Dairy Markets and Policy

THE NATIONAL PROGRAM ON DAIRY MARKETS AND POLICY[1]

Information Letter Series[2]

Highlights of the FSA Final Rule on the Margin Protection Program for Dairy Producers (MPP-Dairy)

Information Letter IL 14-02

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Summary

The highlights presented here are drawn from the USDA rules for the Margin Protection Program for Dairy as published in 7 CFR Part 1430 on 29 August 2014. These highlights are prepared by the DMaP faculty team with every effort to be accurate; however, our summary should not be interpreted as authoritative or official. Moreover, this is a selective summary. In an effort to be concise, we are trying to highlight rules that we think will be of most interest to a broad section of producers. This is not a summary of every aspect of the regulation. Producers and interested parties are advised that the only agency with the authority to interpret and apply rules to a specific farm situation or producer applicant is the Farm Service Agency of USDA.

The Federal Register can be accessed in several ways, but the following is a handy link.

http://www.ecfr.gov

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2 The Information Letter series is intended to provide timely information or an interpretation of current events or policy development for Extension educators, industry members and other interested parties. The author(s) reserve all copyrights on this paper, but permission is granted to quote from the paper or use figures and tables, provided appropriate attribution is made.

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In addition to the formal rules as published in the Federal Register, USDA has released a Fact Sheet and a set of Frequently Asked Questions. The USDA press release that announced these rules and the accompanying information is available here.

http://www.fsa.usda.gov/FSA/newsReleases?area=newsroom&subject=landing&topic=ner&newstype=newsrel&type=detail&item=nr_20140828_rel_0191.html

The Farm Service Agency website about MPP-Dairy is listed below.

http://www.fsa.usda.gov/FSA/fbapp?area=home&subject=fmsn&topic=drp

The MPP-Dairy decision tool is also available on the FSA website and on the home website of the National Program on Dairy Markets and Policy.

http://www.fsa.usda.gov/MPPtool
http://www.dairymarkets.org/MPP/

Dairymarkets.org also provides much more information about the MPP-Dairy program and educational resources and events.

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The General Design and Purpose

MPP-Dairy is designed to give participating farmers a compensating benefit payment when a national trigger indicates that feed costs are high relative to the price of milk. Farmers have to establish their eligibility and a historic level of milk sales that will define how much milk sales they can cover over the five-year life of the program. Every year, they will be able to decide how much margin coverage they want for the coming year in terms of the percentage of their milk sales and the magnitude of the margin. Catastrophic coverage at the low level of $4 per cwt can be obtained without any $/cwt premium above the $100 annual administrative fee everyone pays. Farmers can buy higher levels of coverage in 50¢ increments up to $8 per cwt, which is near the recent historical average margin for the U.S. At each incremental increase, farmers will have to pay higher premium.

The general intent or purpose of the program is to give farmers a cash benefit during periods when the nation is experiencing low margins or what is sometimes called milk income over feed costs. The federal policy doesn't try to change the price of milk or the price of feeds. It is not a price support program. Rather it provides a cash benefit when the market is causing low cash returns. In this sense it is like the MILC program or other countercyclical payment programs, but it differs from MILC in two key ways. First, MPP-Dairy calculates an income over feed cost in which both the price of milk and cost of feeds are calculated in terms of selling or producing 100 pounds of milk. In contrast, MILC operates as a sort of feed price inflation adjuster to a price of milk. Second, MPP-Dairy allows farmers to pick how low the national margin indicator has to go before they get a benefit, provided they are willing to pay for higher levels of benefits.

Definitions

The Agricultural Act of 2014 refers to the program as the ***Margin Protection Program for Dairy Producers***. USDA is using a shorthand version of this by calling the program ***MPP-Dairy.*** Sometimes it is referred to more simply as ***MPP***. Although this program has sometimes been referred to as margin insurance, FSA does not use that term and defers instead to its sister agency – the Risk Management Agency – as the purveyor of USDA sponsored insurance programs. Since 2008, the RMA has offered Livestock Gross Margin for Dairy Cattle or LGM-Dairy.

The national margin is formally named the ***Annual Dairy Production Margin (ADPM)***, but in typical usage the word "margin" should be understood to refer to a national indicator that is calculated from monthly U.S. price data for milk, corn, alfalfa hay, and soybean meal. It is conceptually a type of Income Over Feed Cost or IOFC calculation. For purposes of clarity, we will use the more generic term IOFC when referring to an individual's "margin" and use ADPM when specifically focusing on the national benchmark number.

Annual Production History or simply ***Production History (PH)*** is the name for the quantity of milk that each farm is assigned and which determines how much milk is eligible to be covered under the program. This amount of milk is calculated from each farm's historical marketings or milk sales over the period 2011 to 2013; or it may be estimated for new farms that did not produce milk in those years. There are specific rules for farms that do not have a complete 12 months of marketings for 2013 but that are otherwise eligible to participate in the program. Beginning with the 2015 program year, USDA may also increase every participant's PH by an annual factor based on national productivity growth. These various rules will be described more fully below.

