DAIRY MARGIN PROTECTION PROGRAM SUMMARIZED

BY DAVE NATZKE

The Farm Bill is signed and new dairy policy has been conceived. A gestation period is underway in the womb of USDA. It has a name, the Dairy Margin Protection Program (DMPP), and a presumed birth date – Sept. 1, 2014.

But while it has a name and birth date, we're still unclear as to when it walks and talks. According to Bob Gray, with the Northeast Dairy Farmers Cooperatives, USDA's final rules will require a comment period, which could push actual implementation into 2015.

In the meantime, may questions remain until USDA comes up with a formal plan, according to Marin Bozic, University of Minnesota dairy economist.

"The final bill leaves a lot of discretion to the Secretary of Agriculture, and while the Farm Bill language is no longer subject to change, we will not know for a few more months what the USDA rules will allow, and what will not be permitted," he said.

Here's what we think we know. Under the law, all U.S. dairy operations will be eligible to participate, provided they register and pay an annual $100 fee to cover administrative costs. If a participating dairy operation is operated by more than one producer, all will be treated as a single dairy operation. If a dairy producer operates two or more dairy operations, each must register separately to participate.

PRODUCTION HISTORY

To participate, dairy operations must establish production history. Initially, the production history is equal to the highest annual milk marketings of the participating dairy operation during any one of the 2011, 2012 or 2013 calendar years. The individual production history will grow by the U.S. average production growth in subsequent years. So, producers who expand significantly beyond average U.S. growth will not be able to protect the additional milk production under this program. There is no dairy market stabilization program.

Dairy farms in operation for less than a year may determine a production history by using the volume of the actual milk marketings for the months in operation, extrapolated to a yearly amount; or estimate of the actual milk marketings based on the herd size relative to the national rolling herd average.

PROTECTION, PREMIUMS

Dairy operations may protect margins between $4.00/cwt. and $8.00/cwt., in 50¢ increments. They may also elect to cover a percentage of their milk production in 5% increments, beginning with 25% and not exceeding 90% of the production history.

COVERAGE	< 4 MILLION	> 4 MILLION
$4.00	NONE	NONE
$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

There are two tiers of pricing for annual premiums. The first 4 million lbs. of milk sold annually will have significantly lower premiums than milk production above 4 million lbs. The $4.00/cwt. margin coverage level is available at no cost, but the premiums become increasingly expensive as margins increase. Additionally, premiums below the $8.00 level will be discounted by 25% for the first two years of the program for the first 4 million lbs. of production history.

CALCULATING COST AND MARGINS

After USDA calculates a monthly national average feed cost to produce 100 lbs. of milk (using corn, soybean meal and hay prices), the agency will determine the actual dairy producer margin by subtracting that cost from the average all-milk price.

PAYMENTS

A participating dairy operation will receive a payment whenever the average actual margin for a consecutive 2-month period is less than the margin level selected for protection.

USDA will create administrative rules and enforcement procedures, and establish an appeals process.

LGM-DAIRY, MILC, OTHER PROGRAMS

A dairy operation may participate in the margin protection program or the USDA Risk Management Agency's Livestock Gross Margin for Dairy (LGM-Dairy) program, but not both.

The bill provides for the temporary continuation of the Milk Income Loss Contract (MILC) program until the Margin Protection Program is in place, or Sept. 1, 2014, whichever is sooner.

The bill repeals the Dairy Product Price Support Program, Dairy Export Incentive Program and the Federal Milk Marketing Order Review Commission, but extends the Dairy Forward Pricing Program, the Dairy Indemnity Program and the Dairy Promotion and Research Program.

Dairy Production Donation Program

Within 120 days of initial operation of the DMPP, USDA must establish and administer a dairy product donation program to address low-margin periods experienced by participating dairy operations; and provide nutrition assistance to individuals in low-income groups.

In general, whenever the actual dairy production margin has been $4.00/cwt. or less for each of the preceding 2 months, USDA will purchase dairy products, at prevailing market prices, for a maximum of three consecutive months, or when the margin returns above $4.00/cwt.

USDA must distribute, but not store, the dairy products purchased under the program. To protect U.S. export markets, the program also has triggers to stop domestic dairy product purchases if U.S. prices are 5% or more above world prices.

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