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RESEARCH & EXTENSION

University of Arkansas System

Margin Protection Program for Dairy Producers

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Presentation Objectives

- 1) How the Program Works and
- 2) Highlights of the Operating Rules

Margin Protection Program-Dairy

- MPP-Dairy is a Farm Service Agency (FSA) program.
- Attempts to maintain an adequate level of IOFC –
Income Over Feed Costs
- $\text{IOFC} = \text{Milk Price} - \text{Feed Costs}$
- IOFC is available to pay other production expenses
- ❖ Increased IOFC represents increased farm profitability

MPP-Dairy Key Questions

1. Am I eligible?
2. What is my Production History (PH)? (annual lbs. produced)
3. How much of my PH do I want to “cover” under this program – Covered Production History?
4. What is the national Actual Dairy Producer Margin (ADPM)? (calculation procedure)
5. How low can the ADPM go before I want to get a benefit payment? (decreasing milk prices or increasing feed costs)
6. How much am I willing to pay to get a benefit payment?
7. Producer pays a premium. (certain). USDA pays me a benefit (only if it is triggered).
8. Repeat registration with FSA annually through 2018.

MPP-Dairy Eligibility

1. Have Current commercial marketings, in U.S. or its territories (*on-farm sales of milk must be documented, farmstead manufacturing must be documented and will be equated to milk marketings using USDA conversion factors*)
2. Be U.S. citizen or legal resident alien
3. Be "actively engaged" in the dairy farm business, *directly or indirectly share in the risk of producing milk, and make contributions including land, labor, management, equipment or capital to the dairy operation commensurate with their share of the business.*
4. Certify conservation compliance
5. Do not have active LGM-Dairy contract during program year (2014/15 completion allowed)

MPP-Dairy

Establishing Production History

1. You have current marketings
2. Your first marketings are before 8 Feb 2013 – you are an existing operation
 - ✓ Highest annual marketings in 2011, 2012, or 2013 (one year)
 - ✓ These years apply to all first-time registrations (2014-2018)
3. FSA has provisions for new operations with first marketings after Feb 2013

MPP-Dairy

Establishing Production History

1. In future years after initial registration:
2. Your Production History is subject to an annual increase based on national increase in production
 - a) Announced by Secretary
 - b) Can only go up
 - c) 2015 “bump” is 1.0087 or + 0.87%
 - d) Must be registered in the program to be eligible
 - Producers who delay registration until after the 2015 program year will miss previous bumps when they do register.

MPP-Dairy Registration Period (enrollment, sign-up)

1. Producers establish their production history once, unless there is some change in farm organizational status.
2. Producers “register” – select coverage levels – annually, corresponding to the calendar years in which program benefits apply.
 - ✓ 2014: 2 September to 28 November 2014, revised to 5 December 2014
 - ✓ **2015: 2 September to 28 November 2014, revised to 5 December 2014 (get first bump)**
 - ✓ 2016: 1 July to 30 September 2015
 - ✓ 2017: 1 July to 30 September 2016
 - ✓ 2018: 3 July to 2 October 2017
3. **YOU DON'T HAVE TO ENROLL NOW** (*but if you don't register in 2015 you will forego the first “bump”, or annual increase in PH*)

ADPM

1. A new **Actual Dairy Producer Margin** will be calculated monthly and averaged for fixed 2-month pairs: Jan/Feb, Mar/Apr, May/Jun.....
2. ADPM is a type of Income Over Feed Cost (IOFC), based on
 - a) US average All Milk Price estimate (NASS)
 - b) US average (grain) Corn Price estimate (NASS)
 - c) US average Alfalfa Hay Price estimate (NASS)
 - d) Decatur-Central Illinois reported price for Soybean Meal delivered by rail, calculated as simple average of reported high and low (AMS-Market News)
3. Formula developed based on a ration of corn grain, SB Meal, and hay for a typical dairy herd (milk cows, young stock, etc.).

4. Milk \$/cwt –

$$[1.0728 \times \text{Corn } \$/\text{bu}] + [0.0137 \times \text{Alfalfa } \$/\text{ton}] + [0.00735 \times \text{SBM } \$/\text{ton}] \\ = \text{ADPM } \$/\text{cwt of milk}$$

Example: \$22.00 – \$12.00 = \$10.00 as Actual Dairy Producer Margin

ADPM Concept

ADPM, IOFC, MPP Payment

- $\uparrow \downarrow$ ADPM corresponds to $\uparrow \downarrow$ IOFC (Farm)
- \downarrow ADPM triggers MPP Payment
- \downarrow ADPM \rightarrow \uparrow MPP Payment

$$\text{IOFC (Total)} = \text{IOFC (Farm)} + \text{MPP Payment}$$

- \uparrow MPP Payment \rightarrow \uparrow IOFC (Total)
- ❖ Increased IOFC represents increased farm profitability