Covered Production History (CPH) refers to the quantity of milk a farmer chooses to enroll in the program each year. It is calculated by multiplying the total Production History by a ***Coverage Percentage*** that ranges from 25% to 90%, in increments of 5%.

The magnitude of margin that a farmer chooses is called the ***Coverage Level.*** The lowest level of coverage a farmer can choose is $4 per cwt. This is referred to by USDA as a ***Catastrophic Level*** *(or CAT coverage)*. The highest level is $8 per cwt., which is slightly below the average margin over the last decade. USDA refers to the levels of coverage above $4 as ***Buy Up Coverage***. This terminology is not specified in the Agricultural Act of 2014 but followers of the development of this legislation will recognize it as corresponding to what was called Base and Supplemental coverage in earlier version of the legislative language.

USDA prefers not to use the term "enrollment" or talk about a "sign-up" period, although those terms are descriptive of the two-stage process by which a producer first establishes his Production History and secondly decides which Coverage Level to elect for a year. Barring a change in the status of the producer or dairy operation, establishing a Production History is a one-time event. Electing a Coverage Level happens annually. The process of selecting an annual Coverage Level is referred to as **Registration** by USDA. For our own convenience, we will refer to enrollment or enrolling as the process by which producers establish their Production History and commit to participating in MPP-Dairy.

Premiums and ***Administrative Fee*** are the payments farmers must make to participate in the program. The nominal and fixed Administrative Fee is due annually regardless of Coverage Level. Premiums increase with the Coverage Level chosen by the participant.

The monetary benefit a farmer receives when the national margin falls below the Coverage Level he has elected is called the ***Margin Protection Payment*** or simply payment. In popular conversation, this payment is sometimes referred to as an indemnity, but Congress and the USDA chose not to use this name, which is typically used to refer to a payment from an insurance program. We will occasionally refer to it as benefit payment when that is helpful to differentiate from a producer's premium payment.

Enrollment, Registration Period and Registration Commitments

Registration for MPP-Dairy for the two separate years 2014 and 2015 will occur simultaneously during 1 September through 30 November. Producers establish their Production History and thereby indicate their interest in participating in the program once, but they have a different registration or participation decision for each year. Thus, farmers can choose to register for the period September to December 2014 at a different level than for the calendar year 2015.

Deferring Participation in the Program

They can choose to defer participating in MPP-Dairy until a later date, but once a producer enrolls in the program they are in the program through 2018. This means that a producer could choose to defer his enrollment in the program until 2015 and skip 2014 altogether, thus avoiding the $100 administration fee for 2014. However, if he enrolls for 2015, then he must participate at least at the minimal level in 2016, 2017, and 2018.

Producers who defer enrolling in the program forego any annual productivity adjustments to their PH until such time as they enroll. This is discussed more fully below.

Registration For 2016 through 2018

In future years, coverage election will occur from July to September for the following year. Thus, registration for the 2016 program will occur from 1 July to September 30, 2015. During the registration period, a dairy operation can change its coverage election at any time but whatever election was last selected at the end of the period will be considered final for the coming year.

Participation Costs

Once a producer registers for the program, she is obliged to pay the $100 administrative fee and is committed to remain in the program unless and until the owner(s) dies or retires or the dairy farm business is dissolved. Coverage levels can be changed annually. If a producer does not elect Buy Up Coverage during a new registration period, she will automatically be enrolled in the basic CAT Coverage program at a Coverage Levels of $4 for 90% of the PH. CAT Coverage has no premium charge but the administrative fee is still assessed.

MPP-Dairy and LGM-Dairy

Producers can complete a pre-existing LGM-Dairy contract during this first registration period, but they will not be allowed to receive an MPP-Dairy Program payment until their LGM-Dairy contract is completed. Any producer who has an LGM-Dairy contract that extends beyond 1 January 2015 will be allowed to register for MPP-Dairy, but he must register during the normal registration period. Premiums will be pro-rated according to the 2-month periods that occur after the LGM-Dairy contract expires. There is no pro-rating of the Administrative Fee.

In future years, they cannot be simultaneously enrolled in MPP-Dairy and LGM-Dairy. If a producer defers enrolling in MPP-Dairy during the first registration period, he may enroll during a future registration period provided his LGM-Dairy contract expires before 1 January of the year in which MPP-Dairy takes effect.

<u>Eligibility</u>

Farmer applicants have to establish their eligibility to participate in the MPP-Dairy. There are three basic requirements.

A. The farm business must have commercial marketings or sales of milk in the U.S. or its territories (e.g., Puerto Rico is included) at the time of first enrollment. They also must be prepared to demonstrate that they have the ability to produce milk consistent with their declared marketings (sales).

B. The owners of the business must be a U.S. citizen or legal resident alien (Green Card holder).

C. Each owner must be "actively engaged" in the dairy farm business. The specific language states that they must 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.

