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Agricultural Economics

Farm Bill 2014: The Dairy Title

Brian R. Williams

Department of Agricultural Economics

Mississippi State University

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What is Out?

- Dairy Product Price Support Program
- Dairy Export Incentive Program
- Federal Milk Marketing Order Review Commission
- Milk Income Loss Coverage
 - After Margin Protection Program is up and running



What is New?

- Margin Protection Program
- Dairy Product Donation Program
- Dairy Promotion and Research Program (Renewed)
- Dairy Indemnity Program (Renewed)
- Dairy Forward Pricing Program (Renewed)



Margin Protection Program

- ❑ Safety net program that pays out when actual margins fall below producer selected coverage levels
- ❑ Will be established no later than September 1
- ❑ All dairy operations are eligible
- ❑ Coverage is limited to the highest production level from 2011, 2012, or 2013
 - Annual adjustments based on national average growth
 - If you double production, your coverage will likely not double



How is the Margin Determined?

□ “All milk price” minus the “average feed cost”

□ All Milk Price

- “The average price received, per cwt of milk, by dairy operations for all milk sold to dealers in the U.S.”

□ Average Feed Cost

- “The average cost of feed used by a dairy operation to produce a hundredweight of milk”
- $AFC = 1.0728 * \text{Corn Price} + 0.00735 * \text{Soymeal Price} + 0.0137 * \text{Alfalfa Price}$



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Where do I find the prices?

- ❑ Corn: the monthly Agricultural Prices Report
 - On USDA's NASS website (nass.usda.gov)
 - Released toward the end of each month

- ❑ Soybean Meal: Central Illinois price in the Market News – Monthly Soybean Meal Price Report
 - On USDA's AMS website (ams.usda.gov)
 - Found at the bottom of the daily Central Illinois Soybean Processor Report (Report # is GX_GR117)

- ❑ Alfalfa Hay: the monthly Agricultural Prices Report
 - On USDA's NASS website (nass.usda.gov)
 - Using the U.S. Price

- ❑ Milk: the monthly Agricultural Prices Report
 - On USDA's NASS website (nass.usda.gov)



Coverage Levels

- ❑ From 25% to 90% of Production History

- ❑ Production History: The highest level of annual milk production during 2011, 2012, and 2013
 - Can make annual adjustments, but cannot grow faster than the USDA estimated national average growth
 - Example: If your farm's milk production increases by 10% in 2014 but national production increases by 3% then your production history will only increase by 3%. Anything more than that will not be covered by the Margin Protection Program.



Premium Levels

Coverage Level	Premium (Under 4 Million Pounds)*	Premium (Over 4 Million Pounds)
\$4.00	None	None
\$4.50	\$0.01	\$0.02
\$5.00	\$0.025	\$0.04
\$5.50	\$0.04	\$0.10
\$6.00	\$0.055	\$0.155
\$6.50	\$0.09	\$0.29
\$7.00	\$0.217	\$0.83
\$7.50	\$0.30	\$1.06
\$8.00	\$0.475	\$1.36

*There is a 25% discount on premiums for producers with less than 4 million pounds for 2014 and 2015 at all levels except for \$8.00



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More about premiums

- ❑ 25% discount for 2014 and 2015 to encourage sign-up, particularly for smaller producers
- ❑ Will not change over the course of this Farm Bill
- ❑ Producers with production greater than 4 million pounds
 - Premium for first 4 million pounds will be at the lower rate
 - The premium for production over 4 million pounds will be paid at the higher rate
 - But it is pro-rated



Pro-rated example

□ Produce 6 million pounds

- (4/6) or 67% of the production under lower premium
- (2/6) or 33% of production under higher premium

□ Elect 50% coverage

- 3 million pounds total covered
- 2 million pounds (67%) covered at lower premium
- 1 million pounds (33%) covered at higher premium



Premium Calculation

□ Premium = Coverage Percent * Production History * Premium/cwt

□ Example

- Production History: 3 million pounds/yr (30,000 cwt)
- Coverage Percentage: 75%
- Coverage Threshold: \$6.00 (premium of \$0.055)
- Annual Premium = $0.75 * 30,000 * \$0.055$
 - Annual Premium = \$1,237.50



