



Margin Protection Program for Dairy (MPP-Dairy)

The Margin Protection Program for Dairy (MPP-Dairy) is a voluntary risk management program for dairy producers authorized by the 2014 Farm Bill through Dec. 31, 2018. The MPP-Dairy offers protection to dairy producers when the difference between the all milk price and the average feed cost (the margin) falls below a certain dollar amount selected by the producer.

ELIGIBLE DAIRY OPERATIONS

To be eligible for 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 Risk Management Agency’s Livestock Gross Margin for Dairy program (LGM-Dairy).

Exception: During the 2014 and 2015 enrollment periods for MPP-Dairy, 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.

Dairy operations may consist of one or more dairy producers that are in the business of commercially producing and marketing milk as a single unit. Dairy producers who are members of the dairy operation must share in the risk of producing milk and make contributions to the dairy operation that are at least commensurate with their share of the proceeds of the operation.

Dairy operations must be in compliance with Highly Erodible Land and wetland conservation provisions. Adjusted Gross Income provisions do not apply to MPP-Dairy.

Producers may have more than one dairy operation, but they must be separate and distinct in order to have a separate contract.

Dairy operations, as constituted for the Milk Income Loss Contract (MILC) Program, are eligible for the MPP-Dairy program.

REGISTRATION

Eligible dairy operations must register for coverage at the Farm Service Agency (FSA) office where their farm records are maintained by:

- 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.

A minimum administrative fee of \$100 is required to be paid for each covered year through the duration of the program. Additional fees may apply for higher coverage levels.

Note: The registration period for 2014 and 2015 coverage will begin Sept. 2, 2014 and continues through Dec. 5, 2014.

Registration periods for subsequent years are as follows:

| Coverage Year | Registration Periods |
|---------------|-------------------------|
| 2016 | July 1 – Sept. 30, 2015 |
| 2017 | July 1 – Sept. 30, 2016 |
| 2018 | July 1 – Sept. 30, 2017 |

A new dairy operation that has been established after a registration period closes is required to submit a contract within the first 90 calendar days in which the dairy operation first commercially markets milk for the calendar year or wait until the registration period for the next calendar year of coverage. Margin Protection Coverage for dairy operations registering within the first 90 days of marketing milk will become effective beginning the next full two-month marketing period after registration.

PRODUCTION HISTORY ESTABLISHMENT

Participating dairy operations establish their production history upon initial registration and all producers in the participating dairy operation must provide adequate proof of the dairy operation's quantity of milk marketed commercially. All information provided is subject to verification and spot checked by FSA.

For existing dairy operations, the production history is established using the highest annual milk production marketed during the full calendar years of 2011, 2012 or 2013.

Dairy operations without 12 full months of milk marketings as of Feb. 7, 2014, may be considered new dairy operations.

New dairy operations may establish their production history using one of the following methods:

- Available full month's marketed milk production for the calendar year the operation first began to market milk, calculated to a yearly amount using a national index based on seasons, or
- Estimated actual marketed milk production based on the actual herd size of the dairy operation relative to the national rolling herd average

In subsequent years, the production history of a participating dairy operation will be adjusted to reflect any increase in the national average milk marketing production; no change in production history is otherwise allowed. Additionally, there will be no change in production history through the expansion or reduction in herd size of the participating dairy operation.

COVERAGE ELECTION

Catastrophic Coverage (CAT) of \$4 margin coverage level at 90 percent of the established production history requires no premium payment, but the dairy operation must pay the \$100 administrative fee.

For increased protection, dairy operations may annually select a percentage of coverage from 25 to 90 percent of the established production history in

five percent increments and a coverage level threshold from \$4.50 to \$8 in 50 cent increments.

Coverage election must be made prior to the end of the annual election period. After the initial year of registration, failure to make an election results in the coverage level defaulting to the CAT level of 90 percent at \$4 margin. Dairy operations may only select one coverage level percentage and coverage level threshold for the applicable calendar year. All producers in the participating dairy operation with a share and risk in the milk marketing must agree to the coverage elected on the contract.