D. The dairy operation must certify compliance with the provisions related to 1) Highly Erodible Land Conservation and 2) Wetland Conservation, the same as was required for participation in the Milk Income Loss Contract program.

Recent MILC Participants

Any dairy farm business that participated in MILC is already identified in the FSA system. As such, it will remain identified as a recognized dairy operation unless and until its owners or new owners establish and verify a change.

Any dairy operation that had not previously participated in MILC will be considered "separate and distinct" – a business entity unto itself – and will establish its business identity in the same manner that MILC participants did originally. Criteria for establishing a new dairy operation include proof of ownership of cows, checks for the sale of milk, a marketing statement, permits and the like.

Partnerships and Corporations

The dairy farm business can be under any form of ownership, ranging from simple sole proprietorships to complex corporations. However, applicants representing more complicated ownership structures must be prepared to fully disclose the ownership arrangement. Any arrangement having more than one owner requires that each and every owner agree to the same coverage election – the Coverage Percentage and Coverage Level – chosen for each year. Their signatures will certify this when the Coverage Election registration is filed for the dairy farm business. USDA will further assess whether the ownership share stated by the producers is "commensurate" with their actual level of engagement in the dairy operation.

Foreign Owners

If a foreign person or entity owns any or all of the dairy operation, that share is disqualified from participating in MPP-Dairy. Thus, an operation wholly owned by a foreign citizen is totally ineligible. An operation that is partially owned can only participate partially. For example, an operation that has 20% ownership by a foreign entity can only enroll 80% of its Production History (this is before the Coverage Percentage of 25-90% is applied) and all premiums and benefits are scaled back accordingly.

Multiple Operations

A producer or group of producers may own more than one dairy operation and enroll each one separately. However, there are somewhat complicated rules that determine whether or not a change in ownership status, such as the sale of a farm or buying a new farm, will result in a change in the ability of a producer to participate in MPP-Dairy. This will be discussed more fully in a later section.

All participants will have to demonstrate proof of commercial marketings of milk in establishing their current eligibility and the historic Production History. For the vast majority of farmers this will be straightforward and similar to what they had to do to claim MILC payments. There will be some situations that are less straightforward.

Unconventional Marketing Arrangements

Producers of farmstead cheeses or other manufactured dairy products do not have commercial marketings of milk, or at least not for that portion of their total farm milk production that is used in the farmstead operation. That milk production is ineligible to participate in MPP-Dairy. Milk that is sold in liquid form but through unconventional channels is eligible to participate, but there will be different burdens of proof on those producers to demonstrate their commercial marketings. Any farmer who markets milk in one of these more unconventional ways should speak to their local FSA office to verify their eligibility and registration requirements.

<u>Enrolling or Establishing Production History (Form CCC-781)</u>

A producer or business entity who owns a single dairy operation must first establish their Production History with their local FSA office if they want to participate in MPP-Dairy. This is separate from and prior to registering or electing a specific coverage level. Producers who establish a production history are committing to pay the $100 administration fee and taking the minimum Catastrophic Level of coverage at $4 per cwt on 90% of their Production History (there is no additional premium at this level of coverage).

The completion and approval of CCC-781 means that FSA has 1) verified that the Dairy Operation is eligible to participate 2) calculated its Production History is, and 3) identified the basic business ownership information including business name and address, at least one eligible owners name, and the operation's record number in the FSA system. FSA must be satisfied that the registering owner(s) have the means to produce milk consistent with their marketings records. All evidence and documentation submitted to FSA is subject to audit and a physical spot check of the facility.

Farmers enroll for MPP-Dairy once, unless there is some change in ownership, including both who is the owner and what they own. Farmers can postpone enrolling to a later year, but once they enroll they cannot revoke their participation in MPP-Dairy before the legislative authority for the program expires on 31 December 2018, unless the producer retires or dies or the dairy business is dissolved. This means that once they are enrolled they are committed to at least the Catastrophic Coverage level every year.

Establishing Production History – General Rules

Producers will be required to offer evidence of their marketings for all months in which they had marketings between January 2011 and December 2013. No matter whether they have marketings for all three or fewer of these years, the PH will be the highest level of marketings recorded for a calendar year.

For operations that started in 2013 or 2014, the date 7 February has special significance. On 7 February 2014 the President signed the Agricultural Act of 2014, and it became law. This date is critical to defining whether a Dairy Operation is considered to be new or (pre) existing.

If a dairy farm has less than 12 <u>full</u> months of commercial milk marketings as of 7 February 2014, it will be treated as a new operation; otherwise it is an existing operation. Farmers who started producing milk in 2013 or afterwards will be asked to declare when they began marketing milk. Unless that date happens to be the first of the month, their first full month will be the month following the month in which they started producing milk. The producer's production history begins with that first full month of production

Establishing Production History – Existing Operations

An "existing operation" is identified by one of two criteria: first, if they had commercial milk marketings between 2011 and 2013 and second, if they were a MILC participant prior to 7 February 2014. Being identified as an existing operation is separate from establishing a PH, but it does determine how those producers can establish their PH.

