2014 Farm Bill Dairy Provisions

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2014 Farm Bill Dairy Provisions

• On February 7, 2014, the Agricultural Act of 2014 (2014 Farm Bill) was signed into law.

• The 2014 Farm Bill authorizes MPP-Dairy, a new margin-based dairy program, to replace the MILC program no later than September 1, 2014.

• The MPP-Dairy offers protection to dairy producers against extremely low margins when the difference between the all-milk price and the average feed cost falls below a certain, producer selected, dollar amount.

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S. Thraen
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The programs that are repealed are those that have represented the milk price and dairy farm income safety net:

- The Dairy Product Price Support Program (DPPSP), effective immediately;
- The Milk Income Loss Contract (MILC), effective once the new Margin Protection Program for Dairy Producers becomes operational or 1 September 2014, whichever is earlier.
- The Dairy Export Incentive Program (DEIP), effective immediately.

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S Thraen

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Certain other authorities are continued, including extensions of:

- The Dairy Forward Pricing Program – which allows non-Cooperative buyers of milk who are regulated under Federal Milk Marketing Orders to offer farmers forward pricing on Class II, III, or IV milk
- The Dairy Indemnity Program – which provides payments to dairy producers in the unlikely event that a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides, nuclear radiation or fallout, or toxic substances and chemical residues other than pesticides.
- Certain provisions to augment the development of export markets under the National Dairy Promotion and Research Program.

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S Thraen
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The new programs are:

- The **Margin Protection Program for Dairy Producers (MPP)** – a voluntary program that pays participating farmers an indemnity when a national benchmark for milk income over feed costs (the actual dairy production margin or ADPM) falls below an insured level that can vary over a $4 per cwt range.

- The **Dairy Product Donation Program (DPDP)** – a program that requires the Secretary of Agriculture to immediately procure and distribute certain dairy products when the ADPM falls below a the lowest margin level specified for the MPP. These products would be targeted for use in domestic, low-income family, food assistance programs, such as, but not limited to, The Emergency Food Assistance Program.

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S. Thraen

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The dairy production margin used to trigger MPP-Dairy payments uses the USDA National Agricultural Statistics Service (NASS) announced all-milk price per hundredweight, the USDA NASS announced corn price per bushel, the USDA NASS announced alfalfa hay price per ton, and the USDA Agricultural Marketing Service announced central Illinois high protein soybean meal price per ton.

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S. Thraen
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Margin Protection Elements

• Actual Dairy Production Margin
  – All-milk price minus feed ration value
  – National average formula, cannot be customized

• Actual Dairy Production History
  – Revised annually by USDA based on U.S. growth in milk production
  – Payment made on production history – not based on actual milk production

Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novaković, Mark W. Stephenson, and Cameron S. Thraen

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Key Farmer Decisions
Each year a farm must choose:

• Coverage Percentage
  – 25% to 90% of production history in 5% increments

• Coverage Level
  – $4 to $8 per hundredweight in $0.50 increments

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Table 1. Contract Design Features of MPP and LGM-Dairy

<table>
<thead>
<tr>
<th></th>
<th>MPP</th>
<th>LGM-Dairy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage Level</td>
<td>Coverage is available each year from $4 to $8 per cwt in $0.50 increments on up to 90% of the maximum production over the 2011, 2012, and 2013 calendar years. The same percentage of milk covered is the same across all months of the contract.</td>
<td>Coverage is available at prevailing market prices. Insurable milk production must meet inspection from the insurance company. The percentage of milk covered can vary from month to month. Multiple contracts can be used to cover a month’s production up to 100% of a month’s production is insured.</td>
</tr>
<tr>
<td>Sales Period</td>
<td>Farmer may change coverage options annually and coverage lasts one calendar year</td>
<td>LGM-Dairy is available for purchase each month. Producers may sign up 12 times per year, but only once per month. Payments are made at the end of the coverage period.</td>
</tr>
<tr>
<td>Premium Rates</td>
<td>Fixed for the life of the Farm Bill (25% discount applied to 2014 and 2015 calendar year premium rates).</td>
<td>Designed to be actuarially fair. Sets the policy premium equal to 1.20 times the expected indemnity loss the declared deductible.</td>
</tr>
<tr>
<td>Government Subsidy</td>
<td>No direct subsidy. There may exist significant indirect subsidies given the fixed premiums.</td>
<td>Premium subsidy up to 50% depending on a farmer’s declared deductible.</td>
</tr>
<tr>
<td>Farmer Customization</td>
<td>Fixed contract design with respect to feed ration and percent of milk covered. Dairy production margin formula is fixed. Feed quantities do not change.</td>
<td>LGM-Dairy can be tailored to farm size and feed usage (includes feed equivalent conversion) and to reflect actual feed market risk. Ration quantities are not fixed.</td>
</tr>
<tr>
<td>Agricultural Prices Used</td>
<td>Uses USDA announced prices for all milk, corn, soybean meal, and alfalfa hay.</td>
<td>Uses simple average of futures prices for class III milk, corn, and soybean meal.</td>
</tr>
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Source: Information Letter 14-01 by Marin Bozic, John Newton, Andrew M. Novakovic, Mark W. Stephenson, and Cameron S. Thraen.
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Maryland LGM-Dairy Enrollments

