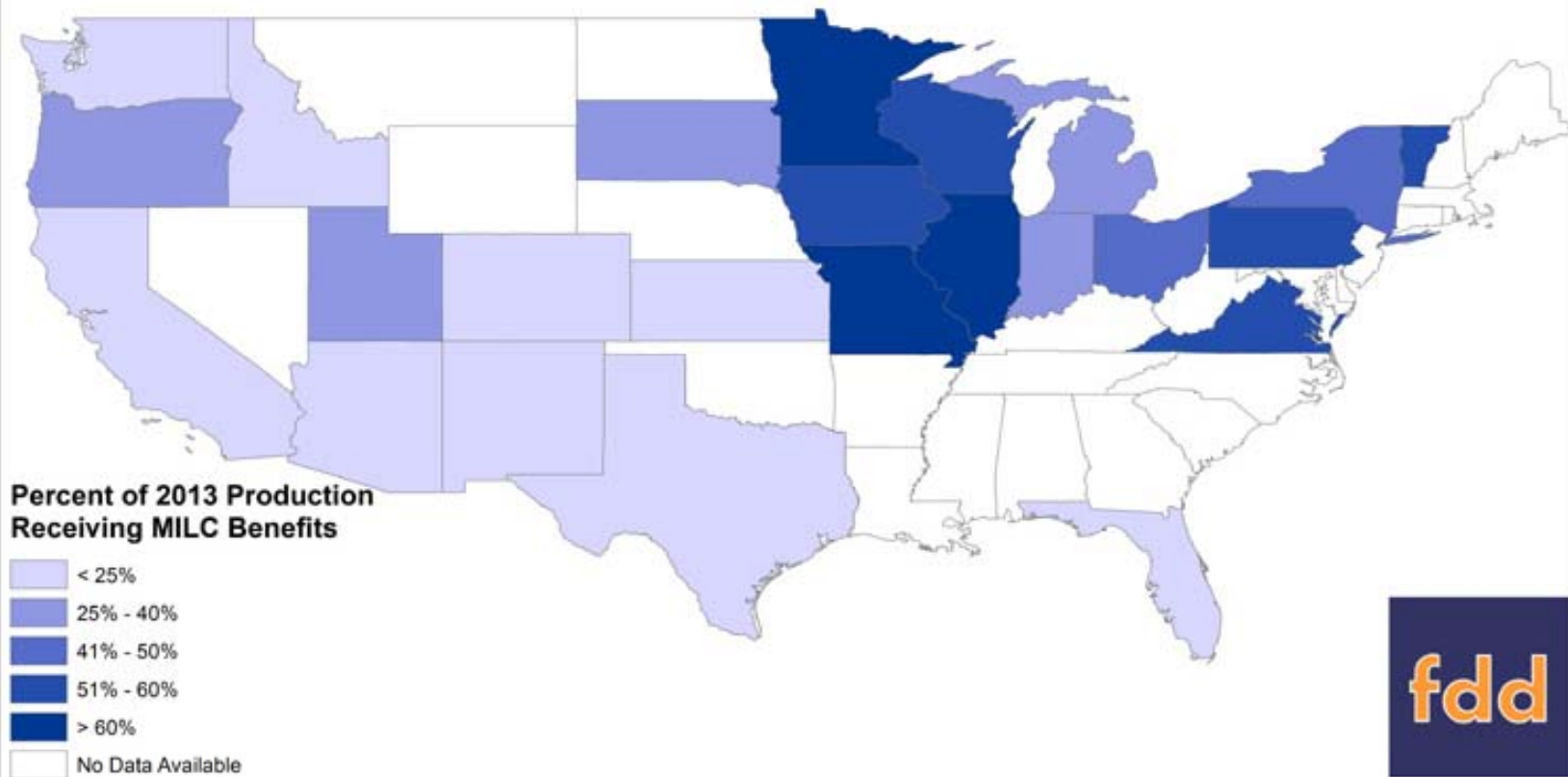
# What's your decision? Discuss!

