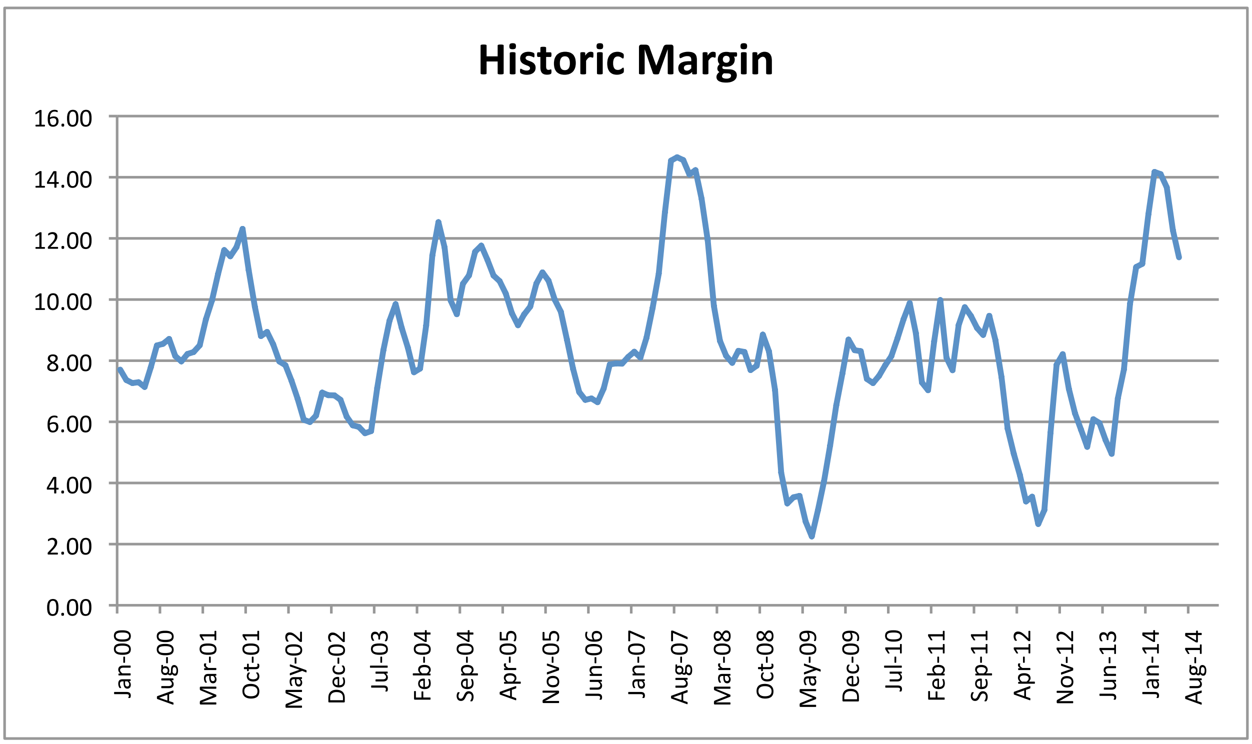
The Margin Protection Program

The President signed the Agricultural Act of 2014 into law on February 7, 2014. Two things that dairy producers should be aware of is that the Milk Income Loss Contracts (MILC) will expire on August 31, and the Farm Service Agency will begin to administer a new safety net program, called the Margin Protection Program, or MPP-Dairy. We don't yet know the exact dates that producers can begin to sign up for the new program, but we expect it around the first of September.

MPP-Dairy is an insurance-like product where producers will annually be able to elect a level of coverage for the calendar year ahead. The coverage election protects a margin between milk and feed prices. The margin is a national measure and the feed ration cannot be tailored as with Livestock Gross Margin insurance. But, when milk or feed prices rise or fall, they tend to rise and fall all across the country. The graph below shows how the margin calculation has varied over time.