If the Dairy Operation has commercial marketings for one or more of the 3 calendar years 2011, 2012, and 2013, its PH will simply be the largest number, the highest level of marketings achieved during a calendar year among those 3 years. Keep in mind, this is not the highest consecutive 12-month total. The calculation corresponds to a calendar year.

If a producer began operation after 1 January 2013 but before 8 February 2013, it will be considered an existing dairy operation, but it obviously won't quite have a full 12 months of commercial marketings. Producers in that situation will have a PH based on their 11 or 10 full months of commercial marketings in 2013, with no further adjustment or allowance.

Establishing Production History – New Operations

A dairy farm that started <u>after</u> 7 February 2013 (with continuing marketings) is identified as having had 12 consecutive months of marketings <u>at the time the Agricultural Act of 2014 was signed</u>. As such, they are identified as a <u>new operation</u>. Although they have 12 months of marketings, they don't have 12 months in 2013. In this situation, the rules that apply to a new operation come into play. Essentially these rules allow the new operation to extrapolate from their existing commercial marketings to estimate a 12-month commercial marketings record that will be used as their PH.

For the first registration period it is important to remember that there are specific rules for operations that do not have a full year of Production History for any of the three available years, 2011, 2012, or 2013. Producers in this situation should carefully read the details provided in the last section of this document – What Happens in 2016 and Beyond.

Adjustments to Production History

Beginning in 2015, every farmer who has established a Production History will be eligible for an upward adjustment, as determined annual by the Secretary. As provided in the legislation, this "bump" is intended to reflect national average increases in productivity.

For 2015, the adjustment will be 1.0087. Thus, the PH established during the first registration period will be increased by 0.87% for 2015.

For 2016 and afterwards, the annual adjustment will be announced in May, prior to the opening of the new registration period. At this time the annual average production per cow that will apply to Option 2 for any new producers in 2015 will also be announced.

Producers who choose not to enroll until 2016 or later will forego any bumps that occurred prior to their first year. Thus, if they skip the 2015 registration, they will miss the 0.87% increase, but they will be eligible for whatever increase is announced for 2016. This increase will apply to their established base.

Enrollments After 2014

If a producer postpones enrolling in MPP-Dairy, his Production History is determined by the same rules described above.

If he has marketings in 2011, 2012 and or 2013, his PH will be calculated according to the highest calendar year total. If she started milking after 1 January 2013, her PH will be calculated as described above. Thus, unless the producer who enrolls for the first time in, say, 2016, just began producing milk, he will have a production history calculated from an earlier year, just as if he enrolled in 2014.

<u>Registration or Coverage Election (Form CCC-782)</u>

Registration or Election of annual coverage is the finalization of an annual agreement between the Producer(s) and USDA. The participation decision requires 6 sets of information.

1. General information about the dairy operation and producers: name, address, current marketing activity, production history, majority ownership stake in other dairy operations, and whether or not they have a current contract under LGM-Dairy – the insurance product offered by the Risk Management Agency. Producers may not participate in Livestock Gross Margin for Dairy Cattle once MPP-Dairy becomes effective, but they can complete an existing LGM-Dairy contract.
2. The **Coverage Level Threshold** chosen for the year - \$4 to \$8 in 50¢ increments
3. The **Coverage Level Percentage** chosen, i.e., the percentage of the Production History that is covered. The percentage may be between 25 and 90 percent in 5% increments. This percentage times the production history equals the quantity of milk on which premiums and benefits will be based.
4. The previously established Production History (from CCC-781)

5. The calculation of the administrative fee and any premiums that apply and the selection of one of two payment-timing methods.
6. A declaration of who the producers or owners are and their ownership or participation percentage in the farm operation. Each owner can choose to refuse payment, but every owner must agree to the registration decision as evidenced by his or her signature on the form. A group of owners can identify a contact person. FSA also will assess whether the percentage share declared by an individual producer in a group is consistent or "commensurate" with their actual engagement in the dairy operation. The latter could have consequences for how benefits are assigned or the ability to participate in contract for other dairy operations.

A producer who knowingly provides inaccurate or false information is subject to having the contract voided and even facing legal penalties.

Administrative Fees and CAT Coverage

As required in the Agricultural Act of 2014, an Administrative Fee of $100 is due annually from every dairy operation participating in MPP-Dairy. This is a fixed fee that pertains to the act of registering for the program. It does not vary with the coverage a producer elects, nor is it subject to being pro-rated for participating in less than a full, 12-month year, which is the case for 2014 or for the situation when a producer retires or the business dissolves.