Margin Calculations for 2014

Period	ALL MILK	CORN	SB MEAL	ALFALFA HAY	FEED Cost	MILK- FEED Margin
	<i>\$/cwt.</i>	<i>\$/bu.</i>	<i>\$/ton</i>	<i>\$/ton</i>	<i>\$/cwt.</i>	<i>\$/cwt.</i>
2014.01	\$23.50	\$4.42	\$479.54	\$185.00	\$10.71	\$12.79
2014.02	\$24.90	\$4.35	\$409.25	\$188.00	\$10.73	\$14.17
Jan/Feb						\$13.31
2014.03	\$25.20	\$4.51	\$497.82	\$191.00	\$11.10	\$14.10
2014.04	\$25.30	\$4.71	\$514.01	\$206.00	\$11.63	\$13.67
Mar/Apr						\$13.87
2014.05	\$24.20	\$4.71	\$519.38	\$224.00	\$11.93	\$12.27
2014.06	\$23.30	\$4.37	\$501.79	\$222.00	\$11.69	\$11.61
May/Jun						\$12.07

MPP-Dairy Benefit Payments

1. If the US average bi-monthly ADPM falls below the coverage level you select, you get the \$/cwt difference on 1/6 of the annual quantity of milk you have chosen to cover
2. Paid in the following month.

Example of the time flow for the September/October bi-monthly period.

- ✓ September buying and selling of milk, corn, SB Meal, and alfalfa occurs.
- ✓ USDA AMS publishes SB Meal price in middle of October.
- ✓ USDA NASS releases final estimates All Milk, Corn, and Alfalfa prices around end of October.
- ✓ October ends, USDA reports same prices in mid and late November
- ✓ Sep/Oct ADPM is announced late November.
- ✓ Any benefit payments that are triggered are paid in December.
- ✓ Payments are subject to any federal sequestration that may be effect.