2013 Reenrollment Year (7/12-6/13)

<table>
<thead>
<tr>
<th>Commodity</th>
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<th>INS Plans</th>
<th>INS Paid</th>
<th>INS Earned</th>
<th>INS Index</th>
<th>UNL Plans</th>
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<td>0</td>
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2014 Reenrollment Year (7/13-6/14)

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2015 Reenrollment Year (7/24-6/15) reflects carryover policies only as first enrollment period begins (7/25/14)

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Source: RMA Web 7/9/14

http://www.rma.usda.gov/

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LGM Analyzer

Overview

The LGM-Analyzer is a software suite developed at the University of Wisconsin that can be used to assist in the use of the Livestock Gross Margin management. The user can evaluate the performance and cost of LGM-Dairy either using historical data or in anticipation of the upcoming LGM-Dairy.

The LGM-Analyzer Suite of Programs

There are currently three separate programs that comprise the LGM-Analyzer suite. These programs are the: (1) LGM-Dairy Premium Estimator, (2) LGM-Dairy Cost Optimizer, and (3) LGM-Dairy Profit Optimizer.

- **The Premium Estimator**
  - This program can be used if you want to estimate LGM-Dairy premiums for a user-defined LGM-Dairy contract. An LGM-Dairy contract is a contract that specifies both a contract and deductible level.

- **The LGM-Dairy Cost Optimizer**
  - Select this if you want to minimize the premium costs for attaining a pre-defined level of target income over Feed Cost (TOFC) for all milk produced and the producer will need to be insured to achieve the total target TOFC. In contrast to the Premium Estimator when using the Optimizer, the user does not specify the deductible level.

- **Bundled Options Comparison**
  - This software can be used to compare the cost of using a traditional bundled option strategy to establish a similar level of TOFC floor as production options strategy. Class III puts are used to establish a revenue minimum and com/limit call options are used to establish a feed cost ceiling maximum, the producer has established a minimum TOFC. When the options contracts mature, the value of the options will be added to help achieve the TOFC.

**Topic Specific Help Documents**

- Using the Premium Estimator
- Using the LGM-Dairy Cost Optimizer
- Bundled Options Cost Comparison
- How to Evaluate Contract Performance for an Active LGM-Dairy Contract
- Evaluating Annual Contract Performance for a Completed LGM-Dairy Contract
The members of the Dairy Markets and Policy Team has been tasked by the Farm Services Agency of USDA to partner with them in developing a web-based tool that will assist farmers in making their decisions about participating in the new Margin Protection Program for Dairy Producers (MPP).

www.dairymarkets.org
2014 MD Farm Bill Workshops

The 2014 Farm Bill is complex and details of how the bill will be implemented are not expected to be available until early August. The purpose of the workshops is to provide farmers with a better understanding of the new programs in the farm bill and how these programs could potentially affect their operations. The workshops will also provide grain and dairy producers with details about the decisions they will need to make and provide them with decision tools.

Each workshop costs $10 and covers the cost of lunch. The following workshop schedule includes topics to be covered at each session:

- **Lower Shore** – **August 12** (10 a.m. to 3 p.m.), Rockawalkin Community Center, commodity programs;
- **Upper Shore** – **August 13** (11 a.m. to 2 p.m.), Queen Anne's County Fairgrounds, commodity programs;
- **Southern Maryland** – **August 15** (10 a.m. to 3 p.m.), St. Mary's Agricultural Service Center, 26737 Radio Station Way, Leonardtown, MD 20650, commodity programs;
- **Northern Maryland** – **August 18** (10 a.m. to 3 p.m.), Baltimore County Ag Center, 1114 Shawan Rd, Cockeysville, MD 21030, commodity and dairy programs;
- **Central Maryland** – **August 19** (10 a.m. to 3 p.m.), Dutch's Daughter Restaurant, 581 Himes Avenue, Frederick, MD 21703, dairy programs; and
- **Western Maryland** – **August 21** (10 a.m. to 3 p.m.), location TBA, dairy programs.

For more information on the workshops, contact the local University of Maryland Extension office.

https://extension.umd.edu/