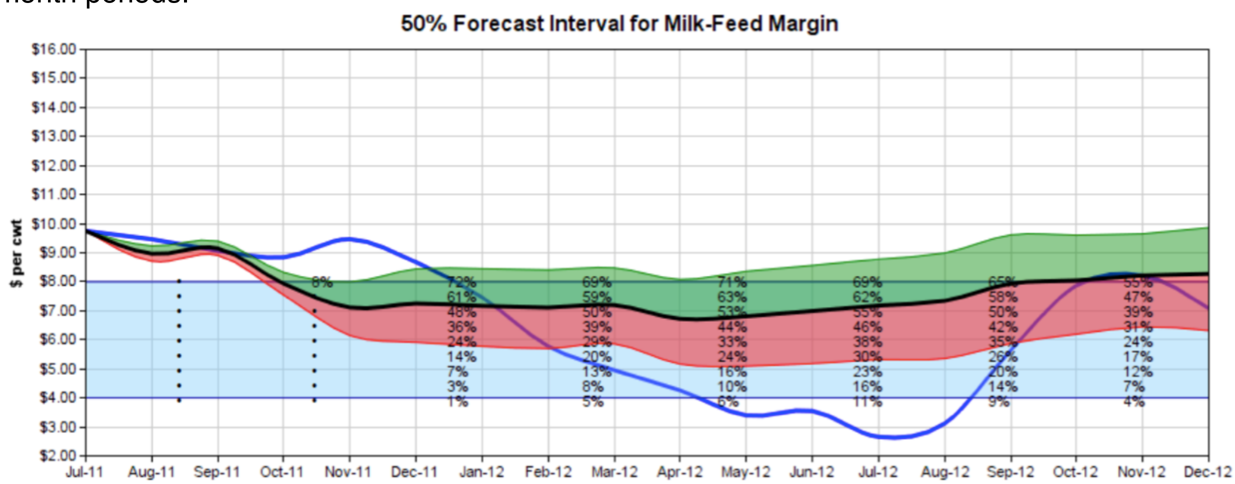
The margin has averaged about $8.50 since 2000 but has been quite variable with highs above $14.00 and lows below $3.00. MPP-Dairy lets you protect a margin from $4.00 up to the $8.00 level in 50¢ increments.

Farms will pay a $100 annual administration fee and a premium based on the level of coverage desired and the amount of milk covered. Farms will have a historic production history that is the highest level of milk production in calendar year 2011, 2012 or 2013. They can elect to cover between 25% and 90% of their Annual Production History (APH) each year in 5% increments. Premium costs vary according to the level of coverage selected and the amount of milk produced. Coverage of 90% of APH at the $4 level is considered catastrophic coverage and there is no premium cost at that level. Premiums for the first 4 million pounds of milk covered will be at a lower rate. Also, there will be an additional 25% discount on premium costs in the first two years of the program. The table below shows the premium costs.

Coverage Level	≤ 4 Mil Lbs	≤ 4 Mil Lbs (Discount)*	> 4 Mil Lbs
$/cwt			
$4.00	**Free**	**Free**	**Free**
$4.50	$0.010	$0.008	$0.020
$5.00	$0.025	$0.019	$0.040
$5.50	$0.040	$0.030	$0.100
$6.00	$0.055	$0.041	$0.155
$6.50	$0.090	$0.070	$0.290
$7.00	$0.217	$0.163	$0.830
$7.50	$0.300	$0.225	$1.060
$8.00	$0.475	$0.475	$1.360

The coverage under the MPP-Dairy is based on a two month average for the margin calculation. The two-month pairs are Jan-Feb, Mar-Apr, May-Jun, Jul-Aug, Sep-Oct, Nov-Dec. The dashboard below shows that in 2012 you would have received a net payment of $1.73 for the Mar-Apr months.

We have built an online web tool that will help producers make their choices of coverage and consider the impact on their farms for the year ahead. The tool uses futures markets to estimate a margin in the next calendar year. It also estimates the probability of margins in two month periods.



The graph is showing what the markets would have estimated margins to be in 2012 at about the end of September, 2011. The blue line shows what the actual margins were, but the red/green bands are showing a 50% forecast interval for the milk-feed margin about a year and a half before it actually occurred. The markets were certainly forecasting a downturn in margins based mostly on higher feed prices.

We will be conducting many educational programs around the state at the end of August and the month of September. Producers should be encouraged to attend and learn more about the MPP-Dairy. They should also check in with the website http://DairyMarkets.org where we will be posting a lot of material about MPP-Dairy and will provide access to the on-line web application and decision tool when the Farm Service Agency (FSA) has announced sign-up.