When a dairy operations fills out the CCC-781 to establish their production history, they are considered enrolled or registered in MPP-Dairy. If they do nothing else they will be assessed the administrative fee and registered for CAT Coverage, that is the $4 Coverage Level Threshold on 90% of their Production History. If a producer wants to register for a higher coverage level, they must do so during the registration period on the Coverage Election form CCC-782. If they fail to register during a new registration period, i.e., fill out a new CCC-782, they will automatically default to the CAT Coverage Level. This means that any producer who wants to elect the same Buy-Up Coverage two or more years in a row must resubmit that coverage election choice every time there is a new registration period. The default is CAT Coverage, not what the producer picked last year.

The administrative fee is due no later than the end of the Coverage Election period. Failure to pay the administrative fee on time will jeopardize the producer's ability to participate in the program for the coming year. The administrative fee is not refundable, even when the producer dies or the business is dissolved. If a producer dies or retires or the business is dissolved, the dairy operation will automatically be assessed $100 per year for the remaining life of the program unless the producer or the Estate notifies FSA of the change in status.

Premiums and Premium Payments

Premiums vary with Coverage Level and are specified in the Agricultural Act of 2014. There are two tiers of premiums, based on the quantity of milk covered by the producer.

Tier 1 applies to the first 4 million pounds per year of Covered Production History. Tier 2 applies to all CPH in excess of 4 million pounds. Remember, CPH refers to the Production History times the Coverage Level Percentage. Thus, a farm having an 8 million pound per year PH who chooses a Coverage Level Percentage of 50% will pay Tier 1 premiums on all of their CPH pounds. For 2014 and 2015, Congress authorized a 25% reduction in premiums for all Buy-Up Coverage except the highest level. The premiums are listed in Table 2 and illustrated in Figure 1.

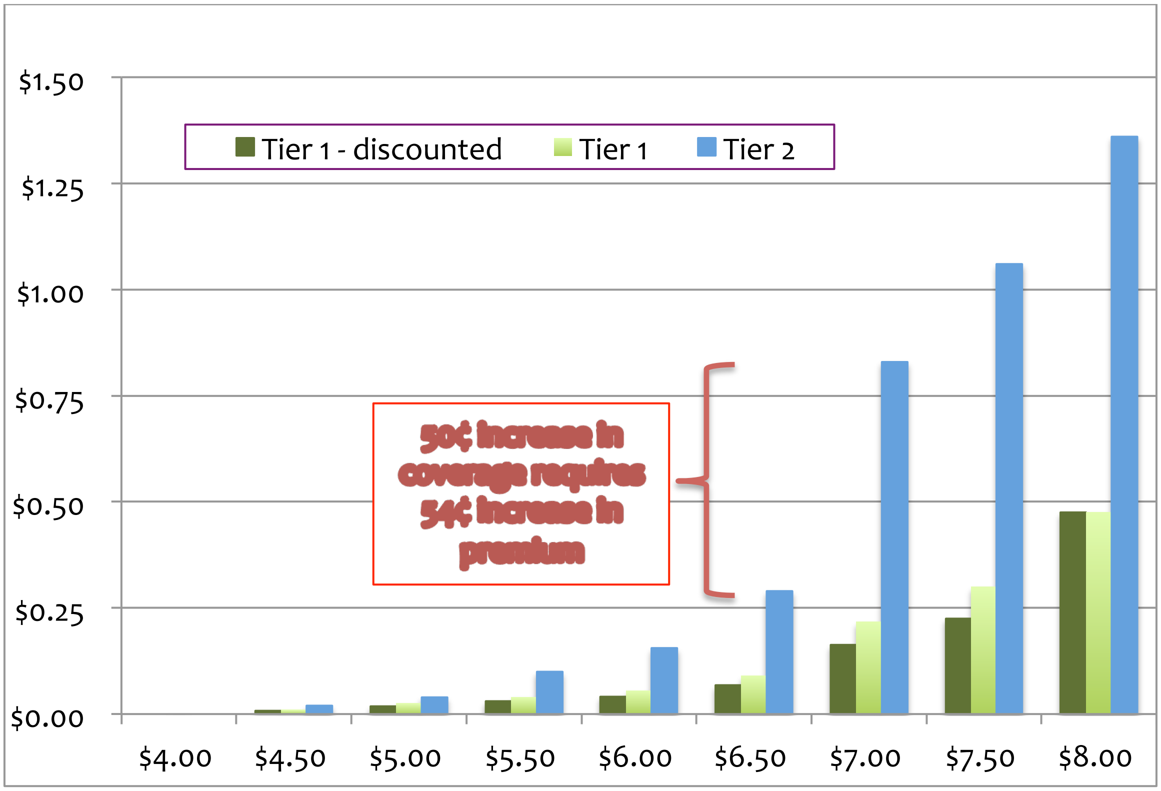
Table 2. Premia for MPP-Dairy, exclusive of $100 Administrative Fee (dollars per cwt.)

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

Total premiums may be paid in full by the end of the registration period. Alternatively, a producer may choose to pay 25% of the total premium by no later than 1 February of the following year and the remaining premium by no later than 1 June.

