Ag Policy Update:
Margin Protection Program for Dairy

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The USDA announced that sign-up for the new Margin Protection Program for Dairy (MPP-Dairy) began September 2, 2014 and will run through November 28, 2014. When enrolling during the signup period, producers will be enrolling both the 2014 and 2015 years. The MPP-Dairy is a voluntary risk management program for dairy producers authorized by the 2014 Farm Bill and is designed to offer protection to dairy producers when the difference between the all milk price and the average feed cost falls below a certain dollar amount selected by the producer.

To be eligible to participate in the MPP-Dairy, a dairy operation must:

- Produce and commercially market milk from cows located in the United States;
- Provide proof of milk production at the time of registration;
- Not be enrolled in the Livestock Gross Margin for Dairy insurance program (LGM-Dairy).

One exception of these eligibility requirements is for the 2014 and 2105 enrollment periods. Dairy operations already enrolled in LGM-Dairy may sign up for MPP-Dairy. However, the coverage under MPP-Dairy will not become effective until after the target month of marketings under LGM-Dairy has ended or the dairy operation provides proof that the LGM-Dairy policy has been cancelled.

Producers interested in participating in the MPP-Dairy, will have to sign-up with their local Farm Service Agency office. When signing up, producers will have to do the following:

- Establishing a production history by completing and submitting form CCC-781, “Production History Establishment”;
- Completing and submitting form CCC-782, “Contract and Annual Coverage Election”;
- Paying the $100 administrative fee and;
- Paying the premium, if any.

Producers are required to establish a production history because the premiums or costs associated with participating in the MPP-Dairy can vary on the amount of milk marketed by the operation. For existing dairy operations, the production history for the operation is established using the highest annual milk production marketed during the full calendar years of 2011, 2012 or 2013.

In addition to the annual administrative fee of $100 to participate in the MPP-Dairy, the other cost associated with the MPP-Dairy is the premium. The amount of that premium will depend upon the coverage percentage and the coverage level threshold selected by the producer. The coverage percentage is the percentage of the operation’s established production history that will be covered by MPP-Dairy and can range from 25% to 90% in 5% increments. The coverage level threshold is the level of margin (difference between milk price and average feed cost price) that the producer wishes to protect. The coverage level threshold can range from $4.00 per cwt. to $8.00 per cwt. in $0.50 increments.

The combination of a coverage percentage of 90% and a coverage level threshold of $4.00 per cwt. is termed as Catastrophic Coverage (CAT) under the MPP-Dairy and has no premium cost. The producer still, however, has to pay the $100 administrative fee. Beyond this CAT level of coverage, the producer will be required to pay a premium in addition to the administrative fee. The premium cost is calculated as:

*Premium Cost = Coverage Percentage * Production History (in cwts.) * Premium Rate*

The premium rate will vary depending on 1) the size of the operation and 2) the coverage level threshold selected by the producer. The premium rates established for the MPP-Dairy are provided in the following table.

Coverage Level (Margin) per cwt.	Tier I Premium for 2014 and 2015	Tier 1 Premium for 2016-2018	Tier 2 Premium for 2014-2018
	Covered production history less than 4 million lbs. with 25 percent reduction	Covered production history less than 4 million lbs.	Covered production history greater than 4 million lbs.
$4.00	None	None	None
$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	$1.060
$8.00	$0.475	$0.475	$1.360

The relevant Tier (either I or II) depends on the covered production history for the operation. The covered production history is defined as the producer's production history times the coverage percentage. So, for example, a producer with a 2 million pound production history of 3 million pounds and a coverage percentage of 90% would have a covered production history of 2.7 million pounds (3 million * 90% = 2.7 million). Since that value is below the 4 million pound threshold, the producer would have a premium rate from Tier I.

MPP-Dairy will make payments to participating producers when the average actual dairy production margin for a consecutive two-month period is less than the coverage level threshold selected by the participating dairy operation. The production margin is defined as the difference between the national all-milk price and the national average feed cost. The production margin will be calculated for a two-month period at a time consisting of the months of Jan./Feb., March/April, May/June, July/Aug., Sept./Oct. and Nov./Dec. The MPP-Dairy payment for a particular period is calculated as:

*MPP-Dairy Payment = (Coverage Level Threshold – Actual Dairy Margin) * Coverage Percentage * (Production History (in cwts) / 6)*

Since the production history is an annual value and the actual dairy margin is calculated over a two-month period, the production history is divided by 6 to convert the annual value to a two-month value. The appendix of this report provides an example of the details of the MPP-Dairy.

Producers interested in learning more about the MPP-Dairy are encouraged to contact their local FSA office. Producers may also be interested in using a decision tool developed by FSA that allows producers to look at the potential premiums and payments associated with MPP-Dairy at different coverage levels and margin projections. This decision tool can be accessed at www.fsa.usda.gov/mpptool. In addition, the LSU AgCenter in conjunction with Farm Bureau and the FSA will be offering training workshops for the MPP-Dairy starting next week. A meeting is scheduled for September 8, 2014 at 10:00 am at the De Soto Parish Extension office in Grand Cane, Louisiana. Another meeting is scheduled for September 10, 2014 at 10:00 am at the LSU AgCenter's Southeast Research Station in Franklinton, Louisiana.

APPENDIX

Example

MPP-Dairy

Assume a dairy producer enrolls in the Margin Protection Program for Dairy for the 2015 year. In doing so, the producer establishes his production history and chooses both a percentage coverage and coverage level threshold. The information for the producer's operation is:

Production History (in pounds)	3,000,000
Production History (in cwts)	30,000
Percentage Coverage Chosen	80%
Coverage Level Threshold Chosen	$6.00

For the two-month period of January and February, the FSA announces that the actual production margin was $5.25 per cwt.

Given this information, the premium cost and the payment for the MPP-Dairy program would be:

MPP-Dairy

Cost	
Administrative Fee	$100.00
Premium Cost (Percentage Coverage * Production History in Cwts * Premium Rate)	$984.00
Total Cost	$1,084.00
Payment for January-February Period	
Payment (Coverage Level Threshold - Actual Production Margin)*Coverage Percentage * (Production History / 6)	$3,000.00

The producer would incur a total cost of participating in the MPP-Dairy of $1,084. This would include the $100 administrative fee and a premium cost of $984. Since the producer's covered production history is 2.4 million pounds (3 million pounds * 80% = 2.4 million) is below 4 million pounds, the relevant premium rate for the producer would be Tier I for the 2015 year. The Tier I premium rate for 2015 at a coverage level threshold of $6.00 per cwt. is 0.041.

Since the actual production margin was $0.75 per cwt. below the coverage level threshold ($6.00 - $5.25 = $0.75) for the January-February period, the producer would receive a MPP-Dairy payment of $3,000 for that two month period. So, in the first period of 2015, the producer would receive a payment that was over and above the producer's costs of participating in the program. If the actual production margin stayed below the coverage level threshold in subsequent periods, then the producer would be eligible additional payments.

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