

For: State and County Offices

**Agricultural Act of 2014 (2014 Farm Bill), Title I Information About the
Margin Protection Program for Dairy Producers (MPP-Dairy)**

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

A Background

On February 7, 2014, the 2014 Farm Bill was signed into law. The 2014 Farm Bill authorizes MPP-Dairy, a new dairy program, to replace the MILC program no later than September 1, 2014. The MPP-Dairy program is a voluntary program that provides dairy operations with risk management coverage that will pay producers when the difference (the margin) between the National price of milk and the average cost of feed falls below a certain level selected by the producers in a dairy operation.

The MPP-Dairy program offers dairy producers the following:

- catastrophic coverage, at no cost to the producer, other than an annual \$100 administrative fee
- greater coverage at various levels for a premium in addition to the \$100 administrative fee.

| Disposal Date | Distribution |
|----------------------|------------------------------------------------------|
| December 1, 2014 | State Offices; State Offices relay to County Offices |

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1 Overview (Continued)

B Purpose

This notice informs State and County Offices of the following:

- the provisions of the MPP-Dairy program
- the status of the MPP-Dairy program to assist with responding to dairy producers inquiries about implementing the program
- a sample letter to provide to dairy producers with general program information.

2 Basic MPP-Dairy Program Provisions

A Eligible Dairy Operations

All dairy operations in the U.S., not participating in the Livestock Gross Margin program administered by the Risk Management Agency, **except** as allowed by Notice LD-637, are eligible to participate in the MPP-Dairy program. A dairy operation is any 1 or more dairy producers that produce and market milk as a single dairy operation in which each dairy producer does all the following:

- shares in the risk of producing milk
- makes contributions (including land, labor, management, equipment, or capital) to the dairy operation of the individual or entity, which are at least commensurate with the individual or entity's share of the proceeds of the operation.

For purposes of registering in the MPP-Dairy program, if a dairy:

- **operation** is operated by more than 1 dairy producer, all of the dairy producers of the participating dairy operation shall be treated as a single dairy operation
- **producer** operates 2 or more dairy operations, each dairy operation, if eligible, shall separately register to participate in the program.

B Participating in MPP-Dairy

To participate in the MPP-Dairy program, an eligible dairy operation must:

- have a production history determined for the dairy operation
- register to participate during a signup announced by FSA
- pay a \$100 administrative fee **annually** for the duration of the MPP-Dairy program

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2 Basic MPP-Dairy Program Provisions (Continued)

B Participating in MPP-Dairy (Continued)

- select a coverage level ranging from \$4.00 to \$8.00 per cwt, in \$0.50 increments
- select a coverage percentage of the dairy operation's production history ranging from 25 percent to 90 percent, in 5 percent increments.

Note: A dairy operation selection of a \$4.00 coverage level is considered **catastrophic level coverage** at a 90 percent coverage percentage for only the administrative fee. However, a dairy operation selecting a coverage level above \$4.00 must also pay a premium, in addition to the administrative fee, for the higher coverage on their selected percentage of dairy operation's production history, according to subparagraph 3 A.

C Determining Production History for a Dairy Operation

FSA will determine the production history for a dairy operation that first registers to participate in MPP-Dairy according to the following table.

| IF the participating dairy operation is... | THEN production history is determined from... |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| an existing dairy operation | the highest of the following calendar years: <ul style="list-style-type: none">• 2011• 2012• 2013. |
| a new dairy operation (in operation for less than 1 year) | either of the following: <ul style="list-style-type: none">• volume of the actual milk marketings for the months the participating dairy operation has been in operation extrapolated to a yearly amount• an estimate of the actual milk marketings of the participating dairy operation based on the herd size of the participating dairy operation relative to the national rolling herd average data published by USDA. |

Note: The production history determined for a dairy operation participating in MPP-Dairy may be adjusted annually by USDA to reflect any increase in the national average milk production.

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3 MPP-Dairy Buy-Up Coverage

A Premiums

A participating dairy operation that selects margin protection above the catastrophic level coverage is required to pay, in addition to the annual administrative fee, an annual premium based on the coverage level and percentage of production history. Premiums are structured at a lower level for the first 4 million pounds of production history and at a higher level for production history in excess of 4 million pounds. The schedule of premiums is provided in the following table.

| Coverage Level | Tier 1 Premium per cwt in 2014 and 2015 for covered production history at 4 mil lbs or less | Tier 1 Premium per cwt for 2016-2018 for covered production history at 4 mil lbs or less | Tier 2 Premium per cwt, all years for covered production history over 4 mil 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 |

Note: For production history that is less than 4 million pounds in calendar years 2014 and 2015 **only**, the premium per cwt, for each Tier 1 coverage level above, **except** the \$8.00 coverage level, is reduced by 25 percent.