Suppose a producer elects to participate in 2015, by 30 November 2014 the producer must pay the administrative fee plus half the total premium. By 1 June 2015, she must pay the remaining half of the premium. If a benefit payment is made to the producer before 1 June the outstanding one-half of the premium will be automatically deducted from the benefit payment. If the producer has not paid the premium on time, any benefit that would otherwise have been paid will be withheld until the premium payments are brought up to date. If the producer's account continues to be in arrears, she will not be permitted to elect buy-up coverage in the next registration period. Once an overdue account is brought up to date, coverage will be restored beginning with the next 2-month coverage period. Any previous benefit payments are lost.

Figure 1. Premia for MPP-Dairy (dollars per cwt.)



<u>Determination of the Margin and Benefits</u>

The formula for calculating the ADPM is specified in the Agricultural Act of 2014. Detailed rules for the timing of payment of benefits are not specified in the Act.

Determination of the ADPM

The ADPM or margin is calculated every month, using monthly price data, but the MPP-Dairy program is implemented around fixed pairs of months: Jan/Feb, Mar/Apr and so on. Thus, the national margin that could potentially trigger a payment will be the simple average of each month in the corresponding two-month period. In triggering a payment, it is the two-month average that counts. It doesn't matter how low a single month margin goes.

The national average all milk price received by farmers and the national average prices received by farmers for corn (grain) and alfalfa hay are estimated by the National Agricultural Statistics Service of USDA. As is common with all of their estimates, NASS reports a preliminary estimate at the end of the month to which the price applies. Thus, the preliminary September milk price is reported at the end of September. In the following month, the preliminary estimate may be, and typically is, revised to a final estimate. The revisions are usually rather small, but it's possible that the ADPM might flip over or under a trigger point based on a revision. USDA has decided to use only final estimates when it calculates the margin. This is consistent with what they did with MILC price calculations.

This means that USDA will not be able to calculate the average margin for, say, Sep/Oct until the end of November.

The soybean meal price comes from the Agricultural Marketing Service (AMS) market news service surveys of prices for various feedstuffs. In particular, it is the monthly average of a daily price survey pertaining to rail shipments of high protein soybean meal shipped to an area described as Decatur-Central Illinois (not to be confused with a different reporting point that is simply called Central Illinois).[4] This is not a statistical estimate. It is a summary of information collected from firms who sell soybean meal delivered by rail to central Illinois. Market News prices, collected in this "windshield survey" manner, are never revised. The price is reported in the middle of the month following the month to which the price pertains. Thus, the October price is reported on or around the 15th of November, before the revised NASS prices are reported for October.

<u>Determination and Payment of Benefits</u>

Each producer's production history is assigned in equal shares to the 6 two-month periods in a year. It doesn't matter what national seasonality is or what a producer's actual seasonality is or was. Of course, premiums are based on the annual production history. However, benefits, when they are triggered, will be paid according to the coverage level chosen by the producer times 1/6 of the production history. Unlike earlier versions of the MPP when Congresses was still developing the concept, it does not matter how much milk a producer actually markets during a payment period. Benefits are paid on 1/6 of the PH.

Consider an example for the Sep/Oct period. USDA can calculate the September margin at the end of October but it can't calculate the ADPM that applies to the Sep/Oct period until on or around 30 November. Suppose that value is $6.73. Any producer who registered for coverage at $7 or higher is eligible to receive a payment. If a producer registered for $6.50 or less, he would not receive a payment.

Producers who are eligible for a payment will receive a payment that is simply the difference between the ADPM and their elected Coverage Level. In this example, if a producer registered for $7, she would receive 27¢/cwt on 1/6 of her Covered Production History. If this benefit payment occurs before a producer has completed his premium payments, under the option where half the premium is paid in June, then the outstanding premium payment will be deducted from the benefit payment. If a producer is in arrears on her premiums, she will not receive a benefit payment.

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[4] *This information can be best accessed using the Market News data portal and selecting the monthly average for the commodity as described above. (http://marketnews.usda.gov/portal/lg?cuts=&repDateWeeklyGrain=&commDetail=All&regionsDesc=Decatur-Central+Illinois%2C+IL&category=Feedstuff&loc=Decatur-Central+Illinois%2C+IL&fsize=&paf_gear_id=4300017&mscore=&endDateWeekly=&paf_dm=full&byproducts=&endDate=&startIndex=1&repDateGrain=&repDate=&endMonth=12&wrange=&repType=Monthly&endYear=2014&grade=&organic=&repYear=2014&repMonth=1&commodity=&subComm=SOYBEAN+MEAL+HIGH+PROTEIN&rtype=&repDateWeekly=&subprimals=&use=&rowDisplayMax=25&endDateWeeklyGrain=&endDateGrain=&pricutvalue=&reportConfig=true&x=46&y=12)*

Benefit payments are paid for every two-month period in which they are triggered. As soon as a two-month average margin exceeds a producer's coverage level, new payments will stop. There is no limit to the size of a benefit payment a producer may receive, either by production or marketings volume or by total dollar value.