## Actual and Forecast Dairy Production Margin



# Which looks better?

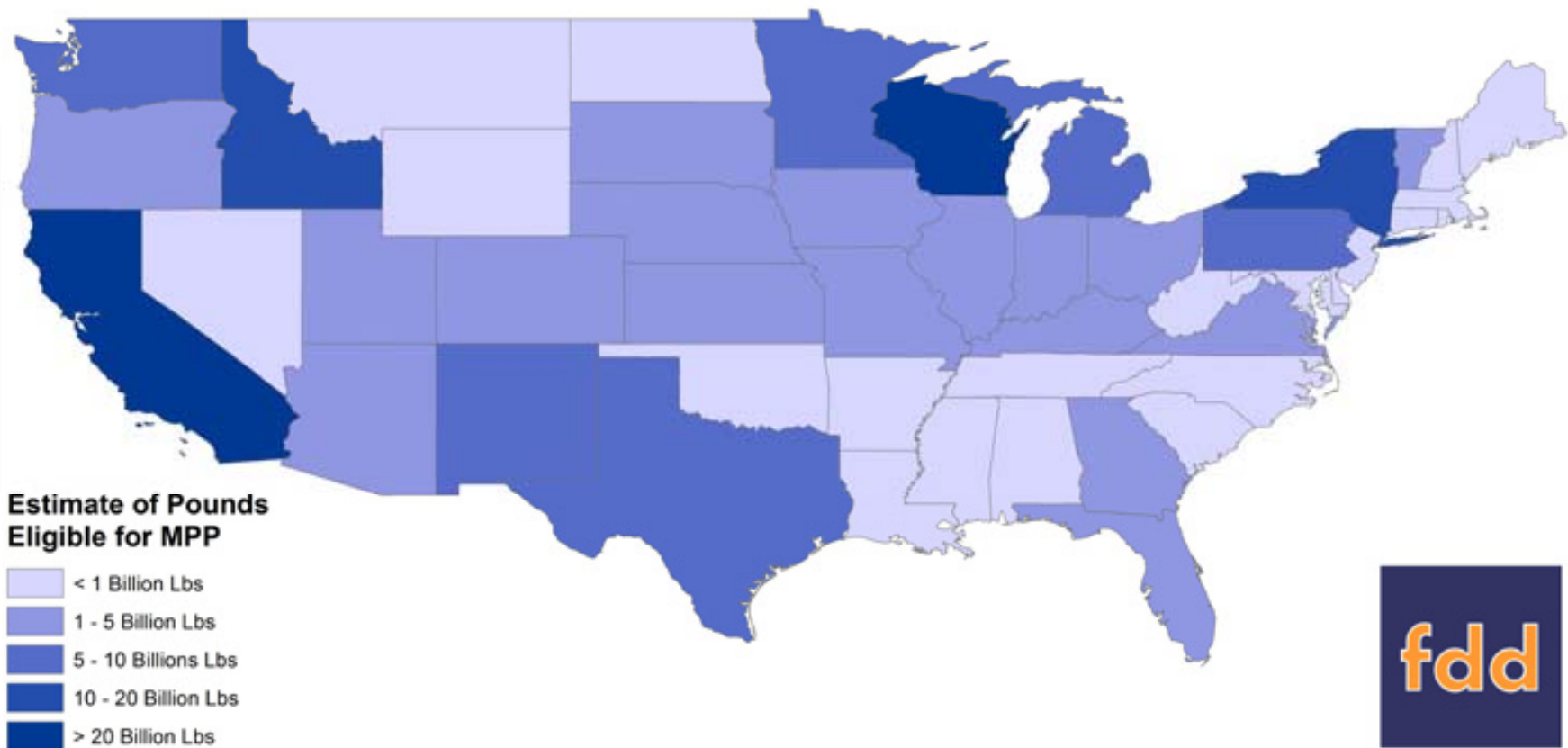
**Figure 2. Percent of Milk Production by State Receiving MILC Benefits, 2013 1/**



1/ Includes only states with USDA reported monthly milk production during fiscal year 2013.

# Which looks better?

**Figure 3. Calendar Year Estimate of Milk Production Eligible for Participation in MPP**



# A few reminders

- Payment based on USDA's formula, not your own dairy's margin
- Can be used in conjunction with other risk management tools
- To get the \$4/cwt catastrophic coverage, you only need to pay the administrative fee (\$100/year)



# A few reminders

- Sign up is September 2 – November 28 for 2014 and 2015
- Subsequent years, sign up will be July 1 – September 30

# Contact us

- Office: 209.527.6453
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THANK YOU!