B Calculation of Premiums

The annual premium for a participating dairy operation shall be calculated by multiplying:

- the production history in cwt; and
- premium per cwt of milk applicable to the coverage level elected by the dairy operation according to the premium table in subparagraph A.

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3 MPP-Dairy Buy-Up Coverage (Continued)

C Payment of Premiums

The following provisions are applicable to premiums:

- more than 1 method shall be made available by which a participating dairy operation may pay the premium
- premiums will be pro-rated for a participating dairy operation that first registers to participate in MPP-Dairy after the start of the calendar year based on the remaining portion of the calendar year for which coverage is being purchased
- a participating dairy operation remains legally obligated to pay the applicable premium for a calendar year unless waived by FSA for circumstances including, but not limited to, death, retirement, or permanent dissolution of the dairy operation
- a participating dairy operation that is in arrears on premium payments may not receive MPP-Dairy payments until the premiums are fully paid.

4 Determining the Margin and Payment

A The Actual Dairy Production Margin

The MPP-Dairy program supports producer margins and is designed to address conditions of low milk prices and/or high feed costs that result in periods of low margins. The “margin” is determined from both of the following:

- the national all-milk price determined from the average price received, per cwt of milk, by dairy operations for all milk sold to plants and dealers in the U.S.
- the national average feed cost determined from the cost of feed used to produce a cwt of milk, calculated by the sum of the products determined by multiplying:
 - 1.0728 by the national price of corn per bushel for a month as reported in the USDA Agricultural Prices report
 - 0.00735 by the central Illinois price of soybean meal per ton for a month as reported in the USDA Market News-Monthly Soybean Meal Price Report
 - 0.0137 by the national price of alfalfa hay per ton for a month as reported in the USDA Agricultural Prices report.

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4 Determining the Margin (Continued)

A The Actual Dairy Production Margin (Continued)

The actual dairy production margin is the **difference** between the all-milk price and the average feed cost. For example, if the all-milk price for a month is \$20 per cwt and the calculated average feed cost for the same month is \$12 a cwt, the “actual dairy production margin” is \$8 a cwt.

Note: USDA will determine the actual dairy margin using the average of the full-month price for a specified consecutive 2-month period, according to subparagraph B.

B Consecutive 2-Month Periods

The actual dairy production margin shall be calculated based on the average of the all-milk price and the average of the average feed cost for each of the following consecutive 2-month periods:

- January/February
- March/April
- May/June
- July/August
- September/October
- November/December.

C Calculating the Actual Dairy Production Margin for a Consecutive 2-month Period

FSA shall calculate the actual dairy production margin for each consecutive 2-month period by subtracting:

- the average feed cost for that consecutive 2-month period, from
- the average all milk-price for that consecutive 2-month period.

Example:

| | Month/Year | All-Milk Price | Calculated Average Feed Cost |
|--------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|
| | March/2014 | \$25.20 | \$11.10 |
| | April/2014 | \$25.30 | \$11.65 |
| Average Calculation | | $\$25.20 + \$25.30 = \$50.50$ $\$50.50/2 = \25.25 \$25.25 | $\$11.10 + \$11.65 = \$22.75$ $\$22.75/2 = \11.38 \$11.38 |
| Actual Dairy Production Margin | | $\$25.25 - \$11.38 = \$13.87$ | |
| | Actual Dairy Production Margin for March/April 2014 | | \$13.87 |

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4 Determining the Margin (Continued)

D MPP-Dairy Program Payment

A participating dairy operation shall receive an MPP-Dairy program payment whenever the average actual dairy production margin for a consecutive 2-month period is less than the coverage level threshold selected by the participating dairy operation. The MPP-Dairy payment amount is then determined by taking the amount by which the coverage level selected exceeds the average actual dairy margin for a consecutive 2-month period and multiplying that amount by the following:

- the coverage percentage selected by the participating dairy operation; and
- the production history of the participating dairy operation, divided by 6.