USDA will calculate margins and pay any benefits owed in succeeding months. For example, USDA can calculate the ADPM for the Sep/Oct period by the end of November. If the ADPM falls below $8 per cwt, any producer who has selected a coverage level that is above the ADPM will receive a benefit payment in December.

What happens in 2016 and beyond?

Future registration periods will begin on 1 July and conclude on 30 September (3 July to 2 October in 2017). This is when previously registered producers can establish their Coverage Election for the coming year. Whether a producer wants to change their Coverage Election or keep the same Coverage Election, they are required to complete a new CCC-782. If they fail to do so, they will be automatically enrolled in the so-called CAT Coverage level of $4 at 90% of their PH for the coming year.

Establishing Production History – New Operations

For 2014 and 2015, the registration period commencing on 2 September 2014 is the time for new farms, farms that don't have a full calendar year of production between 2011 and 2013, can establish their Production History.

In future years, a new operation can participate in MPP-Dairy for the current year only if they notify FSA within 90 days of the start of marketing milk. They can wait until the next or other future registration period, at which time they are registering for the following year, as every other participant can do. Keep in mind that a new registrant who had commercial sales of milk during 2011 to 2013 will establish her Production History by the same procedure that applies to producers who enrolled during the 2014 sign-up period.

A producer who first began commercial marketings after 7 February 2014 will be treated as a new producer. His PH will be established based on his commercial marketings during the calendar year he began production, which could be more than a year before his first enrollment. Thus, a new producer who waited until 2017 to register for MPP-Dairy would find that his PH was calculated from milk sales that began in 2014, when he started milking cows.

A dairy farm that started after 7 February 2013 is identified as having had 12 consecutive months of marketings at the time the Agricultural Act of 2014 was signed. As such, they are identified as a new operation. While they have 12 months of marketings, they don't have 12 months in 2013. In this situation, the rules that apply to a new operation come into play. Essentially these rules allow the new operation to extrapolate from their existing commercial marketings to estimate a 12-month commercial marketings record that will be used as their PH. Two options are permitted for this extrapolation.

Option 1 simply takes the monthly marketings information that exists and fills in the missing months of a calendar year using a monthly production index calculated by FSA. This index is based on actual US monthly production estimates for 2009 to 2013. USDA calculated the average volume produced in January, February, March, etc. over this five-year period. Then it calculated what percentage of the annual volume is produced on average in January, what percentage in February, and so on. The seasonal indices are reported in Table 1, below.

Table 1. Season Index for Option 1 Method to Extrapolate the Production History for a New Producer

Month	Factor	Month	Factor	Month	Factor
JAN	.0844	MAY	.0883	SEP	.0795
FEB	.0782	JUN	.0841	OCT	.0820
MAR	.0872	JUL	.0840	NOV	.0800
APR	.0854	AUG	.0831	DEC	.0838

Under Option 1, if a Dairy Operation began marketing milk on, say 10 April 2013, its first full month of marketings is May. Its actual marketings for May to December 2013 are taken to correspond to 66.48% of the average year's marketings. January through April marketings are assumed to equal the missing 33.52% of marketings. The producer's PH in this example would be her actual commercial marketings for May to December 2013 divided by 66.48%.

Option 2 extrapolates commercial marketings based on the size of an operation's milking herd and the national average production per cow. For the 2014 and 2015 registrations, the national average production per cow has been determined to be 21,822 pounds. Thus, if a farmer establishes that his herd size is 100 milking cows (whether they are dry or lactating on the date of the registration), USDA will simply calculate a production history of 2,182,200 pounds under this option.

A New Dairy Operation can choose either option, entirely at their discretion. Presumably they would choose the outcome that gave them the biggest PH.

Seasonal milk producers, such as in a grazing operation, will also be able to reflect their production history based on their declaration of number of months in which they have milk marketings.

In future registration periods, USDA will announce a new national average producer per cow in May, which will apply to coverage election for the following calendar year.

For new producers who begin marketings after the 2014 registration period, their PH will be calculated by the same methodology, beginning in the year they started producing milk.

If a producer fails to register his new dairy operation within 90-days of first marketing milk, he must forego registration until the next regular registration period.

All basic aspects of how the program works are unchanged for future years. However, there are two elements that are subject to change.

Adjustments to the Calculation of Production History

The Production History of a dairy operation can be adjusted upwards by the Secretary of Agriculture annually to reflect general productivity growth in the U.S. Actual changes in marketings on a producer's farm are not considered in this annual adjustment. Rather, the Secretary will announce a specific factor by which every registered participant's PH will increase. This begins with the 2015 program year. Thus, any producer who enrolls in the 2014 program year will have a PH equal to the exact figure established by her historical commercial marketings as determined on CCC-781. However, this quantity will be multiplied by 1.0087 for 2015 participation. The factor for the 2016 sign-up period will be announced on 1 May 2015.