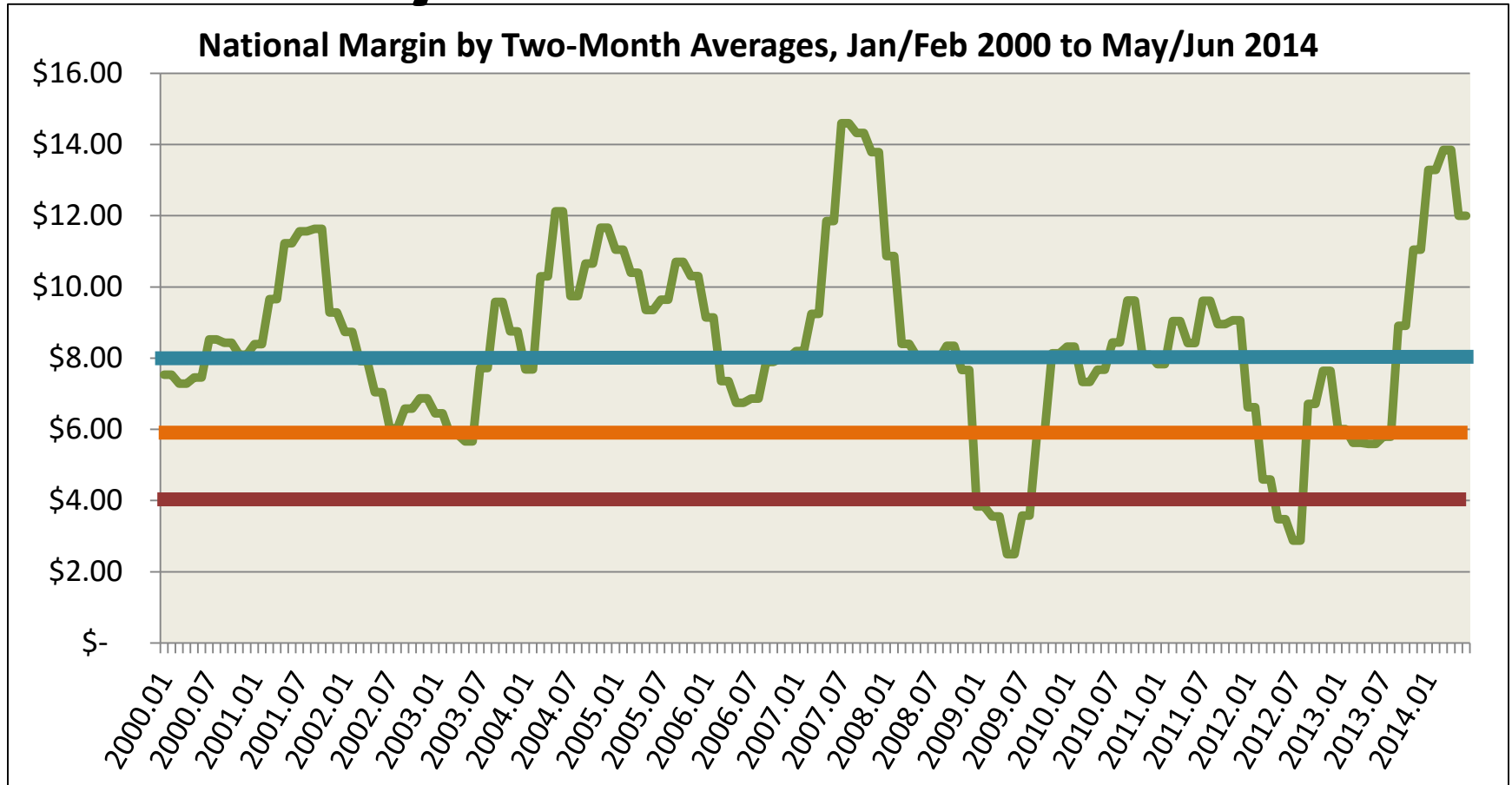
Example for Any Two-Month Period

Production History, Annual	1,000,000 Lbs.				
Coverage Level Percentage	90%	Selected	25% to 90%		
Covered Production	900,000 Lbs.				
Coverage Threshold	\$8.00	Selected			
Actual MPP Margin	\$6.00	Formula			
Margin Payment	\$2.00	\$8.00 -	\$6.00		
Payment, two months	\$3,000	$900,000 \div 100 \div 6 \times$	\$2.00		

MPP-Dairy Coverage Election

1. Producers choose
 - a) Coverage Level Threshold - \$4 to \$8 in 50¢ increments
 - b) Coverage Level Percentage – 25% to 90% of production history = covered production history
2. All partners/shareholders must agree on coverage
3. One coverage level on all eligible milk
4. May change annually (within year termination allowed only in case of death, retirement, or dissolution)
5. CAT coverage is default (\$4 on 90%), total costs is a \$100 administrative fee