5 MPP-Dairy Program General Information

A Regulation Update

Clearance of MPP-Dairy program regulations is currently underway. FSA will announce full program details upon publication of the MPP-Dairy final rule in the Federal Register (FR). When published, regulations will be provided at 7 CFR Part 1430.

B National Training

National Training on the MPP-Dairy program provisions is being planned for mid-August. A forthcoming notice with full details will be issued soon.

C Outreach

State and County Offices may use the letter in Exhibit 1 to create general awareness of the MPP-Dairy program. Additional communication artifacts such as, press release, fact sheet, frequently asked questions, etc., will be issued to further promote program requirements when final regulations are published in FR.

D MPP-Dairy Decision Tool

Section 1614 of the 2014 Farm Bill provides the following:

- a web-based decision aid be developed to assist producers in understanding available options regarding new dairy provisions
- producers must be trained to use the web-based decision aid.

FSA is working with the University of Illinois and other partners to develop the web-based decision tool that will assist producers with comparing options under the MPP-Dairy program and the LGM-Dairy program and also to establish an education plan for the producer training sessions. The decision tool will be made available in September 2014.

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6 Action Required

A State Office Action

SED's and STC's shall:

- ensure that County Offices immediately notify producers of the contents of this notice using all available sources with available funding
- direct questions about this notice to the National Office according to subparagraph C.

B County Office Action

County Offices shall:

- immediately inform all dairy operations in their county of the contents of this notice by any of the following:
 - over-the-counter contact
 - newsletters with available funding
 - outreach according to 22-AO
 - other methods of communication, as applicable
- forward questions about this notice to the State Office specialist.


C National Office Contact Information

For questions or situations not addressed in this notice, State Offices shall contact Dani Cooke by either of the following:

- e-mail at **danielle.cooke@wdc.usda.gov**
- telephone at 202-720-1919.

Example of General Information Letter to Dairy Producers

Following is an example of a general information letter that may be sent to dairy producers.



**United States
Department of
Agriculture**

Farm and
Foreign
Agricultural
Services

Farm Service
Agency

County
Service Center
Address
City, MI Zip

Phone:
- -

Fax:
- -

July XX, 2014

Dear Name,

The Agricultural Act of 2014 (2014 Farm Bill) authorizes the Margin Protection Program for dairy producers (MPP-Dairy). This new voluntary risk management program replaces the Milk Income Loss Contract (MILC) program which expires on September 1, 2014. MPP-Dairy offers protection to dairy producers when the difference (the margin) between the all-milk price and national average feed cost falls below a certain producer selected amount.

Eligible producers may purchase coverage for their dairy operations by paying an annual administrative fee of \$100, and a premium as applicable, for higher levels of coverage. Producers in the dairy operation will have to select a desired coverage level ranging from \$4.00 to \$8.00, in \$0.50 increments, and a desired coverage percentage level ranging from 25 to 90 percent, in 5 percent increments. Producers in the dairy operation will also have to decide whether or not to participate in the MPP-Dairy Program or the Livestock Gross Margin program administered by the Risk Management Agency, but will not be allowed to participate in both. However, FSA is working on a process to allow maximum flexibility for dairy producers to make that decision.

Dairy operations will establish their production history upon initial registration for the MPP-Dairy program. Production history will be established for a dairy operation based on the highest annual milk production marketed during the full calendar years of 2011, 2012, or 2013. New dairy operations in operation for less than a year will either have their production established on their available full months marketed milk production extrapolated to a yearly amount or their estimated actual marketed milk production based on the actual herd size of the dairy operation relative to the national rolling herd average. Verification of the production records used to establish the production history for the dairy operation will be required. Payments under the program will be triggered when margins fall below their producer selected levels.

The regulations for MPP-Dairy are still being developed. Please watch for additional information about this program as it becomes available.

The following schedule may be used for your planning purposes:

| Timeframe | Action |
|--------------|----------------------------------------------------------------------------------|
| Now... | Producers should obtain milk marketings for calendar years 2011, 2012, and 2013. |
| Sept 2014... | Decision Tool will be made available to help make coverage level decisions. |
| Fall 2014... | When announced by FSA, enroll in 2014 and/or 2015 MPP-Dairy program. |

Sincerely,

County Executive Director

USDA is an equal opportunity provider and employer.