According to the rules, an adjustment to PH can only be positive. USDA will never decrease everyone's PH. The magnitude of the adjustment is at the discretion of the Secretary but is intended to reflect national growth in production.

Related to this, as mentioned earlier, at the time the Secretary announces the production per cow "bump" in PH, he will also announce a new national average production per cow that can be applied under Option 2 for establishing the PH for a new Dairy Operation.

Also on 1 May, producers will be reminded of any outstanding premiums that are due, including the final 1 June payment. Lastly, they will be reminded about the new Registration period that will begin on 1 July and extend through September.

Changes in Ownership and Assignment of Production History

The second element is not a USDA action but rather a USDA reaction to changes in business ownership that may occur by choice of a participant. Producers may find that their eligibility in future years is affected by changes in ownership of a dairy operation, including retiring, adding or subtracting partners or corporate investors, relocating an operation, or buying or starting a new operation. Any such changes must be reported to FSA and will be recorded on a new CCC-781 form, the form that was initially used to establish Production History.

If a participant dies or retires, the participation agreement can be voided. The same is true if the dairy farm business is dissolved. This requires that the change in status be reported to FSA and that a specific request is filed to void the agreement. The voided agreement means that no future annual administrative fees will be due and current year premiums can be refunded in a prorated manner.

A change in ownership from the sale of all or part of the farm business has implications for participation in MPP-Dairy. The specific rules for these kinds of changes are a bit complicated and do not have any implications for this first registration period. However, farmers who anticipate or experience any changes of this type should clarify the rules that apply to their situation early in their decision process. Such changes must be reported to FSA.

The MPP-Dairy rules attempt to anticipate a variety of common and not-so-common changes. This would include straightforward sales for a seller who retires, sales for a seller who is continuing production in a new location, buyers who intend to milk cows and buyers who don't, the addition of a new partner, the expansion of an existing operation, the expansion of a farm business to another location, the transfer of a dairy operation to a new facility without a change in ownership of the existing facility, changes in lease holders, and so on. USDA has worked hard to follow whatever guidance is offered in the legislation or adhere to principles common to other agricultural programs. Nevertheless, there is sure to be a certain amount of learning by doing over time. This is one of the reasons why USDA decided to invite comments on the new rules for the 2016 (next) registration period.

There are a few general rules or principles about which we can summarily comment.

1. PH will stay with the enrolled dairy operation (a physical facility) if there is a change in ownership and the new owner(s) intends to continue marketing milk. The new owner is not obliged to participate. If he does, his PH will be that which was originally established for the operation. He also may assume an existing annual agreement as a "successor-in-interest" if he so chooses. (This may require specific concurring agreement by the seller.) If the dairy operation was not previously enrolled in MPP-Dairy, the new owner is considered a new operation and PH is established following the rules described above. If the new owner decides to begin marketing milk at anytime prior to the registration period for 2018, and the seller did not retain the Production History, the original PH will still be the new owner's PH.
2. If the seller of a dairy operation is relocating and will continue to market milk, the PH she previously established transfers to the new dairy operation. If the new location has an existing PH and its seller does not retain it, then the relocating producer can combine the PH from the farm she sold with the farm she purchases. The buyer of the original operation will be treated as a new dairy operation if he wishes to enroll in MPP-Dairy.
3. As per the Agricultural Act of 2014, an effort is made to facilitate "intergenerational transfers", which at this point is understood to means sales across generations within an extended family.
4. A producer or group of producers who own multiple dairy operations can merge their Production Histories into a another dairy operation if it was previously unregistered. An example of this might be a 2 or more farmers who operate smaller facilities and want to pool their resources into a large facility. The key is that the new facility cannot have been previously enrolled in MPP-Dairy.
5. Any change in ownership that results in a producer or a common group of producers to gain ownership in a new dairy operation is subject to something

called the **Affiliation Rule**. This is explained below but the gist of this rule involves determining whether the producer or group of producers have majority interests in more than one dairy operation.

The "affiliation rule" says that if a producer or group of producers who own 50% or more of one dairy operation builds or buys a new dairy operation and have a 50% or more stake in that new operation, then the new operation is considered to be affiliated with, or an extension of the first operation. In other words, the new operation is not treated as a "new operation" with an opportunity to establish a separate Production History. Rather, it is simply an expansion of the first operation, not unlike simply building a bigger barn on an existing operation. If the added operation is not literally brand new but it is a farm that had a Production History under a former owner, it is possible that the two Production Histories could be combined.

The application of the affiliation rule can be a little tricky when several owners are involved and more so if only a subset of the owners of one operation participate in the ownership of another operation. Thus, it is important for producers who contemplate being involved in this sort of expansion of their business to talk to FSA about their plans and the consequences for their participation in MPP-Dairy.

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