Payments

- ❑ Payments will be made on protected production (25-90 percent) any time margins averaged over two consecutive months fall below \$4.00 (or a higher selected coverage level)
 - Only for the following two month periods: Jan-Fed, Mar-Apr, May-Jun, Jul-Aug, Sep-Oct, and Nov-Dec
- ❑ Timetable for premium payments and indemnity payouts TBD
 - FSA must write rules by September 1, 2014
 - Payments should be relatively prompt, similar to MILC



Payment Calculation

□ $\text{Payment} = (\text{Coverage Threshold} - \text{Actual Margin}) * (\text{Coverage \%}) * (\text{Production History} / 6)$

□ Example

- Production History: 3 million pounds/yr (30,000 cwt)
- Coverage Percentage: 75%
- Coverage Threshold: \$6.00
- Actual margin drops to \$4.50 for 2 month period
 - $\text{Payment} = (\$6.00 - \$4.50) * 0.75 * (30,000 \text{ cwt} / 6)$
 - $\text{Payment} = \$5,625.00$



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Sign Me Up!!!

Where?

- With the FSA

How much?

- \$100 administration fee
- Plus premium for selected coverage level
- If you elect the \$4.00 coverage, you will only pay the \$100 administration fee

Must sign up annually (including \$100 fee)

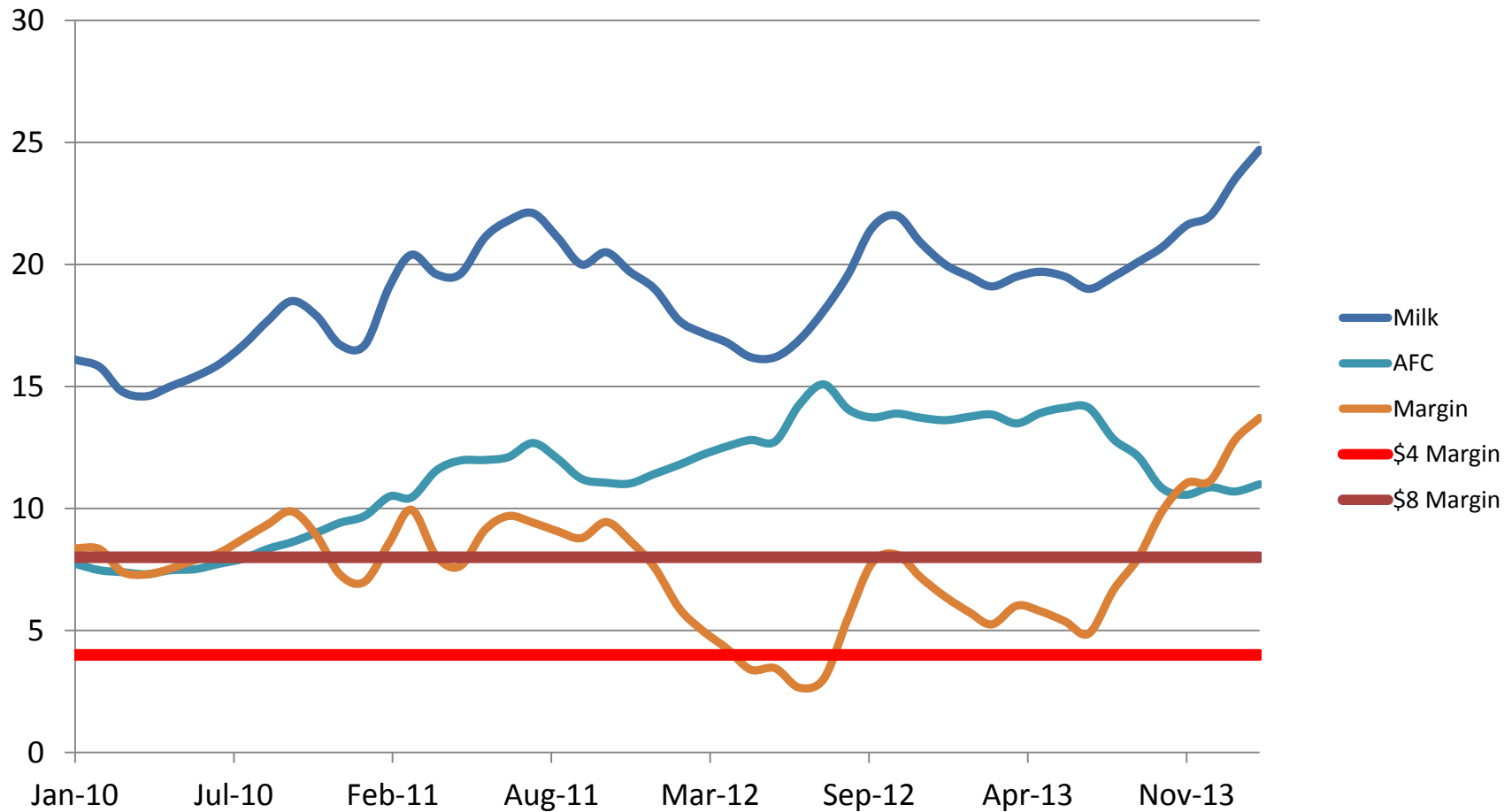
All producers are eligible



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When would it have paid?



More about the Margin

□ Past

- Ranged from \$2.25-\$14.65 from 2000-2013
- Averaged \$8.26 from 2000-2013
- Below \$8.00 nine times in 2013 (Jan-Sept)
- Never below \$4.50 in 2013

□ But...feed prices have come down significantly since last summer

- February margin was at \$13.71
- Decisions must be made looking forward, not backward



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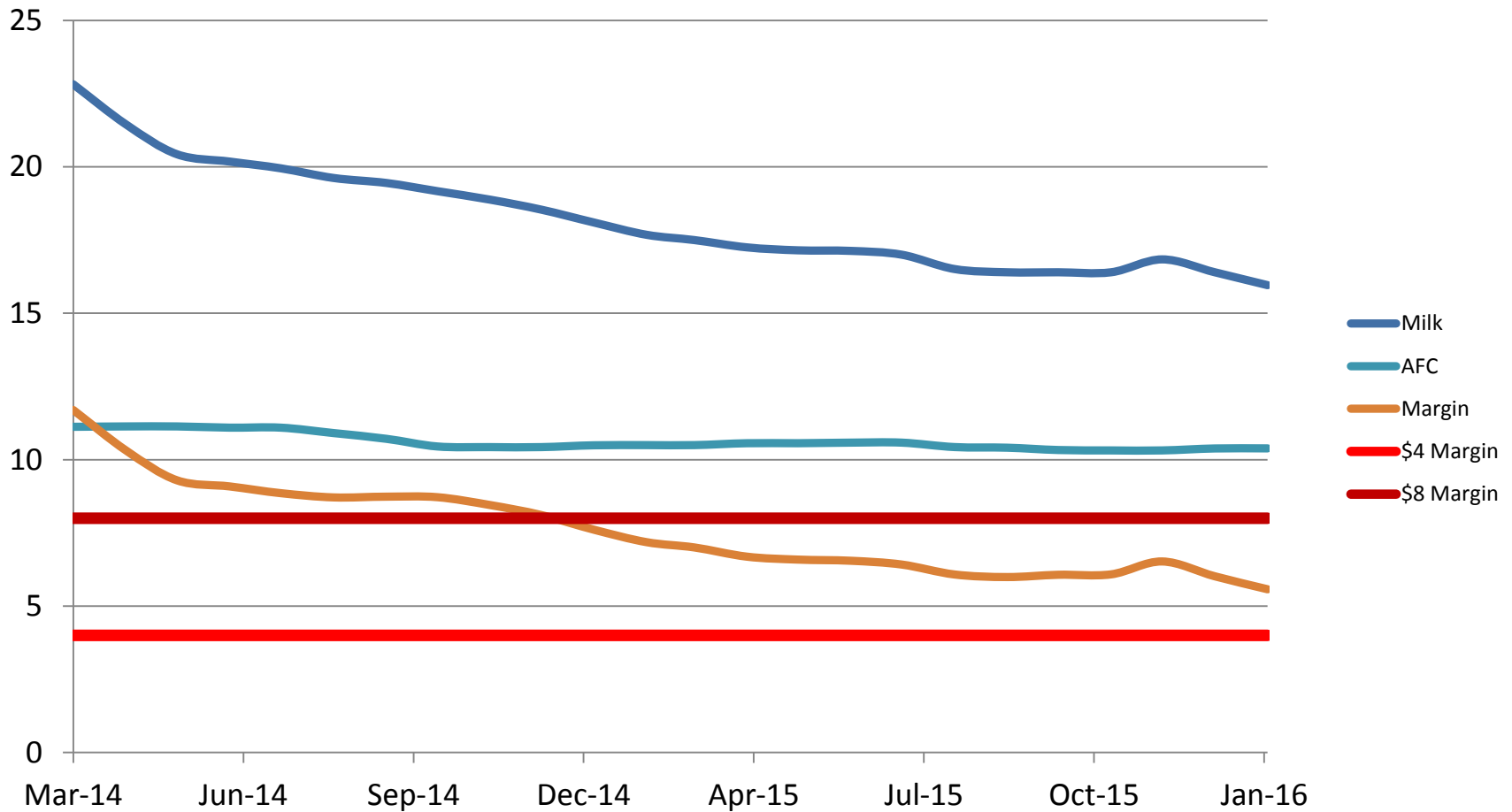
Thinking About the Margin Tomorrow and Beyond

