

## WUD's Margin Protection Program (MPP) Workshops

### Questions and answers

*A variety of questions were asked at the 12 workshops WUD hosted throughout the state. This list includes the questions that could not be clarified prior to the release of USDA's final rules. Answers provided are to the best of our knowledge based on USDA's rules.*

1. Question: How much money would the government have paid out if every producer had participated in the MPP in 2009?

If every producer had participated at the basic \$4 level, covering 90% of the production, the government would have had to pay producers approximately \$750 million. If every producer had signed up at the \$8 level, covering 90% of the production, the total would have been close to \$6 billion (although premium dollars paid to the government could have been close to \$1 billion). This is assuming 2008 milk production as the production history.

2. Question: What is the all-milk price definition?

*All-milk price* means the national average price received, per hundredweight of milk, by dairy operations for all milk sold to dairy plants and milk dealers in the United States. For how USDA collects that data, see question 12.

3. Question: What if I sell half of my herd next month, can I still use the highest milk production of 2011, 2012 and 2013 for my production history?

Yes, the production history does not change if you make changes to your herd size or breed. The production history will increase annually by a factor determined by USDA, according to national milk production growth.

4. Question: If I elect to participate in the MPP in 2015, can I elect to participate in LGM-Dairy in 2016?

No. Once you sign up for MPP, you have to participate every year until 2018.

5. Question: If I decide to buy supplemental coverage (ie. at a level above \$4), when are premiums due?

There are two options to pay the premiums: 1) entirely at the time of sign-up 2) 25% by February 1 of the covered year and the remainder by June 1 of that same year.

6. Question: I already own a dairy operation. Can I start a new dairy and get a new production history accordingly?

A new operation has to be separate from other operations. It is also subject to an affiliation rule. That rule states the new operation will not be considered a separate operation if producers that collectively own more than 50% of the new operation also collectively own more than 50% interest in another dairy operation registered in MPP.

7. Question: I understand I can participate in LGM-Dairy through the first part of 2015. If my contract expires in March, when does my MPP coverage start?

Because MPP works in two-month blocks that cannot be broken up, you would not get coverage for April because you were covered under LGM in March. Coverage under MPP would start with the May/June period.

8. Question: When is payment, if any, going to be issued?

USDA will wait for final numbers (which are typically published a month after the fact) to publish the actual margin. This means the January/February period margin will be available in April. Payment will be issued after that.

9. Question: If you buy a dairy in the middle of a year, do you pick up the production history right then, automatically, or do you have to wait until the next year to sign up for it?

The production history stays with the enrolled dairy operation if there is a change in ownership and the new owner intends to continue marking milk. The new owner is not obligated to participate. If he does, his production history will be that which was originally established for the operation. He may assume an existing annual agreement as a "successor-in-interest" if he so chooses (this may require concurring agreement by the seller).

10. Question: I want to buy supplemental coverage for a production history of 10 million pounds. Will I be able to use the lower premium rate for the first 4 million pounds?

Yes. The first 4 million pounds of covered production history will be at the lower rate. The remainder will be at the higher rate.

11. Question: Is there an "apples to apples" comparison available of LGM versus MPP?

LGM's available margins and premiums fluctuate while MPP's are static. This makes the comparison between the two a moving piece. Dairy producers can check premium costs for certain margins covered at [dairymarkets.org/MPP](http://dairymarkets.org/MPP) (under Decision tool). A video explaining the differences is also available at: <http://vimeo.com/107207625#t=3120s>

12. Question: How does USDA compile the data that will be used in the formula to determine the margin? Is it audited?

The all milk price is calculated by using total dollars paid to producers at average fat test, including any premiums or discounts (prior to deductions for hauling, promotions, or dues) divided by total pounds of milk. Total dollars paid would not include any dividends paid by coops or hauling subsidies. The data come from various sources. In some states, USDA calculates a price using data collected on surveys of plants that purchase milk from farmers. In some states, USDA uses data obtained from Coops or Federal Milk Marketing Orders. In California, USDA uses data provided by CDFA. To calculate a U.S. price, USDA weighs the top 23 states' price estimates by the states' monthly milk production estimates.

NASS hay price data collection varies across states based on established surveys and available administrative data. NASS uses a weighted average from survey responses to calculate the price. An example of a survey method would include a monthly questionnaire sent to farmers. The questionnaire asks for the quantity purchased of alfalfa and the total dollars paid for it. NASS uses this information to generate a weighted average price. In California for example, this data is then compared to administrative prices from the USDA's Market News Service (a separate entity from NASS) and a weekly newsletter, the Hoyt Report. Since this is an average price, high quality hay may well be valued at a higher price than the published price. Other states may gather data from the Milk Production survey and/or the Cattle on Feed survey. Some states survey hay dealers and retailers. Administrative data can also be gathered from hay auctions within a given state. All of these data sources are analyzed when estimating hay prices.