A new web tool is available that will allow dairy producers to use data unique to their specific operation, combined with other variables, to test a variety of financial scenarios before eventually enrolling in the new MPP-Dairy. The web tool is located at: www.fsa.usda.gov/mpptool

PREMIUMS

A participating dairy operation will pay a premium based on the level of coverage elected. Premiums will be calculated by multiplying the coverage percentage selected (from 25 percent to 90 percent) multiplied by the production history of the dairy operation to obtain the covered milk marketings. The covered milk marketings in hundredweight (cwt.) are multiplied by the premium per cwt. applicable to the coverage level selected. Premiums will be calculated from Tier 1 for covered production history up to 4 million pounds and from Tier 2 for covered production history exceeding 4 million pounds.

For calendar year 2014, total premiums are due at the time of registration.

For calendar years 2015 through 2018, at least 25 percent of the calculated premium is due by Feb. 1 of the calendar year of coverage and the balance is due before June 1 for dairy operations that elect coverage above the \$4 level.

An operation must pay: (1) the premium in full at the time of annual coverage election; or (2) a minimum of 25 percent of the premium by Feb. 1 of the applicable calendar year of coverage, with the remaining balance due no later than June 1 of the applicable calendar year of coverage.

| 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 |

Premium balances due, but not in arrears by June 1, will be deducted from any MPP-Dairy payments made to the participating dairy operation during the applicable calendar year of coverage.

New dairy operations formed after the annual registration period will have their premiums prorated for that year based on the portion of the calendar year for which they purchase coverage. New dairy operations formed after the annual registration period will have their premiums prorated for that year based on the portion of the calendar year for which they purchase coverage.

For calendar years 2014 and 2015, the premium rate will be reduced by 25 percent for production under the Tier 1 premium schedule, except at the \$8 level.

For calendar year 2014, premiums will be prorated for the last consecutive two-month periods of September/October and November/December.

FSA will provide premium calculators for dairy operations to evaluate the costs of different coverage options. The premium calculators will be located at the FSA website.

MARGIN CALCULATIONS

The “production margin” is the difference between the national all-milk price and the national average feed cost.

The all milk price is the average price of milk marketed in the United States as reported by NASS.

The average feed cost is calculated by using the sum of:

- 1.0728 times the price of corn per bushel, plus
- .00735 times the price of soybean meal per ton, plus
- .0137 times the price of alfalfa hay per ton.

The corn and alfalfa hay prices are those reported in the monthly NASS Agricultural Prices report. The price of soybean meal is the Central Illinois soybean meal price delivered by rail as reported in the Agricultural Marketing Service (AMS) Market News-Monthly.

The production margin will be calculated each consecutive two-month period consisting of the months of January/February, March/April, May/June, July/August, September/October and November/December.

PAYMENTS

A participating dairy operation will receive a margin protection payment whenever 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 margin protection payment calculation is the:

- Coverage level threshold selected by the participating dairy operation, minus
- Actual dairy production margin for the consecutive two-month period, multiplied by
- Coverage percentage selected by the participating dairy operation, multiplied by
- Established production history in cwt of the participating dairy operation, divided by six.

Example: A dairy operation has an established production history of 3 million pounds (30,000 cwt). The participating dairy operation selected the 50 percent coverage level at the \$7.00 threshold. For the two-month marketing period, the actual production margin is \$5.00. The actual production margin is less than the threshold selected. Therefore, a payment will be earned as calculated below:

\$7 threshold minus \$5 margin = \$2 difference
\$2 times 50 percent times 5,000 cwt (30,000 cwt / 6)
= \$5,000.

CONTRACT MODIFICATIONS

Dairy operations must immediately notify FSA of any modifications that may affect their participation in MPP-Dairy. Contract modifications include, but are not limited to the death of a producer on the contract; producer joining the operation; member exiting the operation; relocation of the dairy operation; transfer of shares by sale or other transfer action or dairy operation reconstitutions resulting in a change in the organizational structure of the participating dairy. Changes are subject to review by FSA to determine if the changes were made solely to circumvent the purpose of the program.

In general, if premiums are paid in full, modifications will take effect the next consecutive two-month marketing period. Otherwise, modifications will not be recognized until the following open election period when all associated premiums from any previous calendar year of coverage have been paid in full.

HOW TO APPLY

To apply for MPP-Dairy, dairy operations must submit form CCC-781 “Margin Protection Program

for Dairy Producers Production History Establishment” and form CCC-782 “Margin Protection Program for Dairy Producers Contract and Annual Coverage Election” to their local FSA county office.

These forms are available at FSA county offices and online at: <http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>.

FOR MORE INFORMATION

Dairy operations can obtain more information on MPP-Dairy at FSA county offices and online at www.fsa.usda.gov; click on Price Support.

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