- ❑ Based on current futures markets for milk, corn, and soymeal
 - Corn in high \$4 range
 - Milk in \$19-\$20 range
 - Soymeal in \$350-\$450 range
 - Margin never drops below \$8.00

- ❑ Based on current USDA projections for corn (\$3.90), soymeal (\$325), and dairy (\$21.00)
 - Average margin of \$11.82



Looking Ahead: Using Futures Markets



Why sign up?

- ❑ If it won't drop under \$8.00 under current price projections, why sign up?
 - Markets are unpredictable
 - Projections can be wrong
 - Why not sign up? It's only \$100 to get the minimum coverage.



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Other things to think about

- ❑ Most importantly: The margin only covers the difference between milk price and feed cost
 - Doesn't cover fixed costs, vet costs, labor, utilities, etc.
 - Based on national prices, not individual producer's prices
 - You may collect even if your own margins are greater than your coverage level
 - Or, you may not collect, even if your own margins are less than your coverage level
- ❑ If you own more than one farm
 - Must sign each up separately



Other things to think about

- ❑ Multiple producers on the same operation
 - All producers will be treated as a single operation

- ❑ Livestock Gross Margin Program
 - Must choose either Margin Protection Program or Livestock Gross Margin Program, but not both



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Dairy Product Donation Program

- ❑ In place of what would have been supply control
- ❑ Meant to provide nutrition assistance to low-income groups
- ❑ Will be implemented when margins fall below \$4.00 for two consecutive months
 - USDA will purchase dairy products at “market prices” for 3 consecutive months or until margins return to levels above \$4.00
 - Will also stop purchases if U.S. prices are more than 5% higher than international prices
 - Purchased dairy products will be distributed to food banks and other non-profits
 - Will not store



Dairy Forward Pricing Program

- ❑ 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, instead of paying the minimum Federal order blend price for pooled milk
- ❑ Extension from previous bill



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Dairy Indemnity Program

- ❑ Provides payments if a public regulatory agency directs them to remove raw milk from commercial market
 - Contamination from pesticides, nuclear radiation, chemical residue, etc.



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Dairy Promotion and Research Program

- ❑ Main purpose is to work on developing export markets



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Thank You

Brian R. Williams

Assistant Extension Professor

(662) 325-2676

williams@agecon.msstate.edu

Twitter: [@BrianRWilliams](https://twitter.com/BrianRWilliams)

blogs.msucares.com/agecon



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