Historical Examples of Payment Thresholds

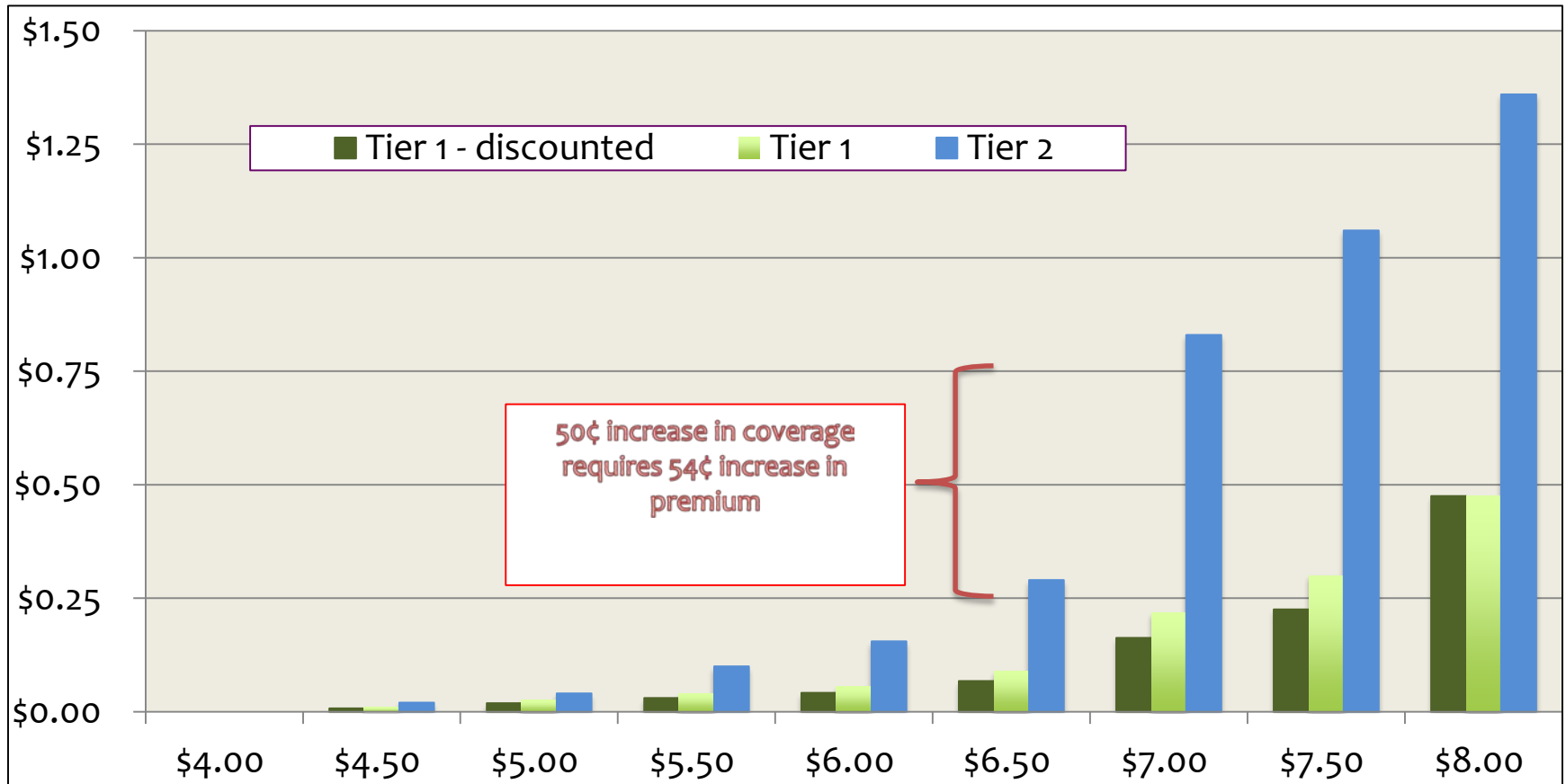


Premiums for MPP-Dairy,

exclusive of \$100 Administrative Fee (dollars per cwt.)

Coverage Level Threshold	Tier 1 - 2014 to 2015	Tier 1 - 2016 to 2018	Tier 2
	CPH 4 M lbs. or less		CPH above 4 M lbs.
\$4.00	0	0	0
\$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	\$1.030
\$8.00	\$0.475	\$0.475	\$1.360

Premiums for MPP-Dairy



Program Design and Farmer Strategies

How Will Farmers Approach the Enrollment Decision?

❖ What is my goal/strategy?

- Is my goal to manage my farm risk - a precaution, or
- Is it to maximize my expected payment given a premium – a bet?

Dairy MPP allows producers to evaluate program participation and coverage level each year. Current milk prices are favorable and feed prices are low, but this relationship may change.

MPP Example, MPP Payment Triggers

Evaluation of Income Over Feed Cost (IOFC)

Budget Category	\$/cwt.				
Revenue Per Cwt	\$18.50	Market			
Herd Replacement and Other Costs	\$9.55	Farm Records, Needed IOFC			
Feed Costs	\$10.00	Farm Records			
Projected IOFC	\$8.50	\$18.50 - \$10.00			
Net Returns	(\$1.05)	\$18.50 - \$10.00 - \$9.55			
MPP-Dairy ADPM	\$6.00	Formula Calculates			
Coverage Threshold	\$8.00	Selected			
Margin Payment	\$2.00	\$8.00 - \$6.00			
IOFC	\$10.50	\$18.50 - \$10.00 + \$2.00			
Net Returns	\$0.95	\$10.50 - \$9.55			

MPP Example, Current 2015 Outlook

Evaluation of Income Over Feed Cost (IOFC)

Budget Category	\$/cwt.				
Revenue Per Cwt	\$22.00	Market			
Herd Replacement and Other Costs	\$9.55	Farm Records, Needed IOFC			
Feed Costs	\$10.00	Farm Records			
Projected IOFC	\$12.00	\$22.00 - \$10.00			
Net Returns	\$2.45	\$22.00 - \$10.00 - \$9.55			
MPP-Dairy ADPM	\$10.00	Formula Calculates			
Coverage Threshold	\$8.00	Selected			
Margin Payment	\$0.00				
IOFC	\$12.00	\$22.00 - \$10.00 + \$0.00			
Net Returns	\$2.45	\$12.00 - \$9.55			

Online Decision Aid

Projects ADPM for the Upcoming Year

<http://dairymarkets.org/MPP/Tool/>

MPP-Dairy Considerations

- Know your expected revenue per cwt.
- Know your feed costs per cwt.
- Know your other operating costs per cwt.
- Evaluate the MPP potential thresholds with projections from the decision aid
- Registering for CAT coverage (\$100) for 2015 enables producers to receive “the first bump” in PH



FSA Registration/Election Period Deadlines

- 2014 and 2015:
September 2 – December 5, 2014
- 2016:
July 1 – September 30, 2015
- 2017:
July 1 – September 30, 2016
- 2018:
July 3 – October 2, 2017

Contact your local FSA Office for complete MPP program details.

Conclusion

- The online decision aid is regularly updated for producers to make registration decisions each year during the sign-up period.
- The online decision aid shows total premiums and projected net benefits after premiums are deducted.
- The website has a link to additional information about the Dairy MPP and the dairy industry.

Questions and Comments?

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